



halfords[®]

Halfords Group plc
Annual Report and Accounts
for the period ended 3 April 2020
Stock code: HFD

***TO INSPIRE
AND SUPPORT A
LIFETIME OF MOTORING
AND CYCLING***

Halfords is the UK's leading provider of motoring and cycling products and services.

OUR PURPOSE

To Inspire and Support a Lifetime of motoring and cycling.

OUR VISION

The super-specialists in motoring and cycling, trusted by the nation.

➔ Read more on [our purpose and vision](#) on pages 20 to 21.

OUR STRATEGY

1 Inspire

Inspire our customers through a differentiated, super-specialist shopping experience

2 Support

Support our customers through an integrated, unique and more convenient services offer

3 Lifetime

Enable a lifetime of motoring and cycling

➔ Read more on [our strategy](#) on pages 32 to 39.



Online Annual Report

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

➔ halfords.annualreport2020.com

Corporate Website

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

➔ www.halfordscompany.com

Our Integrated Report

This is our sixth integrated report and is designed to provide a concise overview of how we generate value for all Shareholders.

By following an integrated reporting model, we aim to show how our competitive advantage is sustainable in the short, medium, and long-term.

Whilst this report focuses on value generation for our shareholders, it also demonstrates how we interact with all of our stakeholders.

What's in this Report

Overview

A Year of Focus and Momentum	01
Group Highlights	06
Investment Case	08
Group at a Glance	10
Chairman's Statement	12
Chief Executive's Statement	14

Strategic Report

Our Purpose, Values, Strategy and Culture	20
Our Marketplace	22
How We Create Value	28
Our Strategy	32
Our Key Performance Indicators	40
Our ESG Strategy	44
s172(1) Statement	59
Chief Financial Officer's Report	60
Our Principal Risks and Uncertainties	66
Viability Statement	79

Our Governance

Board of Directors	82
Directors' Report	84
Corporate Governance Report	90
Nomination Committee Report	112
ESG Committee Report	114
Audit Committee Report	116
Remuneration Committee Report	120
– Directors' Remuneration Policy	122
– Directors' Remuneration Report	132
Directors' Responsibilities	141

Financial Statements

Independent Auditors' Report	144
Consolidated Income Statement	150
Consolidated Statement of Comprehensive Income	151
Consolidated Statement of Financial Position	152
Consolidated Statement of Changes in Shareholders' Equity	153
Consolidated Statement of Cash Flows	154
Note to Consolidated Statement of Cash Flows	155
Accounting Policies	156
Notes to the Financial Statements	168
Company Balance Sheet	190
Company Statement of Changes in Shareholders' Equity	191
Accounting Policies	192
Notes to the Financial Statements	193

Shareholder Information

Five Year Record	198
Glossary of Alternative Performance Measures	199
Company Information	200

A Year of Focus and Momentum

We are fulfilling our vision to be super-specialists ...



... by responding to the nation's needs ...



... and building a sustainable future ...



... always caring about our customers' lives on the move.



We are fulfilling *our vision* to be super-specialists . . .

Halfords is the nation's go-to retailer and services provider for motorists and cyclists

We are a household-name retailer with over 125 years of heritage and market-leading awareness of our brand. Over 20 million customers visit us each year.

We have nationwide coverage, offering customers a unique and differentiated omnichannel experience across motoring and cycling products and services.

➔ Read more on [our marketplace](#) on pages 22 to 27.

1 *Inspire*

We are increasing our range of unique and innovative products, furthering our progress towards our vision to be super-specialists in motoring and cycling.

2 *Support*

We are supporting our customers through a unique and more convenient services offer.

3 *Lifetime*

Our move to super-specialism will drive customer loyalty and retention.



... by *responding* to the nation's needs ...

Evolving into a services-focused business

There is a clear rationale to further accelerate our service-led strategy. The UK's motoring service market is highly-fragmented with no clear market leader. Combined with our unique and advantaged business model, we have a significant opportunity to accelerate the growth of our Services business.

Our services proposition has been further enhanced by the acquisitions of McConechy's Tyre Service and Tyres on the Drive, which bring scale, convenience and capability to the Halfords Group.

➔ Read more in [our marketplace](#) on pages 22 to 27.

➔ Read more on [our strategy](#) on pages 32 to 38.

1 Inspire

Our investment in colleagues and technology will give us a competitive advantage in a fragmented market of independent operators.

2 Support

Expanding our physical footprint in garages and mobile vans will provide even more convenience to the customer.

3 Lifetime

We will grow our business via the acquisition of new customers, harnessing the scale of the Group.



... and building a *sustainable* future ...

Acting responsibly for a sustainable future

Sustainability is a well-established, but growing area, in the retail sector, with consumers increasingly mindful of 'green' living, reduction of plastic consumption and ethical recycling.

We have a unique opportunity to support sustainability efforts by helping to build an 'electric nation', through the provision of E-mobility bikes and scooters and the service and maintenance of E-bikes, E-scooters and electric vehicles.

➔ Read more on [our ESG strategy](#) on pages 44 to 58.

1 *Inspire*

We are championing the shift to electric mobility by inspiring our customers and communities to make better environmental choices.

2 *Support*

We will help put the consumer in control, through products, services and solutions. We will support them on their road to an electric future.

3 *Lifetime*

We aim to make our business carbon neutral by 2050 by engaging our colleagues to help us deliver on our Lifetime ambition.



... always caring about our customers' *lives on the move.*

Our colleagues are the driving force behind our success

Our colleagues are at the heart of our business and have passion, dedication and a 'can do' attitude, making them the foundation of our long-term sustainable success.

⇒ Read more on [our culture](#) on pages 94 and 95.

⇒ Read more on [our S172 statement](#) on page 59.

1 Inspire

We strive to ensure all colleagues enjoy their work and have opportunities to consistently inspire our customers through their 'super-specialist' expertise.

2 Support

We motivate and encourage all colleagues to be responsive and support our customers with their motoring and cycling needs.

3 Lifetime

We continue to invest in our colleagues and ensure they are fully engaged to drive our long-term sustainable growth ambitions.



Group Highlights

EVOLVING INTO A CONSUMER AND B2B SERVICES-FOCUSED BUSINESS



The opportunity in services, specifically motoring, coupled with our growing scale and capability in this space, supports our plan to accelerate investment in this area. We will evolve into a consumer and B2B services-focused business, with a greater emphasis on motoring, generating higher and more sustainable financial returns.



STRATEGIC HIGHLIGHTS

Accelerating our Strategy

At our Capital Markets Day in September 2018, we laid out our customer strategy "To Inspire and Support a Lifetime of motoring and cycling". The strategy emphasised the importance of product differentiation, the value of unique and convenient services and the need to build long-term relationships with our customers. Consistent with our strategic direction, we are confident that this is the right time to accelerate the growth of our motoring services business, which will enhance our differentiated position in the market and provide a less capital-intensive source of profitable growth. We believe our plan enables the business to evolve into a consumer and B2B services-focused business, with a greater emphasis on motoring, generating higher and more sustainable financial returns.

Web replatform

The launch of our new Group web platform in February 2020 was a significant achievement, transforming the digital experience and, for the first time, allowing customers to access an integrated service offer across retail stores, garages and mobile vans through one website. Encouragingly, the website held up well in the face of very significant increases in traffic driven by the COVID-19 lockdown, as customers transitioned to digital order channels in a very short space of time.

ACQUISITIONS

Tyres on the Drive

In November 2019, we announced the purchase of the trade and assets of the mobile tyre fitting company "Tyres on the Drive". This acquisition bolsters our fleet of mobile vans, taking us up to 75 by the end of the year, and gives us ownership of best-in-class software to operate the business.

McConechy's Tyre Service

In November 2019, we also announced the acquisition of McConechy's Tyre Service Limited, one of the UK's leading garage chains, operating from 57 sites with 330 skilled colleagues and close to 100 vans providing 24-hour service for commercial customers. The acquisition helped us to establish strong coverage in Scotland and the North of England and accelerates our plan to reach 550 garages in the medium-term.

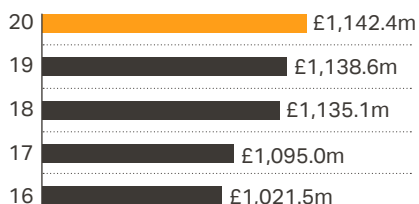
➔ Read more in [our strategy](#) on pages 32 to 38.



FINANCIAL

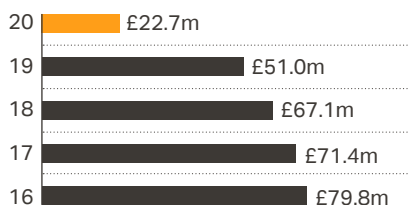
Revenue (£m)¹

+0.3%



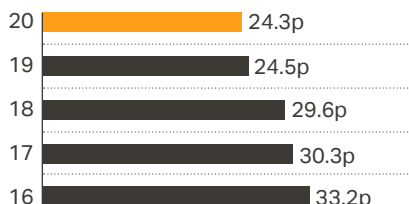
Profit Before Tax (£m)^{1,2}

-55.5%



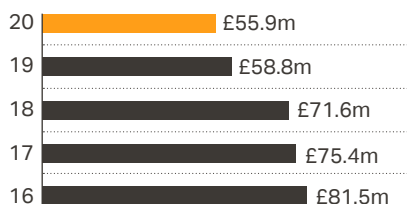
Underlying Basic EPS (p)^{1,2}

-0.8%



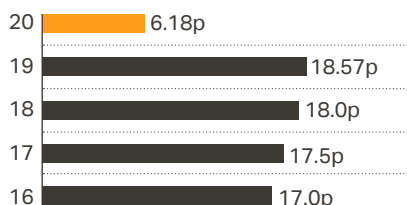
Underlying Profit Before Tax (£m)^{1,2}

-4.9%



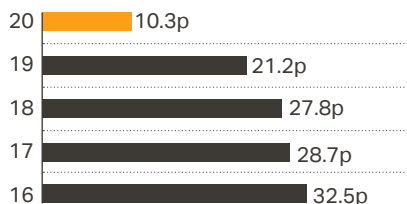
Dividend Per Ordinary Share (p)

-66.7%



Basic EPS (p)^{1,2}

-51.4%



¹ These numbers are calculated on a 52-week basis

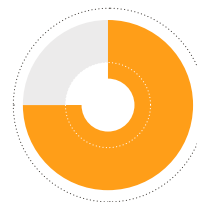
² These numbers are calculated on a pre-IFRS 16 basis

➔ Read more in the [Chief Financial Officer's report](#) on pages 60 to 65.

OPERATIONAL

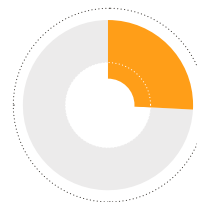
75%

Group revenue matched to customers



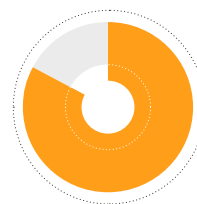
26%

Total Group sales which are service-related



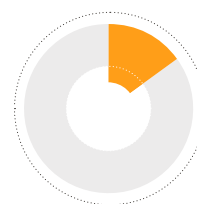
82%

of halfords.com online orders click and collected in-store



15%

Total Group sales from B2B channels



Investment Case

FIVE REASONS TO INVEST

1

Market-leading business

We are the UK's largest retailer of motoring and cycling products and services, allowing us to drive benefits in procurement, innovation and customer offering. In car servicing, the market is highly fragmented with no clear leader – with 2% share we have significant opportunity for growth.

2

Value-creating opportunities

Our strategy will see us develop into areas with good long-term growth prospects such as motoring services, B2B and electric mobility. We also have opportunities to significantly improve return on invested capital.

3

Building a service-focused business

In the medium-term, half of our business will be in Services – which are essential in their nature – meaning we are a more resilient business with higher customer retention, a lower risk profile and stronger and more sustainable returns on capital.

4

Strong balance sheet and cash generative

The Group has always maintained a strong balance sheet and benefits from a cash generative business model, with good Free Cash Flow enabling investment in our plan.

5

Dividend returns

Until the COVID-19 pandemic we have consistently paid a dividend, supported by strong levels of Free Cash Flow. In normal times, we remain committed to returning cash to shareholders through an ordinary dividend.



Our Strengths

Unique and differentiated products and services

We offer a wide range of unique and differentiated products, with exclusive ranges and customer-led innovative products. Much of our Services proposition is also unique, including, for example, on-demand fitting.

Unique, technology-driven proposition in our physical estate

We utilise market-leading and unique proprietary technology in our stores, garages and mobile vans, enabling our colleagues to deliver a best-in-class proposition.

Convenient services proposition delivered in c.900 locations

We are the only business in the UK able to offer Motoring Services in a retail store, a garage, at home or at work, providing customers with unparalleled choice and convenience.

Omnichannel customer proposition

Our business has a strong omnichannel customer proposition with high levels of Click & Collect driving footfall into stores, giving us a unique advantage over online competitors.

Super-specialist expertise that cannot be replicated

As a super-specialist, we have unmatched product and services expertise across both motoring and cycling, creating a significant barrier to entry for our generalist competitors, both on and offline.

Post-COVID-19 Benefits

Our strategy and investment case remain valid, but we believe COVID-19 is likely to lead to some further long-term benefits.

Increase in cycling and motoring journeys

Continued avoidance of public transport will result in a larger number of consumers resorting to individual journeys by bike, car or scooter. The ongoing benefit of higher levels of ownership are accelerated by lockdown, particularly bikes.

An ageing UK car parc

A recessionary environment will lead to consumers holding on to cars for longer. Combining this with an aversion to public transport, demand for car servicing for cars over three years old will increase.

Opportunity to accelerate reduction of property debt

Growth in online, Click & Collect, and home and work delivery will accelerate reshaping of our store portfolio, reducing our expensive retail estate.

Healthy living and climate change

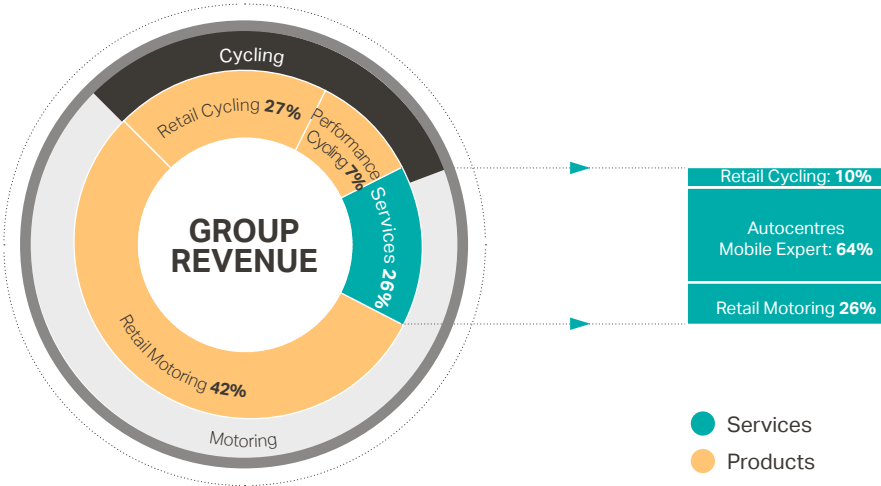
An increased focus on healthy living and a greater conviction to tackle climate change will drive higher demand in bikes and electric modes of transport. Fears of travel abroad and lower discretionary spend will mean a rise in staycations.

Further consolidation of our competitor set

With the financial challenges many businesses have been confronted with as a result of COVID-19, it is possible that there will be further consolidation of our competitor set.

Group at a Glance

As a Group we are stronger and more efficient together.



OUR PORTFOLIO

446
Retail stores

371
Garages

75
Mobile Expert Vans

26
Performance Cycling Stores

As of 3 April 2020

Motoring



Our strong heritage and brand mean that Halfords is a destination for consumers who need assistance with their vehicles. We continue to make progress in our markets through investment in our stores and colleagues to help deliver innovative products and services. Significantly, we have an established and growing ability to provide services on demand in-store through our WeFit and WeCheck propositions. As part of the response to COVID-19, Halfords played an important role in keeping the UK moving, continuing to offer essential products and services to the public so that key workers could continue to support the nation.



Through our Autocentres garages and mobile expert vans, Halfords offers great value and convenience for customers requiring car servicing, repairs and MOTs. The strength of our brand and the scale of our estate enables us to invest in the most up-to-date equipment and technology.

Through our acquisitions of Tyres on the Drive and McConechy's Tyre Service, we have accelerated the growth of our Autocentres business, expanding our fleet of Mobile Expert vans and the number of garages we operate in, bringing us closer to our target of 1,000 service locations in the UK.

Cycling



The cycling market is highly fragmented, with an estimated 2,500 bike shops in the UK, the majority of which are independently owned. Halfords Group is the clear market leader, with strong brand awareness in bicycles, scooters, parts, accessories and clothing.

Having announced the closure of Cycle Republic during the year, we now serve the needs of all cyclists, from mainstream to commuter to enthusiast, through our Halfords and Tredz brands. Tredz is an online-focused business, with high brand equity and a lower-cost operating model, serving the performance cycling market.

The majority of bikes and scooters sold by Halfords are own-brand. These brands include Apollo, Carrera and Boardman. However, we support our ranges with other selected third-party brands, such as Specialized, Giant, Cannondale, Cube, Scott, Haibike, Brompton, G-tech and Xiaomi.



Chairman's Statement



Keith Williams
Chairman

AGAINST A CHALLENGING MARKET BACKDROP, HALFORDS PERFORMED STRONGLY IN FY20 AND MADE SIGNIFICANT PROGRESS ON THE DELIVERY OF ITS STRATEGIC PLAN.

2019/2020 HIGHLIGHTS

£55.9m

Underlying Profit Before Tax

£54.6m

Free Cash Flow

£73.2m

Closing Net Debt

I would like to start my second Chairman's statement by recognising the efforts of all Halfords' colleagues in support of the Group's response to the devastating impacts of COVID-19. Our Senior Management team acted swiftly and decisively in adapting the Group's operating model to provide the UK public with essential products and services, whilst implementing important measures to keep both colleagues and customers safe.

Our colleagues are the lifeblood of Halfords and I would like to thank them all sincerely for their dedication throughout the year and particularly during the last few months. There are numerous examples of our colleagues going above and beyond to serve our customers, most notably in supporting key workers to keep the UK moving during this unprecedented health crisis. I am proud that we have offered our expertise to the nation's healthcare and emergency service workers, having served over 50,000 frontline workers since the crisis began. In recognition of our colleagues' efforts, we have created a Frontline Colleague Support Fund of £2.3m, to reward them for their extraordinary commitment to Halfords and its customers during this difficult period.

Section 172 Statement

I would like to draw your attention to our section 172 statement on page 59. I further expand on this in the Corporate Governance section of this report, in which I explain the frameworks and practices we have



implemented to ensure high standards of governance, values and behaviours, consistently applied across the Group. The statement includes details of key strategic decisions made by the Board during FY20 and an explanation of how different stakeholder groups have been considered. The COVID-19 pandemic has accelerated the need for fast and effective decision-making that is balanced across all our stakeholders, including colleagues, customers, shareholders and suppliers.

FY20 Performance and Dividend

For the financial year ended on 3 April 2020, COVID-19 only impacted the final few weeks of the reporting period. In a year dominated by political uncertainty, low levels of consumer confidence and another very mild winter, Halfords Group turned in a resilient and highly credible performance. Sales growth of +0.3%, with the mid-year acquisitions of McConechy's and Tyres on the Drive contributing strongly, was complemented by gross margin improvements, tight cost control and a further reduction in working capital.

Underlying Profit Before Tax, on a pre-IFRS 16 and 52-week basis, was £55.9m, only marginally lower than last year despite the challenging retail environment and the impact of COVID-19. Excluding the impact of COVID-19 and mid-year acquisitions, underlying profit was in line with the prior year. In part due to another strong performance on working capital, Net Debt reduced by £8.6m in the year, ending at £73.2m. Further details are available in the Chief Financial Officer's Report on page 60.

Considering the uncertainty driven by the potential future impact of COVID-19, the Board has taken a series of measures to preserve cash, including the suspension of the dividend. The final dividend payment is therefore nil, meaning the full-year ordinary dividend is 6.18 pence.

An Acceleration of Our Strategy

In November 2019, we announced our intention to accelerate a key part of the Strategy. As we explained then, we believe this is the right time to accelerate the growth of our motoring services business, enhancing our differentiated position in a fragmented market and providing the Group with a less capital-intensive source of profitable growth. As a result, Halfords will evolve into a consumer and B2B services-focused business, with a greater emphasis on motoring, generating higher and more sustainable financial returns.



In a year dominated by political uncertainty, low levels of consumer confidence and another very mild winter, Halfords Group turned in a resilient and highly credible performance.

This accelerated strategy remains fundamentally unchanged post-COVID-19 but we will adjust some aspects of the plan and the way we execute it. Capital expenditure will be lower in the short term, so we will defer the capital-intensive aspects of the plan until we have the confidence to increase investment. We will, however, accelerate other aspects, such as our investment in Digital and reducing the property cost of our Retail estate. Our long-term strategy remains the right direction for Halfords and the way we have traded through COVID-19 only underlines our confidence that we are on the right path.



The Year Ahead

Last year I spoke about the uncertainty of Brexit and the challenging economic backdrop. These remain but have now been overtaken by the unprecedented event of COVID-19. It is very difficult to know with any degree of certainty how the near-term future will look, but whatever the environment, Halfords Group remains in a strong position to weather the storm. We have the right strategy in place for the long-term and an experienced leadership team to deliver it, supported by thousands of dedicated colleagues. I have no doubt that the future of Halfords is in safe hands.

Keith Williams
Chairman

6 July 2020

Chief Executive's Statement



Graham Stapleton
Chief Executive Officer

THIS HAS BEEN ANOTHER YEAR OF GOOD PROGRESS AGAINST THE BACKDROP OF A RETAIL MARKET THAT WAS CHALLENGING EVEN BEFORE THE EMERGENCE OF THE COVID-19 PANDEMIC.

2019/2020 HIGHLIGHTS

26%

Total Group sales which are service-related

15%

Total Group sales from B2B channels

17%

Growth of online sales

Our Annual Report and Accounts includes Alternative Performance Measures (APMs) which we believe provide readers with important additional information on the Group. A glossary of terms and reconciliation to IFRS amounts is included on page 199.

Operational Review

To aid comparability, all numbers shown are before adopting IFRS 16, before non-underlying items and on a 52-week basis, unless otherwise stated.

Retail

Over the full-year, Retail revenue of £950.6m was -2.3% below last year on a LFL basis. Week 52 of FY20 was materially impacted by COVID-19 and, as such, sales up to week 51 were better at -1.8% LFL.

Motoring

Our market share continued to grow in core motoring categories against a backdrop of low consumer confidence and mild winter weather. Overall LFL sales declined -5.3% for the full-year and -4.4% up to week 51. We performed well in the more resilient and less discretionary categories such as 3Bs (bulbs, blades and batteries), which grew +2.4%, Child Safety products, which grew +9.1% as we gained share from weaker competitors, and Car Security, which was up +14%. As in Cycling, we continue to innovate, successfully introducing a 'weCheck' services offer into the proposition on a free and paid-for basis.

Cycling

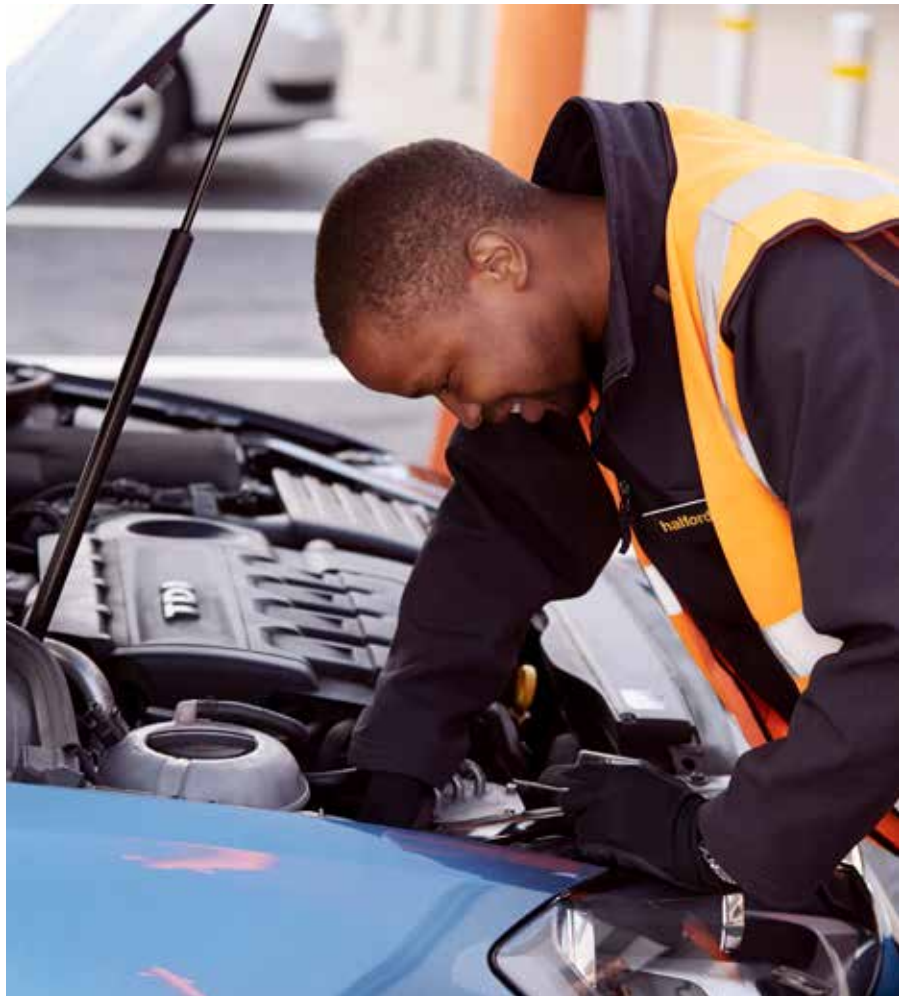
Cycling performed strongly in H2, resulting in +2.3% LFL growth for the year and three successive quarters of growth. Sales of E-bikes, which were up +45% year-on-year



“

Growth in services is a critical part of our strategy and our ability to provide these from approximately 900 fixed and mobile locations across the UK provides customers with a convenience unmatched by any other UK business.

”



and accounted for nearly 20% of adult bikes, benefited from improved merchandising in stores and high customer demand. Adult Mechanical and Kids bikes also grew over the full-year. Our own-brand and exclusive ranges of electric bikes, mechanical bikes and scooters offer our customers unrivalled levels of choice and value and we continue to bring new and innovative products to the market. We are well positioned to serve the increasing demand for these products and, as the largest national provider of cycling services, we are also ready to support customers beyond their first purchase.

Retail Gross Margin

Retail gross margin increased by 20bps with strong progress across both Motoring and Cycling. In line with our strategy to improve Cycling profitability, gross margins increased +117bps versus last year, driven by significant improvements in adult bikes. In Motoring, gross margin was up +138bps year-on-year, helping to offset the adverse mix impact of lower Motoring sales. Our strong margin performance was driven by

several factors, including buying efficiencies and better focussed promotions.

Retail Operating Costs

Retail operating costs were well managed and declined -1.5% year-on-year, before the impact of IFRS 16. This was the result of a sharp focus on operational efficiency and improved procurement discipline, the benefits of which more than offset important strategic investments and ongoing inflationary pressures such as national minimum wage increases.

Autocentres

Full-year Autocentres revenue was £191.8m, growing 18.8% year-on-year and +1.4% on a LFL basis. Autocentres was also subject to a material COVID-19 impact with sales up to week 51 stronger, at +2.2% LFL. The acquisitions of McConechy's and Tyres on the Drive during H2 provide a significant opportunity in the medium-term as we successfully integrate these businesses into the Group. The underlying business, excluding the acquisitions, increased EBIT

by over 40% to £7.8m, the third consecutive year of strong profit growth. This reflects the development of an enhanced operating model which also led to a significant improvement in customer service scores.

Group Services

Group Services revenue, which comprises fitting and repair services and the associated product, grew +8.9%, representing 26% of Group sales in FY20. We continued to expand our range of services, adding weCheck and new cycle care services in Retail, trialling on-demand fitting in Autocentres, and expanding our Mobile Expert vans from 3 to 75. Growth in Services is a critical part of our strategy and our ability to provide these from approximately 900 fixed and mobile locations across the UK provides customers with a convenience unmatched by any other UK business.

Online

Group online sales had another very strong year, with revenue growth of +17%, now accounting for 24% of Group sales in FY20.

Chief Executive's Statement

Growth was strong before and after the launch of our new Group web platform in February 2020, which provides customers with a vastly improved digital experience and, for the first time, gives them access to an integrated services offer across mobile, stores and garages through one website. The new web platform coped well with an unprecedented shift to online ordering during the COVID-19 lockdown, when physical store operations were severely curtailed. The importance of our store network, colleague expertise and services proposition continued to be evidenced by the strength of Click & Collect, with over 80% of orders placed on www.halfords.com picked up in stores.

B2B

Group B2B sales grew 25% year-on-year and represented 15% of Group sales in FY20. In the past year we have focussed on developing deeper relationships with key strategic partners to support growth

within our key markets. This has been supported by investment in our technology infrastructure to streamline key customer and client processes. We have also broadened our proposition range to expand our B2B offering within motoring services.

Progress on Strategy in FY20

To Inspire and Support a Lifetime of motoring and cycling

In November 2019 we announced an acceleration of our strategy 'To Inspire and Support a Lifetime of motoring and cycling'. We made significant progress against our strategic objectives in FY20, which laid strong foundations to support our response to COVID-19 and positioned us well for FY21 and beyond. Notable highlights include:

- Our Group web platform launched as planned in Q4, transforming the digital customer experience and consolidating our broad services offer in one website.

- We exited Cycle Republic and the Boardman Performance Centre, enabling us to focus investment on our higher-returning mainstream offer in Halfords and our performance cycling proposition in Tredz.
- Continued development of our Halfords Mobile Expert proposition, delivering best-in-class customer service reflected by strong Trustpilot scores. The acquisition of Tyres on the Drive increased our mobile hub footprint from 1 to 7 and our van footprint from 3 to 75, providing a strong platform for future growth.
- Acceleration of our growth in Autocentres through the acquisition of McConechy's Tyre Service Limited. Through this we acquired one of the UK's leading garage chains with 57 sites and 100 vans, establishing strong coverage in Scotland and the North of England.
- Completed the upgrade of PACE, our digital operating platform, in all Autocentres garages. PACE enables a tablet to be put in the hands of every technician, providing customers with the assurance of quality and enabling our garages to optimise resource allocation and labour efficiency.
- Delivered significant cost savings through supply chain efficiencies, Retail productivity programmes, property savings and improved procurement practices, and reduced Working Capital by £11m on average throughout FY20.
- Strategic buying alliance agreed with Mobivia, a leading player in the European motoring products and services market. The relationship, in its early stages, is progressing well.

FY21 Strategy Focus

In November 2019 we announced an acceleration of our strategy, emphasising the importance of growing our motoring services and B2B businesses. The strategy remains absolutely the right direction for Halfords but, given the unprecedented impact of the COVID-19 pandemic, we are moderating our near-term plan. COVID-19 has materially changed the retail outlook for the coming months and has overshadowed Brexit as the emerging risk. We have therefore adjusted our short-term focus to reducing cost and working capital, ensuring our colleagues are engaged in the success of the business and, of particular importance, adapting quickly to new customer trends. We will continue to transform the business and develop





We made significant progress against our strategic objectives in FY20, which laid strong foundations to support our response to COVID-19 and positioned us well for FY21.



our customer strategy in FY21, but we will put greater emphasis on responding to emerging trends and laying solid foundations for FY22. Our areas of focus in FY21 are:

- A stronger emphasis on reducing the operating costs of the Group, including but not limited to:
 - the closure of up to 10% of the Group's physical estate, having already exited 22 Cycle Republic stores and 5 Halfords stores and garages so far this year
 - targeted rent reductions reflecting the current market dynamics
 - a review of all GNFR contracts and the tendering of several key agreements
 - revisiting the costs of our logistics network
- Continuing to grow the profitability and returns of our core categories, particularly Cycling, through buying efficiencies, more targeted promotional

campaigns and working capital reductions.

- Developing our Halfords-branded customer proposition by continuing to transform our Group web platform and digital customer experience. In addition, we will invest in expanding our Services business, leveraging our financial services offer and growing our B2B channels.
- Swiftly integrating the acquisitions of McConechy's and Tyres on the Drive, using our best-in-class technology across the Services offer.
- Continuing to develop PACE, our digital operating platform in Autocentres, with a view to transferring best practice to services delivery in Retail and mobile vans.
- Expanding our Mobile Expert vans to under-served parts of the UK, increasing our original target of 100 vans to a revised target of 120 vans by the end of FY21.

- Upweighting investment in the engagement and development of our colleagues, ensuring they are strongly engaged in our transformation journey.

In FY21, we will be more focussed on delivering the most important initiatives that provide the quickest and most attractive returns, whilst building the underlying strength of the business for FY22 and beyond. As a consequence, we are planning for lower capital expenditure in FY21, which we now expect to be in the range of £20-30m. As trading conditions improve, however, we will seek to continue our transformation journey at pace, in line with the current strategy but adjusted for a new post-COVID-19 world.

Graham Stapleton
Chief Executive Officer

6 July 2020

Strategic Report

Our Purpose, Values, Strategy and Culture	20
Our Marketplace	22
How We Create Value	28
Our Strategy	32
Our Key Performance Indicators	40
Our ESG Strategy	44
s172(1) Statement	59
Chief Financial Officer's Report	60
Our Principal Risks and Uncertainties	66
Viability Statement	79





Halfords Mobile Expert

Halfords
Mobile Expert

0808 164 6381

halfordsmobileexpert.co.uk

halfords
Mobile Expert

we Fit.
Service
Repair.
Wherever you are.

0808 164 6381

halfordsmobileexpert.co.uk

halfords
Mobile Expert

halfords
Mobile Expert

©2010

Our Purpose, Values, Strategy and Culture

The successful implementation of our strategy is critical to the delivery of the Group's purpose and is underpinned by the values and behaviours that shape our culture and the way that we conduct our business.



Being a Purpose-Driven Organisation

The Board recognises the importance of its role in ensuring the culture of the organisation is aligned to its purpose, business strategy and ambition to become a market-leading services business. In support of this, a full cultural review was completed this year.

Defining Our Culture

We are reliant on the culture of our business and the engagement of our colleagues, in addition to their skills, to achieve our ambition. It was therefore essential that we engaged with colleagues from all areas of the business to complete this review, which builds on our long-standing cultural strengths and unites

all parts of our business to deliver a joined-up experience for our customers. Over 1,300 of our colleagues supported the development of our colleague values and associated behaviours, through a combination of both face-to-face workshops and questionnaires.

Due to the COVID-19 pandemic we took the decision to delay the roll-out until the first half of FY21 to ensure that it will have the full attention of our colleagues across the Group, this was led by senior leaders who had training sessions which commenced prior to the onset of the pandemic. We look forward to sharing our colleague values with you following our internal roll-out.

What This Means for Halfords

In embracing our new values, our colleagues will work together and use their skills and expertise to deliver an excellent and efficient, joined-up customer experience - wherever they shop across the Group.

Shareholders will benefit from our ability to deliver our financial commitments through the generation of additional profitable sales and a reduction in costs.

➔ Read more about how the Board monitors [our culture](#) on pages 94 and 95.

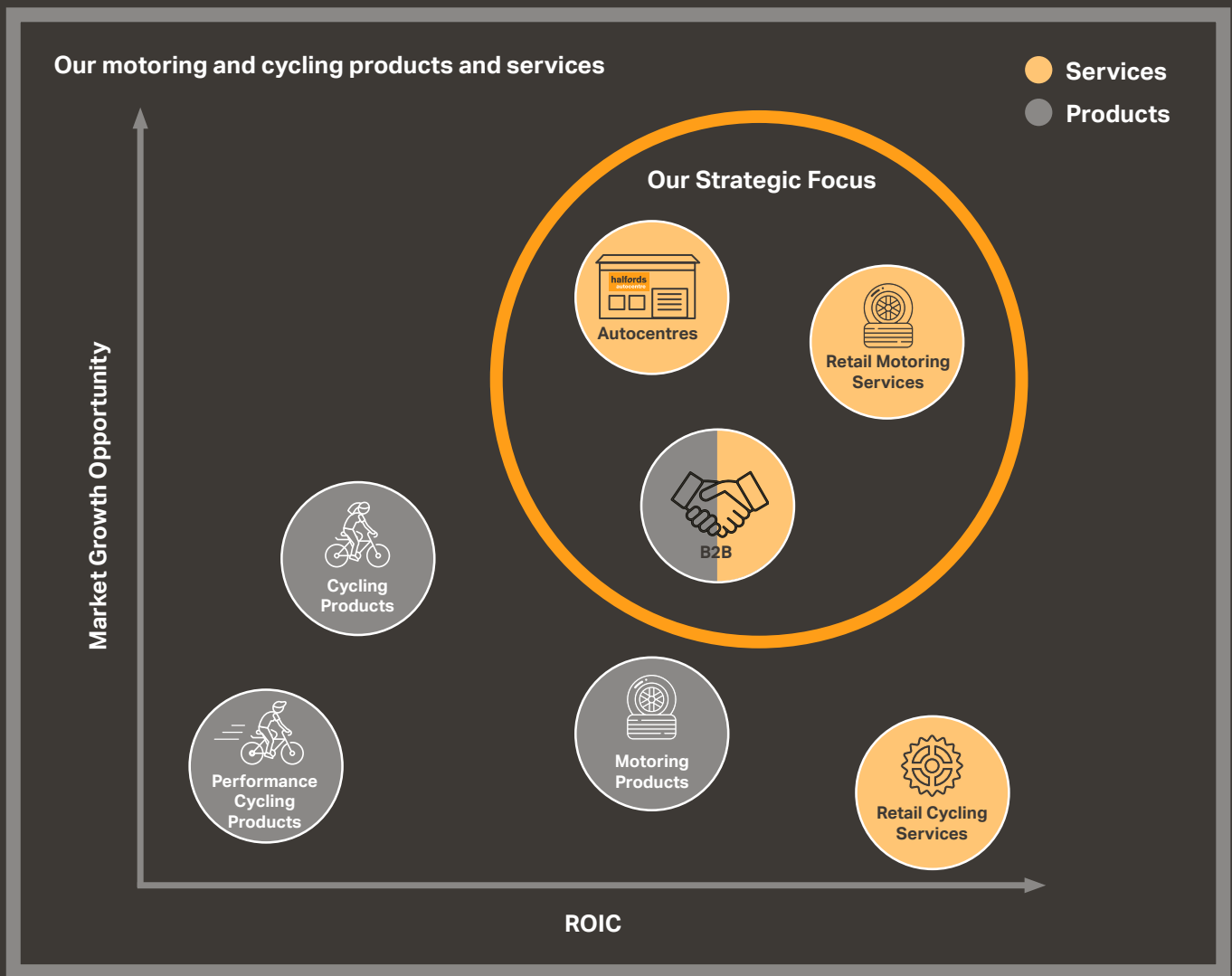


Our Marketplace

Our Motoring and Cycling products segments remain core but we have a greater market opportunity in growing our existing services business. We will evolve into a consumer and B2B services-focused business, with a greater emphasis on motoring.

THE MARKET OPPORTUNITY

The UK car servicing market is highly fragmented with no clear market leader – with just 2% market share we have significant opportunity for growth and an ambition to become the UK’s largest independent provider of automotive service, maintenance and repairs.



Our highest value-creating opportunities are in motoring services, which are delivered through Retail stores, Autocentres garages and Mobile Expert vans. In Retail, the vast majority of our service-related sales are in motoring, which provide good returns on invested capital and significant market opportunity, especially when services are sold with motoring products.

Autocentres has a good return on invested capital ("ROIC"), through low capital intensity and an improving profit margin. We only have 2% market share of a highly fragmented market where there is no clear market leader in the UK and Ireland. This presents an interesting and very real opportunity.

Cycling products and services, despite offering lower returns than motoring, will remain a key part of Halfords' future. Our cycling offer is now even more important as we help the UK public respond to the challenges of COVID-19.

Retail Macro-Customer Trends

DIY to DIFM

Consumers are increasingly moving from a 'Do It Yourself' to a 'Do It For Me' mindset. Our research shows that 70% of people are too time-poor or lack the necessary skills to carry out DIY tasks. As cars become increasingly complex, we expect this attitudinal shift to intensify further, resulting in increased demand for specialist knowledge and equipment.

[Link to Strategy](#) 2

Ominchannel Shopping

Modern consumers expect a seamless shopping experience across all channels and touchpoints. Our mission is to provide a best-in-class digital-led customer journey, that leverages all our digital and physical assets. Our locations are an important differentiator from online competitors, providing a convenient Click & Collect proposition and the delivery of services and expertise by our in-store colleagues.

[Link to Strategy](#) 1 2

Sustainability

The requirement for sustainable practices is now impacting all retailers in the UK, with consumers increasingly expecting proactive policies on climate change, clean air, reduction of plastic waste and ethical recycling. The impact that we are having on the world and the footprint we are leaving behind is set to shape markets in the future.

[Link to Strategy](#) 3

Move from Owning to Using

Economic, political and health crises have reduced consumer willingness to purchase 'big ticket' items. Particularly apparent among younger people, there is an increasing trend towards short and long-term renting rather than owning, evidenced by the increase in PCP schemes, car-sharing initiatives and bike rental.

[Link to Strategy](#) 1

Experiences over Product

The popularity of experiential shopping is continuing to increase. Retailers and retail parks are building non-core concessions and entertainment concepts, turning one-off 'impulse' visits into 'destination' shopping experiences.

[Link to Strategy](#) 1

Convenience

Consumers' lifestyles are getting busier, free time is becoming more valuable, and consumers expect retailers to fit around their routines. Our customers want their car or bike fixed as quickly as possible, at a time and place that suits them.

[Link to Strategy](#) 2

Less Brand Loyalty

Online searching and comparison is challenging traditional notions of brand loyalty. Alternative products offering better value or convenience can be identified within seconds, making brand loyalty harder to earn and maintain without possessing a compelling unique selling point.

[Link to Strategy](#) 3

Personalisation

Personalisation is an important way of standing out from the vast array of competitors. Enabling customers to feel valued through personalised communications or products is a good way to build strong relationships and drive loyalty.

[Link to Strategy](#) 1

New Post-COVID-19 Trends

Healthy Living and Exercise

During the COVID-19 lockdown, maintaining a healthy lifestyle was encouraged via healthy eating and daily exercise, in particular walking, running and cycling outside, along with home workouts. UK consumers are likely to continue this trend, continuing to put their health first.

[Link to Strategy](#) 1

Social Distancing

Whilst the presence of COVID-19 continues, the public will likely carry on avoiding busy places such as restaurants, pubs and forms of public transport. As the UK's largest provider of cycling and motoring products and services, Halfords is well placed to help the UK public move around in the most safe, clean and economical way possible.

[Link to Strategy](#) 1

- 1 Inspire
- 2 Support
- 3 Lifetime

Our Marketplace

Motoring Market

Halfords Group addresses two distinct areas of the UK's highly-fragmented motoring market – car parts, accessories, consumables and technology; and car servicing and aftercare. From the perspective of the former, there is no single equivalent competitor selling all of our product ranges. In respect of the latter, there are over 30,000 garages in the UK, an estimated two-thirds of which are small independents.

Car Parts, Accessories, Consumables and Technology



Car Servicing and Aftercare



Key Facts

£3.5bn Market size
20–25% Our share
→ Forecasted market growth

Key Facts

£9bn Market size
2% Our share
↑ Forecasted market growth

Our Approach

Car Parts, Accessories, Consumables and Technology

Our strong heritage and brand mean that Halfords is a destination for consumers who want inspiration and support with their vehicles. We continue to make progress in our markets through investment in our stores and colleagues to help deliver innovative products and services to our customers when and where they want them. Whilst some of the traditional motoring product markets are in decline, there is opportunity for innovative, unique and differentiated products to be brought to market. Halfords is also seeing an increase in service-related sales as more people are preferring to have an expert fit or install products as opposed to performing it themselves.

Key



Autocentres



Retail Motoring Services

Our Approach

Car Servicing and Aftercare

The automotive servicing market is large and highly fragmented with no clear leader, and with only 2% share, there is significant opportunity for Halfords to grow. Increasing car complexity, accelerated by the transition to electric, is expected to drive growth in this market. Our goal is to operate from 1,000 service locations in the UK and ROI, whether a Retail store, a garage or a mobile van. This will enable us to deliver customers the services they want at a location convenient to them.

We will continue to invest in equipment and colleague training in order to remain at the forefront of technological changes. This will give us a competitive advantage in this fragmented market dominated by independent operators.

Specifically, we have made significant progress in providing industry-accredited training to Autocentres colleagues in the servicing and maintenance of hybrid and electric vehicles, with the majority of our centres now capable of servicing hybrid and electric vehicles.



Motoring Market – Competitor Landscape

CAR PARTS, ACCESSORIES, CONSUMABLES AND TECHNOLOGY

- Limited number of specialists but a highly diverse and competitive set of retailers (e.g. Amazon) selling generalist product ranges
- Limited retail bricks and mortar competition
- Wholesalers and generalists moving into specialist retail markets with strong omnichannel offer
- Supermarkets and garage forecourts continue to sell a limited range of high-volume, high-margin products
- Independent garages offering car parts and associated fitting

How is Halfords Group different?

Our heritage of over 125 years has established Halfords as a household name, with over 90% of the UK population living within 20 minutes of a Halfords store. We have many outstanding strengths that differentiate us, notably our exclusive product ranges and our colleague expertise. Significantly, we have an established and growing ability to provide services on demand in-store.

CAR SERVICING AND AFTERCARE

- Technological advancements limit scope for effective delivery by small independent garages
- Car dealerships expanding into used car servicing
- Some evidence of sales aggregation (e.g. My Car Needs A...) and mobile services entrants

How is Halfords Group different?

Halfords has a unique ability to offer automotive services from a variety of locations – our retail stores, garages and mobile vans. In our accelerated strategy, we announced an ambition to increase our services footprint to over 1,000 locations in the medium-term, including 550 garages, 200 vans and our existing Retail stores. Via our Autocentres, Halfords Group offers great value and convenience for UK consumers of car servicing, repairs and MOT compliance. The strength of our brand and the scale of our store, garage and mobile van estate enables us to invest in the most up-to-date equipment and technology with the majority of centres now equipped to deal with electric and hybrid vehicle servicing. Our Halfords Mobile Expert vans deliver elements of car fitting and servicing, such as battery replacement, tyres and diagnostic checks, direct to the customer at their home or workplace.

LONG-TERM MARKET TRENDS

As UK motorists become more engaged with issues affecting their impact on the environment, they are seeking ways of mitigating their carbon footprint. The COVID-19 pandemic is forcing motorists to avoid public transport due to health concerns, but this means there will inevitably be an increase in the number of cars on the road – something that many are keen to avoid. Despite the Government putting emphasis on commuting by walking and cycling this is not going to be possible for many people, meaning a car will be the only option for those wishing to avoid public transport. This is likely to lead to higher car usage in the medium-term, potentially increasing the size of the car parc and the requirement for servicing, maintenance and repairs.

Electric vehicles continue to rise in popularity with registrations up 144% for 2019, however they still only represent 1.6% of the total car parc. The country is gearing up for electrification, with more charging points being installed nationwide, however the small share of the car parc shows there is a long way to go before we reach the 50–70% share targeted by the Government in the next 10 years.

Long-term trends show that cars are becoming more complex. Alongside advances in engine technology, cars are being equipped with an increasing number of intelligent features in order to meet the rising expectation of consumers. The long-term expectation will be that all devices will offer an integrated 'always-on' flow of information.

Autonomous cars, whilst a futuristic concept, are the focus of significant investment by global innovators such as Google and Tesla. Many new cars are now partially-autonomous, providing lane change assistance, parking assistance and adaptive cruise control. There is a high probability that children born today may never need to drive a car.

The scale of these disruptive changes means it is becoming less likely that car owners will possess the knowledge or equipment to replace worn parts or service their own cars in the future, increasing the demand for a 'do it for me' offering. It will also be difficult for small, independent garages to invest in the technology and training required to service and repair cars, giving an advantage to a well-invested national chain such as Halfords.

Our Marketplace

Cycling Market

The cycling market is highly fragmented, with an estimated 2,500 bike shops in the UK, the majority of which are independently owned. Our research shows that these shops are closing at an average of 10% per year. Halfords Group is the market leader, with strong brand awareness in bicycles, parts, accessories and clothing.

Cycling Overall



Performance Cycling



Key Facts

£2bn Market size
20–25% Our market share
↑ Forecasted market growth

Key Facts

£700m Market size
6% Our market share
↑ Forecasted market growth

Our Approach

Cycling

As the market-leading retailer in mainstream cycling, we are well positioned to serve the needs of the consumer. We will do this by continuing to bring unique and innovative products to market, whilst also providing great value and convenience to customers. As an example, Halfords was the first major stockist of E-scooters and is leading the market with product range and nationwide service capabilities.

As the UK's leading cycling retailer, we are well positioned to serve the mainstream market, encouraging more people to cycle for leisure, exercise or commuting.

Key



Cycling Products



Retail Cycling Services

Our Approach

Performance Cycling

As the cycling market continues to grow, we know the importance of keeping pace with the latest trends. We have invested in the growing popularity of E-bikes, growing our proposition through targeted marketing and by offering products and services for which we know strong demand exists, such as the Brompton E-bike and E-bike servicing plans.

As a result, we are one of the UK's leading retailers in the emerging E-bike market and have trained colleagues in every store to deliver E-bike servicing and maintenance.

As people start to return to work from the COVID-19 lockdown, we expect there to be a significant rise in the number of people choosing to commute via bicycle. Cycle-to-Work schemes will be important and Halfords, as the market leader, is able to help consumers get to work in a healthy and sustainable way, whether that's on a mechanical bike, E-bike or E-scooter.



Cycling Market – Competitor Landscape

MAINSTREAM CYCLING

- Predominantly generalist competitors with own-label bikes
- Limited online penetration in mainstream bikes
- Physical service locations are important
- Cycle-to-Work continues to be an important driver
- Major sports retailers starting to diversify into cycling e.g. JD Sports, Go Outdoors

How is Halfords Group different?

Halfords Group boasts the biggest and most popular cycle brand in the UK – Carrera. In total, approximately 80% of our bikes are own-brand, covering both children and adults at a wide range of price points. Our stores are conveniently located, and our online platform provides support and information to help customers choose the products and services they want. Our bike build proposition is leading the market with free 6-week checks and bike care plans to make sure our customers continue to stay safe whilst enjoying the great outdoors.

Many customers take advantage of our Click & Collect offer, placing orders online via our website and picking up from a designated store at a time which is convenient to them. This also drives positive store footfall. Additionally, we are the market leader in the UK's Cycle-to-Work scheme, supporting sales and introducing new customers to our brand.

PERFORMANCE CYCLING

- Predominantly branded bikes
- Traditional specialists and independents struggling
- Big brands starting to go direct to customers
- Online pure-play continuing to grow and consolidate
- Physical service locations are important
- Cycle-to-Work is an important driver

How is Halfords Group different?

Through Tredz, Halfords has a strong and increasing foothold in the performance cycling market. Offering products and services of particular appeal to performance cyclists has contributed to growth in the overall number of customers and provided many with bikes and exercise equipment during the COVID-19 pandemic. Cycle-to-Work vouchers can also be redeemed through Tredz which contributes significantly to the ongoing success of that partnership. Tredz has a strong online presence which differentiates it from the independent cycle shop community and helps the brand to stay relevant and competitive in a challenging market environment.

LONG-TERM MARKET TRENDS

A likely impact of the COVID-19 pandemic is a significant increase in demand for bikes and scooters, as the public explore clean and cheap alternatives to public transport and look for ways to stay healthy. The Government's £2bn package to put cycling and walking at the heart of transport policy will provide significant investment in infrastructure and subsidies to encourage people to cycle.

E-bikes and E-scooters are continuing to grow in popularity, which will only be boosted by the response to the COVID-19 pandemic. The Government has supported this through an expansion of the Cycle-to-Work scheme, as well as infrastructure investment. Though still a relatively small proportion of the bicycle population, if the trends continue to mirror those experienced in countries such as Germany and the Netherlands, we would expect E-bike sales to double from the current level of approximately 10% of all bikes sold,

to 20% within the next few years. The Government is recognising the growth and increasing popularity of E-bikes and has raised the limit on Cycle-to-Work accordingly, from the previous £1,000 to an employer-set limit, meaning that employees are now able to purchase the more expensive E-bikes.

Finally, existing participants in the cycling market are willing to spend more on their cycles and accessories. As a result, we expect higher spend per person to complement volume growth, via demand for more expensive E-bikes, for cycle and accessory upgrades, or additional cycles for a different style of riding.

Whilst the unpredictability of the weather will continue to impact the timing of purchases, the overall trends in the market are positive and show that scope for growth remains.

How We Create Value

Effective utilisation of our resources and relationships is an integral part of our plan to drive long-term sustainable growth. Our model is underpinned by our financial discipline, astute purchasing and strategic reinvestments.

Fulfilling our vision to be the super-specialists in motoring and cycling, trusted by the nation.

Our resources and relationships

Colleagues

Training and accreditation, such as our 3-Gears training programme in Retail or our electric / hybrid vehicle maintenance training in Autocentres, ensures that consistent product knowledge and service reaches our customers across all locations.

Partners

Halfords is proud to work with distributors and other industry partners to drive our business forward, supporting the sale of our products and services and enabling us to work with communities across the UK.

Brand

Halfords is the nation's go-to retailer for motorists and cyclists. We have a range of exclusive and highly regarded brands including Apollo, Carrera and Boardman in Cycling, as well as our Halfords Advanced ranges in Motoring.

Infrastructure/Assets

Our physical estate of Retail stores, Autocentres garages and Mobile Expert vans, combined with a best-in-class web platform and an efficient distribution network, provide customers with a convenient omnichannel offer.

Financial

With a strong balance sheet and strong cash generation, we have continued to invest in appropriate systems, capabilities and people to help support and grow our business for the long-term.

Our unique strengths

- **Unique and differentiated products and services**
- **Convenient services proposition delivered in c.900 locations**
- **Strong omnichannel capabilities**
- **Unique, technology-driven proposition in our physical estate**
- **Super-specialist expertise as a key differentiator**

➔ Read more on [Halfords unique strengths](#) on page 9.

Delivering market-leading specialist propositions

- Services
- Products



Products
 Products are at the core of our business and have been for over 125 years, defining us as the UK's leading provider of motoring and cycling products. Whether in one of our physical locations or online, customers are able to find any part or product they want for their motoring or cycling needs from electric bike to socket set, power washer to bicycle helmet. Our colleagues are the real experts and can always suggest suitable products for every situation a customer may be in.

Services
 Our services proposition is the perfect complement to our strong product business; helping to keep the UK moving whilst delivering unrivalled customer service. Operating from approximately 900 locations – Halfords has a unique ability to offer services for our customers' cars or bicycles in a way and at a location which is convenient to the customer. Whether a customer wants their bike serviced, a new wiper blade fitted, a new set of tyres fitted or a full car service we are able to help them find the ideal solution to fit their busy lifestyle.

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

Our long-term value creation

Customers

Access to a market-leading shopping experience, both online and in stores, helping meet all of their motoring and cycling needs in a way convenient to them, with access to technical and expert advice through our colleagues.

Colleagues

Developing, rewarding and retaining our c.10,400 colleagues so that they are engaged and driving our long-term sustainable growth ambitions.

⇒ Read more about the [Training and Development](#) on pages 55 and 87.

Shareholders

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

⇒ Read the [Chief Financial Officer's report](#) on pages 60 to 65.

Community

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

⇒ Read more on [our ESG strategy](#) on pages 44 to 58.

Environmental

Ensuring the resources our business utilise have a positive impact on the environment, both today and in the future.

⇒ Read more on [our ESG strategy](#) on pages 44 to 58.





Open the flap to see
our business model



Our Strategy

Accelerating Our Strategy

Firstly, we plan to significantly grow our Autocentre business. We know that our Autocentre garages are often not conveniently located. In many parts of the country, the time taken for a customer to drive to their nearest Halfords Autocentre is well over 30 minutes. Our insight shows that customers require a drive time of less than 20 minutes if they are to utilise Autocentre services. To reduce this drive time, we need more garages in more convenient locations for our customers. Via the acquisition of McConechy's Tyre Service, we have already made good progress with this part of our plan, increasing the size of our site footprint by about 20%. Looking into the future we believe there is the potential for 550 Autocentres across the UK and Ireland, which will bring our drive time in line with customers' expectations.

Our Mobile Expert vans have proven that there is sufficient customer demand for mobile services delivered at a location convenient to them. Encouraged by the results of our trial, we plan to grow to 200 vans over the next 3–5 years, giving us national coverage and providing most UK consumers with access to Halfords Mobile Expert services. Our acquisition of Tyres on the Drive, a mobile tyre-fitting business, has significantly accelerated the roll-out of our Mobile Expert proposition giving us access to both a large number of vans and best-in-class software to drive growth of our mobile services business.

In addition to this, we will increase investment in the provision of WeFit and WeCheck services in our Retail stores, for example the fitting of wiper blades and headlight bulbs. This will be enabled by a best-in-class customer contact strategy and the redeployment of labour in store to provide more WeFit trained colleagues to better service customer needs.

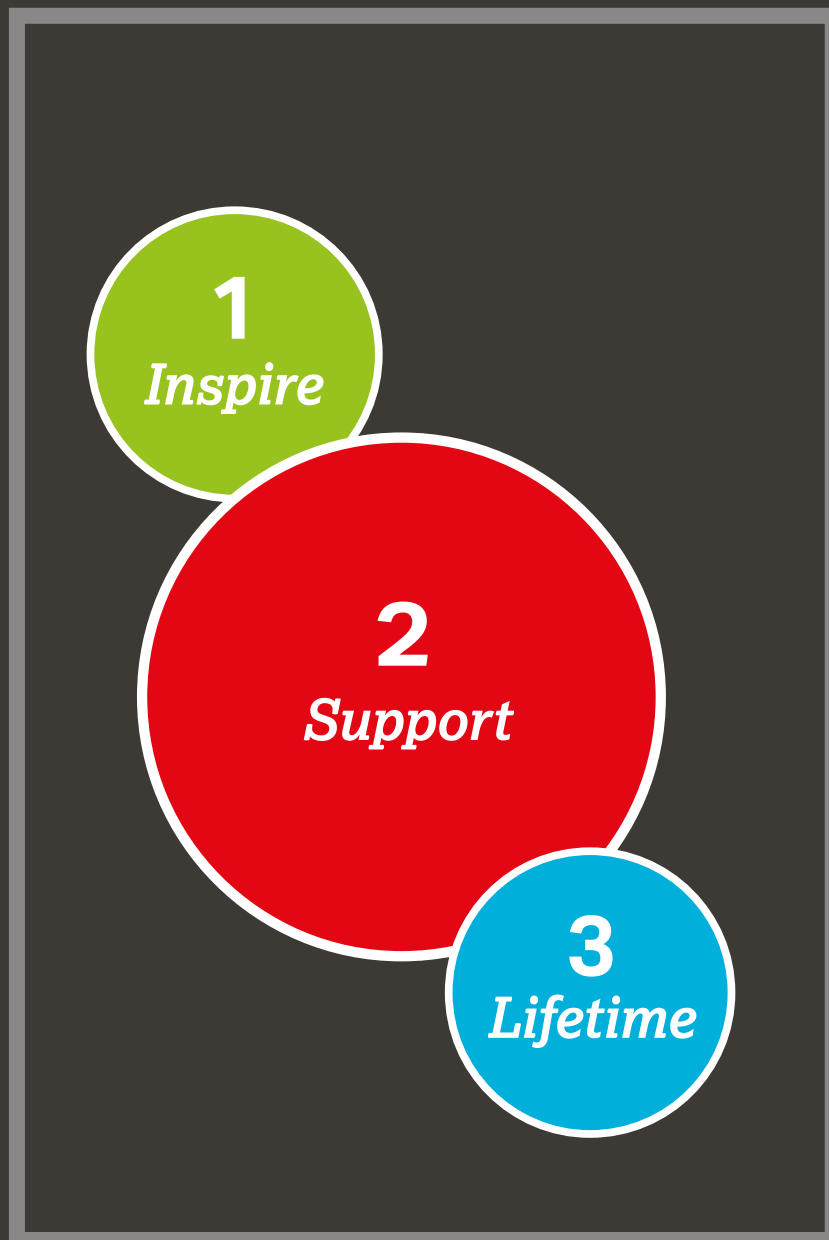
COVID-19

Whilst the outbreak of COVID-19 has had a significant impact on the retail industry, it does not affect our long-term strategic direction. This firmly remains the right direction for our business and recent events have highlighted the importance of the acceleration of our plan, as laid out above.

In September 2018, we set out our strategic mission 'To Inspire and Support a Lifetime of motoring and cycling' and this mission remains unchanged. We have made good progress against our strategic pillars, as outlined through this section, however, given the unique and growing parts of our business, coupled with the opportunities and strengthening tailwinds in the market, we now see a clear rationale to further accelerate our service-led Strategy.

The opportunity in services, specifically motoring, coupled with our growing scale and capability in this space, supports our plan to accelerate investment in this area. We will evolve into a consumer and B2B services-focused business, with a greater emphasis on motoring, generating higher and more sustainable financial returns.

OUR STRATEGY



We are clear that our service-led Strategy is the right one for Halfords. Our unique position, growing services business and the positive macro-customer trends, give us confidence that this is the right time to accelerate investment, leveraging our trusted household brand to become a clear market leader in motoring services.

Graham Stapleton
Chief Executive Officer



1 Inspire

Inspire our customers through a differentiated, super-specialist shopping experience

- General-specialist to super-specialist
- Lead and differentiate our markets with customer-led innovation
- Redefine and further differentiate our own label ranges
- New customer experience in stores and garages, linking online and offline journeys

2 Support

Support our customers through an integrated, unique and more convenient services offer

- Offer convenience through an integrated and expanded 'on-demand' service proposition across stores, garages and mobile
- Enhance the digital customer journey from booking through to service delivery
- Enhance our unique position in E-bike servicing in Retail stores and hybrid and electric vehicle servicing in our garages with the most fully trained technicians outside the dealer network
- Increase awareness of Halfords services by leveraging the Halfords brand

3 Lifetime

Enable a *Lifetime* of motoring and cycling

- A more focused and targeted approach to loyalty at a Group level in order to optimise lifetime value of our customers
- Accelerating the development of our Customer Relationship Management ("CRM") programme, offering compelling reasons for our customers to return
- Fully leveraging our Group Single Customer View and increasing the investment in customer data management

Our Strategy



Inspire our customers through a differentiated, super-specialist shopping experience.

OBJECTIVES



Specialism

We will become a super-specialist by:

- Reducing our non-core products
- Increasing our online ranges of motoring and cycling products
- Investing in training with even greater focus on specialism



Innovation

We will lead and differentiate our markets with customer-led innovation by:

- Utilising customer insight to develop products we know they want and need
- Working with suppliers to jointly create, and bring to market, innovative products which are exclusive to Halfords



Customer Experience

We will improve our customer shopping journey online and in-store by:

- Bringing Halfords' services and products together on one website
- Focusing on personalisation by leveraging our Group-wide Single Customer View
- Improving store layout, ensuring it is easy for customers to find the products and services they need

PROGRESS MADE

- Fully integrated Group web platform, delivering best-in-class customer experience
- Optimisation of cycling space in all Retail stores
- Exit of Cycle Republic, focusing investment on Tredz to serve the Performance Cycling market

PRIORITIES FOR THE YEAR

- Materially upweight our Group web platform and digital customer experience, to create an even more differentiated and specialist proposition

Case Study

NEW WEB PLATFORM

In February, we launched our new Group web platform, transforming the digital experience and, for the first time, allowing customers to access an integrated services offer across Retail stores, garages and mobile vans through one website.

Our first transaction on the new website was a customer booking an MOT. This perfectly highlights one of the key strengths of this new platform – the heightened awareness and customer acquisition into Halfords Autocentres. We are already seeing an increase in customers shopping across the previously separate divisions of our business and expect this to continue

to improve awareness of our business, with customers exploring all that the Group has to offer.

The COVID-19 lockdown significantly accelerated the shift to online ordering. The new website coped well with the rapid and significant increase in traffic and provided customers with an engaging, user-friendly and convenient channel at a critical time.





Our Strategy



Support our customers through an integrated, unique and more convenient services offer.

OBJECTIVES



Integrated

We will have a unified services identity across the Group through:

- One seamless website, combining Halfords Retail and Halfords Autocentres
- WeFit services available on demand in garages
- Integrating the Services booking experience to include nearest available location and timeslot



Unique

- Offering customers access to our products and services via a unique combination of retail stores, garages and mobile vans complemented by a strong online proposition



Convenient

- Combining our physical estate with a consistent mobile services offer and increased availability
- Full roll-out and expansion of Halfords Mobile Expert to give most of the UK population access to our mobile services
- Future roll-out of garages to reduce average drive time from 30 minutes to 20 minutes

PROGRESS MADE

- Acquisition of McConechy's Tyre Service
- Acquisition of Tyres on the Drive
- Driving growth and profitability of Halfords Mobile Expert business with higher customer satisfaction scores
- Building relevance, awareness and value through our new WeCheck services
- On-demand WeFit trial in Autocentres continues to deliver promising results

PRIORITIES FOR THE YEAR

- Expand our Motoring Services proposition
- Swiftly completing the integration of McConechy's and Tyres on the Drive, utilising our best-in-class technology across our Services offer
- Significantly scale up the number of Mobile Expert vans, growing the size of our fleet to 120 by the end of the year

Case Study

MCCONECHY'S TYRE SERVICE LIMITED

In November 2019, Halfords Group announced the acquisition of McConechy's Tyre Service Limited, one of the largest independently owned chain of garages in the UK with 57 sites and a fleet of 100 mobile vans. With over 330 skilled colleagues providing in-garage services alongside a 24-hour breakdown service for commercial customers, 10 million customers can reach a branch within a 25-minute drive time.

The acquisition is highly complementary to the Halfords strategy, supporting the growth of our services proposition in Scotland and the North of England, an area in which we were under-represented.

The immediate priority post-acquisition was to establish continuity for customers and colleagues, which



proved successful. We recognised the significant opportunity for both businesses to learn from each other; bringing the experience and expertise that McConechy's colleagues have acquired in over 60 years of trading into the Halfords Group, whilst ensuring the unique strengths of Halfords, such as our market leading in-garage technology systems, are rolled out to the McConechy's garages.

Case Study

GROWTH OF HALFORDS MOBILE EXPERT

Halfords Mobile Expert has continued to deliver best-in-class customer service, receiving excellent feedback. We have accelerated the roll-out of our mobile proposition through the acquisition of Tyres on the Drive, which we announced in November 2019. The acquisition increased our mobile 'hub' footprint from 1 to 7 and the number of vans from 8 to 75, giving us access to 80% of the UK households.

One of the great benefits that Tyres on the Drive brings is its proprietary scheduling system, providing Halfords with a strong platform for future growth. Tyres on the Drive has been perfecting this technology over a number of years, enabling their systems to operate in a highly efficient manner whilst maintaining the high standard of customer service.

Our mobile proposition was particularly important during the COVID-19 lockdown, as customers sought to stay at home where possible, and we expect this to continue in the future.



Case Study

ENHANCING OUR IN-GARAGE DIGITAL OPERATING PLATFORM

'PACE' is our proprietary garage digital operating platform that enhances both the customer and colleague experience. We initially rolled out this bespoke software to all of our Autocentres in the previous financial year, with the focus being on front-of-house job management and standardising parts ordering. We have continued to optimise the system and launched 'PACE 2' during the year, which now means colleagues can:

- ensure a consistent and compliant approach to servicing vehicles;
- upload images and videos throughout the process, which can be shared with the customer to build trust and transparency throughout the process;
- see their daily workload move from 30+ sheets of paper to one single digital device, cutting down workload and saving time; and
- analyse labour requirements in garages, ensuring technicians are correctly placed to manage workflow, efficiency is optimised and training needs are identified.

This system gives us a significant advantage over our competitors. The market is highly fragmented and there is no clear market leader, with many customers citing that trust is essential when they choose where to have their car serviced. The feedback we have received is that PACE has already inspired confidence in our colleagues and helped to build trust between the Halfords brand and our customers.

Throughout the financial year we completed successful trials of this system and have subsequently rolled it out to our entire garage estate, meaning colleagues and customers across the nation are benefiting from this technology.



Our Strategy



Enable a *lifetime* of motoring and cycling

OBJECTIVES



Customer-led Action Culture

We have started to drive meaningful action from our insight which has been used to:

- Define future range decisions
- Change the labour operating model to better reflect customer needs
- Obtain a greater understanding of customer pain points and moments that matter
- Provide a Group-wide Financial Services offer



Loyalty and Retention

We will more actively drive customer loyalty and retention by:

- Supercharging our CRM programme, providing compelling reasons for customers to return to our brand
- Building cross-Group loyalty programmes to optimise lifetime value and advocacy



PROGRESS MADE

- Accelerated investment in our financial services offer giving us double-digit sales growth year-on-year and access to a new customer demographic.

PRIORITIES FOR THE YEAR

- Double the number of customers shopping across the Group, fully utilising the new Group web platform and our single customer view and CRM systems.

Case Study

FINANCIAL SERVICES

Over the past year we have been working hard to expand and improve our financial services offering, with significant growth coming through this channel. We have provided our customers with more ways to spread the cost of their purchases, in our Retail stores, our Autocentres garages and online. Our proposition in Autocentres, where customers can receive unexpected repair bills, is largely unmatched by our competitors. As a result, our value perception and customer satisfaction scores have increased, showing that we are offering a solution customers want and see value in.

Our financial services proposition has attracted new customers to the Group, in particular younger and female customers. These are all demographics that we under-index in.

The COVID-19 pandemic is likely to drive an economic contraction, leaving many consumers with lower levels of disposable income. In this environment, a strong financial services offer is critical, giving customers options on spreading the cost over a longer time period. The work we have done during the year, and continue to do, will put us in a strong position





Our Key Performance Indicators

To ensure a meaningful comparison, we have shown certain KPIs on a 52-week basis and pre-IFRS 16. Please refer to the footnotes where appropriate.

Shareholder KPIs

KPI	Definition	Commitment	Performance	Historic Performance												
Underlying profit before tax¹	Profit before income tax and non-underlying 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-underlying items.	Underlying profit before tax declined -4.9% year on year driven by the Retail business which saw sales decline as a result of mild winter temperatures and falling consumer confidence as Brexit uncertainty continued.	<table border="1"> <tr><th>Year</th><th>Value</th></tr> <tr><td>20</td><td>£55.9m</td></tr> <tr><td>19</td><td>£58.8m</td></tr> <tr><td>18</td><td>£75.4m</td></tr> </table>	Year	Value	20	£55.9m	19	£58.8m	18	£75.4m				
Year	Value															
20	£55.9m															
19	£58.8m															
18	£75.4m															
Underlying earnings per share ("EPS")¹	Profit after income tax and before non-underlying 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 were 24.3p, a decrease of -0.8%.	<table border="1"> <tr><th>Year</th><th>Value</th></tr> <tr><td>20</td><td>24.3p</td></tr> <tr><td>19</td><td>24.5p</td></tr> <tr><td>18</td><td>29.6p</td></tr> </table>	Year	Value	20	24.3p	19	24.5p	18	29.6p				
Year	Value															
20	24.3p															
19	24.5p															
18	29.6p															
Underlying EBIT and Underlying EBITDA¹	Underlying EBIT results from operating activities before non-underlying 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 EBIT declined -5.6% year-on-year per explanation above. EBITDA declined -3.0%.	<table border="1"> <tr><th>Year</th><th>Value</th></tr> <tr><td>20</td><td>£95.3m</td></tr> <tr><td>19</td><td>£98.2m</td></tr> <tr><td>18</td><td>£109.5m</td></tr> </table> <p>The above numbers represent Underlying EBITDA</p>	Year	Value	20	£95.3m	19	£98.2m	18	£109.5m				
Year	Value															
20	£95.3m															
19	£98.2m															
18	£109.5m															
Dividend per Ordinary Share¹	Dividends returned to shareholders divided by the number of shares in issue.	Given the impact of COVID-19 we have suspended the dividend until visibility of the near-term outlook improves. In normal times we remain committed to paying a dividend.	In line with previous guidance, there will be a nil final dividend for the financial year ended 3 April 2020 meaning the full-year dividend is 6.18 pence.	<table border="1"> <tr><th>Year</th><th>Value</th></tr> <tr><td>20</td><td>6.18p</td></tr> <tr><td>19</td><td>18.57p</td></tr> <tr><td>18</td><td>18.03p</td></tr> </table>	Year	Value	20	6.18p	19	18.57p	18	18.03p				
Year	Value															
20	6.18p															
19	18.57p															
18	18.03p															
Free Cash Flow²	Adjusted Operating Cash Flow less capital expenditure, net finance costs, taxation, exchange movement and arrangement fees on loans.	Our medium-term target is to grow Free Cash Flow over the current three-year period (FY20 – FY22) compared with the previous three years (FY17 – FY19).	The Group generated a Free Cash Flow of £54.6m, +27.9% above last year.	<table border="1"> <tr><th>Year</th><th>Value</th></tr> <tr><td>20</td><td>£54.6m</td></tr> <tr><td>19</td><td>£42.7m</td></tr> <tr><td>18</td><td>£41.5m</td></tr> </table>	Year	Value	20	£54.6m	19	£42.7m	18	£41.5m				
Year	Value															
20	£54.6m															
19	£42.7m															
18	£41.5m															
Net Debt to Underlying EBITDA ratio²	Represented by the ratio of Net Debt to Underlying EBITDA.	We currently continue to target a ratio of 1.0X, 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 0.8 times at the end of FY20, having remained broadly static since 2017.	<table border="1"> <tr><th>Year</th><th>Value</th></tr> <tr><td>20</td><td>0.8x</td></tr> <tr><td>19</td><td>0.8x</td></tr> <tr><td>18</td><td>0.8x</td></tr> </table>	Year	Value	20	0.8x	19	0.8x	18	0.8x				
Year	Value															
20	0.8x															
19	0.8x															
18	0.8x															
Like-for-like sales¹	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.	Group like-for-like sales declined -1.8% with Retail declining -2.3% and Autocentres in growth up +1.4%. Within Retail, Motoring declined -5.3% due to mild winter conditions in H2 whereas Cycling grew +2.3%, seeing both a strong start and end to FY20.	<table border="1"> <tr><th colspan="2">FY20 LFL sales movement</th></tr> <tr><td>Halfords Group</td><td>-1.8%</td></tr> <tr><td>Retail</td><td>-2.3%</td></tr> <tr><td>Motoring</td><td>-5.3%</td></tr> <tr><td>Cycling</td><td>2.3%</td></tr> <tr><td>Autocentres</td><td>1.4%</td></tr> </table>	FY20 LFL sales movement		Halfords Group	-1.8%	Retail	-2.3%	Motoring	-5.3%	Cycling	2.3%	Autocentres	1.4%
FY20 LFL sales movement																
Halfords Group	-1.8%															
Retail	-2.3%															
Motoring	-5.3%															
Cycling	2.3%															
Autocentres	1.4%															

¹ Numbers presented are on a 52-week basis and pre-IFRS 16.

² Numbers presented are on a 53-week basis and pre-IFRS 16.

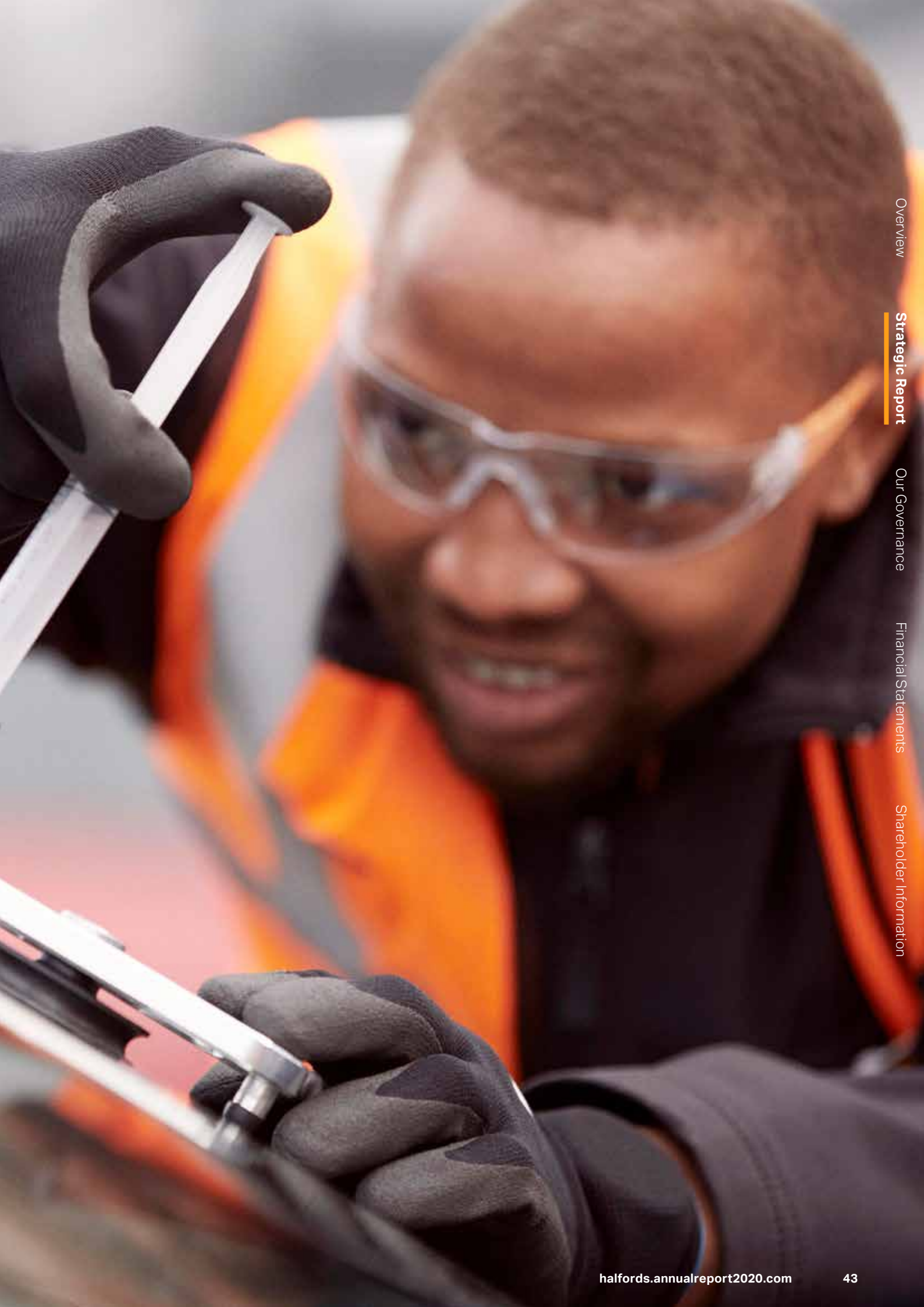


Our Key Performance Indicators

Operational KPIs

KPI	Definition	Commitment	Performance	Historic Performance												
Service-related Group sales growth¹	Service-related Group 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 Group sales faster than total Group sales growth.	Service-related Group sales continued to grow faster than overall Group sales, with a growth of +8.9% on last year and now accounting for over 26% of total Group sales.	FY20: +8.9% FY19: +1.6%												
Group Colleague Engagement	The proportion of Group colleagues who respond positively to the questions in the Colleague Engagement Survey.	We aim to improve Colleague Engagement across the Group with specific focus on required areas identified by colleagues.	Due to COVID-19, the decision was made to delay the Colleague Engagement Survey.	<table border="1"> <thead> <tr> <th>FY</th> <th>Engagement %</th> </tr> </thead> <tbody> <tr> <td>20</td> <td>Delayed</td> </tr> <tr> <td>19</td> <td>79%</td> </tr> <tr> <td>18</td> <td>81%</td> </tr> </tbody> </table>	FY	Engagement %	20	Delayed	19	79%	18	81%				
FY	Engagement %															
20	Delayed															
19	79%															
18	81%															
Customer Net Promoter Score ("NPS")	Measure the changes in NPS of our Retail stores and Autocentres.	We are committed to improving the score with our customers across the Group.	NPS in Retail finished FY20 at 62.4 which was a decline of -0.5 since FY19. Autocentres, however, saw an improvement of 3.5 to 69.0.	<table border="1"> <thead> <tr> <th></th> <th>2020</th> <th>2019</th> <th>2018</th> </tr> </thead> <tbody> <tr> <td>Retail</td> <td>62.4</td> <td>62.9</td> <td>63.7</td> </tr> <tr> <td>Autocentres</td> <td>69.0</td> <td>65.5</td> <td>65.0</td> </tr> </tbody> </table>		2020	2019	2018	Retail	62.4	62.9	63.7	Autocentres	69.0	65.5	65.0
	2020	2019	2018													
Retail	62.4	62.9	63.7													
Autocentres	69.0	65.5	65.0													

1. Numbers presented are on a 52-week basis and pre-IFRS 16.



Our ESG Strategy

Following wide-ranging consultation with colleagues, consumers and other stakeholders, we have evolved our Corporate Social Responsibility strategy into a more broadly based approach which encompasses all aspects of our environmental, social and governance ("ESG") commitments.

Our Approach to Sustainability

Our new ESG strategy has three pillars. Firstly, we will inspire people to make climate-smart transport decisions and do all we can to help the nation transition to electric mobility; secondly, we will support customers by giving them a

greater sense of control over their mobility through the evolution of products, services and solutions; thirdly, in line with our commitment to support customers through a lifetime of motoring and cycling, we will set an example by making a lifetime commitment of our own – to make our business carbon neutral by 2050.

We are committed to introducing a more structured approach to measuring and reporting key metrics, including recycling, waste reduction and Greenhouse Gas ("GHG") emissions. By FY21 we plan to have added Scope 3 to our existing Scope 1 and Scope 2 GHG reporting, and to

have introduced targets for reductions in GHGs mapped against the UN Sustainable Development Goals.

Our Scope 3 reporting will incorporate emissions from our purchased goods, services and capital goods. In setting targets for further emissions reductions we will use a methodology consistent with the Science Based Target Initiative (SBTi), a collaboration between CDP, the United Nations Global Compact, World Resources Initiative, WWF and We Mean Business Coalition.

Our ESG Strategy

1

Inspire

Championing the shift to electric smart travel through education, engagement and community support

2

Support

Help put the consumer in control, through products, services and solutions

3

Lifetime

Walk the walk: make our business carbon neutral by 2050

Our Objective

Halfords' mission is to realise a sustainable future by championing all forms of electric transport and supporting colleagues and consumers in making smarter transport choices



1

Inspire

Championing the shift to electric smart travel through education, engagement and community support

Objectives

We believe that smart, independent transportation (electric, hybrid, cycling, E-scooters, E-bikes) is vital to our wellbeing and the environment. We also know that people need help and advice along this journey. We are therefore on a mission to support a sustainable future by championing all forms of electric transport and supporting our customers as they make their transportation choices.

Measures

Our success will be measured by:

- Consumer understanding of our electric vehicles maintenance, repair and services proposition
 - Aim: to establish a baseline measure and set targets for improvement
- Our contribution to lobbying campaigns designed to accelerate the transition to electric vehicles (EVs)
 - Aim: in FY21, to contribute to the legalisation of E-scooters on UK roads

2

Support

Help put the consumer in control, through products, services and solutions

Objectives

We are evolving our offer to help people navigate their way through a more complex transport landscape. We are committed to giving customers the confidence they need to switch to greener forms of transport, to supporting them once they have done so, and to helping people stay safe on the road, whatever form of personal transport they choose.

Measures

- The number of colleagues accredited to IMI Hybrid Electric Vehicle Level 2 and the number of colleagues trained to advise customers on E-bike and E-scooter sales
 - Aim: to be the first organisation in the UK to have national coverage of accredited technicians and to have the largest number of colleagues trained to advise customers about electric mobility in the UK in FY21 and each year thereafter
- The breadth of our range of E-bikes and E-scooters across models and price points and the take up of service plans designed to support long-term usage of green transport solutions.
 - Aim: to have the broadest range of models and price points in FY21 and each year thereafter

3

Lifetime

Walk the walk: make our business carbon neutral by 2050

Objectives

We recognise that this is a longer term target and therefore over the next year we are looking to implement graduated carbon-reduction targets, with the first milestone set at 2025, leading towards Halfords becoming carbon neutral by 2050. We will announce these Science Based Targets in due course during FY21.

More information on our ESG Strategy can be found on the following pages:

➔ [Inspire](#) on pages 46 to 48.

➔ [Support](#) on pages 49 to 51.

➔ [Lifetime](#) on pages 52 to 58.

Our ESG Strategy

1

Inspire

Championing the shift to electric smart travel through education, engagement and community support

The transition to smart, independent transportation is a vital component of the UK's plan to meet its climate commitments. Halfords has a key role to play by:

- i. investing in education and community engagement programmes to help consumers make climate-smart choices;
- ii. evolving our product and services offer to make the switch to electric vehicles easier for consumers; and
- iii. supporting new forms of electric mobility such as E-scooters and E-bikes.



Concerns about electric mobility such as price, range and charging infrastructure are starting to subside but, even so, the transition to electric has only just begun. Everyone in the Electric Vehicle ("EV") value chain has a role to play in helping consumers to make the switch and to supporting them once they have done so.

Helen Jones
Chair, ESG Committee



Looking Back at FY20

Introduction

The electric car market is growing rapidly, with almost 300,000 models on UK roads at the end of April 2020. Registrations of EVs during the first three months of 2020 were up 120% compared with the same period in 2019 while pure-EVs were up 205%.

More than 72,700 electric cars were sold in 2019, beating 2018's total of 59,700. Average market share also rose to 3.2% of total registrations, and in March 2020, 7.3% of new vehicle registrations were EVs.

It is against this backdrop that Halfords is evolving its offer to ensure that we are well positioned to help consumers as they make the switch to electric.

During FY20 we:

- Trained 308 technicians in electric vehicles or E-bike servicing, bringing the total to 759.
- Saw a 45% increase in sales of electric cycling products and a 372% increase in E-bike servicing.
- Saw an 82.5% increase in sales of our E-mobility category which includes electric bikes, scooters and hoverboards.

- Saw a significant expansion of E-bikes in the Cycle-to-Work scheme

Our contribution to the transition to an all-electric vehicle fleet has four components – training and services, colleague engagement, education, and campaigning:

Training and Services

The number of EV and hybrid services in our garages now represents 0.5 per cent of all vehicle services, while E-bike services grew 372% and now account for 5% of all cycle services.

One hundred colleagues gained the IMI's Hybrid Electric Vehicle Level 2 accreditation in FY20 with another 50 achieving Level 3. A further 200 are scheduled to follow the same path in FY21. One hundred and fifty-eight colleagues received E-bike servicing training in FY20, bringing the total to 439.

The total number of colleagues across the business trained to service EVs or E-bikes now stands at 759.

We will accelerate our investment in training and upskilling so that colleagues can give customers the advice and information they need to make informed choices and provide the maintenance and repair services required for the UK's evolving mix





of mechanical, petrol, diesel hybrid and all-electric vehicles.

Colleague Engagement

On our journey to develop Halfords' ESG Strategy, we discovered through listening groups and surveys that our colleagues passionately believe in having an active ESG programme. In fact, we found that 87% said having an active CSR or ESG programme was important, 86% believed Halfords should develop products to help everyone embrace electric vehicles, 78% thought Halfords should be advising and guiding consumers on the choices available when going electric and 65% wanted Halfords to lobby the Government to support great infrastructure. In order for Halfords' colleagues to fully engage and invest in the development of the ESG Strategy, we appointed four colleague volunteer representatives to the ESG Committee, as voted for by the wider Halfords Group. Throughout the year, the colleague representatives attended ESG Committee meetings and made a highly important contribution to the strategy's direction of travel.

Education

Whilst sales of EVs are starting to take off, we are still in the early stages of the transition away from petrol and diesel vehicles. Research shows that consumers continue to have concerns about range and charging infrastructure, though there are signs that these barriers are starting to lift as models with real-world ranges of 200–300 miles come on to the market and hundreds of new charging points are installed each week.

Price is also a barrier, with many electric vehicles retailing at a premium to their nearest petrol/diesel equivalents. However, there is growing awareness that a more meaningful consideration is the total cost of ownership i.e. including finance, fuel, tax and incentives, depreciation, maintenance, servicing and repair.

As the UK's largest provider of motoring products and services, Halfords has an important role to play in helping people understand the costs associated with EV ownership - including the savings that can be achieved by using Halfords garages and stores - and in reassuring them about the scale of the maintenance, repair and service infrastructure that is in place to keep their electric vehicles on the road and safe to drive.

E-bikes and E-scooters are relatively new technologies to the market, so during FY20, we adopted the role of consumer champion to support consumers' knowledge and understanding of them. We conducted consumer research which uncovered and highlighted some of the myths around E-bikes. This research formed the basis of a report on E-bikes, on which we ran a publicity campaign to develop people's knowledge of the benefits of E-bikes. Separately, we conducted research into public opinion around E-scooters and the law. Using these results we have been able to highlight public support for E-scooters and lobby the Government for the law to be changed.

We will continue to invest in consumer research to understand how we can best help people to make the switch to electric vehicles – including E-bikes and E-scooters – and then develop education campaigns to provide the necessary information, tools, resources and inspiration. This may involve collaborations with other organisations in the EV value chain.

Campaigning

The future of urban mobility has been on the political agenda for many years, but the COVID-19 crisis has dramatically increased the need to find new forms of clean, safe and affordable transport, especially for commuting.

One of the key debates in recent months has been the role of E-scooters – stand-up scooters powered by an electric motor. E-scooters are legal on roads in many European countries, including Germany, France, Austria and Switzerland, but not in the UK.

The Department for Transport has announced a consultation on micromobility, including how E-scooters could be legalised as a new form of environmentally friendly transport on the UK's streets. Halfords is contributing to this consultation, together with a parallel inquiry into E-scooter safety launched by the Transport Select Committee.

Our ESG Strategy

Case Study

THE ELECTRIC TECHNICIAN

Garry Mantle, Centre Manager at Halfords Autocentre, Wellingborough, began training on electric and hybrid cars two years ago and now puts his skills into practice on up to six vehicles a week. He explained that the training is split into three stages and it takes a few days to complete each stage. Any Halfords Autocentre colleague can access training through the hub or by being nominated by their garage manager.

Garry said: "The hybrid and electric training allows my team to work on vehicles they ordinarily would not get the chance to work on. Very few of our competitors have mechanics skilled in this area so we are seeing more and more premium vehicles, such as Teslas, in our Autocentres."



Trials of E-scooter rental schemes began in selected UK towns and cities in June 2020. These have been brought forward by one year as part of the response to the challenges created by COVID-19.

We will continue to press the case for the legalisation of E-scooters, liaising with Ministers and officials in Westminster, and with MPs and local authorities in the trial areas. In FY20, we contributed to an All-Party Parliamentary Group ("APPG") debate on micromobility and we discussed the matter with Rachel Maclean, MP for Redditch.

We will also work to raise awareness of the eligibility of E-bikes in the Government's Cycle-to-Work scheme among employers and their employees. We expect take-up of the Cycle-to-Work scheme to expand significantly in the wake of COVID-19 and we will seek to build on our position as the UK's leading Cycle-to-Work retailer.



2
Support

Help put the consumer in control, through products, services and solutions

Looking Back at FY20

The personal transport landscape is evolving quickly. Vehicles are becoming more complex – due in part to the transition to EVs – while mobility options are expanding thanks to the growth of electric vehicles, E-bikes and micromobility solutions. Fragmenting social structures are making domestic lives more complex, while working lives are becoming more flexible as employers evolve their policies and practices. In the short to medium-term, the COVID-19 pandemic will have a profound impact on commuting. Anticipated changes, such as the growth in working from home, the introduction of staggered shift patterns, and an increase in driving and cycling to the workplace, may endure into the long-term.



In this fast-changing transport landscape, consumers need more support and guidance than ever before to help them stay mobile and to do so in a way which is safe, sustainable, convenient, and affordable.

Helen Jones
Chair, ESG Committee

Introduction

Our mission is to support people through a lifetime of motoring and cycling. We are evolving our offer to guide customers as they embrace new technologies and navigate their way through a more complex transport landscape.

We are committed to giving customers the confidence they need to switch to greener forms of transport, safe in the knowledge that there is a reliable maintenance, repair and servicing infrastructure there to support them.

We are also equipping our colleagues with the expertise they need to advise people who are hesitant about the practicalities and costs associated with making more sustainable transport choices.

We are helping people stay safe on the road by i) expanding access to car and bicycle safety checks, ii) offering a truly national products and services network, iii) expanding access to maintenance, servicing and repair services by offering highly competitive prices, iv) investing in our mobile services – Halfords Mobile Expert and Tyres on the Drive – to make staying safe on the road more convenient than ever, and v) broadening our E-mobility offer both in terms of our product range and our servicing offer.

As the growth of electric mobility has accelerated, we have been working hard to keep pace to ensure that the majority of our customers have access to the EV products and services they need. We are the largest provider of E-bike servicing in the UK, and almost half our E-bike customers opt to buy a dedicated E-bike service plan purchase, which includes both unlimited puncture repair and specialist E-bike servicing twice a year. We also offer a dedicated E-scooter care plan, which provides puncture prevention treatment, unlimited brake adjustments and free inner tube fitting.

Our flexible finance offer makes E-bikes and E-scooters accessible to all. They allow customers to spread the cost, with one in five customers purchasing in this way.



Last year, the Government changed the Cycle-to-Work guidelines, allowing bikes

over £1,000 to be accessed through the scheme. This has enabled more Cycle-to-Work customers to purchase E-bikes, as it allows them to not only spread the cost of their E-bikes but do so in a tax efficient way. In FY20 E-bikes made up 11% of all bikes sold through the Halfords Cycle-to-Work scheme, a nearly 4% increase year on year.

Supporting Customers Through Colleague Training

Better trained colleagues give better advice and help customers make better choices. That is why we strive to give all of our colleagues an equal opportunity to build a rewarding career as a ‘super-specialist’ within an inspiring and diverse team.

‘Gears’ – our development programme in which Retail colleagues progress through a structured series of e-learning, technical workshops, one-on-one coaching and shop floor experience modules – continues to go from strength to strength. It motivates colleagues to respond to the evolving needs of our customers, and encourages them to develop their skill-sets. Colleagues are rewarded for their achievements through career progression and increased pay awards.

Similarly, Tredz has a range of colleague training and development programmes that are aimed at helping colleagues at all levels to develop their skills, knowledge and management techniques.



Our ESG Strategy

In FY20 all new eligible starters in our shops were enrolled onto our Retail Level 2 Gears in-house Apprenticeship Programme. During the year, we reviewed the best way for apprenticeship training to be provided, and following this review, we have chosen to partner with Instep UK. This means that if a colleague wishes to complete an apprenticeship qualification, they are still able to do so.

Our 'Gears in Retail' qualification programme continues to be a crucial part of our colleagues' development, and allows them to achieve qualifications that are recognised throughout the industry.

All new colleagues complete Gear 1 within the first three months of their employment. Gear 2 then leads to an expert level of specialist knowledge in either Auto and Leisure or Cycling.

If nominated to do so, colleagues can then move to Gear 3 which elevates them to 'technician' status in either Auto or Cycling and allows them to undertake more complex fits and repairs.

During the year we continued to deliver additional 'Customer First' training to all of our store management, customer service and Support Centre colleagues.

We also continued to train colleagues on new products and services, for example E-bikes and E-scooters.

Halfords Autocentres continues to run a variety of training courses in conjunction with the Institute of Motor Industry ("IMI"). These include the IMI DVSA MOT tester accreditation, and the IMI Hybrid Electric Vehicle Level 2 and Level 3 accreditations. Autocentres also has one of the largest light vehicle maintenance apprenticeship schemes in the UK.

For colleagues who have been with Halfords for longer, we run our 'Aspire' series of leadership programmes to help them develop their management skills.

Aspire is a guided learning suite that gives colleagues the opportunity to further their careers and become leaders.

In addition, our 'Aspire to Assistant' and 'Aspire to Store Manager' programmes are mapped to Level 3 and Level 4 apprenticeship programmes, which means that our colleagues achieve a formal qualification as part of their programme.

This all means that the majority of store manager vacancies continue to be filled internally.

During FY20:

- 108 colleagues achieved the IMI's DVSA MOT tester accreditation

- 84 colleagues achieved IMI Level 3 accreditation.
- 215 colleagues achieved Level 3 Refrigerant Handling (air conditioning qualification).
- 134 colleagues gained the IMI's Hybrid Electric Vehicle Level 2 accreditation and 55 gained Level 3 accreditation.
- 152 new apprenticeships commenced and 56 colleagues completed management apprenticeships. Of these, 69% of the 'Aspire to Assistant' apprentices and 57% of the 'Aspire to Store Manager' apprentices achieved a distinction in their final assessment.

Product and Service Development

During FY20, we introduced a number of new products and services designed to help people make more sustainable transport choices and to expand access to services which keep people safe.

We have evolved our E-bike and E-scooter offer, providing consumers with a wider range of models and price points so that more people can make positive lifestyle changes.

In FY20, sales of E-bikes grew 45% and now represent 21% of all cycle sales. E-bikes typically have a range of 30-50 miles in commuter traffic conditions and provide the rider with varying degrees of assistance, depending on the mode selected.

During the COVID-19 lockdown, interest in cycling increased dramatically. Millions of people turned to cycling for exercise and to enjoy the outdoors. As people gradually return to the workplace – but try to avoid public transport – the expectation is that a growing proportion of commuter journeys will be completed by bicycle. However, mechanical bikes are not suitable for everyone or for every journey. E-bikes have a role to play, providing solutions for journeys that would otherwise be made by car or by public transport.

Halfords currently offers 31 E-bike models, ranging in price from £599 to £2,999. We have also introduced new E-bike specific products in FY20 such as E-bike cycle carriers, which are strengthened to support the additional weight of an electric bike for transportation by car. We will continue to evolve our E-bike offer, providing customers with a wider range of products and price points so that more people can access the category and make lifestyle changes which are better for them, our cities and the planet.

At the time of writing, privately owned E-scooters are not permitted on roads or pavements in the UK. In the wake of

COVID-19, the E-scooter rental trials originally planned for 2021 have been brought forward to summer 2020 with a view to fast-tracking legislation. If the UK were to follow the lead of several European countries and permit the use of E-scooters on roads, we anticipate a significant increase in interest in the category.

We currently offer nine E-scooter models, ranging in price from £199 to £729. As with E-bikes, we will evolve our offer in order to expand access to the category and broaden the range of clean energy transport choices available to the public.

Last year we expanded our fleet of Halfords Mobile Expert and Tyres on the Drive and McConechy's vehicles to improve access to repair and maintenance services. The value of these mobile services has been demonstrated through the COVID-19 pandemic with high demand from customers who rely on their vehicles but who were reluctant or unable to visit us in person.

Safe and Sustainable Travel

During the COVID-19 lockdown, the number of journeys made by car dropped significantly, but the journeys that people *did* make were vital. They got doctors and nurses to work, volunteers to the pharmacy and parents to the supermarket.

When lockdown was announced on 23 March, Halfords was classed as an essential retailer by the Government and was permitted to remain open. The business devised and implemented a new operating model within 48 hours, allowing 600 stores and garages to continue to serve the public.

The operating model – known as Dark Store 1.0 – was designed to keep colleagues and customers safe whilst continuing to provide essential motoring and cycling services to the public. Customers were not permitted to enter stores. A queuing system was implemented which allowed colleagues to serve customers from the front of the store in a safe and socially distanced way. Throughout the lockdown period we continued to sell motoring essentials and provide fitting services. We also continued to sell, service and repair bikes.

Measures in Halfords Autocentres and McConechy's included limiting customers to one at a time in reception and asking them not to wait whilst the work was completed. Throughout lockdown Halfords Autocentres and McConechy's continued to provide servicing and repairs, not only for personal cars but also for emergency services vehicles. During FY20, we had contracts with 49 emergency services to provide servicing, repair and tyre services for ambulances, police cars and border control vehicles.

In late March we announced that our car health check, which normally costs £15, would be free for NHS and other emergency service workers as part of our *Here for the Heroes* programme, designed to keep essential workers on the road.

The 30-minute check covers lights, wipers, battery, windscreen, tyre depth and inflation, oil, screen wash, and coolant level. We also offered emergency workers a free Bronze bike service (worth £30). The service includes adjusting and aligning gears, lubricating the drivetrain and adjusting and aligning brakes. Emergency workers were also offered 10% off new tyres as part of the programme.

During the first ten weeks of lockdown (covering the end of FY20 and the beginning of FY21) 11,625 emergency workers took advantage of these offers, with a further 18,189 taking advantage of discounts using the Blue Light Card during the same period. We also donated E-scooters to the NHS Nightingale hospital in Birmingham to help construction workers complete the fit-out and donated numerous bikes to individual doctors and nurses whose bicycles had been stolen or vandalised.

Our research shows there are more than seven million neglected adult bikes languishing in sheds and garages. With bicycles set to play a crucial role in helping the nation return to the workplace we intend to enable as many people as possible to use bicycles for some or all of their commute.

During the COVID-19 pandemic (covering the end of FY20 and beginning of FY21),

we promoted the free bike 'M' check via a campaign called *Get Back On A Bike*. The 32-point check assesses the condition of the frame, saddle, handlebar, wheels, tyres, brake system, and the drivetrain, including gears, levers, and chain, and we saw a fivefold increase in the number of checks performed in the first week after the campaign launched.

We are the leading retail participant in the Government's Cycle-to-Work scheme. The scheme allows workers to use salary sacrifice to make savings of up to 47% on the cost of cycling. In FY20 we released 54,765 vouchers to people to buy bikes and accessories as part of the scheme.

All of these initiatives serve to underline the role Halfords plays in keeping the nation moving. During FY20, we carried out:

- 312,026 car services
- 638,314 MOTs
- 2.97 million fitting services (such as for bulbs, blades and batteries)
- 11,000 bicycle services
- 125,000 bicycle repairs

Community Support

We intend to step up our efforts to campaign for safe and sustainable travel.

The Government has committed £2bn to increase cycling and walking capacity across the UK. At the time of writing, details of the programme have not been published, but we will participate fully and seek to make constructive contributions, whether that be through the introduction of new products, the

Case Study

SUPPORTING EMPLOYERS AND THEIR PEOPLE

In addition to serving consumers direct through our stores, garages and website, we work with employers to help them get their colleagues to and from work safely and affordably.

We are the leading retail participant in the Cycle-to-Work scheme – which enables employees to make savings of up to 47% on the cost of a new bike and safety accessories – and we help employers offer subsidised bikes and manage workplace bike fleets.

We are looking at developing a CarSave scheme to enable employees to spread the cost of car maintenance and so we are working with employers to help facilitate this so that their employees can stay mobile and safe, whilst avoiding the cost of running company cars. For businesses which do operate company-owned vehicles we offer a convenient and easy-to-use fleet service.

development of new services or making policy proposals.

We are contributing to two consultations on the legalisation of E-scooters on roads, one called by the Department for Transport, the other by the Transport Select Committee.

We believe that E-scooters can play an important role in solving the commuting challenges the country faces as people gradually return to the workplace. We are also reaching out to the local authorities where E-scooter rental trials are taking place in June to explore ways in which we may be able to provide support.

We plan to ramp up our efforts to promote E-bikes which we believe provide an important additional option for commuters, especially those facing longer or more arduous journeys.

We believe employers should be doing more to take advantage of the Cycle-to-Work scheme and we intend to become a more vocal advocate for the scheme.



Our ESG Strategy



Walk the walk: make our business carbon neutral by 2050

Looking back at FY20

In FY20, we committed to make our business carbon neutral by 2050. To help achieve this goal we will introduce a more structured approach to measuring and reporting key metrics including recycling, waste reduction and GHG emissions. By FY21 we plan to have added Scope 3 to our existing Scope 1 and 2 GHG reporting, and to have introduced Science Based Targets for reductions mapped against the UN Sustainable Development Goals.



We recognise we have a duty to minimise the impact of our activities on the environment. We have made progress in recent years but the time has come to set a clear and achievable target to achieve net zero, and I am delighted we have now formally adopted that target.

Helen Jones
Chair, ESG Committee



Introduction

Halfords has a role to play in helping the nation transition to a more sustainable future. We are determined to do all we can to help people make greener transport choices, offering the products and services they need to make the leap to electric. But we are equally determined to do that in a way which minimises waste and reduces the amount of energy we use across the business. In FY20, we made two important commitments. The first was to adopt formally the target of making our business carbon neutral by 2050, and the second was to adopt a series of Science Based Targets, creating a route map towards that goal.

GHGs

The total Scope 1 and 2 quantity of energy consumed across the Group in FY20 was:

- Electricity: 52,712,652 kWh (-4,229,494 kWh versus FY19)
- Gas: 63,902,230 kWh (+14,135,195 kWh versus FY19)
- Total 116,614,882 (+9,905,701 kWh versus FY19)

The Scope 1 and 2 tCO₂E (see table headings below) for FY20 was:

- Electricity: 10,321 (-3,248 versus FY19)
- Gas: 11,749 (+2,594 versus FY19)
- Company Cars on business: 1868 (-33.28 versus FY19)
- Total 27,090 (-85.28 versus FY19, note FY20 figure includes McConechy's for which gas consumption is not available for FY19)

Global Greenhouse Gas Emissions

	2019 tCO ₂ E	2020 tCO ₂ E
Retail (inc Cycle Republic) Directly Purchased Electricity	275	255
Autocentres Directly Purchased Electricity	2,275	2,131
McConechy's Directly Purchased Electricity	-	766
Halfords Group Directly Purchased Electricity	13,569	10,321
Total Electricity	16,119	13,473
Autocentres Combustion of Gas	1,842	4,217
Tredz and Wheelies Directly Purchased Gas	6	7
McConechy's Combustion of Gas	-	94
Halfords Group Combustion of Gas	7,307	7,431
Total Combustion of Gas	9,155	11,749
Cars on Company Business	1,901	1,868
Overall totals	27,175	27,090
Company's Chosen Intensity Measurement: tCO₂E per £1m Group Revenue	23.87	23.45

Reducing Carbon Footprint

We are committed to making the business carbon neutral by 2050 and we will be incorporating Scope 3 emissions into our reporting by FY21, adopting Science Based Targets for emissions reductions.

In FY20 we continued to roll-out energy-saving LED lighting across our estate. During the year, 199 locations benefited from LED lighting, resulting in a 6.37m kWh reduction in energy consumption, the equivalent of 1,629 tonnes reduction in annual CO₂ emissions.

We have been working closely with our logistics partner, Wincanton, to reduce total mileage by maximising the utilisation of trailers and improving scheduling efficiencies. In FY20 we achieved a reduction in CO₂ emissions from logistics of 922 tonnes.

Over the past 12 months, Halfords has invested in a number of energy saving measures across the estate, these being:

- 172 stores fitted with new LED lighting and BMS control system;
- a further 27 stores were completed in February 2020, taking the total to 199;
- capital expenditure for a further 40 stores has been approved and will commence once the current restrictions have been eased; and
- invested in AMR for all sites with a gas supply, meaning all sites now have access to half hourly data for both gas and electricity.

For the coming financial year, Halfords plans to recommence the second phase of the LED and BMS control roll-out to the remaining 40 stores. Should budget permit, it is planned that a third phase of LED and BMS will be rolled out.

	2019-20 CO ₂ et	% of total
Gas	11,748	45.78%
Electricity	13,473	52.50%
Transport	442	1.72%
Total	25,664	

Scope Breakdown CO₂et

Scope 1	11,748
Scope 2	13,473
Scope 3	442

Electricity

Brand	Total kWh	CO ₂ et
Cycle Republic	998,900	255
Halfords	40,380,410	10,321
Halfords Autocentres	8,335,409	2,131
McConechy's	2,997,934	766
Total	52,712,652	13,473

Gas

Brand	Total kWh	CO ₂ et
Halfords	40,419,189	7,431
Halfords Autocentres	22,935,962	4,217
McConechy's	509,293	94
Tredz and Wheelies	37,787	7
Total	63,902,230	11,748

Transport

Brand	CO ₂ (kg)	CO ₂ et
Retail Air	351,871	352
Retail Rail	16,733	17
HAC Air	69,068	69
HAC Rail	4,064	4
Total	441,736	442

46%

Gas

52%

Electricity

2%

Transport

Science Based Targets

Our Scope 3 reporting will incorporate emissions from our purchased goods and services and capital goods. In setting targets for further emissions-reduction, we will use a methodology consistent with the Science Based Target Initiative (SBTi), a collaboration between CDP, the United Nations Global Compact, World Resources Initiative, WWF and We Mean Business Coalition.

EV Fleet Transition

We believe that smart, independent transportation is vital to our wellbeing and the environment and we are on a mission to support a sustainable future by championing all forms of electric transport and supporting our customers as they make their transportation choices.

As well as training technicians in electric vehicle and E-bike servicing and broadening our range of E-bikes and E-scooters, we are also committed to transitioning our own fleet of vehicles to electric. Currently, a little over 3% of our fleet is electric or hybrid.

Recycling and Waste Management

In January, we initiated a new recycling initiative across our stores, with colour-coded waste collection for general waste, dry mixed recycling and clear plastic. In addition, Bikehut colleagues started to use empty bike boxes for cardboard collection.

This new approach to waste management is part of the One Way system which standardises operational processes across all stores, driving consistency and efficiency. Previously, colleagues were collectively spending 163,000 hours handling waste each year.

We initiated a soft plastic recycling initiative in FY20 and began an audit of plastics suppliers. Achievements in the year include blister packaging removed from our CO₂ bike pump and spare cable ties removed from hand pump packaging.

We also stepped up our efforts to recycle rubber in FY20, including collecting 3,122,924 kg of old tyres for recycling into new products. A programme to find a

solution for recycling old wiper blades was initiated in FY20. We dispose of over one million blades each year.

We recycle 100% of used car batteries when we fit new ones for our customers. In FY20 we collected and recycled 4,562kg of used domestic batteries in our UK stores.

Our bike recycling scheme goes from strength to strength and last year about 62,000 bikes went to our charity partners ReCycle and Cycle for Good.

During the 2019 calendar year, Halfords Autocentres achieved 100 per cent recycling rates for a wide variety of products, including tyres, oil filters, bulk oil, and battery boxes. By diverting 943.4te of product from landfill (77%) Halfords Autocentres achieved carbon savings of 5,607,908 kg, equivalent to 5,802 trees (calculated by AWS and agents and endorsed by Carbon Footprint Ltd).

Our ESG Strategy

LIFETIME

OUR BIKE RECYCLING SCHEME GOES FROM **STRENGTH TO STRENGTH** AND LAST YEAR ABOUT **62,000 BIKES** WENT TO OUR CHARITY PARTNERS **RE-CYCLE AND CYCLE-FOR-GOOD**

KEY FACTS

3,122,924 kg

of old tyres collected and recycled

100%

of used batteries recycled

4,562 kg

of used domestic batteries collected and recycled

Case Study

CYCLE-FOR-GOOD

David Namuthe, 25, works at Mother Teresa Children's Centre as an Extended Schools Worker. David's wife Prisca, 22, has to work in a café abroad in South Africa because finding work in Malawi is almost impossible. They have two young boys, Brian is five years old and goes to Mulunguzi primary school in Chilomoni. His brother Luckson is three years old and is at a nursery school. With his wife away, David must take the children to school each day. School and work start at 7:30am and finish at 4:30pm and with a one hour walk each way it is a long day. David had a bicycle but the children did not.

David decided that now Brian was five he could ride a bike to school. David paid for the bike by doing laybuy. This means each month a portion of his salary was put aside by Beebikes so that he could pay in affordable small instalments.

Brian absolutely loves his bike as he does not have many toys. He enjoys riding to school and likes playing with his friends at the weekends. It is wonderful to be able to share his bike as not many of his friends have one.

David and Brian can now enjoy going for a cycle ride together and can go shopping at Blantyre market. It is much better than going on a minibus and they can save the minibus fare which really helps the family finances.

With a big smile David said 'Please thank the Halfords people in the UK for donating their bicycles so our families can enjoy cycling'.



OUR PEOPLE

DEVELOPING,
REWARDING AND
RETAINING OUR
COLLEAGUES,
ENSURING THEY ARE
FULLY ENGAGED TO
DRIVE OUR LONG-
TERM SUSTAINABLE
GROWTH AMBITIONS

KEY FACTS

c.10,400

colleagues

624

colleagues graduated to
management roles

UK National
Call Centre

Awards finalists

A Great Place to Work

Colleague engagement is vital to our success as a business. As such, it is a measure in our Executive bonus scheme and we set targets for improved engagement right across the organisation. We run an annual colleague engagement survey, administered and analysed by a third party, which provides us with reports at team level.

We create an environment which encourages colleagues to feed back to us about how we can make Halfords an even better place to work, and this is clearly successful as last year we had a survey response rate of 93%. Our engagement index of 79% demonstrates that the vast majority of our colleagues enjoy working at Halfords. Following the distribution of reports across the business, every team produces an engagement action plan which includes actions that they can take locally to improve colleague engagement.

Key themes are also pulled out at a Company level in order to inform improvements for the year ahead. This could include changes to reward, learning and development, tools and equipment, leadership development right through to physical changes to buildings or our IT provisions. Managers who achieve significant improvements to colleague engagement receive recognition and for those managers who receive poor engagement results a development plan is put in place to support them to improve this. Our Retail business enters The Sunday Times Best Big Companies survey and in 2020 we placed in Best 25 Big Companies to Work For Category.

As in previous years, our commitment to providing best-in-class training and ensuring the health and well-being of our colleagues is demonstrated by a range of achievements and awards. Furthermore, our efforts to drive improvements to our gender pay gap have continued to deliver tangible results.

- Our in-house training and development academies clocked up 1,409 days of upskilling to 6,175 colleagues.
- Our gender pay gap is well below the national average, with our mean hourly rate for women being 2.29% less than men.
- Silver Level employer in the MOD's Employer Recognition Scheme, and also nominated for The Sun's Military Awards.

Finding, Supporting and Developing Great People throughout their Halfords Journey

Our aim is to be an inclusive employer of choice, and we strive to give all of our colleagues an equal opportunity to build a rewarding career as a 'super-specialist' within an inspiring and diverse team.

The key to achieving this is training, and we continue to make substantial investments in this area. Our technical and leadership development programmes are central to our success in this area, and we have a range of initiatives in place in order to promote and increase the diversity of our employee base.

Equal Opportunities for All

We are committed to providing equality of opportunity to colleagues and potential colleagues.

This applies to recruitment, training, career development and promotion, regardless of physical ability, gender, sexual orientation or gender reassignment, pregnancy and maternity, race, religious beliefs, age, nationality or ethnic origin. Full and fair consideration is given to employment applications by people with disabilities wherever suitable opportunities exist, having regard to their particular aptitudes and abilities. Our Group Diversity Policy is reviewed annually by the Board and training and career development support is provided where appropriate, further details can be found on page 113.

Should a colleague become disabled, efforts are made to ensure their continued employment with the Group, with retraining provided if necessary.

Always Talking

Excellent colleague communication continues to be a key area of focus.

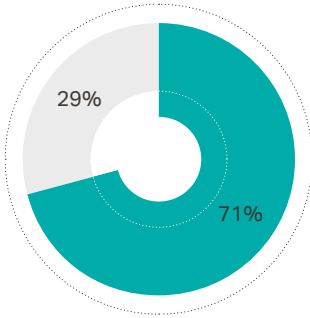
We have an established framework of internal communication channels which seek to inform, engage and inspire – both on matters of concern to colleagues, plus wider business performance.

We seek to encourage the engagement of every colleague to ensure the delivery of 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 Chief Executive Officer, as well as Intranet and interactive Yammer channels to share operational information and drive positive culture.

Our ESG Strategy

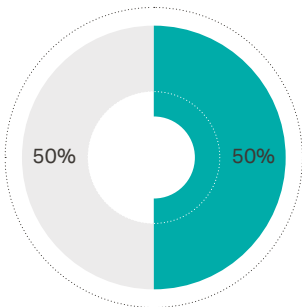
DIVERSITY

Male/Female Ratio



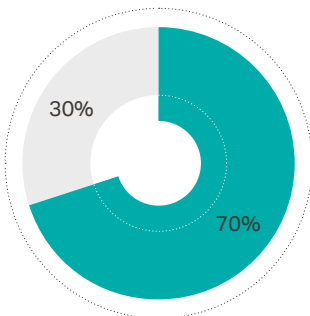
- Male
- Female

Male/Female Ratio on Board



- Male
- Female

Male/Female Ratio on Senior Management Team



- Male
- Female

One of the core principles of the 2018 UK Corporate Governance Code was to place greater emphasis on colleague engagement by ensuring that the interests of employees are properly represented at Board meetings. In this context the duties of Helen Jones, Non-Executive Director, have been extended to incorporate Board accountability for 'Colleague Voice'. A network of colleague champions has been established to support colleague engagement and a total of 111 listening groups took place during the year, with Helen personally attending sessions in every area of the business.

Whistleblowing

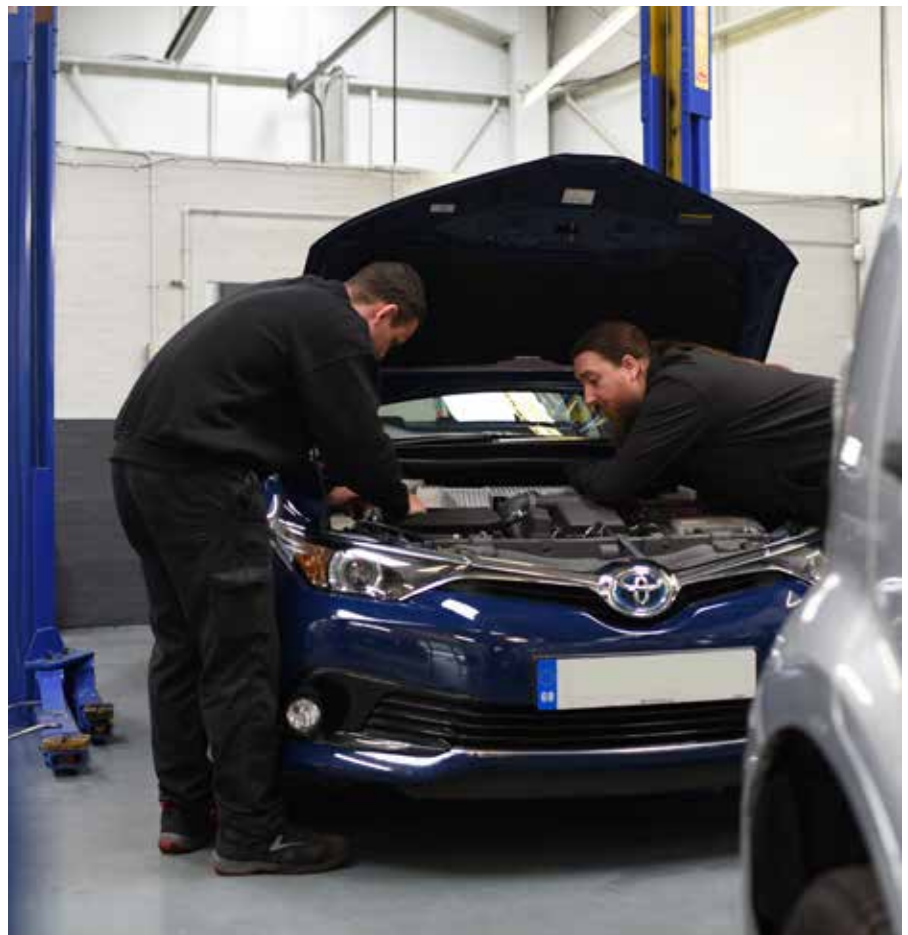
We do not tolerate discrimination, harassment or bullying in any aspects of our business operations. A Whistleblowing Policy and supporting procedures enable colleagues to report concerns on matters affecting the Group or their employment, without fear of recrimination. Appropriate and robust policies and procedures are in place for reporting and dealing with such matters, further details can be found in the Audit Committee Report on page 119.

Driving for Diversity

We recognise the value that diversity brings. Our focus remains on increasing the overall number of women at Halfords – and to increase the number appointed and promoted into more senior roles. Through our efforts across the training and recruitment process, the overall number of women has increased as a percentage of the total workforce this year, from 27% to 29%. The percentage of women on the Board remains at 50% while in the Senior Management Team it has decreased from 37.5% to 30%.

Modern Slavery

In order to support its estate of Retail stores and garages, the Group sources products from a large number of suppliers both within the UK and overseas; further information on our policy and due diligence processes can be found in the Directors' Report on page 88.



OUR COMMUNITY

DURING THE YEAR, WE SUPPORTED A RANGE OF COMMUNITY INITIATIVES.

Armed Forces Covenant

We continue to offer guaranteed interviews to service leavers and reservists for all roles where candidates meet the minimum requirements. We also support service leavers and reservists by recruiting through the Career Transition Partnership, offering ten days additional unpaid leave for reservists and a range of discounts for those serving in the Armed Forces. As a result we are now a Silver Level employer in the MOD's Employer Recognition Scheme, and were also nominated for The Sun's Military Awards, which are known as the Millies. Halfords Digital Product Owner Charlotte Kertrestel joined the Royal Naval Reserve three years ago, in her own words she "joined to seek a new challenge, and to really push myself beyond the normal 9-5". During her time as a Reservist, Charlotte has learned a huge range of new skills, received some of the world's best leadership and management training from Dartmouth Naval Training College and the Royal Navy Leadership Academy, and she's been awarded a Level 6 certificate in Leadership by the Chartered Management Institute.

Above all, she says being a Reservist has given her the confidence to dive into any new situation, however far out of her comfort zone it is. It has given her practical experience in giving presentations, coaching, and decision-making, and she says it has 'definitely changed who I am as a person today'. Charlotte was attracted to a career at Halfords because she always wanted to work for a big company, and Halfords is one of the most well-known

brands in the UK. She explained: "I have learned so much from the experienced colleagues that work for Halfords and Halfords Autocentres", "And it's great to work for a company which promotes fun and is supportive of my Reservist activities that I do outside of normal office hours."

HMP Drake Hall

The Halfords Academy at HMP Drake Hall was launched just over two years ago with the support of the then Under-Secretary of State for Justice, Phillip Lee. The Halfords Academy offers participants the opportunity to train as cycle mechanics, creating the prospect of steady employment and a chance to put their past firmly behind them.

The programme is tailored for each participant with an added focus on mechanics, customer services or retail. Since launch, the Halfords Academy has been a great success and is currently training twelve female offenders. Twenty graduates have joined the business in a variety of roles following their release. Fully supported by Halfords colleagues, participants are subject to the same high standards of training as colleagues at Halfords shops – the training programme is thorough, designed to challenge participants and raise aspirations.

The programme provides offenders with the opportunity to be trained and work on cycles that require being reconditioned. The majority of the bikes are then donated to primary schools in disadvantaged areas to help children access cycling through the Halfords school bike donation scheme.

Krizevac Project

During FY20 Halfords donated 40,000 children's bicycles to the Krizevac Project. Each bike supports vital charity projects in Malawi. Following a three-month journey, the bikes are unloaded and are donated to Beebikes, Krizevac's bike workshop in Chilomoni, Malawi which employs eight people.

The bikes are fixed so they are like new and are then sold with all proceeds helping to fund the vital work carried out by Mother Teresa Children's Centre, which provides support for 175 children modelled on the UK's SureStart programme.

Re-Cycle

Halfords has worked with the Re-Cycle charity since 2013. Re-Cycle reconditions bikes and then sends them to Africa for a second life. Since we began our partnership we have donated more than 50,000 bikes, including 12,356 bikes between March 2019 and March 2020.

When the bikes are received at Re-Cycle they are assessed for quality and suitability to send to Africa. They are then sent to Re-Cycle's Africa Partners and 'prepped' by an amazing team of volunteers. Re-Cycle has a zero-waste policy and any parts or components that cannot be repurposed or reused are recycled. From March 2019 to March 2020 Re-Cycle sent 22 containers to South Africa, Zambia, Ghana and The Gambia with about 60% of the bikes donated via the Halfords network.

Bikeability

We continued our partnership with the Bikeability Trust, the national charity for cycle training which supports over 400,000 primary school children every year with access to safe cycle training programmes. During the year, we launched our Pedal in the Park events in Manchester, Birmingham and Bristol which have engaged over 16,000 members of the public.

In schools, we run bike workshops and have also conducted workshops with 50 schools to raise awareness of technician and Retail career opportunities.

We are proud of what we have delivered during our partnership with the Bikeability Trust, enabling 25,000 more school-age children to receive cycle training. The contract came to a natural end in 2019, and we continue to support families and young people to cycle more.

Pledge to Pedal

Last summer, Halfords announced its ambition to inspire one million cyclists with the launch of its Pledge to Pedal campaign. The campaign saw 16,000 entrants and 3.4 million rides take place over four weeks. Halfords also launched a mass participation programme with three Pedal in the Park events held across the summer at Manchester, Birmingham and Bristol. Each of the Pedal in the Park events included a cycling course, an electric bikes cycle track where participants could ride an E-bike and a mini mountain bike course for little ones.

Redditch Food Bank

Colleagues at the Support Centre collected an amazing 393kg of items for the local Redditch food bank in the run-up to Christmas 2019. A donation of almost £2,760 also went to the Trussell Trust, which runs a national network of food banks.



Our ESG Strategy

RESPONSIBLE TRADING

BUILDING AND MAINTAINING THE HIGHEST STANDARDS AMONGST OUR SUPPLIERS



We have statements about Modern Slavery in our Standard Conditions of Purchase and require all suppliers to self-declare that they comply.



We are committed to maintaining the highest ethical 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.

We will not accept human trafficking or the exploitation of children and young people in our business and we 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.

Our principles are based on international standards, including the International Labour Organisation ("ILO") conventions and

recommendations, which in turn are based on the United Nations Universal Declaration of Human Rights and Convention on Rights of the Child.

We have statements about Modern Slavery in our Standard Conditions of Purchase and require all suppliers to self-declare that they comply.

We carry out a rolling programme of Code of Conduct audits across social, ethical and ESG issues.

No instances of unacceptable conduct have been reported.



s172(1) Statement

As is referenced by our Chairman in his statement on page 12, this section describes how the Directors have had regard to the matters set out in section 172(1)(a) to (f) Companies Act 2016 (the "Act"), in exercising their duty to promote the success of the Company for the benefit of its members as a whole.

In July 2019, the UK Corporate Governance Code, reinforced the importance of section 172 of the Act, which requires Directors to have regard (amongst other matters) to the interests of wider stakeholders, as well as:

- the likely long-term consequences of any decision they make;
- the interests of the Group's employees or colleagues;
- the need to foster the Group's business relationships with suppliers, customers and others;
- the impact of the Group's operations on the community and the environment;
- the desirability of the Group maintaining a reputation for high standards of business conduct; and
- the need to act fairly, as between members of the company.



Our Stakeholders

Engagement with all our stakeholders is an important aspect of our business, and we provide examples of our efforts in this regard throughout this Annual Report and Accounts as follows:

Colleagues

Our colleagues are at the heart of our business, and are the driving force behind our success. We provide a working environment where our colleagues are able to realise their potential.

➔ Read more on pages 46 to 49 and 107.

Customers

We build long-term relationships with our customers by offering a unique and differentiated omnichannel experience across motoring and cycling products and services.

➔ Read more on pages 20 to 58 and 107.

Communities and the Environment

We are expected to act as a responsible company and employer and to minimise the impact we have on the community and the environment.

➔ Read more on pages 44 to 58 and 106.

Investors

Our shareholders and debt funding providers enable us to access capital to further our business strategy. Our commitment is to protect and manage their investments in a responsible and sustainable way.

➔ Read more on pages 107 and 111.

Suppliers

We maintain close relationships with our suppliers to enable us to deliver market-leading products and services. We are committed to maintaining the highest ethical standards.

➔ Read more on pages 56, 58 and 107.

Government and Regulators

Working closely with regulators and the Government ensures that we maintain a reputation for high standards and business conduct, whilst also ensuring that products and services evolve.

➔ Read more on pages 44 to 58 and 107.

Chief Financial Officer's Report



Loraine Woodhouse
Chief Financial Officer

WE HAVE MADE GOOD PROGRESS IN A TOUGH RETAIL MARKET BY IMPROVING GROSS MARGINS, STRONG COST MANAGEMENT AND A FURTHER REDUCTION IN WORKING CAPITAL LEVELS.

2019/2020 HIGHLIGHTS

+0.3%

Total Sales Growth

27bps

Gross Margin % Improvement

£10.6m

Average Working Capital Reduction

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"), and Performance Cycling Limited (together, "Tredz and Wheelies") trading entities. All references to Group represent the consolidation of the Retail and Autocentres segments.

The "FY20" accounting period represents trading for the 53 weeks to 3 April 2020 ("the financial year"). To ensure a meaningful comparison with the prior year, all commentary unless otherwise stated is for the 52-week period ending 27 March 2020 and is before non-underlying items. The impact of week 53 is described in detail below, explaining that due to the exceptional circumstances of COVID-19 the Group made an operating loss in this period. Most of our commentary on profit and cost measures is before the impact of IFRS16, which is stated where relevant. The impact of IFRS16 is shown in the table below and further details of this impact are provided later within this report. The comparative period "FY19" represents trading for the 52 weeks to 29 March 2019 ("the prior year").

Group Financial Results

	FY20 (53 weeks) £m	FY20 (52 weeks) £m	FY19 (52 weeks) £m	52-week change
Group Revenue	1,155.1	1,142.4	1,138.6	+0.3%
Group Gross Profit	589.7	584.0	579.0	+0.9%
Underlying EBIT pre-IFRS 16*	55.4	58.7	62.2	-5.6%
Underlying EBITDA pre-IFRS 16*	92.6	95.3	98.2	-3.0%
Net Finance Costs	(2.8)	(2.8)	(3.4)	-17.6%
Underlying Profit Before Tax pre-IFRS 16*	52.6	55.9	58.8	-4.9%
Net Non-Underlying Items	(32.1)	(32.1)	(7.8)	+311.5%
Impact of Adopting IFRS 16	(1.1)	(1.1)	-	-
Profit Before Tax	19.4	22.7	51.0	-55.5%
Underlying Basic Earnings per Share pre-IFRS 16*	22.9p	24.3p	24.5p	-0.8%

* This report includes Alternative Performance Measures (APMs) which we believe provide readers with important additional information on the Group. A glossary of terms and reconciliation to IFRS amounts is shown on page 199.

The financial year of FY20 was somewhat overshadowed by the ongoing turbulence caused by Brexit and Halfords undoubtedly felt the impact of subdued consumer confidence throughout the year. The concluding period of the financial year also saw a new and emerging threat – the COVID-19 pandemic. The impact in the closing two weeks of the year was significant with two full days of trading lost in week 52, followed by an almost complete lockdown of the UK. Yet despite seeing impacts on Group revenues from both, Halfords clearly demonstrated its resilience in delivering underlying Group PBT, pre-IFRS 16, of £55.9m. In fact, if it were not for the lost trading in week 52 and the dilutive impact of acquisitions, underlying PBT would have been in line with last year. The business worked hard to mitigate some of the top line revenue impacts through gross profit improvements and tight cost control, whilst continuing to deliver on longer term growth plans through the acquisitions of Tyres on the Drive ("ToTD") and McConechy's Tyre Service ("McConechy's") in the second half. Alongside a strong P&L result we also achieved targeted working capital reductions through more efficient stock management and improved creditor days, enabling our longer term growth strategy. That said, whilst the FY20 impact was contained within the final two weeks of trading, the pandemic is likely to materially impact the trading environment in FY21, amid significant uncertainty on the short-term outlook.

Group revenue in FY20, at £1,142.4m, was up 0.3% and comprised Retail revenues of £950.6m and Autocentres revenue of £191.8m. This compared to FY19 Group revenue of £1,138.6m, which saw Retail revenue of £977.2m and Autocentres

revenue of £161.4m. Group gross profit at £584.0m (FY19: £579.0m) represented 51.1% of Group revenue (FY19: 50.9%), reflecting an increase in the Retail gross margin of 20 basis points ("bps") to 48.2% and decrease in the Autocentres gross margin of 250 bps to 65.5%. The overall Group gross profit % was impacted by both mix of product and by the acquisitions within Autocentres. Retail saw strong improvements in gross margin % compared to FY19, particularly the Cycling segment, but benefits were somewhat offset by both weaker winter product results and the relative mix into Cycling. Within Autocentres, the underlying business performed well, improving gross profit % by 180 bps, but the overall impact was eroded by the acquisitions, which were dilutive in the near-term but offer a good longer term opportunity.

Total operating costs before non-underlying items and pre-IFRS 16 saw a modest increase of 1.6% including mid-year acquisitions. Excluding these acquisitions, operating costs of the underlying businesses declined -0.5% after a continued focus on efficiency and better procurement practices. We worked hard on process efficiency in stores to mitigate National Minimum Wage increases. Lease renewal negotiations saw an average decrease of 15% and investments in store infrastructure saw energy consumption reduce by close to 20%. Cost and efficiency remain a significant opportunity for the Group and one which will see a greater focus as we move through FY21. Total underlying costs, pre-IFRS 16, increased to £525.3m (FY19: £516.8m) of which Retail comprised £404.3m (FY19: £410.5m), Autocentres £118.9m (FY19: £104.2m) and unallocated costs £2.1m (FY19: £2.1m). 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 pre-IFRS 16 decreased 3.0% to £95.3m (FY19: £98.2m), whilst net finance costs pre-IFRS 16 were £2.8m (FY19: £3.4m).

Underlying Profit Before Tax pre-IFRS 16 for the year was down 4.9% at £55.9m (FY19: £58.8m). Non-underlying items of £32.1m in the year (FY19: £7.8m) related predominantly to the closure of Cycle Republic and Boardman Performance Centre, as well as costs related to organisational restructure and strategic review. After non-underlying items, Group Profit Before Tax was £23.8m (FY19: £51.0m).

After non-underlying items and including IFRS 16, Group Profit Before Tax was £22.7m (FY19: £51.0m). The impact on the Group of adopting IFRS 16 in the period was a £1.1m net decrease to Group Profit Before Tax. Further details on the impact of IFRS 16 is shown later in this report.

As noted earlier, FY20 was a 53-week year and therefore saw an additional week of trading included in the full year results. In a normal operating environment, this would typically result in additional profit, but the UK lockdown announced on the 23 March due to COVID-19 resulted in an estimated trading loss of -£3.3m during this week. Although the Group was deemed an essential retailer and continued to trade throughout week 53, sales were materially impacted and as such resulted in the loss. At this early stage of the pandemic we operated from a very limited number of stores and garages with limited customer interaction due to social distancing.

Retail

	FY20 (53 weeks) £m	FY20 (52 weeks) £m	FY19 (52 weeks) £m	52-week change
Revenue	961.0	950.6	977.2	-2.7%
Gross Profit	462.8	458.4	469.3	-2.3%
Gross Margin	48.2%	48.2%	48.0%	+20bps
Operating Costs	(410.8)	(404.3)	(410.5)	-1.5%
Underlying EBIT pre-IFRS 16*	52.0	54.1	58.8	-8.0%
Non-underlying items	(29.5)	(29.5)	(8.7)	+239.4%
Impact of adopting IFRS 16	(1.2)	(1.2)	-	-
EBIT post-IFRS 16	21.3	23.4	50.1	-53.3%
Underlying EBITDA pre-IFRS 16*	81.1	82.7	87.1	-5.1%

* This report includes Alternative Performance Measures (APMs) which we believe provide readers with important additional information on the Group. A glossary of terms and reconciliation to IFRS amounts is shown on page 199.

Chief Financial Officer's Report

Revenue for the Retail business of £950.6m reflected, on a constant-currency basis, a like-for-like ("LFL") sales decrease of -2.3%. Total revenue in the year declined -2.7% after the impacts of closed stores are included. The Cycling performance was strong, with like-for-like growth of +2.3% rebounding from a slow start to FY20. Motoring finished the year with a like-for-like decline of -5.3%. A similar trend prevailed with results improving as the year progressed, but it was Motoring that was significantly impacted by the pandemic and lockdown from week 52. Conversely, Cycling demand was boosted by a more health conscious consumer and the avoidance of public transport. The Retail Operational Review in the Chief Executive's Statement contains further commentary on the trading performance in the year. Like-for-like revenues and total sales revenue mix for the Retail business are split by category below:

	FY20 LFL (%)	FY20 Total sales mix (%)	FY19 Total sales mix (%)
Motoring	-5.3	58.4	60.4
Cycling	+2.3	41.6	39.6
Total	-2.3	100.0	100.0

Gross profit for the Retail business at £458.4m (FY19: £469.3m) represented 48.2% of sales, 20bps up on the prior year (FY19: 48.0%). Underlying gross margin improved more significantly than the headline number, which was diluted by a product mix, into lower Gross Margin % cycling, and out of the motoring category alongside additional costs as we expand sales through finance and B2B. The gross margin improvement reflected the significant work carried out over the last 18 months on our sourcing strategy for both bikes and motoring products, as well as our work to optimise promotional activity throughout the year. Over the year, Cycling gross margins improved by 117bps and Motoring by 138bps vs FY19.

The table below shows the average exchange rate reflected in cost of sales along with the year-on-year movement:

	FY20 full-year	FY19 full-year
Average USD: GBP rate reflected in cost of sales	\$1.33	\$1.32
Year-on-year movement in rate	\$0.01	\$0.03

Retail operating costs before non-underlying items and IFRS 16 were £404.3m (FY19: £410.5m) a decline of 1.5% on FY19. The focus on operational efficiency and procurement continued in FY20 and, as mentioned previously, helped to mitigate a challenging market. Our stores saw modest increases in overall labour costs despite a 4% increase in the National Minimum Wage, as we continued with our 'We Operate 4 Less' programme. Rent costs also reduced as the market begins to reflect excess supply in the Retail rental market and we continued to negotiate improved lease terms on renewals. These initiatives were coupled with capital investments such as LED lighting, which significantly reduced energy consumption across the estate.

Autocentres

	FY20 (53 weeks) £m	FY20 (52 weeks) £m	FY19 (52 weeks) £m	52-week change
Revenue	194.1	191.8	161.4	+18.8%
Gross Profit	126.9	125.6	109.7	+14.5%
Gross Margin	65.4%	65.5%	68.0%	-250bps
Operating Costs	(121.4)	(118.9)	(104.2)	+14.1%
Underlying EBIT pre-IFRS 16*	5.5	6.7	5.5	+21.8%
Non-underlying items	(2.6)	(2.6)	0.9	-388.9%
Impact of adopting IFRS 16	0.1	0.1	-	-
EBIT post-IFRS 16	3.0	4.2	6.4	-34.4%
Underlying EBITDA pre-IFRS 16*	11.5	12.6	11.1	13.5%

* This report includes Alternative Performance Measures (APMs) which we believe provide readers with important additional information on the Group. A glossary of terms and reconciliation to IFRS amounts is shown on page 199.

Autocentres generated total revenues of £191.8m (FY19: £161.4m), an increase of 18.8% on the prior year with a LFL increase of 1.4%. Non-LFL revenue in the year included benefits from the acquisitions of both ToTD in October, 2019, and McConechy's in November 2019, alongside existing Autocentres that have been open less than 12 months.

Gross profit at £125.6m (FY19: £109.7m) represented a gross margin of 65.5%; a decrease of 250 bps on the prior year. As stated earlier, the decrease in gross margin % was solely a result of the acquisitions, which will have a dilutive effect before we migrate the product mix to servicing and repair in the future. The underlying business saw its Gross Profit % improve significantly by +180bps, with the continued development of our PACE Digital Operating Platform aiding buying efficiency across garages alongside a marginally lower mix into tyres, which tend to be lower margin. The benefits of later phases of PACE also began to be felt in Q4 with the digital operating platform improving resource allocation to jobs.

Autocentres' Underlying EBITDA before IFRS 16 of £12.6m (FY19: £11.1m) was 13.5% higher than FY19. Underlying EBIT before IFRS 16 was £1.2m (21.8%) higher than FY19 at £6.7m (FY19: £5.5m).

Portfolio Management

The total number of fixed stores or centres within the Group stood at 844, with a further 75 mobile locations. The portfolio of fixed locations as at 3 April 2020 comprised 472 stores (end of FY19: 477) and 371 Autocentres (end of FY19: 317). Mobile locations grew by 67 vans, increasing coverage of the most in-demand regions within the UK.

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

	Retail	Centres	Vans
Relocations	3	1	-
Leases re-negotiated	20	8	-
Refreshed	-	14	-
Openings/Acquisitions	-	57	67
Closed	4	4	-

Within Retail, the focus in year continued to be on re-laying stores to optimise the space allocated to key growth categories, including E-mobility. Four Retail stores closed on the natural expiration of their leases as closure was considered more profitable to the Group when the anticipated sales transfer to other channels and neighbouring stores was considered. Although nearly all of our Retail stores continue to trade profitably, the number of lease expiries or breaks under option increases significantly within the next five years. Retail will see two-thirds of stores

experience optionality within five years, allowing for a high degree of flexibility within the estate.

Within Autocentres, one centre was opened and 57 locations acquired in the year. Four were closed, taking the total number of Autocentre locations to 371 as at 3 April 2020 (end of FY19: 317). Fourteen Autocentres were refreshed in the year (FY19: 8).

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

Net Non-Underlying Items

The following table outlines the components of the non-underlying items recognised in the 53 weeks ended 3 April 2020:

	FY20 £m	FY19 £m
Organisational restructure costs (a)	2.8	6.8
Group-wide strategic review (b)	1.0	2.4
One-off royalty income (c)	–	(1.6)
Acquisition and investment-related fees (d)	1.9	0.2
Provision for expected settlement of an ongoing legal case (e)	0.8	–
Closure costs (f)	25.6	–
Net non-underlying items pre-IFRS 16	32.1	7.8
Closure costs (f)	1.2	–
Impairment of right-of-use assets (g)	0.9	–
Net non-underlying items post-IFRS 16	34.2	7.8

a. In the current and prior period, separate and unrelated organisational restructuring activities were undertaken. Current period costs comprised:

- Redundancy and transition costs of £1.4m relating to roles which have been outsourced or otherwise will not be replaced (FY19: £1.5m); and
- £1.4m of asset write-offs, principally resulting from the strategic decision to re-platform the Retail and Autocentres websites (FY19: £5.3m)

b. In the current and prior periods, costs were incurred in preparing and implementing the new Group Strategy.

- £0.4m of external consultant costs (FY19: £2.0m); and
- £0.6m of store labour costs, point-of-sale equipment and other associated costs in completing the cycling space re-lay across the store estate (FY19: £nil).

Prior period costs also included £0.4m of warehouse and distribution costs in order to align our network with the new strategy.

c. A one-off royalty income was received in the prior period in relation to the use of a software licence.

d. In the current and prior periods, costs were incurred in relation to the investment in McConechy's and ToTD. ToTD acquisition costs comprise £1m principally relating to the costs of dual running Halfords Mobile Expert and ToTD, as well as the write-off of the receivables balance due from ToTD; and

- £0.9m relating to professional fees in respect of the acquisition of McConechy's
- £0.2m of costs were incurred in the prior period in relation to the investment in ToTD and costs relating to a potential acquisition which did not progress.

e. During the year, a provision was recognised for expected costs of settling an ongoing court case, which was then settled during the second half of the period. In addition, a provision of £0.6m has been recognised in relation to the audit by HMRC relating to National Minimum Wage.

f. Closure costs represent costs associated with the proposed closure of the operations of Cycle Republic and the Boardman Performance Centre ("Cycle Republic") following a strategic review

of the Group's cycling businesses. This relates mostly to the impairment of right-of-use assets, as well as the impairment of intangible and tangible assets.

g. In light of the ongoing COVID-19 pandemic, the Group has revised future cash flow projections for stores and garages. As a result, £0.9m incremental impairment has been recognised in relation to garages where the current and anticipated future performance does not support the carrying value of the right-of-use asset and associated tangible assets. This charge is directly attributable incremental impairment due to COVID-19 and relates primarily to the right-of-use asset value.

Chief Financial Officer's Report



Finance Expense

The net finance expense (before non-underlying items and IFRS 16) for the 53 weeks ended 3 April 2020 was £2.8m (FY19: £3.4m) reflecting lower average levels of net debt throughout the year.

Taxation

The taxation charge on profit for the 53 weeks ended 3 April 2020 (before IFRS 16) was £2.8m (FY19: £9.1m), including a £4.7m credit (FY19: £1.4m credit) in respect of non-underlying items. The effective tax rate of 13.9% (FY19: 17.8%) differs from the UK corporation tax rate (19%) principally due to the impact of overseas tax rates, adjustments in respect of prior periods now closed with HMRC, and the impact of the change in deferred tax recognised in the Balance Sheet.

Earnings Per Share ("EPS")

Underlying Basic EPS before IFRS 16 was 22.9 pence and after non-underlying items 8.9 pence (FY19: 24.5 pence and 21.2 pence after non-underlying items), a 6.5% and 58.0% decrease on the prior year. Basic weighted-average shares in issue during the year were 197.0m (FY19: 197.1m).

Dividend

In light of the COVID-19 pandemic and the likely impact on short-term profitability, the Board has taken a series of measures to preserve cash, one of which is a suspension of the dividend. The final dividend payment

is therefore nil, taking the full year ordinary dividend to 6.18 pence (FY19: 18.57p per share).

Capital Expenditure

Capital investment in the 53 weeks ended 3 April 2020 totalled £35.8m (FY19: £31.0m) comprising £31.0m in Retail and £4.8m in Autocentres. Within Retail, £15.9m (FY19: £11.4m) was invested in stores, including store relocations, space optimisation and building a management system across one third of the estate to reduce energy consumption. Additional investments in Retail infrastructure included a £9.7m investment in IT systems, including development of a new Group website.

The £4.8m (FY19: £4.7m) capital expenditure in Autocentres principally related to the replacement of garage equipment and replacement of fixtures and fittings alongside the development of PACE, our digital operating platform.

Inventories

Group inventory held as at the year-end was £173.0m (FY19: £173.7m). Retail inventory decreased to £168.0m (FY19: £172.3m), reflecting reduced stock levels and working capital efficiencies.

Autocentres' inventory was £5.0m (FY19: £1.4m). The existing Autocentres business model is such that only modest levels of inventory are held, with most parts being acquired on an as-needed basis.

The increase in inventory related to the acquisition of McConechy's which typically hold low levels of tyres.

Cashflow and Borrowings

Adjusted Operating Cash Flow was £109.9m (FY19: £88.5m). After acquisitions, taxation, capital expenditure and net finance costs, Free Cash Flow of £54.6m (FY19: £42.7m) was generated in the year. Group Net Debt was £73.2m (FY19: £81.8m), with the Underlying EBITDA ratio at 0.8:1. All these numbers are pre-IFRS 16.

Adoption of IFRS 16 "Leases"

The Group has initially applied IFRS 16 "Leases" as at 30 March 2019. A right-of-use asset and a lease liability is included on the balance sheet, and depreciation and interest has been charged to the income statement instead of existing rental charges and operating expenses.

Discount rates ranging between 0.76% and 3.94% have been applied based on UK Government Gilt rates of an appropriate duration and adjusted by an indicative credit premium.

The Group has adopted the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application.

A summary of the impact on the Group income statement and balance sheet for the 53 weeks ended 3 April 2020 is as follows:

Impact on the Consolidated income statement:	FY20 £m	FY19 £m
Operating costs:		
Rent	85.8	–
Depreciation	(72.6)	–
Foreign exchange and impairment	(1.4)	–
Net impact on Operating costs	11.8	–
Finance costs (interest)	(10.8)	–
Net impact on underlying Profit Before Tax	1.0	–
Non-underlying costs	(2.1)	–
Net impact on Profit Before Tax	(1.1)	–

The £11.8m net impact on Operating costs is comprised of £10.9m for Retail and £0.9m for Autocentres as shown above.

Impact on the Consolidated Statement of Financial Position:	FY20 £m	FY19 £m
Right-of-use asset	349.9	–
Lease liability	(416.0)	–
Retained earnings	25.1	–

Brexit and Impact of Movements in Foreign Currency Exchange Rates

As we have previously explained, 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. We have previously set out the main areas in which we considered Brexit was likely to impact the Group. We reaffirm and update our assessment of these below:

- Impact on exchange rates. The Group buys a significant proportion of its goods in US dollars; between \$250m and \$300m a year. As previously guided, the majority of our US dollar sourcing is for cycling products.
- 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 macroeconomic 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 the risk assessment and the identification of mitigating actions and internal control to be fundamental to achieving Halfords' strategic corporate objectives. In the Annual Report and 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 in the Strategic Report of the 2020 Annual Report and Accounts. These include:

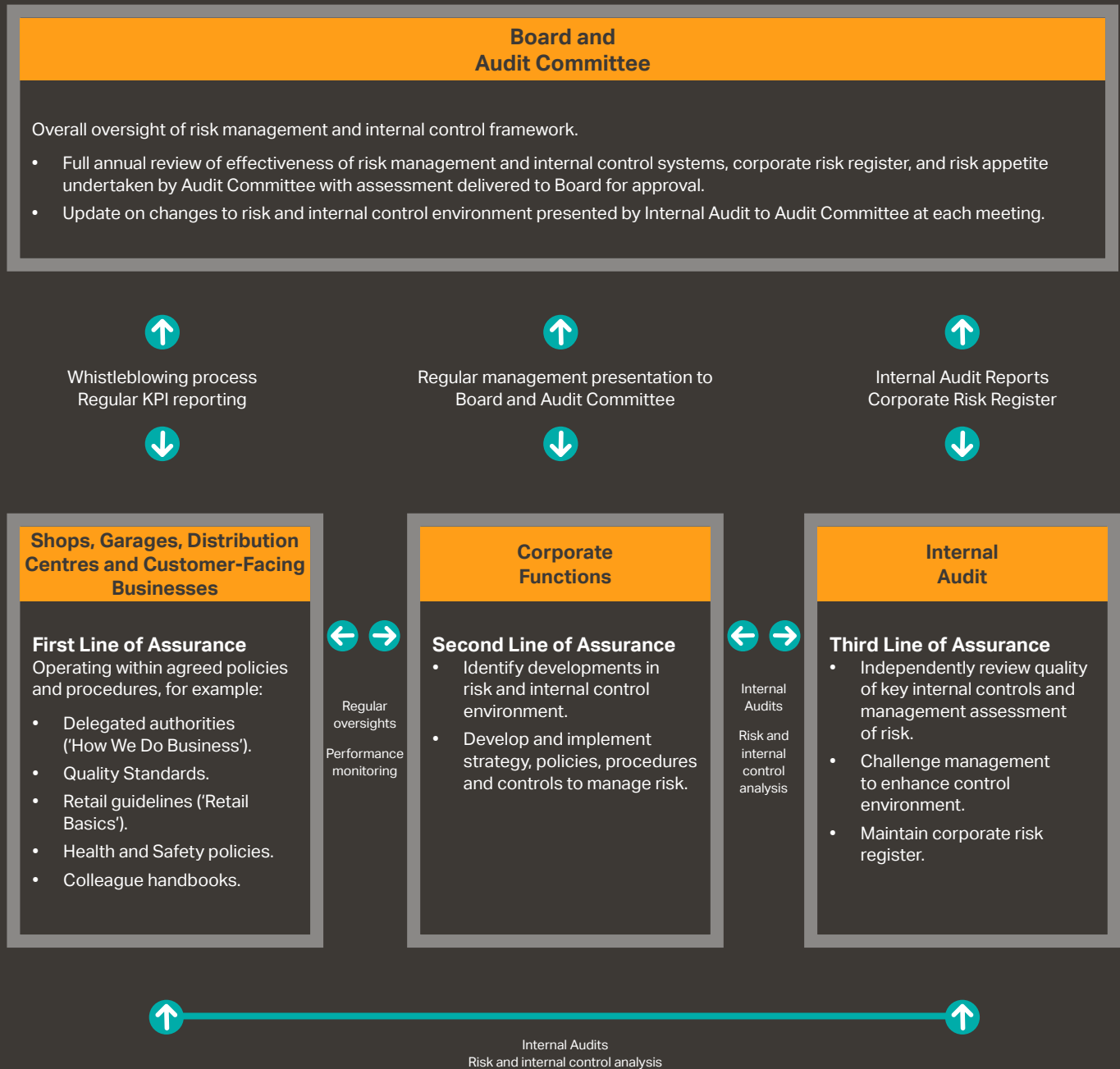
- Business Strategy
 - Capability and capacity to effect significant levels of business change
 - Stakeholder support and confidence in strategy
 - Brands appeal and market share
 - Value Proposition

- Financial
 - Brexit
 - Sustainable business model
- Operational
 - COVID-19
 - IT infrastructure failure
 - Skills shortage
 - Staff engagement / culture
 - Critical physical infrastructure failure (including supply chain disruption)
- Compliance
 - Regulatory and compliance
 - Service Quality
 - Cyber and data security

Lorraine Woodhouse
Chief Financial Officer
6 July 2020



Our Principal Risks and Uncertainties



Risk Management Framework

The Audit Committee and the senior management team support the Board to maintain a framework for risk management. The purpose is to identify risk and subsequently measure and control it, to protect the interests of key stakeholders and safeguard the delivery of our strategic objectives.

Each principal risk has an Executive owner and is contained within a corporate risk register, which is subject to a 'top-down' review. Operational risk registers are maintained to provide greater granularity, a 'bottom-up' perspective and a further means of identification for emerging risk. The management of risk follows a methodology for assessment to establish the appropriate response in accordance with our risk appetite.

Risk Oversight and Governance

The Board has overall responsibility for the management of risk and the identification of principal risks that may affect the Group's strategic objectives. During the year the senior management team reviewed all principal risks in detail and provided oversight of how all the Group's key risks are managed.

A review of risk is a standing agenda item at each Audit Committee to allow time for the consideration of changes to the corporate risk register. The Audit Committee reviews presentations on topics in relation to key risk areas with recent focus on cyber security, inventory management and regulatory insight provided by the Compliance Committee. Please see page 117 for details of Audit Committee activities during the year.

Principal Risks

The Board carried out an assessment of the Group's principal risks during the year, considering whether existing risks had changed in severity and whether new risks had materialised during the year.

This year we identified a new risk around our 'Value proposition' recognising that, as more retail sales move online, the value of our service proposition and commitment to be a super specialist could be eroded by online providers competing on price. We also considered the risks associated with the evolution of our digital offering, where earlier this year we enhanced our online presence with the launch of our integrated Group web platform, bringing Retail and Autocentres together for the first time. In recognition of our continued investment in digital we have made cyber security a standalone risk and refined our regulatory and compliance risk to include security of data.

The risks associated with Brexit remain largely unchanged recognising that, although we are now well into the transition period, there is no sign yet that a deal has been reached that will clarify our future trading position with the EU.

COVID-19

The COVID-19 strain of the coronavirus impacted the final weeks of our financial year significantly, leading to a prolonged lockdown across the UK and Ireland, with movement restricted. Our colleagues, customers and suppliers have experienced disruption with significant personal and operational challenges. The pandemic and the social and macroeconomic impact it wrought has created a risk event that is now a significant factor in the future viability of the Group, which has been considered in detail as set out in the Viability Statement on page 79. A new standalone risk for COVID-19 has been included, outlining our response to the uncertainties and potential impact.

In the initial response phase to COVID-19, our priority was to safeguard the health and wellbeing of our colleagues and customers, and to mitigate an anticipated sharp decline in demand. The Government identified Halfords as a provider of essential products and services to the UK public, and it was therefore important that we responded swiftly to enable safe delivery of our motoring and cycling proposition. We quickly adapted our retail operations by implementing a 'dark store' model, serving customers from the store entrance, and accelerated the enhancements of our Group web platform, as customers switched to online ordering. We moved into a resilience phase early in the lockdown period following extensive modelling of the financial impact of COVID-19. It was necessary to impose tighter control over liquidity, which informed our decisions on a series of measures, including the furloughing of colleagues and negotiating payment terms with our suppliers. Resilience will remain central to our risk management focus throughout 2021; however, in readiness for the lifting of lockdown restrictions, we are preparing for the recovery phase and ultimately new ways of working.

Where the impact of the pandemic has exacerbated a principal risk, we have incorporated a commentary on the COVID-19 mitigation being taken.

Our principal risks are described on the following pages, along with a summary of our mitigation activities.


Emerging Risks


The evolution of risk is actively considered at Board level and across the senior management team. The retail sector is changing rapidly, and this requires us to regularly monitor the velocity of change as digital trends, and now COVID-19 implications, impact the market at pace. The climate change agenda is a significant area of emerging risk that we are seeking to gain greater impact into. We conduct horizon scanning with subject matter experts, who contribute to the risk management process with insight on key risk themes such as economic, environmental, technological, societal, and geopolitical.

Risk Appetite

The Board approved the risk appetite of the business following a formal review led by the Audit Committee. Risk appetite guidance based on the categories of Strategy, Financial, Compliance and Operational articulates the Board's willingness to accept risk in pursuit of our strategic objectives and informs the assessment of our principal risks. By grouping our risks into the four categories, the Board was able to clearly identify that, although we have a conservative view on risk, there is greater appetite for strategic risk in contrast to a low threshold for compliance risk.

Our Principal Risks and Uncertainties

Risk Title	Risk Description	Current Mitigation	Focus in 2020 Priorities in 2021
Strategy Capability and capacity to effect significant levels of business change 	<p>If we do not have sufficient capacity and capability (in terms of our people, processes and systems) to successfully implement the changes necessary across the business, we will not realise the expected benefits of our strategy and the business will not be sustainable.</p>	<p>Strategic priorities have been clearly defined following an in-depth strategic review, supported by comprehensive customer, colleague, market and competitor research and with powerful insights from our Single Customer View.</p> <p>A Transformation Board provides governance over the change programme necessary for the delivery of the Strategy. The Board ensures there is a robust approval process for each project, allocates resource and monitors progress. Project Managers are in place within the business to whom projects can be assigned and this has been supplemented by specialist resource to boost capability. In effecting change, Halfords is requiring all contributing colleagues to observe the principles of Responsible, Accountable, Consulted and Informed ("RACI").</p> <p>COVID-19 In response to COVID-19 we have adapted the short-term strategic plan to focus on those activities that either respond to emerging customer trends, such as the significant shift to digital channels, or improve the long-term health of the business, such as colleague engagement and fixed cost reduction. This level of focus will ensure we utilise our resources on the most important programmes only in the year ahead, with the objective of further strengthening the business foundations before embarking on some of the more transformative, and capital intensive, aspects of the plan.</p>	<ul style="list-style-type: none"> Accelerated growth in our motoring services business. Specialist resource brought in to boost existing capability. Robust business case template and Capital allocation model developed. New capability from IT restructure. Annual strategic plan 'refresh' to involve review of progress to date and pivot for COVID-19 opportunities and threats. Focus on Free Cash Flow to maintain sufficient capital for investment.
Stakeholder support and confidence in strategy 	<p>If we fail to secure and maintain our stakeholders' (investors, suppliers, colleagues) support for our strategy, they may lose confidence in the business and withdraw their resources.</p>	<p>Progress against our strategic objectives is shared with colleagues on a weekly and monthly basis through team huddles and they also receive a weekly blog from the CEO and a monthly newsletter. Quarterly updates with Q&A are given by our CEO, live streamed to all distribution centres, stores and autocentres.</p> <p>Throughout the year we engaged with our suppliers, keeping them informed of our strategic plans as key partners and listening to their insights and observations to enhance our working relationship.</p> <p>We maintain regular contact with key investors via a series of written communications, roadshows and regular one-to-one meetings.</p> <p>COVID-19 The Board holds regular meetings with shareholders and their representatives. Recent discussions have focused on the impact of COVID-19 on our strategic ambitions and the opportunities and risks this creates for the Group in the short and long-term.</p>	<ul style="list-style-type: none"> Series of conferences relaying strategy to our colleagues and suppliers. Presentation of accelerated services strategy to investment community Colleagues and shareholders. Revised internal communications strategy. Replaced financial PR advisors. Launch new 'Investment Case' to the analyst and investor community. Communicate to all stakeholders our 'fast start' FY21 investment plans and guidance on the impact of COVID-19.

Risk Title	Risk Description	Current Mitigation	Focus in 2020 Priorities in 2021
Brand appeal and market share 	<p>If we continue to lose brand relevance, we will be unable to maintain and grow our customer base and build market share.</p>	<p>Our brand purpose is to "Inspire and Support a Lifetime of motoring and cycling". Our focus on ensuring relevance is centred around having a proposition that meets the needs and wants of our customers and ensuring that they are aware of our offer.</p> <p>During the year we enabled greater awareness of our Group proposition through the launch of our newly integrated digital platform providing customers with seamless access to all our brands. Giving customers improved accessibility to services that they may not previously have known we provided was further supported by the flexibility afforded by our financial services offering through all channels.</p> <p>As the pre-eminent voice of the cycling and motor services sector, we have lobbied Government on expediting E-scooter trials, expansion of the Cycle-to-Work scheme and more recently the COVID-19 related MOT extension. We also take a lead on product innovation, investing in new E-mobility and providing servicing for hybrid vehicles, serving the growth in electrification.</p> <p>We have significantly improved our social engagement this year, seen a greater mix of new customers as well as more female customers and a younger audience with our proposition enhancements and marketing investments.</p> <p>Our HME expansion has added strength to our convenience credentials as has our emerging built bikes to door initiative.</p> <p>COVID-19 Status as an essential retailer is a responsibility we have taken seriously and one which our colleagues have embraced with pride. 'Essential' status has allowed us to promote awareness of our services offering whilst serving the nation and key workers during the crisis.</p> <p>A £2 billion pound package provided by the Government as part of its cycling and walking investment strategy was announced in May. We anticipate high demand for the 'fix your bike' voucher scheme, having experienced significant growth in our cycle repair business over the period.</p>	<ul style="list-style-type: none"> A new digital web platform offering seamless access to the brands' services and products. Enhancing our services proposition and awareness with a greater emphasis on serving the growth in electrification. Reaching new audiences through our partnerships, marketing activity and channel optimisation. Development of our customer strategy to adapt and optimise the experience across all touch points. Grow momentum in our Group services offer and enhance our convenience with improvements to our delivery proposition. As we emerge from lockdown, continue our PR momentum and social engagement, building an industry voice as a customer champion and keeping the nation moving.

Key:

 Increase
 Decrease



 No change
 New

Our Principal Risks and Uncertainties


Risk Title	Risk Description	Current Mitigation	Focus in 2020 Priorities in 2021
N Value Proposition	<p>Customers are not persuaded by our value proposition and we lose market share to online retailers and discounters. Purely competing on price leads to a diminution of financial returns.</p>	<p>To differentiate ourselves in a competitive retail market our vision is to consolidate Halfords as a super-specialist in motoring and cycling. Our strategy emphasises the importance of creating value for the customer by delivering services alongside the sale of a product.</p> <p>During the year we grew our UK services footprint with the acquisition of McConechy's, based in Scotland and the North of England. The UK market for motoring services is fragmented with no clear market leader. With the average age of UK cars increasing, we are well positioned to become the UK's leading independent provider of MOT and servicing to motorists across the country.</p> <p>During the year we also acquired the assets of Tyres on the Drive to significantly bolster our mobile services offering, which provides convenience and peace of mind to our customers, demonstrated by strong customer demand and high Trustpilot scores.</p> <p>With our Klarna partnership offering financial solutions across channels and for the Group, our products and services are more accessible for many customers.</p> <p>COVID-19 Demand for our cycling range has been unprecedented throughout lockdown, during which time, as the UK's leading cycle retailer, we were able to demonstrate our role in enabling more people to ride more often.</p> <p>During the lockdown period there has been high demand for home delivery fulfilment, particularly bikes. We grew our bike to door initiative. We also launched 'Payment online', providing full online functionality and ease of purchase for customers.</p>	<ul style="list-style-type: none"> Additional services capacity via the acquisition of McConechy's and Tyres on the Drive. Launched new service offerings e.g. WeCheck. Developed our Financial Services offering across the Group. Grow Halfords Mobile Expert, increasing to over 200 vans. Develop our digital offer via the optimisation of the new Group web platform with a focus on improving convenience to customers. Enhancing solution selling for key product categories alongside momentum in growing service-related sales.

Key:

 Increase
  Decrease
 
 No change
  New

Risk Title	Risk Description	Current Mitigation	Focus in 2020 Priorities in 2021
Financial Brexit  	<p>Changes to consumer confidence, the cost of doing business or the way in which we run our operation as a result of Brexit results in materially lower profits or organisational strain.</p>	<p>In January the UK withdrawal agreement from the EU received Royal Assent, triggering a transition period that is due to expire on 31 December 2020. Throughout the year preparations were maintained for a no-deal scenario.</p> <p>We have a Brexit steering committee that evaluates the risk factors to the business in support of the Group's post-Brexit readiness. Actions taken to date include:</p> <ul style="list-style-type: none"> • Authorised Economic Operator ("AEO") status secured in full, allowing lower friction customs procedures; • Comprehensive Customs Guarantee ("CCG") granted in conjunction with AEO allowing deferral of all VAT and Duty payments with a lower guarantee level; • an ongoing 18-month hedging policy; • buffer stocks maintained within Halfords and with vendors to mitigate border delays; • lead times extended for European vendors; • support provided to our EU workers based in the UK. <p>In the period to December, we will continue to work on our readiness and have identified areas of focus. Vendor negotiations are ongoing and terms changes are likely to be required as we move out of the transition period. We have modelled the costs our suppliers are likely to incur, enabling us to engage in constructive negotiations.</p> <p>Duty and other at the border costs related to administrative burden and time delays will affect all importers and exporters, resource and shift changes have been adopted to minimise any additional cost. Our Republic of Ireland stores will become an export and we anticipate border controls across the Irish Sea. To allow continued replenishment and returns for all Irish stores we have adapted our logistics processes.</p>	<ul style="list-style-type: none"> • Delivery against our corporate strategy to strengthen our appeal to consumers and reduce our exposure to currency risk. • Explore revised tariff and duty regulations to identify new sourcing opportunities. • Stock build, where appropriate, to mitigate short-term supply issues. • Ongoing monitoring of negotiations in readiness for change.

Our Principal Risks and Uncertainties



Risk Title	Risk Description	Current Mitigation	Focus in 2020 Priorities in 2021
Sustainable business model 	<p>Changes in the UK economy (including consumer confidence and the value of the Pound) could materially impact our revenue and / or costs, and therefore the profitability of the business.</p> <p>Unless we can reduce our exposure to these economic variables (e.g. our foreign exchange exposure) and improve our ability to move quickly on fixed assets and property costs, we will not create a sustainable business model.</p>	<p>A number of strategic initiatives are well advanced to reduce our exposure to changes in the UK economy that adversely impact 'business as usual' and the delivery of our Strategy:</p> <ul style="list-style-type: none"> • procurement savings programmes in place for direct and indirect costs; • supply chain efficiencies under review with opportunities for strategic sourcing alliances; • developing opportunities to lower warehouse and distribution costs; • working capital reduction programme targeted at reducing stock holding and aligning trade creditor terms; • a formal hedging programme has been extended to reduce foreign exchange risk; • initiatives to drive revenue by extending our service offering to our existing customer base through financial services products and B2B; and • continued evaluation of the impact of the UK's departure from the European Union and the impact on trade tariffs. <p>COVID-19</p> <p>The occurrence of the pandemic, has elevated this risk and financial resilience has therefore, become central to our decision-making and will remain a key consideration into the foreseeable future. Early in the crisis we were able to access substantial liquidity by drawing down fully on our overdraft and Revolving Credit Facility.</p> <p>Recognition as an essential retailer has enabled us to trade well through the lockdown period, albeit at reduced levels. Postponing capital commitments, reducing our variable cost base and optimising our working capital position are some of the measures we have taken as we navigate through this period.</p>	<ul style="list-style-type: none"> • Ongoing focus on building our services business, leading to a more resilient business and one less exposed to foreign exchange variation. • Customer propositions designed to secure revenue from existing customer base (e.g. Financial Services, Motoring and Cycling Services, B2B). • Strategic sourcing tie-ups (e.g. Mobivia). • Strategic cost reduction programmes targeting a reduction in property cost, supply chain and goods not for resale spend. • Planned improvements in cycling profitability. • Working capital reduction via strategic stock reduction programmes.

Key:

 Increase
  Decrease
 
 No change
  New


Risk Title	Risk Description	Current Mitigation	Focus in 2020 Priorities in 2021
<p>Operational</p> <p>COVID-19</p> <p>N</p>	<p>The viability of the business is at risk if we do not adapt our operations to safeguard our customers, colleagues and wider community, as well as taking the necessary steps to minimise cost and preserve liquidity.</p>	<p>In response to COVID-19, the Board took swift and decisive action to mitigate the potential impact, including a series of operational and financial measures to safeguard the business.</p> <p>As a provider of essential products and services to the UK public, we have remained open during the lockdown period. We were able to keep open most of our Retail estate on a 'dark-store' basis, enabling us to serve customers safely from the front of the store, whilst also ensuring our colleagues could operate in safe working conditions. As lockdown restrictions began to lift, we enabled a 'Retail Lite' programme to gradually start reopening stores to customers in accordance with social distancing requirements. We were able to open over 300 garages across our Autocentres and McConechy's brands, and operate all 77 mobile vans, a services proposition that was particularly popular during lockdown.</p> <p>Proactive measures have been applied to obtain greater oversight and control of liquidity and cash management. We have negotiated terms with our commercial partners, reduced discretionary spend and paused capital investment. We have accessed Government support where available, such as the Job Retention Scheme and business rate relief. We have been in active dialogue with our existing lending syndicate to provide additional flexibility as required.</p> <p>An economic contraction is likely, impacting consumer confidence and discretionary income. Our financial services proposition has performed well and will be a valuable option for customers seeking to spread their costs.</p>	<ul style="list-style-type: none"> • Continue to build operational resilience by iterating the retail and garage operating environments to ensure the ongoing safety of our colleagues and customers. • Target a gradual improvement in sales volumes and profitability by successfully meeting the increased demand generated by the changing customer behaviour coming out of lockdown – notably the trend to more cycling journeys and a likelihood of more motorists on the road. • Target a series of 'fast start' programmes to aggressively take cost out of the business. • Continue to stress test and reverse stress test our business model to ensure access to sufficient liquidity. • Perform a 'lessons learned' review of our COVID-19 response and renew our business continuity planning.
<p>IT infrastructure failure</p> <p>← →</p>	<p>Failure in our IT system(s) may cause significant disruption to, or prevention of, normal business-as-usual activities.</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 securely within data centres operated by a specialist company and in specialist cloud services operated by Microsoft. These systems are supported by disaster recovery arrangements, including comprehensive backup and patching strategies. IT recovery processes are tested regularly.</p> <p>COVID-19</p> <p>Our cloud-based systems enabled minimal disruption as many of our colleagues transitioned to home working. Support from our service providers has ensured system stability for our remote workers.</p>	<ul style="list-style-type: none"> • Introduction of new Group website hosted through Salesforce. • Continue progression towards a fully cloud-based hosting structure.

Our Principal Risks and Uncertainties



Risk Title	Risk Description	Current Mitigation	Focus in 2020 Priorities in 2021
Skills shortage  	<p>We may be unable to recruit, retain and develop enough people to have the different mix of skills that we need at all levels across the business, in the near and longer term.</p>	<p>We have a strategy that relies on attracting and retaining colleagues who can inspire and support our customers and encourage them to build a lifetime relationship with the brand.</p> <p>Our in-house resourcing team have developed a recruitment website which highlights the importance of the Halfords behaviours and details the skills and experience required of our colleagues. There are clear and detailed recruitment processes in place which are reviewed regularly to respond to changes in the business.</p> <p>In our stores, our Gears training programme provides our colleagues with structured training taking them through their first 18–24 months. We use our training programme to enhance skills, reinforce our behaviours, keep colleagues engaged and reach a competitive hourly rate of pay.</p> <p>We also review our skills mix frequently to ensure that all stores have the right skill levels to provide the services needed to satisfy our customer needs. The analysis from these exercises leads us to target specific skills needed as a priority to ensure we keep any skills gap minimal. Using an experienced internal training team, we then develop and deliver a targeted plan to increase skill levels in any identified areas.</p> <p>In our Autocentres, training is a fundamental part of our business and a great attraction tool for applicants. We support the training of colleagues ranging from our apprentices right through to a Level 3 Technician. We provide in-house Hybrid and MOT tester courses ensuring that we can service the full car parc. We apply a targeted approach to further enhance skill levels for centres as we do with stores, by mapping against the optimal skills mix.</p> <p>COVID-19 To support FY21 requirements we translated some of our skills development material into Virtual Classroom content, allowing us to train colleagues whilst they remained in store.</p>	<ul style="list-style-type: none"> • Pathway development enabling young talent to join our business. • Update recruitment collateral in-line with our new values and behaviours programme. • Move more of our eLearning training into video learning.



Key:

 Increase
  Decrease
   No change
  New

Risk Title	Risk Description	Current Mitigation	Focus in 2020 Priorities in 2021
Colleague engagement / culture 	<p>Our employment model may not be sufficiently attractive to recruit and retain the talent that we need.</p>	<p>Colleague engagement is vital to our success as a business. Engagement is a metric in the Executive bonus scheme and is monitored by the Board, under the direction of Helen Jones, the Non-Executive Director responsible for Colleague Voice.</p> <p>An annual engagement survey, administered and analysed by a third party, provides us with reports at team level. We create an environment which encourages colleagues to feed back to us about how we can make Halfords an even better place to work and this is clearly successful as last year we had a survey response rate of 93%. Our engagement index of 79% demonstrates that the majority of our colleagues enjoy working at Halfords.</p> <p>The feedback received from colleagues through both our annual internal engagement survey, and the Sunday Times Top 25 Large Employer surveys formed the basis of functional engagement plans across the business. Regular listening groups are held – with a total of 111 across the Group as a whole.</p> <p>A full review of the culture of our business was undertaken during the year, resulting in the definition of a revised colleague values and behaviours framework. This framework was built with input from c1,300 of our colleagues from across the business and is due to be launched in 2021. Further details can be found in the Corporate Governance Report on pages 94 and 95.</p> <p>The identification and development of top talent, so strengthening succession was also a key focus. This will remain a focus throughout 2021 and beyond.</p> <p>COVID-19 A wellbeing newsletter was issued across the business on a weekly basis, ensuring colleague engagement has formed a key part of our response to the pandemic.</p>	<ul style="list-style-type: none"> Responsive action taken to address observations of colleagues from our engagement survey. Continued development of the business tools available to our colleagues, to improve their experience in the workplace. Significant increase in the number of listening groups held across the business. Launch of our new colleague values and behaviours framework. Identification and development of top talent to strengthen succession.

Our Principal Risks and Uncertainties



Risk Title	Risk Description	Current Mitigation	Focus in 2020 Priorities in 2021
Critical physical infrastructure failure (including supply chain disruption) 	<p>Severe damage or failure of physical infrastructure may disrupt our supply chain and / or business as usual activities and prevent the fulfilment of customer orders.</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 several 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 maintains contacts with a range of logistics businesses who could be utilised if necessary. As the conclusion of the Brexit transition period draws closer, we are continuing preparations for changes in the nature of the border between the UK and the Republic of Ireland.</p> <p>COVID-19 We have worked exhaustively with our supply chain to respond to the unique challenges presented by the COVID-19 pandemic. Since the virus was first reported in China, and during the current lockdown restrictions in the UK, we have maintained supply to our customers despite the constraints and significant demand for some of our product lines.</p>	<ul style="list-style-type: none"> Refreshed our Business Continuity planning. Continued development of relationships with current and potential new suppliers. Post COVID-19 lockdown, immediate switch to home working for Support Centre colleagues, supported by enabling technology. Adaptations to critical work environments – e.g. Distribution Centres – to enable safe working conditions for colleagues. Alternative suppliers identified to address potential disruption in the supply chain arising from the ongoing implications of the pandemic. Review our Business continuity planning with lessons learned following the impact of COVID-19.
Regulatory and Compliance 	<p>A failure to adhere to our legal and/or regulatory obligations for some or all of the Group's activities leads to an inability to meet our responsibilities to stakeholders and/or the imposition of financial penalties, placing a strain on the business.</p>	<p>We have a compliance team with a wide remit to set policy and verify that business activities are compliant with legal and regulatory obligations. In the past year, the Group has also established a dedicated Compliance Committee with senior input and attendance from all areas of the business to drive localised ownership and actions.</p> <p>The senior leadership team communicates tone from the top to provide guidance to colleagues on all policy commitments.</p> <p>Regular horizon scanning to capture new regulations and guidance.</p> <p>COVID-19 We have adhered to the 2020 Health Protection Regulations throughout the lockdown period, only opening our stores and autocentres when guidance was clear and we were satisfied it was safe.</p>	<ul style="list-style-type: none"> Strengthened the central compliance function to ensure focus on all relevant activities. Increase colleague awareness and understanding of personal responsibilities via improved visibility of Company policies and development of new training resources. Increase the number and frequency of onsite compliance audits to assess adherence to Company standards. Reinforce the need for a culture of compliance by default and design.

Risk Title	Risk Description	Current Mitigation	Focus in 2020 Priorities in 2021
Service quality  	<p>The service we provide to customers may fail to meet regulatory / safety requirements resulting in harm to customers and / or legal / financial penalty.</p>	<p>All our colleagues are provided with dedicated training and adhere to established quality control and safety procedures with compliance audits by management. We also have a dedicated compliance team monitoring our Autocentre operations.</p> <p>We provide centralised training for our retail colleagues through our Gears 1 and 2 programme to ensure they are consistently knowledgeable about our products and able to deliver a quality service to our customers. Colleagues also complete an annual assessment of their understanding of our quality procedures. We have four equipped training academies delivering training for Autocentre technicians and the technician grading assessment is linked to quality of workmanship as well as skills and qualifications.</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.</p> <p>We continue to invest in our estate, and this is enabling us to enhance our service offering to customers by evolving the layout of our stores in addition to further developments in IT infrastructure, training and online functionality.</p> <p>COVID-19 Our evolving 'Lite' model will apply to stores and autocentres for the foreseeable future, facilitating social distancing as we emerge from the COVID-19 lockdown.</p> <p>We also enabled remote working for many of our colleagues not working in store, joining forces with our customer service team to respond to record levels of customer contact.</p>	<ul style="list-style-type: none"> Ongoing investment in training across Retail and Autocentres. Significant investment in garage technology, via workflow and self-audit capability, to support quality job completion. Monitoring of customer satisfaction through detailed review analysis. Continued development of our colleagues and our estate to provide high levels of customer service.

Key:

 Increase
  Decrease
   No change
  New

Our Principal Risks and Uncertainties

Risk Title	Risk Description	Current Mitigation	Focus in 2020 Priorities in 2021
Cyber security  	<p>If we fail to sufficiently detect, monitor, or respond to cyber-attacks against our systems they may result in disruption of service; compromise of sensitive data; financial loss; reputational damage.</p>	<p>Following on from a review of our IT Operating Model, we have a Head of Information Security, sitting on the IT Leadership Group, to manage the IT security framework and ongoing development and review of our IT Security strategy and road map. Our IT Security partner, TCS, have been successfully onboarded and provide valuable support by managing vulnerability scans and our email and website security.</p> <p>A perpetual training programme exists for the benefit of our colleagues, raising awareness and promoting good security hygiene.</p> <p>The Audit Committee is briefed by senior IT management on the business' IT security framework and continues to closely monitor this area.</p> <p>COVID-19 We maintained testing of our defences in anticipation of a heightened threat. A major COVID-19 ransomware attack was successfully blocked, applying intelligence obtained from various security threat advisories.</p>	<ul style="list-style-type: none"> Process reviews and recommended improvements to increase overall security posture. Enhanced involvement of security at the start of project development (security by design). Awareness training delivered to all colleagues on information security and cyber security threats. Advanced programme of penetration testing and vulnerability assessments. Continued support and training for our colleagues to maintain good cyber hygiene Work towards fully managed Security Operations Centre (SOC) on target for 2021 to increase visibility of threat landscape.

Going Concern

In determining the appropriate basis of preparation of the financial statements for the year ended 3 April 2020, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the Going Concern basis, having undertaken a rigorous assessment of financial forecasts, with specific consideration given to the trading position of the Group in the context of the current COVID-19 pandemic in the UK.

Due to the Government's enforced lockdown, and the requirement of the UK population to self-isolate, the COVID-19 pandemic will result in a material reduction in our expected revenue and profit for the next financial period ending 2 April 2021. This is mainly due to decreased footfall in the first half of the next financial year arising from store and garage closures, revised store operating models and Government-enforced social distancing measures.

The Directors have reviewed the rapidly evolving situation relating to COVID-19 and have modelled a series of scenarios that cover the period to July 2021 and beyond in order to assess not only the Going Concern status of the Group but also longer-term viability (see Viability Statement on page 79).

For the Going Concern assessment, management focused on two key scenarios:

- A - Base Case – a steep sales reduction in the first half of the year resulting in a c.16% full year reduction in sales from FY20.

- B – Low Case – a more prolonged reduction in sales resulting in a c.27% full year reduction in sales from FY20.

The key assumptions used in these models are:

- A – Lockdown lifting in stages from end of May, furlough and rates benefits are received and further savings made across the business. Dividend suspended and working capital reduced;
- B – Same as Base Case but with consumers continuing to isolate at similar level until October, further reduced capital expenditure and increased furlough benefit;

The scenarios, particularly scenario B, are considered to be prudent given trading seen since the end of the FY20 financial year, but, when modelled, have a significant impact on sales, margin and cash flow. In response, the Directors have taken immediate and significant actions to reduce costs and optimise the Group's cash flow and liquidity. Amongst these are the following mitigations:

- Approval for increased funding to extend the available facilities from £200m to £225m;
- Approval for a covenant relaxation from syndicate banks to ensure that covenants are not breached in the next 12-month period;
- Reducing capital and investment expenditure through postponing or pausing projects and change activity;
- Freezing non-essential recruitment;
- Deferring or cancelling discretionary spend.

These mitigations were modelled within the scenarios and combined with the in-year Government support resulted in cost savings vs planned expenditure in FY21 of £89m.

The Group has a Revolving Credit Facility of £200m at the date of approval of these financial statements, which expires on 3 September 2022. In addition, the Group has access to a further £25m in the form of CLBILS financing (which expires in January 2021). The Group has no other debt or facilities. Covenants have been amended for the full financial year ending 2 April 2021.

The Board has a reasonable expectation that the Group and Company will be able to continue in operation and meet its liabilities as they fall due; retain sufficient available cash and not breach any covenants under any drawn facilities over the remaining term of the current facilities. They do not consider there to be a material uncertainty around the Group's or the Company's ability to continue as a going concern.

Credit Facilities, Change of Control and Share Schemes

The Group's credit facilities referred to above require the Group 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 Group 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 Group'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 plans are provided in Note 24 on pages 186 to 189.

Viability Statement

In accordance with paragraph 31 of the 2018 UK Corporate Governance Code, the Directors have assessed the viability of the Company and the Group over a three-year period to 31 March 2023. The Directors believe this period to be appropriate as the Company's and the Group's strategic planning encompasses this period, and because it is typically a reasonable period over which the impact of key risks can be assessed within a fast-moving retail business. The Directors are mindful, however, of the heightened uncertainty driven by the COVID-19 pandemic and accept that forecasting across this time frame is now materially more challenging and have therefore also focused on understanding the level of headroom available before the Group reaches a position of financial stress.

In making this viability 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 and covenant requirements.

The Group's business model and strategy are central to an understanding of its prospects, and details can be found on pages 22 to 38.

Context

The Group undertook a review of the previously approved financial plan and forecasts in light of the current economic uncertainty existing surrounding COVID-19. The previously approved plan had taken account of existing factors such as Brexit. The output of this review has created a new base case for the period ending 2 April 2021 where short-term volatility is expected to have an adverse effect on the results. The future years included in viability modelling have been constructed with reference to the revised base case to create a new three-year 'Viability Scenario' upon which the Board has made its assessment of the Group's ongoing viability. This has also been used as the basis for the Group's review of going concern.

Assessment Process and Key Assumptions

The Viability Scenario takes into account all of the principal risks and uncertainties (pages 66 to 78) facing the Group across the three-year period in order to assess the Group's ability

to withstand multiple challenges. It assumes that a new like-for-like revolving credit facility is obtained on the expiry of the current facility in September 2022. The impacts of COVID-19 have been built into the scenario, but the impact of further one-off 'black swan' events that cannot be reasonably anticipated have not been included.

Key Assumptions

- Sales for FY21 are 16% behind FY20, with FY22 seeing a recovery to FY20 levels, with low single digit growth thereafter.
- Store and garage rent and rates remain largely flat with the Government business rate holiday concluding in April 2021.
- No payment of a final dividend for FY20, and reinstated thereafter.
- Working capital requirements reduction of £16m year on year.
- Capital expenditure commitment of £25m in FY21 to deliver the minimum elements that the Group requires to keep in touch with evolving customer and operational necessities in line with the Group Strategy but with a deceleration of pace of change.

Mitigating actions have been taken in year one to preserve cash which include, but are not limited to, reducing planned capital, marketing and non-essential spend; suspension of the dividend for the period ended 3 April 2020, and a reduction in working capital balances focusing predominantly on reducing inventory balances. External mitigations include the utilisation of the Government business rates holiday and job retention scheme.

The Group has also assumed a prudent and realistic efficiency programme, which it had already set out to do, to commence in year one to mitigate the impact of the reduction in sales following COVID-19. The main factors include reducing working capital spend, delivering elements of the strategic change programme that drive up sales and margin and achieving plausible cost efficiencies in payroll, property and discretionary spend.

The Board considers this scenario to be reasonable. Since the COVID-19 crisis began, the Group was able to reopen most Retail stores, garages and mobile vans at the commencement of year one. The Group is uniquely positioned to keep the UK's cars and bikes on the road and safe to drive or ride, providing vital support to emergency workers, fleet operations, key workers and the general population as they travel for essential supplies and, where required, attend places of work. Sales to date in FY21, are 32.9% higher than the base case.

Assessment of Viability

Although the Viability Scenario reflects the Board's best estimate of the future prospects of the Group, the Board has also tested the potential impact of a severe downside

scenario ("stress test"), by quantifying the financial impact and overlaying this on the detailed financial forecasts in place. Rather than creating numerous scenarios that model the large number of uncertainties in the current climate, the Group has tested the Viability Model to understand how far sales would have to decline before the Group's banking covenants are breached and when it would no longer meet its liquidity requirements. This scenario has taken into account aspects of principal risks, greater reduction in sales in FY21, a much smaller recovery in sales in FY22 and beyond; and a significant reduction in cashflow to invest in and transform the business.

In modelling this stress test, the Board has assumed no spend on transformational and strategic projects and a more aggressive, but achievable, cost efficiency programme, which would, for example, include a reduction in the store estate. This includes a significant reduction in year one performance as a result of COVID-19 with sales down 30% on FY20, and a much slower recovery in years two and three with sales not recovering to pre COVID-19 levels over the period under review. The cost efficiency programme is assumed to accelerate to a total of £27m during this period to mitigate the reduction. Should this cost reduction not be achievable, the Group would breach its covenants.

In order for the Group to become unviable, sales would need to fall to £884m in year three, which is a decrease of 23% from the levels achieved in the year ended 3 April 2020.

Unprecedented uncertainty arises because of COVID-19. The Board has made its best estimate of a hypothetical and severe scenario for the purpose of creating outcomes that have the ability to threaten the viability of the Group. Should the outcomes be significantly worse, the Group would have to consider further mitigating actions, for example further suppression of capital spend or dividend payments, accessing increased debt facilities, or requesting further covenant waivers.

The outcome of the stress testing demonstrates that due to the stability of the Group in its position as a designated provider of essential services, playing a critical role in keeping the UK moving, it would be able to withstand the impact of a sustained downturn occurring over the period of forecast by making deliverable adjustments to its operating plans.

Viability Statement

The Board has a reasonable expectation that the Group and Company will be able to continue in operation and meet its liabilities as they fall due; retain sufficient available cash and not breach any covenants under any drawn facilities over the remaining term of the current facilities. As is customary when dealing with longer-term debt facilities, the Board would expect these to be renewed well in advance of their next term.

Our Governance

Board of Directors	82
Directors' Report	84
Corporate Governance Report	90
Nomination Committee Report	112
ESG Committee Report	114
Audit Committee Report	116
Remuneration Committee Report	120
– Directors' Remuneration Policy	122
– Directors' Remuneration Report	132
Directors' Responsibilities	141





Board of Directors



Keith Williams N R

Chairman

Date Appointed

24 July 2018 as Chairman and Chair of the Nomination Committee.

Background

Keith is Interim Executive Chair of Royal Mail Group, and the independent Chair of the Government supported Rail Review. Keith is a qualified Chartered Accountant.

Keith was formerly a Non-Executive Director and Deputy Chairman of John Lewis, a Non-Executive Director of Aviva Plc, and Chief Executive Officer and then Executive Chairman of British Airways, having previously been at Boots, Reckitt and Colman and Apple Computer Inc.

Key Strengths

Keith brings extensive leadership and PLC board experience. He is a highly regarded business leader with a proven record in retail and deep experience in relevant areas such as treasury, cash management, customer service and digital.



Graham Stapleton E

Chief Executive Officer

Date Appointed

15 January 2018

Background

Previously, Graham was Chief Executive Officer ("CEO") of Dixons Carphone Plc's software business, Honeybee. Prior to that, he was CEO of Dixons Carphone's Connected World Services Division from 2015 to 2017 and CEO of Carphone Warehouse UK & Ireland from 2013 to 2015.

Graham's early career covered senior leadership roles in Kingfisher Plc from 2001 to 2005 and Marks and Spencer Plc from 1994 to 2001, prior to which Graham set up and ran his own business for several years. Graham was a Trustee of the Make-A-Wish charity.

Key Strengths

Graham is an outstanding business leader and brings extensive PLC board skills and experience.



Loraine Woodhouse

Chief Financial Officer

Date Appointed

1 November 2018

Background

Prior to joining Halfords, Loraine spent five years in senior finance roles within the John Lewis Partnership. In 2014 Loraine was appointed Acting Group Finance Director and then, subsequently, Finance Director of Waitrose.

Prior to that, Loraine was Chief Financial Officer of Hobbs, Finance Director of Capital Shopping Centres Limited (now Intu Plc) and Finance Director of Costa Coffee Limited. Loraine's early career included finance and investor relations roles at Kingfisher Plc.

Key Strengths

Loraine has extensive experience across all finance disciplines and has worked within many different sectors, latterly focusing specifically on consumer service businesses.

Committee Memberships

- A Audit Committee
- E Environmental, Social and Governance Committee
- N Nomination Committee
- R Remuneration Committee
- EV Employee Voice



David Adams A N R
Senior Independent Director

Date Appointed

1 March 2011 as Non-Executive Director; and 1 March 2014 as Senior Independent Director.

Background

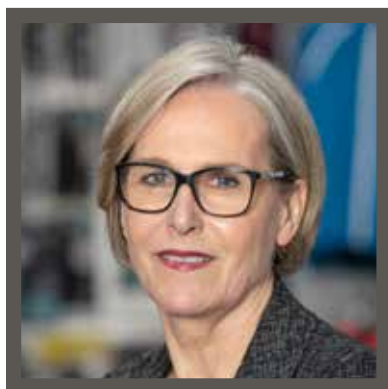
David is currently a Non-Executive Director and Chair of the Audit Committee at Thinksmart Ltd. In addition, David is Chairman of Park Cameras Limited and is a Trustee of Walk the Walk, a breast cancer charity.

Previously, David has held a number of Non-Executive roles including Conviviality Plc (Chairman), Debenhams Plc (Non-Executive Director and Chair of the Audit Committee), Fever Tree Drinks Plc (Non-Executive Director and Chair of the Audit Committee), Elegant Hotels Plc (Non-Executive Director and Chair of the Remuneration Committee), Hornby Plc (Non-Executive Director and Chair of the Audit Committee), and Celine Group Holdings Limited (previously Debenhams Group Holdings Ltd).

David's executive career included almost ten years as Finance Director and Deputy Chief Executive of House of Fraser Plc prior to its sale in 2006.

Key Strengths

David has had a long career in the retail and consumer goods industries and brings deep and relevant knowledge and experience to his role.



Helen Jones A E N R EV
Independent Non-Executive Director

Date Appointed

1 March 2014 as Non-Executive Director; 7 December 2015 as Chair of the Environmental, Social and Governance Committee (formerly known as the Corporate Social Responsibility Committee) and 1 May 2019 as the Employee Voice Director.

Background

Helen is a Non-Executive Director and Chair of the Remuneration Committee and Audit Committee of Fuller, Smith & Turner Plc, a Non-Executive Director of Premier Foods Plc and a member of the Supervisory Board of Directors of Ben and Jerry's.

Previously, Helen was a member of the Supervisory Board and the Audit Committee for Vapiano S.E. Prior to that, Helen was the CEO of the Zizzi Restaurants group and was also responsible for successfully launching the Ben and Jerry's brand in the UK and Europe. Helen previously held a senior executive role at Caffé Nero.

Key Strengths

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



Jill Caseberry A N R
Independent Non-Executive Director

Date Appointed

1 March 2019 as Non-Executive Director and the Chair of the Remuneration Committee.

Background

Jill is currently a Non-Executive Director, Remuneration Committee Chair and member of the Audit and Nomination Committees of Bellway Plc, a Non-Executive Director and Remuneration Committee member of C&C Plc, and a Non-Executive Director and member of the Remuneration, Audit and Nomination Committees of St Austell Brewery.

Previously, Jill was a Non-Executive Director, Remuneration Committee Chair and a member of the Audit and Nomination Committees of Northgate Plc. During her executive career Jill gained extensive sales, marketing and general management experience across a number of blue-chip companies including Mars, PepsiCo and Premier Foods. She also founded a soft drinks company and established a sales and marketing consultancy.

Key Strengths

Jill brings extensive leadership experience from senior sales and marketing roles in consumer goods 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 3 April 2020.

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

Additional Disclosure

Other information that is relevant to this report and which is incorporated by reference, including information required in accordance with the UK Companies Act 2006 and Listing Rule 9.8.4(R), can be located as follows:

Topic	Report	Page
Modern Slavery Statement	Directors' Report	88
Appointment and removal of Directors	Directors' Report	86
Articles of Association	Directors' Report	88
Auditor	Directors' Report	88
Audit Committee Report	Audit Committee Report	116
Authority to issue or purchase shares	Directors' Report	88
Board of Directors	Directors' Report	86
Board effectiveness and leadership: role and composition of the Board and Committees; meeting attendance; skills and experience; independence; diversity; induction and development; evaluation; Directors and their other interests; and Board Committees	Corporate Governance Report	90
Branches outside of the UK	Directors' Report	88
Charitable donations	Strategic Report: Our ESG Strategy	54 & 57
Colleague engagement	Corporate Governance Report	96
	Strategic Report: Our ESG Strategy	47
Colleagues' involvement; training, diversity and disability	Directors' Report	87
	Strategic Report: Our ESG Strategy	55
Community	Strategic Report: Our ESG Strategy	57
Compensation for loss of office	Directors' Report	88
Creditor payment policy	Directors' Report	88
Culture	Directors' Report	94
Directors' biographies	Board of Directors	82
Directors' indemnities	Directors' Report	86
Directors' interests	Directors' Report	86
Directors' Remuneration Report and Remuneration Policy	Directors' Remuneration Report	120
Directors' Responsibilities Statement	Directors' Responsibilities Statement	141
Diversity	Directors' Report, Corporate Governance Report and Nomination Committee Report	87,101 and 113
Energy and Carbon Emissions	Strategic Report: Our ESG Strategy	52
Financial instruments	Note 22 to the Group Financial Statements	181
Future developments of the business	Chief Executive's Statement	14
Financial position of the Group, its cash flows, liquidity position and borrowing facilities	Chief Financial Officer's Review	60
Gender	Strategic Report: Our ESG Strategy	56
Going concern	Principal Risks and Uncertainties	78
Governance	Corporate Governance Report	90
Important events since year-end	Directors' Report	88
Independent Auditor	Independent Auditor's Report	144

Topic	Report	Page
Internal control and risk management	Corporate Governance Report	110
Long-term incentive schemes	Directors' Remuneration Report	132-140
Nomination Committee Report	Nomination Committee Report	112
Political donations	Directors' Report	88
Powers of the Directors	Directors' Report	86
Principal activities	Directors' Report	86
Re-election of Directors	Directors' Report	86
Restrictions on transfer of securities	Directors' Report	86
Section 172 statement	Strategic Report: Chairman's Statement	12
	Strategic Report	59
	Corporate Governance Report	90
Share capital	Directors' Report	87
	Note 23 to the Group Financial Statements	186
Significant shareholders	Directors' Report	87
Subsidiary and associated undertakings	Note 4 to the Company Financial Statements	194
Stakeholders	Corporate Governance Report	106
Statement of Corporate Governance	Corporate Governance Report	91
Strategic Report	Strategic Report	20
Viability statement	Strategic Report	79
Voting rights	Directors' Report	87
Waiver of dividends	Directors' Report	86



Directors' Report

UK Corporate Governance Code

The Company has applied the main principles of, and complied with, the provisions of the 2018 UK Corporate Governance Code (the "Code") throughout the year. Given the exceptional circumstances in which we find ourselves in regard to COVID-19 it has been agreed that David Adams will stay in office until the end of 2020. The full reasoning behind this decision is detailed on page 91. The Board recognises that as it has assessed that David will no longer be regarded as independent for the purposes of the Code because of his extended tenure, this has created a technical breach of the Code's recommendation that the majority of the Board be independent Non-Executive Directors. However, we believe that this short-term situation is justified in these unprecedented and challenging circumstances and that the Company will benefit significantly from David's continued service on the Board.

Principal Activities

The principal activities of the Group are: the retailing of motoring and cycling products and services; and auto servicing and repairs through garages and mobile vans. The principal activity of the Company is that of a holding company. The Company's registrar is Link Asset Services, 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 150. The profit before tax was £19.4m (2019: £51.0m) and the profit after tax amounted to £17.5m (2019: £41.9m). As announced on 25 March 2020, the decision was made to suspend the final dividend in order to preserve cash during the COVID-19 pandemic. An interim dividend payment of 6.18 pence per ordinary share was paid on 17 January 2020.

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 Key Performance Indicators ("KPIs") and periodic review of various aspects of the Group's operations. The Group considers that the KPIs listed on pages 40 to 42 are appropriate measures to assess the delivery of the Group's Strategy.

Directors

The following were Directors of the Company during the period ended 3 April 2020 and at the date of this Report:

- Keith Williams
- Graham Stapleton
- Loraine Woodhouse
- David Adams
- Helen Jones
- Jill Caseberry

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 3 April 2020 will retire and offer themselves for re-election at the 2020 Annual General Meeting ("AGM").

The Service Agreements of the Executive Directors and the Letters of Appointment of the Non-Executive Directors are available for inspection at the registered office of the Company. A summary of these documents is also included in the annual Directors' Remuneration Report on pages 128 and 130.

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. Alternatively, a Director may be appointed 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 act as an additional Director, provided that the individual retires at the next Annual General Meeting and, if they are to continue, they offer themselves for election. A Director may be removed by the Company in 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 2019 Annual General Meeting, held on 31 July 2019, will expire on the date of the 2020 Annual General Meeting. Since the date of the 2019 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 Directors' Remuneration Report on pages 132 to 140.

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 or 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 and the register is updated accordingly.

The Directors are also aware of their duties under Section 172 of the Companies Act 2006 and so in making their decisions they consider the long-term impact on the business as well as taking into consideration the interests of stakeholders such as colleagues, suppliers, customers and the wider communities in which we operate. More information on this can be found on pages 59, 90 to 111.

Directors' Indemnities

Directors' and Officers' insurance 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 also have the benefit of third-party indemnity provisions, as defined by section 236 of the Companies Act 2006, pursuant to the Company's Articles of Association.

Colleague Engagement

One of the Group's key strengths is engaged colleagues with great training.

Engagement with, and feedback from, our colleagues across the business is vital to the Group. The Group has an established framework of colleague communications providing regular information on business performance and other important and relevant matters. For more information see Our ESG Strategy on page 47.

Employment Policies

The Group encourages diversity and equality and, as an equal opportunities employer, is committed to providing equal opportunities for all colleagues and applicants during recruitment and selection, training and career development and promotion.

This commitment to equality of opportunity applies regardless of anyone's physical ability, sexual orientation or gender identity, pregnancy and maternity, race, religious beliefs, age, nationality or ethnic origin. This is underpinned by our Group's policies which ensure full and fair consideration to employment applications from people from diverse backgrounds, including those with disabilities wherever suitable opportunities exist, having regard to their particular aptitudes and abilities. Should a colleague become disabled, efforts are made to ensure their continued employment with the Group, with appropriate retraining as necessary.

Further details of our Diversity Policy are included in the Nomination Committee Report on page 113.

The Group takes a zero-tolerance approach to matters of discrimination, harassment and bullying in all aspects of its business operations. Appropriate policies and procedures are in place for reporting and dealing with such matters.

Colleague Training and Development

The Group strives to meet its business objectives by motivating and encouraging all colleagues to be responsive to the needs of its customers and to continually improve operational performance. To achieve this we deliver a range of structured training and development programmes, across the Group, in our Retail, Autocentres and Performance Cycling businesses. We regard the training and development of young people as being particularly important for our business and also for the communities in which we operate. During the year, we have reviewed the best way for the apprenticeship training to be provided, and following this review, we have

withdrawn as an employer training provider of apprenticeships and have instead secured Instep UK as a partner. This means that if a colleague wishes to complete an apprenticeship qualification, they are still able to do so. Further information on colleague training can be found on pages 46 and 49 of Our ESG Strategy.

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

Whistleblowing

The Group's Whistleblowing Policy and Procedure (the "Whistleblowing Policy") ensures that arrangements are in place to enable colleagues to raise concerns about possible improprieties on a confidential basis without fear of recrimination. The Group is committed to conducting its business with honesty and integrity, and it expects all colleagues to maintain high standards in accordance with its corporate culture. An understanding of openness and accountability is essential in order to prevent illegal or unethical conduct or malpractice

Significant Shareholders

As at 6 July 2020, this being the latest practicable date, the Company has been notified under the Disclosure Guidance and Transparency Rules (DTR5) of the following notifiable interests representing 3% or more of the Company's issued share capital.

Manager	Holding	% of Issued Shares
FIL Limited	19,756,804	9.92
Dimensional Fund Advisors	9,324,639	4.68
Rathbones	8,337,898	4.19
BlackRock Inc	8,011,853	4.02
Aberforth Partners LLP (SC)	7,870,518	3.95
Evenlode Investment Management Ltd (UK)	7,707,229	3.87
Norges Bank Investment Management	7,054,816	3.54
Hargreaves Lansdown Asset Mgmt (UK)	6,436,936	3.23
The Vanguard Group Inc	6,373,403	3.2
River & Mercantile Asset Management LLP (UK)	5,711,874	2.87

and to enable any such situations to be addressed should they ever occur. The Whistleblowing Policy is reviewed annually and communicated to all colleagues around the Group.

Share Capital and Shareholder Voting Rights

Details of the Company's share capital and of the rights attaching to the Company's ordinary shares are set out in Note 23 on page 186. All ordinary shares, including those acquired through Company share schemes and plans, rank equally with no special rights.

All members who hold ordinary shares are entitled to attend, vote 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, and every duly appointed proxy, shall have one vote for every share held, and on a poll, every member present in person or by proxy shall have one vote for every ordinary share held. The Company is not aware of any arrangements that may restrict the transfer of shares or voting rights.

Directors' Report

Authority to Purchase Shares

At the 2019 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 29 March 2019, such authority expiring at the conclusion of the Annual General Meeting to be held in 2020 or, if earlier, on 30 September 2020.

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 (FY19: 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. However, the Board has no intention of using this shareholder authority.

Credit Facilities, Change of Control and Share Schemes

The Company's revolving credit facilities referred to above 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 plans are provided in Note 24 on pages 186 to 189.

Modern Slavery Statement

In order to support its estate of Retail stores and garages and online operations, the Group sources products from a large number of suppliers both within the UK and overseas. In particular, the international suppliers – managed largely by the Halfords Global Sourcing ("HGS") team based in Hong

Kong, Taiwan and Shanghai – are bound contractually by the Group's policies on modern slavery and human trafficking. These include, for example, the Group's Suppliers' Code of Conduct Policy which states that:

- suppliers are required to sign a compliance declaration, confirming that they have not been investigated for, or convicted of, any offence under the Modern Slavery Act 2015 or any other equivalent law; and
- Halfords reserves the right to conduct risk assessments in respect of its suppliers and to implement the Group's Code of Conduct where necessary. This is particularly pertinent to those suppliers managed by the HGS team, given that the Code of Conduct encompasses principles of trading based on international standards, including the International Labour Organisation ("ILO") conventions and recommendations. Moreover, the Code reflects the Group's opposition to the exploitation of workers in all forms, its support for fair and reasonable pay and rewards, the requirement for health and safety standards etc.

Additionally, the Group's Terms of Business require suppliers to comply with all requirements under the Modern Slavery Act 2015. Thereafter, Halfords operates robust due diligence processes which include, where relevant, onsite inspections and audits of the factories, warehouses and tied accommodation operated by its suppliers.

The Group also provides comprehensive training to appropriate colleagues which ensures their understanding of all issues relating to modern slavery and human trafficking.

As a result of the above activity, during FY20, no concerns were raised regarding any of the Group's suppliers, and therefore Halfords continues to be assured that no organisation within its supply chain has breached its legal or contractual obligations.

The Group's Board of Directors reviews its Modern Slavery Statement on an annual basis. It was last approved on 6 February 2020.

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 3 April 2020 for the Group was 69 days (2019: 60 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 current Auditor is BDO LLP. A resolution proposing the reappointment of BDO LLP will be set out in the Notice of the 2020 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 and approval of the Directors' Report confirms that:

- so far as the Directors are aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- the Directors have taken all reasonable steps to ascertain any relevant audit information and to ensure that the Company's Auditor is aware of such information.

Important Events Since Year End

The COVID-19 pandemic affected our results in the final weeks of FY20 but the full extent of the impact will be seen in FY21. We have referred to COVID-19 throughout this report, in terms of the impact on our business, how we have responded and how we are mitigating the risk, in future. The Group is well positioned to successfully manage this emerging risk and to continue on its transformation journey.

Annual General Meeting ("AGM")

The AGM will be held at the Halfords Group plc Support Centre, Icknield Street Drive, Washford West, Redditch, B98 0DE on Tuesday 15 September 2020. The Notice of the AGM and explanatory notes regarding the ordinary and 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
6 July 2020



Corporate Governance Report



“

My role is to lead the Board, ensure it operates effectively and contains the right balance of skills, diversity and experience.

”

Keith Williams
Chairman

CHAIRMAN'S LETTER

Chairman's Introduction and Section 172 Statement

As Chairman, I lead the Board which is collectively responsible for the long-term success of the Company. My role is to ensure that we have a Board which contains the right balance of skills, diversity and experience, to set the strategy of the Company and oversee the successful execution of it by the business.

We know that a key element of our business success is having good corporate governance and so we have implemented effective frameworks and practices to ensure that high standards of governance, as well as good values and behaviours, are consistently applied throughout the Group. We see these as being critical factors for the integrity of our business and in helping to maintain the trust of all our stakeholders in Halfords.

➔ Read more on [Our Section 172 Statement](#) on page 59.

Company Purpose

Halfords has a clear purpose which is to Inspire and Support a Lifetime of motoring and cycling for an increasingly mobile population. We fulfil an important role in the social fabric of our society by helping our customers with their 'life's journeys'.

Board Leadership

The role of the Board is to ensure not only that the Company's strategic objectives are delivered but that in doing so, our business acts in the right way and has a positive impact on the communities in which we operate.

To achieve this, we engage with a wide variety of stakeholders (including: colleagues; customers; suppliers; and those communities in which we operate). We consider their interests as well as the long-term consequences of any decision on our business and the Company.

Our Commitment to Engaging with Stakeholders

We remain committed to engaging with a wide variety of stakeholders as we see this as an important part of making our company successful. One example of this is the consultation we undertook with shareholders over our new Remuneration Policy prior to it being presented at this year's Annual General Meeting. A further example is the creation of our colleague listening groups, many of which are attended by Helen Jones, our designated Non-Executive Director responsible for our 'employee voice' programme, these groups ensure colleague feedback is brought to the attention of the Board and helps shape and influence some of the decisions that are taken.

You can read more throughout this report about how we have engaged with these groups and the impact this has had on the decisions we have taken during the year.

We very much hope that we will be able to hold our 2020 AGM in the usual way, but will continue to monitor the COVID-19 situation and have regard to developments over the coming weeks ahead of the meeting.

Please continue to monitor our website and announcements for any updates in relation to the AGM arrangements that may need to be provided to ensure we continue to act in accordance with guidance issued by the UK Government and relevant health authorities.

Keith Williams
Chairman

6 July 2020

Corporate Governance Statement

The Board confirms that during the year ended 3 April 2020, and as at the date of this report, the Company has applied the principles of, and complied with, the provisions of the 2018 UK Corporate Governance Code ("Code") throughout the year. Given the exceptional circumstances in which we find ourselves in regard to COVID-19, it has been agreed that David Adams will stay in office until the end of 2020. The Board recognises that as it has assessed that David will no longer be

regarded as independent for the purposes of the Code because of his extended tenure, this has created a technical breach of the Code's recommendation that the majority of the Board be independent Non-Executive Directors. However, the Board believes that this short-term situation is justified in these unprecedented and challenging circumstances.

The Board welcomes the changes introduced by the new Code in July 2019 to enhance long-term success and trust in business. This report, together with the

other statutory disclosures and reports from the Audit, Nomination and Remuneration Committees, provides details of how the Company has applied the principles of good governance as set out in the Code during the period under review. A copy of the Code is available on the Financial Reporting Council's website at www.frc.org.uk.

The Company has complied with the relevant requirements under the Disclosure Guidance and Transparency Rules, the Listing Rules, the Directors' Remuneration Reporting regulations and narrative reporting requirements.

Section	Description	Further information
Board leadership and Company purpose	The Company is led by an effective Board, which promotes the long-term success of the Company and engages with its shareholders and stakeholders.	➔ Read more on Stakeholder Engagement on pages 106 and 107.
	The Board has established the Company's purpose, values and strategy and is satisfied that these and its culture are aligned.	➔ Read more on Culture on pages 94 and 95.
	The Board has established an effective governance and risk framework.	➔ Read more on Principal Risks and Uncertainties on pages 66 to 78.
	The Board has ensured that the workforce is able to raise any matters of concern, and that all policies and practices are consistent with the Company's values.	
Division and responsibilities	The Chair leads the Board which includes an appropriate combination of Executive Directors and Non-Executive Directors.	➔ Read more on Board Composition on page 96.
	The Non-Executive Directors provide constructive challenge, strategic guidance and advice, and have sufficient time to meet their Board responsibilities.	➔ Read more on Board Responsibilities on page 97.
	There is a clear division of responsibilities between the running of the Board and the running of the business, and the Board has identified certain 'reserved matters' that only it can approve. Other matters, responsibilities and authorities have been delegated as appropriate, and there are relevant policies and processes in place for the Board to function effectively and efficiently.	➔ Read more on Key Board and Committee Responsibilities and Matters Reserved for the Board on pages 96 and 97.
Composition, succession and evaluation	A comprehensive and tailored induction programme is in place for new Directors joining the Board. The induction programme facilitates their understanding of the Group and the key drivers of the business's performance.	➔ Read more on Directors' induction, training and development on page 108.
	A rigorous, effective and transparent appointment procedure is in place, which, together with the effective succession plans, promotes diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.	➔ Read more on Diversity and the Group's Diversity Policy in the Nomination Committee Report on page 113.
Audit, risk and internal control	The Board has established formal and transparent policies and procedures to ensure the independence and effectiveness of both internal and external audit functions, and satisfies itself on the integrity of financial and narrative statements.	➔ Read more in the Audit Committee Report on pages 116 to 119.
	The Board presents a fair, balanced and understandable assessment of the Group's position and prospects.	➔ Read more on Risk in the Principal Risks and Uncertainties Report on pages 66 to 78.
	The Board has established procedures to manage risk, oversee the internal control framework and determine the nature and extent of the principal risks of the Group.	
Remuneration	The Company has designed the remuneration policies and practices to support strategy and promote long-term sustainable success. The Executive remuneration is aligned to the Company's purpose and values and is clearly linked to the successful delivery of our long-term strategy.	➔ Read more on Executive Remuneration in the Remuneration Committee Report on pages 120 to 140.
	There is a formal and transparent procedure for developing executive remuneration policy and determining director and senior management remuneration.	➔ Read more on our Remuneration Policy in the Remuneration Committee Report on pages 120 to 140.
	Directors are able to exercise independent judgement and discretion when authorising remuneration outcomes, taking into account Company and individual performance and wider circumstances.	➔ Read more on Remuneration in the Remuneration Committee Report on pages 120 to 140.

Corporate Governance Report

Our purpose is to Inspire and Support a Lifetime of motoring and cycling

Establishing Our Purpose

We know that the long-term success of our Company is founded on having a clear purpose, supported by a strategy which considers the views and needs of our many stakeholders. One such key stakeholder group is our customers who we help meet their motoring and cycling needs. This may be for their daily commute or their leisure activities, such as holidays or staycations. Many 'first'

purchases are made at Halfords, be that first car seat, first kids' scooter, or first children's bike and our role is to support customers through these stages of their life's journey. As society seeks to reduce carbon and find more sustainable ways for us to live our lives, we see the emergence of an 'electric nation' as a positive opportunity that fits perfectly with our overall corporate purpose.

➔ Read more about how our [Purpose Aligns with Our Culture](#) on page 20.



Ensuring our Long-Term Sustainable Success

Whilst all members of our Board have a solid understanding of the retail industry in general, and of customer service businesses in particular, we have set out below the specific experiences of each Non-Executive Director and how their skills support the different aspects of our operations in a complementary way.

How we are working towards our vision: being a super-specialist in motoring and cycling, trusted by the nation:

Dynamic to the Market Needs

Our Group operates in a market in which customer needs and expectations are ever-changing. We need to be able to evaluate these external trends so that we can make the best strategic choices.

Skills our Board has

Retail industry-specific knowledge in relation to both our core businesses and in those areas of increased focus under our new Strategy (i.e. car services and offering financial products that provide more convenient ways for customers to pay).

Board members

- Jill Caseberry
- David Adams

Engagement With Our Stakeholders

Engagement with our stakeholders to maintain trust and enhance understanding of our business.

Skills our Board has

Experience in stakeholder engagement activities, such as our 'employee voice' initiative and the shareholder consultation in relation our new Remuneration Policy.

Board members

- Helen Jones
- Jill Caseberry

Commitment to Delivering Financial Value

Commitment to delivering financial value to shareholders.

Skills our Board has

Experience in setting and delivering financial KPIs in challenging retail markets.

Board members

- Keith Williams
- David Adams
- Helen Jones
- Jill Caseberry

Sustainable Operations

Commitment to operating in a responsible way so that we are a Company that people want to work for and invest in.

Skills our Board has

Experience of the setting and delivery of ESG commitments, including recycling, energy usage and sustainable electric cars and bikes.

Board members

- Helen Jones
- Jill Caseberry

➔ Read more about the [Skills of the Board](#) on page 100.

Corporate Governance Report

Key Statement of Halfords Culture

OUR CULTURE JOURNEY

The Board recognises the importance of its role in ensuring the culture of the organisation is aligned to its business strategy and ambition to become a market-leading services business. In support of this, a full cultural review has been completed this year in readiness for the refresh of its colleague values and behaviours in Q1 of 2021.

The Board monitors culture on an ongoing basis both formally, and informally, through the outputs of colleague engagement surveys, including the Times Top 25 Big Companies survey, in which Halfords was, once again, placed in 2020; and through regular listening groups held across all areas of the business.

The voice of our colleagues is represented in Board meetings by Non-Executive Director, Helen Jones.

The table below outlines the key culture and engagement activities undertaken this year:

2018/19



Q4

Listening groups are held throughout the year. These enable colleagues to provide feedback about the business to members of the senior management team and on occasion, these meetings are also attended by Helen Jones and the Executive Directors. Outputs and actions are monitored by the Board.

Appointed Helen Jones as the Non-Executive Director with accountability for Employee Voice.

Listening group programme established for new financial year to include Board members.

2019/20



Q1

Annual colleague engagement survey conducted.
Engagement action planning undertaken.
Bonusable engagement targets set for Executive Directors and the Executive Committee and approved by the Board.
Listening groups are held throughout the year.

Q2

Times Top 25 Big Companies survey conducted.
Full cultural review commenced, to include a review of stores, symbols, structures, control systems and rituals and routines.
Listening groups are held throughout the year.

Q3

Times Top 25 Big Companies accreditation obtained.
Board review and input into culture review.
Project established to refresh colleague values and behaviours.
Listening groups are held throughout the year.



Q4

1,300 colleagues engaged in defining colleague values and behaviour framework.
Values and behaviour framework agreed with the Board.
Listening groups are held throughout the year.

Aligning Our Purpose with Culture

Our colleagues and culture underpin our business Strategy and are critical to ensuring our ability to become a market-leading services business.



We know that we will only be successful in wowing our customers through engaging the hearts and minds of our colleagues, ensuring they go above and beyond to meet their needs.

During the course of the year, we reviewed the culture of our business to ensure alignment with our Strategy and ambition to become a market-leading services business, and our associated plans. This review resulted in the refresh of our colleague values and behavioural frameworks which builds on the strength of our existing leadership and 'hands on' colleague behaviours. Our aim is to create a 'One Halfords' team approach

and unite all parts of our business, old and new. We engaged over 1,300 colleagues in building these values and behaviours, through a combination of both face-to-face workshops and questionnaire completion.

Due to the COVID-19 pandemic we took the decision to delay the roll-out until the first half of FY21 to ensure that it will have the full attention of our colleagues across the Group, this was led by senior leaders who had training sessions which commenced prior to the onset of the pandemic. We look forward to sharing our colleague values with you following our internal roll-out.

Directors and senior leaders, across the business, are already measured on the level of colleague engagement in their respective areas of the business through bonusable objectives that are set by the Board on an annual basis. The integration of behaviours into our performance management framework from the start of the new financial year will see this measurement extend further into the organisation.

Workforce Engagement

Halfords has long established practices of inviting feedback from colleagues across all areas of the business, including holding regular listening groups, appointing and meeting with local colleague engagement champions, and conducting regular colleague surveys, including the Times Top 25 Big Companies survey, in which we were placed again this year for the seventh consecutive year.

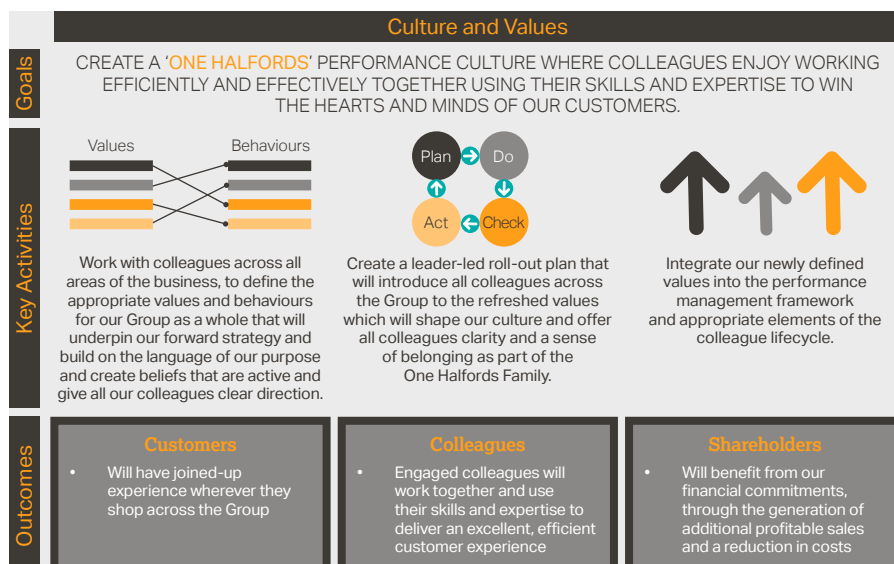
This year we held a total of 111 listening groups across the Group as a whole. Outputs and associated actions are reviewed by the Board and are incorporated into Executive Directors' and Executive Committee functional engagement plans. As discussed above, colleague engagement is a bonusable objective for Executive Directors and members of the Executive Committee.

Under Helen Jones' direction, our focus this year has been to ensure consistency of our engagement approach and action planning across the Group.

In addition to the above, the Group has long established grievance and whistleblowing policies that facilitate colleagues' ability to raise any matters of concern more formally, and in total confidence, should the need arise. The Board reviews reports relating to whistleblowing cases and the process is outlined in the Audit Committee Report on page 119. We know from the calls received and the data obtained that a large proportion of the whistleblowing calls received via the helpline are from store colleagues seeking clarification on HR or safety issues, this shows that the process works well as an adjunct to our normal HR processes and ensures we provide the best support we can to our colleagues.

Monitoring Culture

The Board plays an active role in monitoring the culture of the business through its regular facilitation of listening groups and site visits. The Board reviews the results of the annual colleague engagement survey and sets engagement targets for Executive Directors and Executive Committee members. The outputs of listening groups and associated action plans are reviewed by the Board and key actions are incorporated into functional engagement plans.



Corporate Governance Report




Our more holistic review of the culture of the business undertaken earlier this year, in the context of our strategy and plans, told us that Halfords is a great, collaborative place to work, is engaging and is values led with knowledgeable friendly colleagues that go the extra mile to serve our customers. It also enabled us to identify opportunities for us to improve our rituals and routines, control systems and structures that will enable us to improve our customer centricity through a 'One Halfords' team approach which will embed, throughout our business, through the roll-out of the colleague values and behaviours refresh.

Board Composition

As at the date of this report, the Board of Directors comprised six members, namely the Non-Executive Chairman, three other Non-Executive Directors and two Executive Directors. The composition of the Board is set out on page 86 and the biographies of each Director, including any other business commitments, are available on pages 82 and 83. The Board believes that it has an appropriate balance of Executive and independent Non-Executive Directors, having regard to the size and nature of the business. The Board also believes it has an appropriate balance of skills and experience. Further details are available on page 100.

In May 2020, Keith Williams became interim Executive Chair of Royal Mail Group.



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

Board changes

David Adams will have been in office for nine years this year, and so in accordance with the Code and best practice, David is due to stand down. The search for a new Non-Executive Director to replace David commenced at the start of the year, but the search has taken longer than expected due to the impact of the

COVID-19 pandemic in the spring of 2020. Given the difficulties created by the global pandemic, the Nomination Committee agreed to extend David's term of appointment until December 2020. It is expected that a new Non-Executive Director will be appointed in the autumn / winter of 2020 which will allow an orderly handover. In addition, it has been agreed that David will step down as Senior Independent Director at the conclusion of the AGM on Tuesday 15 September 2020 and Helen Jones will be appointed in his place.

Board Independence

The Non-Executive Directors bring wide and varied experience to the Board and its Committees. The Code recommends that at least half of the Board of Directors, excluding the Chairman, should comprise Non-Executive Directors, who are determined by the Board to be independent and are free from relationships or circumstances which may affect or could appear to affect the Non-Executive Director's judgement. Following a rigorous review, the Board considers Helen Jones and Jill Caseberry to be independent in character and judgement. However, due to the length of David Adams' tenure, the Board has assessed that he is no longer regarded as independent for the purposes of the Code. David has agreed to stay on until the end of 2020 to ensure continuity for the Board through the COVID-19 pandemic crisis. Whilst this has created a technical breach of the Code's recommendation that the majority of the Board be independent Non-Executive Directors, the Board believes that this short-term situation is justified in these current circumstances. Although David continues to act as a Non-Executive Director and Chair of the Audit Committee, he will cease to act as Senior Independent Director and this role will be fulfilled by Helen Jones with effect from the date of the AGM on Tuesday 15 September 2020. The Chairman, Keith Williams was considered independent upon his appointment.

Re-election

In compliance with the Code and the Company's Articles of Association, all of the Directors on the Board as at 6 July 2020, will seek re-election at the 2020 Annual General Meeting ("AGM"), these being: Keith Williams, Helen Jones, David Adams, Jill Caseberry, Graham Stapleton and Loraine Woodhouse.

Board Responsibilities

The Board is responsible for the long-term success of the Company and 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 32 to 39.

Division of Responsibilities

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 effective leadership, operation and governance of the Board and its Committees. He ensures effective communication with shareholders, facilitates the contribution of the Non-Executive Directors and ensures constructive relations between Executive and Non-Executive Directors.

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

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.

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

To discharge these responsibilities effectively, the Board has a system of delegated authorities, which 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 Executive Team and the wider business.

Matters specifically reserved for the Board include: strategy and management; corporate structure and capital; investor relations; audit, financial reporting and controls; nominations to the Board; executive remuneration and certain material contracts.

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

Director Tenure and Board Succession

Succession planning for the Board is monitored regularly and in particular is considered in detail during the annual evaluation of the Board performance as described above. A new Non-Executive Director will be appointed towards the end of 2020 to replace David Adams, who has come to the end of his tenure, as described above. Details of the tenure for all Board members can be found on page 98.

Shareholders

The Chairman – Key Responsibilities

- manages and provides leadership to the Board;
- builds an effective and complementary Board of Directors;
- 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;
- ensures that the performance of individuals and of the Board as a whole and of its Committees is evaluated at least once a year;
- acts as an advisor to the Chief Executive Officer;
- meets with the Non-Executive Directors without Executive Directors being present; and
- ensures constructive relations between Executive Directors and Non-Executive Directors.



The Board – Key Responsibilities

- The Board is collectively responsible for the long-term success of the Company, with due regard to the views of shareholders and other stakeholders. It provides leadership and direction on the Company’s culture, values and purpose; sets the strategic direction; agrees the risk framework and ensures these are managed effectively. The Board is accountable to shareholders for the financial and operational performance of the Group.
- See page 96 for examples of the Matters Reserved for the Board. A complete list of these matters is available on the Company’s website www.halfordscompany.com/governance/matters-reserved-for-the-board



Chief Executive Officer

Key Responsibilities:

- responsible for the day-to-day management of the Company;
- develops the Group’s objectives and strategy for Board approval;
- creates and recommends to the Board an annual budget and financial plan;
- delivers the annual budget and plan and executes the agreed Group strategy and other objectives;
- identifies and executes new business opportunities and potential acquisitions or disposals;
- keeps the Chairman informed on all important matters; and
- manages the Group’s risks in line with the Board-approved risk profile.

Senior Independent Director

Key Responsibilities:

- provides a sounding board for the Chairman;
- 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; and
- is available to other Directors and shareholders in order to address concerns that cannot be raised 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 Group’s strategy;
- 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 Group sites, stores and Distribution Centres;
- meet together without the Executive Directors present;
- participate in a training programme, including store visits and updates from management; and
- formulate Executive Director remuneration and succession planning.

Company Secretary

Key Responsibilities:

- works closely with the Chairman, Group Chief Executive Officer and Board Committee Chairs 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; and
- provides advice on Board matters, legal and regulatory issues, corporate governance, Listing Rules compliance and best practice.

Corporate Governance Report

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 99. In addition, the Environmental, Social and Governance ("ESG") Committee was established in December 2015 (previously known as the Corporate Social Responsibility ("CSR") Committee). The ESG Committee comprises Directors and senior management and is chaired by a Non-Executive Director. Each Committee has its own Terms of Reference which are approved and regularly reviewed by the Board.

➔ These are available at www.halfordscompany.com/governance

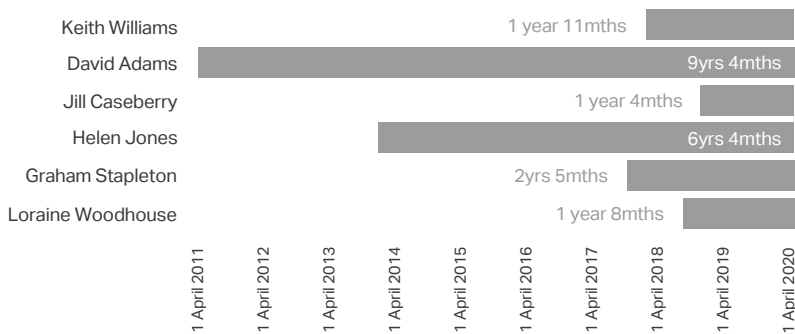
On the following pages each Committee Chair reports how the Committee they chair discharged its responsibilities in FY20 and the material matters that were considered.

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

Matters which require Board approval between scheduled Board meetings can be approved by a Board Committee, which consists of a minimum of two Directors. The final wording of market announcements is approved prior to release by a Disclosure Committee which is made up of a minimum of two Directors. There were nine Board Committee meetings and seven Disclosure Committee meetings during the period.

At executive level 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 of these executive committees 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.



Nomination Committee

Key Objectives:

To ensure that the Board has the balanced 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 Board candidates.

⇒ More information on [Diversity in the Group](#) can be found on page 101.

⇒ Read more within the [Nomination Committee Report](#) from page 112.



Chair:

Keith Williams

Members:

David Adams
Jill Caseberry
Helen Jones

Audit Committee

Key Objectives:

To provide effective governance over the Group's financial reporting processes. This includes the internal audit function and external Auditor. The Committee maintains oversight of the Group's systems of internal controls 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, and their 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 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 on compliance with legal requirements, whistleblowing, accounting standards and the Listing Rules.

⇒ Read more within the [Audit Committee Report](#) from page 116.



Chair:

David Adams

Members:

Jill Caseberry
Helen Jones

Remuneration Committee

Key Objectives:

To ensure that a Board policy exists for the remuneration of the Chief Executive Officer, 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;
- approving senior executive remuneration and oversight of remuneration matters generally;
- recommending the design of the Company's 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 Chief Executive Officer; and
- maintaining an active dialogue with institutional investors and shareholder representatives.

⇒ Read more within the [Remuneration Committee Report](#) from page 120.



Chair:

Jill Caseberry

Members:

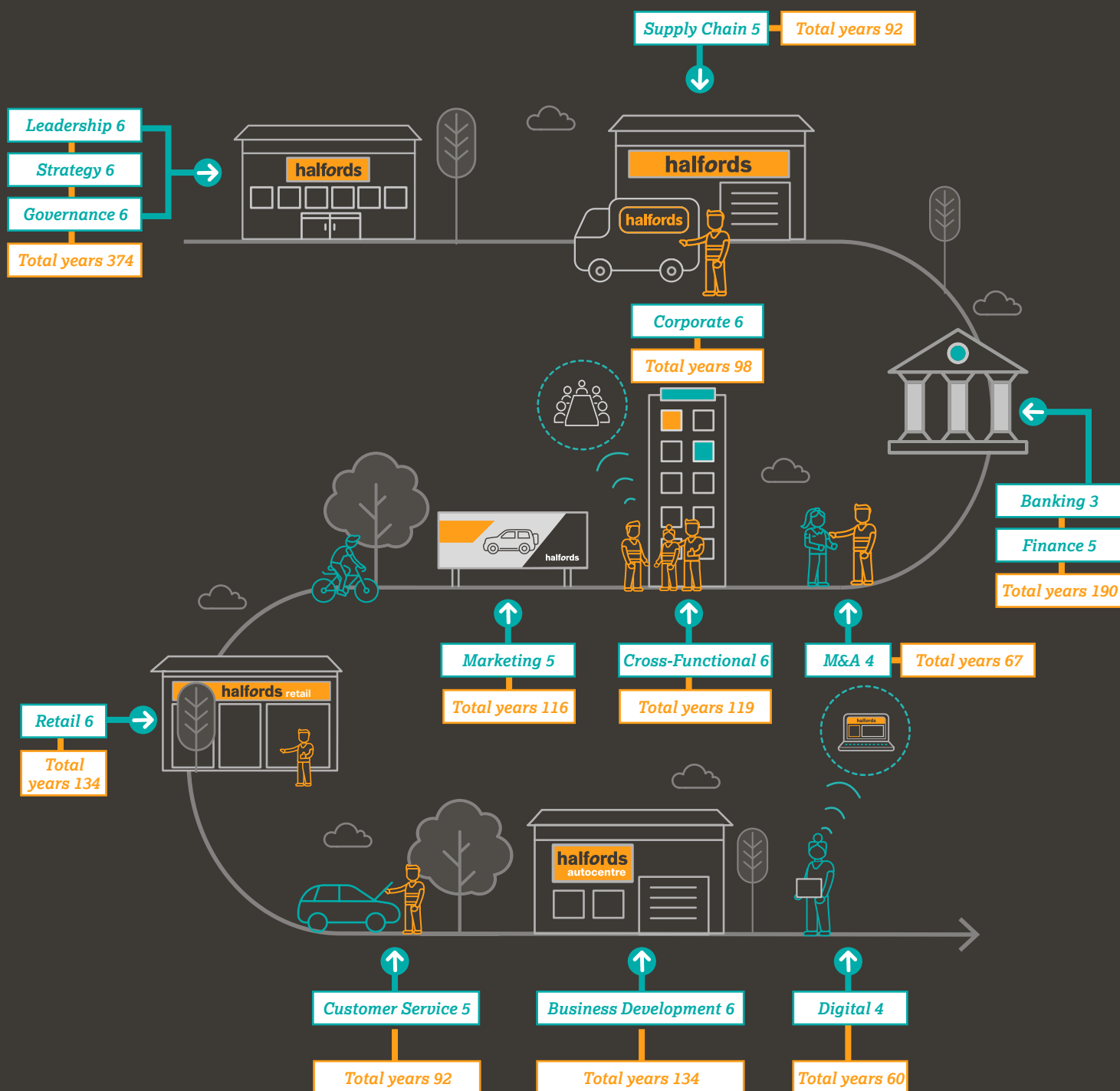
Keith Williams
David Adams
Helen Jones

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

Corporate Governance Report

A Skilled and Experienced Board

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



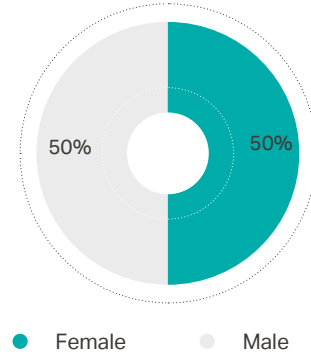
Diversity

The Group recognises the importance of diversity, including gender diversity, at all levels of the organisation. The Group's Diversity Policy (the "Policy") is reviewed annually and sets out our commitment to eliminating unlawful discrimination and promoting equality of opportunity. The Policy is applied to the Group, including the Board, and it is considered that the background and experience brought to the Board by each individual Director exemplifies and personifies the Board's commitment to its Policy.

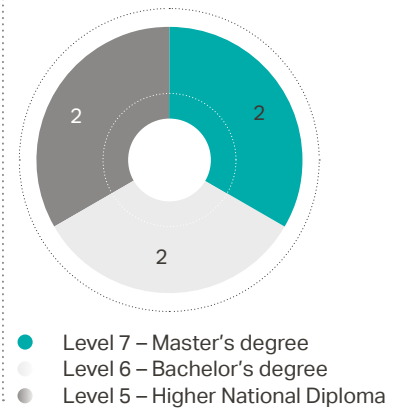
The Nomination Committee keeps under review the composition and diversity of the Board and the capability and capacity to commit the necessary time to the role in its recommendations to the Board. Whilst the Group does not apply a fixed quota on diversity to decisions regarding recruitment, the Nomination Committee considers the Policy and ensures we have a sufficiently diverse Board in terms of age, gender and educational and professional background and that the Board members work together effectively to achieve its objectives. The intention is to ensure the appointment of

the most suitably qualified candidate to complement the Board and to promote diversity. 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, which exceeds the recommended target as published by the Hampton-Alexander Review ("Improving Gender Balance in FTSE Leadership") in November 2017. 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.

Gender



Educational Attainment



Corporate Governance Report

How the Board operates

The Board and its Committees have a scheduled forward programme of meetings. This ensures that sufficient time is allocated to each relevant discussion and activity and the Board's time is used effectively.

The table below shows the attendance of Directors at the Board and Committee

meetings held during the year. In addition to those scheduled meetings, unscheduled Board and Committee meetings were convened throughout the year as and when the need arose. Four additional Board calls were held during the period to discuss the release of the 20-week trading update, the interim results, the 40-week trading update and the emerging COVID-19 pandemic.

These additional meetings were all quorate, and all Directors received the relevant papers and provided the required approval. During the year the Board also held a Strategy meeting to discuss the Company's strategic review.

Board member	Board scheduled: 9	Audit Committee scheduled: 4	Remuneration Committee scheduled: 6	Nomination Committee scheduled: 2	ESG Committee scheduled: 2
Executive Directors					
Graham Stapleton	9 / 9	N/A	N/A	N/A	2 / 2
Loraine Woodhouse	9 / 9	N/A	N/A	N/A	N/A
Non-Executive Directors					
Keith Williams	9 / 9	N/A	6 / 6	2 / 2	N/A
David Adams	9 / 9	4 / 4	6 / 6	2 / 2	N/A
Jill Caseberry	9 / 9	4 / 4	6 / 6	2 / 2	N/A
Helen Jones	9 / 9	4 / 4	6 / 6	2 / 2	2 / 2

● Meetings attended ● Possible meetings

Other members of the Executive Team and professional advisors attended Board meetings by invitation as appropriate throughout the year.

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



Board in Action – Case Studies

Case Study

TWICKENHAM AND NEW MALDEN

In January, Jill Caseberry, Non-Executive Director, spent the day conducting store visits in Twickenham and New Malden. This was a good opportunity to gain a greater insight into the store operations, as well as to witness the new cycling range and store layout which Jill described as "hugely impressive visually and impactful in terms of improved sales rates."

Jill took the opportunity to discuss product development and innovation throughout the business with Paul Tomlinson, Interim Cycling Director. They discussed the new range of reflective cycle clothing for enhanced safety and style, and the exclusive range of folding balance bikes which were developed with Trunki. Jill was also able to gain a practical insight into the store-wide services proposition and its operational logistics.

Case Study

MCCONECHY'S VISIT

In February 2020, David Adams, Non-Executive Director, visited the McConechy's operation in Scotland with Andy Randall, Managing Director of Halfords Autocentres. The aim of the visit was to look at the integration programme put in place to bring McConechy's into the Halfords Group, to discuss the opportunities identified during the process of acquisition of the business, and to visit some of the operations.

To this end, they visited the McConechy's Head Office in Ayr, meeting key members of the McConechy's management team and the integration support put into the business from Halfords. In particular, David and Andy discussed the communications programme with the McConechy's colleagues, before visiting garages and commercial operations in Ayrshire and Renfrewshire.

Case Study

BROMPTON

In July 2019, two of our Non-Executive Directors, David Adams and Helen Jones, visited the Brompton factory in Greenford. Founded in 1975, Brompton produces the iconic, hand-built folding bikes, popular with commuters. Halfords introduced Brompton bikes to its cycling range in 2018, and this relationship provides a greater choice of premium brands for Halfords' customers as well as reinforcing its specialist cycling credentials. For Brompton, having access to Halfords' mainstream customer base was extremely attractive, their objective being to promote the many health and environmental benefits of cycling to a wider audience.

On arrival at the factory, David and Helen were given a tour and were introduced to all the highly trained people, including the brazers who assemble each bike by hand. Every Brompton bike sold anywhere in the world is hand-built on this site. The emphasis on quality and precision was evident throughout the tour.

Helen stated that "as Non-Executive Directors it's really important to understand our suppliers and their relationship with Halfords. On this occasion, we recognised the pride in the Brompton brand but also the important role we at Halfords play in meeting customers' needs and making cycling accessible to all."

Concerns

The Chairman seeks to resolve any concerns raised by the Board, whether these arise 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.

Corporate Governance Report

Board Activities in FY20

Main Areas:




Strategy	Governance	Board Matters
<p>Key activities and discussions:</p> <ul style="list-style-type: none"> Reviewed the progress and delivery of the Group Strategy. Refreshed the five-year business plan. Reviewed the internal and external communication of the strategic plan. Received regular updates on the progress of the One Halfords Group website. Reviewed potential M&A opportunities. Reviewed disposal and closure opportunities. <p>Link to Stakeholder</p> 	<p>Key activities and discussions:</p> <ul style="list-style-type: none"> Received regular updates from the Chairs of the Remuneration, Audit, Nomination and ESG Committees. Reviewed and approved the FY19 Annual Report. Reviewed and approved the Directors' Conflicts of Interests Register, Group policies, the Group Risk register and the roles of the Chairman, CEO and SID. Reviewed and approved the updated defence manual. <p>Link to Stakeholder</p> 	<p>Key activities and discussions:</p> <ul style="list-style-type: none"> Reviewed succession plans for the Board and the senior team, and reviewed updates against searches for candidates to fulfil senior roles. Reviewed the Board and Committees' programme and forthcoming meeting schedule. Reviewed the outcome of the internal FY19 Board evaluation. Discussed and agreed the scope of the external FY20 Board evaluation and its outcome. Discussed the Board programme of visits. <p>Link to Stakeholder</p> 
Financial and Risk Management	Commercial Matters	Shareholder and Stakeholder Relations
<p>Key activities and discussions:</p> <ul style="list-style-type: none"> Reviewed monthly business reviews and trading performance. Reviewed and approved the prelim, interim and trading update approaches and announcements. Reviewed and approved the dividend recommendations and dividend policy. Reviewed and approved the FY20 budget and forecast, the FY21 budget, and hedging strategy. Discussed the financial risk presented by the COVID-19 pandemic. <p>Link to Stakeholder</p> 	<p>Key activities and discussions:</p> <ul style="list-style-type: none"> Received updates on the Autocentres transformation and operating model. Reviewed, approved and received regular updates on the outsourcing arrangements for IT. Reviewed the proposal to centralise customer calls to improve call response rates. Reviewed and approved the opportunity to further develop the roll-out of LED lighting across the estate. Approved the delegated authority for the CFO to purchase electricity at the most advantageous rate available. Discussed, managed and mitigated the risks presented by the COVID-19 pandemic. <p>Link to Stakeholder</p> 	<p>Key activities and discussions:</p> <ul style="list-style-type: none"> Received an update on the ESG strategy. Reviewed colleague engagement survey results and colleague turnover. Discussed the progress on defining, developing and monitoring Halfords' Company culture. Discussed the work undertaken on the Group's colleague engagement initiatives (e.g. One Team Strategy, Huddles, Listening Groups and SLT meetings). Reminder to Directors of obligations under Section 172 of the Companies Act 2006. Reviewed monthly investor relations reports and annual shareholder body reports. Reviewed and approved the 2019 Notice of the Annual General Meeting. <p>Link to Stakeholder</p> 

Key:

-  Colleagues
-  Investors
-  Communities
-  Media
-  Customers
-  Suppliers
-  Environment
-  Government

Board Priorities for the Following Year

Main Areas:

Strategy	Governance	Board Matters
<p>Key activities and discussions:</p> <ul style="list-style-type: none"> Review the progress and delivery of the Group Strategy, particularly any changes required in response to COVID-19. Review any potential M&A opportunities. <p>Link to Stakeholder</p> 	<p>Key activities and discussions:</p> <ul style="list-style-type: none"> Receive regular updates from the Chairs of the Remuneration, Audit, Nomination and ESG Committees. Review and approve the FY20 Annual Report. Review and approve the Directors' Conflicts of Interests Register, Group policies, the Group Risk register and the roles of the Chairman, CEO and SID. <p>Link to Stakeholder</p> 	<p>Key activities and discussions:</p> <ul style="list-style-type: none"> Review succession plans for the Board and the senior team. Review the Board and Committees' programme and forthcoming meeting schedule. Discuss and agree the scope of the internal FY21 Board evaluation and its outcome. Review the Board programme of visits. <p>Link to Stakeholder</p> 
Financial and Risk Management	Commercial Matters	Shareholder and Stakeholder Relations
<p>Key activities and discussions:</p> <ul style="list-style-type: none"> Review monthly business reviews and trading performance. Review and approve trading update approaches and announcements. Review and approve the dividend recommendations and dividend policy. Review and approve the FY21 budget and forecast, the FY22 budget, banking arrangements and the debt / hedging strategy. <p>Link to Stakeholder</p> 	<p>Key activities and discussions:</p> <ul style="list-style-type: none"> Review commercial matters brought to the Board for attention and potential approval. <p>Link to Stakeholder</p> 	<p>Key activities and discussions:</p> <ul style="list-style-type: none"> Review colleague engagement survey results and colleague turnover. Discuss the progress monitoring Halfords' Company culture. Reminder to Directors of obligations under Section 172 of the Companies Act 2006. Review monthly investor relations reports and annual shareholder body reports. Review and approve the 2020 Notice of the Annual General Meeting. <p>Link to Stakeholder</p> 

Corporate Governance Report

How the Board Engages with Stakeholders

Effective utilisation of our resources and relationships are an integral part of our plan to drive long-term sustainable growth. Our model is underpinned by our financial discipline, astute purchasing and strategic reinvestments.

Customers

Why is it Important to Engage?

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.

Ways the Board Engages

- Satisfaction surveys
- Rewards
- Commercial website
- Social media engagement



Communities

Why is it Important to Engage?

Ensures continued viability of the business into the long-term. We aim to contribute positively to the communities and environment in which we operate.

Ways the Board Engages

- Community investment initiatives
- Media channels
- Recycle initiatives
- Prison initiatives



Media

Why is it Important to Engage?

Ensures transparency of information on the business. As a business-to-consumer company, we need strong multi-channel exposure to connect with customers and our wider stakeholder audience.

Ways the Board Engages

- Product videos and peer reviews
- TV and radio advertising campaign
- Email and PR customer engagement
- Improving Twitter, Facebook and Youtube content



Colleagues

Why is it Important to Engage?

Interactions with our colleagues are the main ways that customers experience the Company's brand. Our colleagues are fundamental to the achievement of our customer experience ambitions and are the cornerstone of our service and services proposition.

Ways the Board Engages

- '3-Gears' training programme
- Listening: surveys and colleague groups
- 'Aspire' store management development courses
- Recognition and reward

Suppliers

Why is it Important to Engage?

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.

Ways the Board Engages

- Far East trading office developing mutually beneficial relationships
- Logistics efficiencies and environmental management
- Supplier conferences
- Infrastructure

Investors

Why is it Important to Engage?

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.

Ways the Board Engages

- Annual Report
- RNS announcements
- Annual General Meeting
- Investor presentations
- Corporate website
- One-on-one meetings

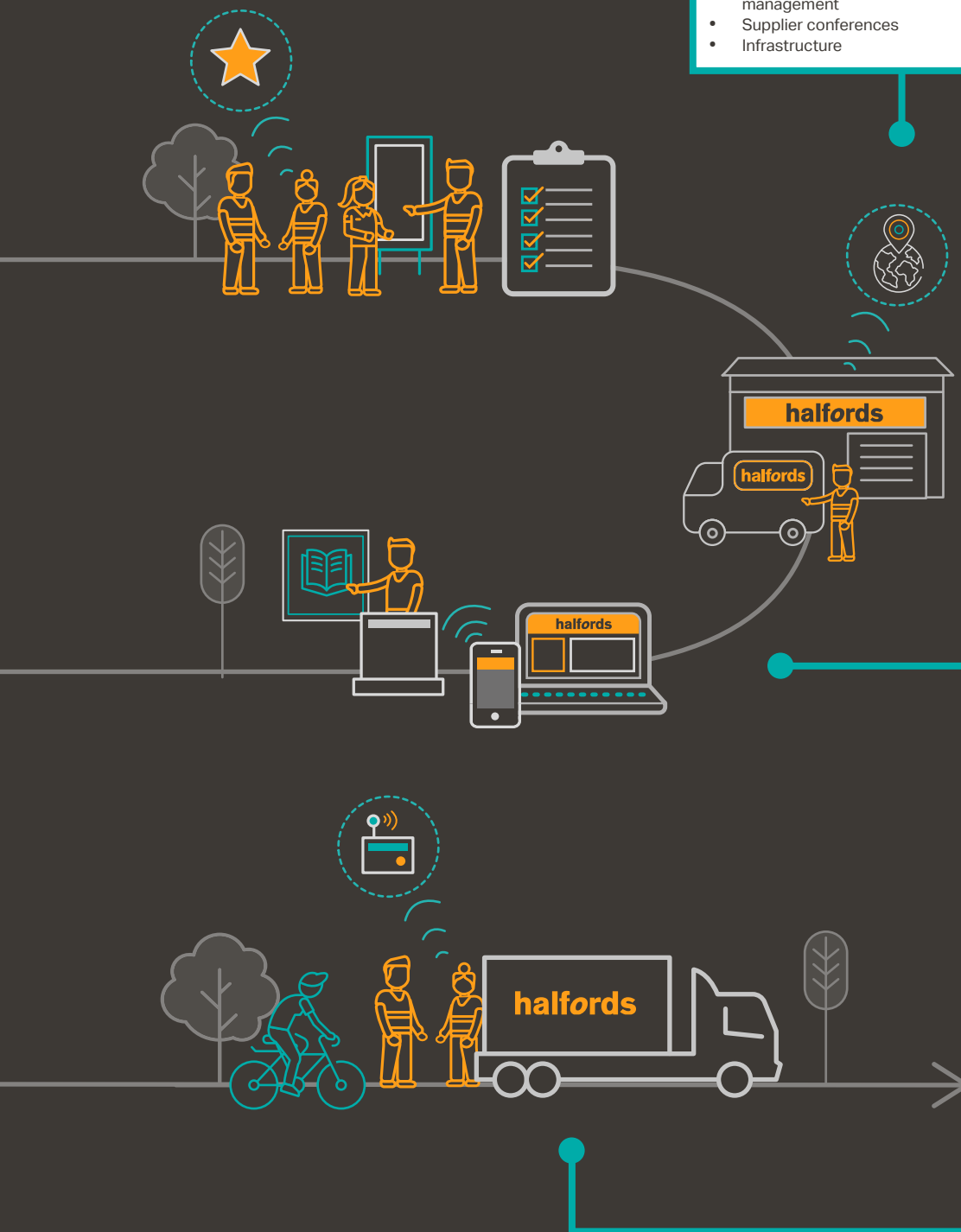
Government

Why is it Important to Engage?

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.

Ways the Board Engages

- Cycle-to-Work policy campaigning
- DAB radio working groups
- Driver training and vehicle safety enhancements
- Engaging with VOSA, DVLA, TSI, ASA and HSE



Corporate Governance Report

Induction Process

1 Understand the Business

- Governance induction programme covering external governance matters (e.g. UK Corporate Governance Code, Listing Rules and Directors' Duties) and internal governance matters (e.g. Board and Committees and policies);
- Induction material, such as Board and Committee papers, Committees' Terms of Reference, Investor Presentations etc; and
- Meeting with external relevant advisors.



2 Meet the Management Teams

- One-to-one meetings with the Directors, and the senior management teams from key areas of the business.



3 Visit the Business

- Visit the Group's stores, Autocentres and other operational and distribution sites.

Directors' Induction

All new Directors receive a comprehensive and tailored induction programme on joining the Board. The induction programme facilitates their understanding of the Group and the key drivers of the business' performance. The new Non-Executive Director will receive a full and personally tailored induction programme upon their appointment later in 2020.

Directors' Training and Development

All Directors have the opportunity for ongoing development and support via:

- a programme of visits to the Support Centre, Distribution Centres, stores and Autocentres;
- reviews with the Chairman to identify any training and development needs;
- advice on governance, regulatory and 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.

Board Evaluation

A formal and rigorous Board effectiveness review is conducted on an annual basis. This includes an assessment of the effectiveness of the Board, its Committees and individual Directors.

FY19

Internal Evaluation

FY20

External Evaluation by Lintstock

FY21

Internal Evaluation

FY20 External Evaluation Process

Step One

Surveys

Design the review content to ensure that the specific needs of the Board are addressed and allowing questions to be framed around key corporate events.

Issue online surveys to the Board members.

Step Two

Interviews

One-to-one interviews held with each Board member, facilitated by a pre-prepared briefing note.

Step Three

Presentation

Lintstock delivers a report and facilitates discussion at the Board around the results and to provide further context concerning the output.

The findings identified by the FY20 external review were as follows:

Topic	FY20 outcomes
Strategic plan	The Board mentioned that continued delivery and clear reporting of the progress against the delivery plan is essential throughout the year.
NED programme	The introduction of a NED programme to ensure the best contribution from the NEDs.
Quality and structure of Board meetings	The Board highlighted the importance of getting out and about to the different locations around the Group, and to split some of the Board and Committee meetings over two days. This would allow more time for location visits and ensure time is available to receive the required number of management presentations.
Quality of Board packs	The Board felt that more focus is required in Board papers to ensure the Board is able to effectively monitor the progress on delivery.
Culture and talent	Being a people-driven, service-based business, the Board felt that a renewed review of our culture was necessary to ensure that it evolves and remains fit for the future. The Board will also monitor the talent within the business and the implementation of appropriate succession planning.
Board training	All Board members to update on training they have received.

The findings identified by the FY19 internal review were as follows:

Topic	FY19 outcomes	Progress made in FY20
Newly established Board	There were significant changes during FY19, starting with the appointment of Keith Williams, as the new Chair, in July 2018, followed in November 2018 by Loraine Woodhouse joining as the new Chief Financial Officer, and in March 2019 by Jill Caseberry as Chair of the Remuneration Committee. Given these new appointments, the Directors felt that it was too early to evaluate the Board's performance as a whole and therefore their responses focused instead on the need take the correct steps to ensure that the Board became fully integrated with the business to be as effective as possible. Achieving this was regarded as being of particular importance in relation to the delivery of the Strategy.	In June 2019 the Board agreed to appoint an external company to undertake a forward-looking Board evaluation. A number of companies were approached to provide a proposal, and Lintstock was appointed.
Delivery of the Strategy	The Strategy was intended to be transformational to ensure the business could be in the best possible place to thrive in future years. During the FY19 evaluation, the Board recognised that the Group needed to differentiate itself from purely online retailers and therefore the continued growth of the services business is important.	We have progressed the Strategy to increase our focus on the delivery of services to customers. The acquisitions made in the period of McConechy's and Tyres on the Drive, which will develop our garage network and our Halfords Mobile Expert offering, are consistent with our aim of offering customers a wider choice of how and when they receive their services from us.
Response to regulatory changes	The Board identified that its ongoing training would be particularly important during FY19, especially so given the significant changes in the regulatory landscape for strategically important new areas (such as the provision of financial services to customers) and also in regard to the impact of the new UK Corporate Governance Code. The Board intended to receive regular updates and training throughout the year.	Throughout the year the Board has been kept regularly updated on corporate governance developments such as the obligations in relation to Section 172, the requirement to set out a Company's purpose and the importance of explaining a Company's Culture. In addition, all Directors have spent additional time in the business this year so that they gain a better understanding of the operations and the challenges faced by colleagues.

Corporate Governance Report



Directors and their Other Interests

Details of the Directors' service contracts, and emoluments, as well as the interests of the Directors and their immediate families in the share capital of the Company and options to subscribe for Company shares, are shown in the annual Directors' Remuneration Report on pages 132 to 140.

In line with the requirement 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), and a register of these is maintained by the Company Secretary.

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.

Risk Management and Internal Control

The Board is responsible for the Group's risk management processes and the system of

internal control. 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 considers its appetite in relation to the Group's risks, determining whether the risks and mitigating actions are appropriate to the level of risk. During the year, the Board conducted a review of significant risks. The Group's principal risks and uncertainties, and mitigating actions, are detailed in the Strategic Report on pages 66 to 78.

The risk management and internal control system is designed to manage, rather than eliminate, the risk of failing to achieve business objectives and provides reasonable, not absolute, assurance against material misstatement or loss. The Board has established a continuous process for identifying, evaluating and managing risks faced by the Group and assessing the effectiveness of related controls to ensure an acceptable risk/reward profile. The Audit Committee considers the principal and emerging risks of the business and reviews the mitigating controls with senior management.

The Audit Committee approves and monitors delivery of the Internal Audit Plan for the year which is risk-based and includes assurance of core control processes. Internal Audit provides an update at each Audit Committee meeting, reporting on any key control weaknesses identified and progress made against mitigating actions. The Audit Committee held four scheduled meetings in the year and provided the Board with updates on the effectiveness of internal controls.

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. The Board has neither identified nor been advised of any failings or weaknesses that it has determined to be material or significant.

The management of risk and review of the internal control environment is a continual process supported by all colleagues. The Board supports the development of risk maturity and a strong control culture and will continue to improve the quality of risk reporting.

Shareholder Engagement

Key Themes Discussed with Shareholders in FY20

- Progress on our strategy, “To Inspire and Support a Lifetime of motoring and cycling”, including our intention to accelerate investment in our Services and B2B businesses.
- The dynamics of the motoring, cycling and services markets, including our growth opportunities and relative financial returns from each segment.
- Capital allocation priorities, specifically the balance of maintaining a prudent balance sheet, maintaining the dividend and enabling investment for growth.
- The impact of foreign exchange volatility.
- Gross and operating margin performance.

The Chairman is responsible for ensuring that appropriate channels of communication are established between Directors and shareholders and that 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 communicate its Strategy in the most effective way. The Group engages through regular communications, the Annual General Meeting and other investor relations activity (such as the investor perception study).

Investor Relations Programme

The Group has a comprehensive investor relations (“IR”) programme through which the Chief Executive Officer, Chief Financial Officer and the Corporate Finance 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 meetings as follows:

- 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 easily accessible Annual Report and Accounts, which provides a complete and transparent picture;
- the corporate website – provides investors with timely information on the Group’s performance as well as details of Environmental, Social and Governance activities;
- management roadshows – allow key investors access to management. These are usually attended by the Chief Executive Officer, the Chief Financial Officer and the Corporate Finance Director; and
- responding promptly – the Group is committed to responding to any investor-related queries within a short time frame.

IR Calendar Dates for FY20–21

-  • FY20 Prelim Results
-  • UK Management Roadshow
-  • FY21 20-week Trading Update
-  • Annual General Meeting
-  • FY21 Interim Results
-  • UK Management Roadshow
-  • FY21 Q3 Trading Statement

We aim to encourage our shareholders to receive communications 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, Remuneration and ESG Committees and the Matters Reserved for the Board.

The Annual General Meeting (“AGM”) gives all shareholders the opportunity to communicate directly with the Board and their participation is welcomed. It is the Company’s practice to propose separate resolutions on each substantial issue at the AGM. The Chairman will advise shareholders on the proxy voting details at the meeting.

We very much hope that we will be able to hold our 2020 AGM in the usual way, but we will continue to monitor the COVID-19 situation and will have regard to developments over the coming weeks ahead of the meeting.

By order of the Board

Tim O’Gorman
Company Secretary
6 July 2020

Nomination Committee Report



The Committee's key objective is to ensure that the Board comprises individuals with the necessary skills, knowledge, experience and diversity to ensure that the Board is effective in discharging its responsibilities.



Keith Williams

Chair of the Nomination Committee

CHAIR'S LETTER

The Committee's role is to:

- review the size, structure and composition of the Board;
- ensure plans are in place for orderly succession to the Board and senior management positions; and
- lead the process for appointments by identifying and making recommendations on potential candidates to join the Board.

The Committee's key objective is to ensure that the Board comprises individuals with the necessary skills, knowledge, experience and diversity to ensure that the Board is effective in discharging its responsibilities. During the year, the Committee has overseen the process for the search and appointment of David Adams' successor. This process will run into the autumn of 2020. Given the exceptional circumstances in which we find ourselves in regard to COVID-19, it has been agreed that David Adams will stay in office until the end of 2020. The full reasoning behind this decision is detailed on page 96. In addition, it has been agreed that David will step down as Senior Independent Director at the conclusion of the AGM on Tuesday 15 September 2020 and Helen Jones will be appointed in his place.

Keith Williams

Chair of the Nomination Committee
6 July 2020

FY20 Key Achievements

- commencing the search for a new Non-Executive Director; and
- appointing Helen Jones to take over as Senior Independent Director from David Adams.

Areas of Focus in FY21

- to continue the search to identify and appoint a new Non-Executive Director to replace David Adams;
- to assist the management team in developing its relationship with the Board and business; and
- to identify an appropriate candidate for the role of Group People Director.

2

**Nomination
Committee
meetings held**

Committee Composition

During the year, the Committee comprised:

- Keith Williams (Chair)
- David Adams
- Helen Jones
- Jill Caseberry

Two scheduled Committee meetings were held during the year, and were attended by all members. After each Committee meeting, I reported to the Board on the key issues that we had discussed. A number of informal discussions, particularly relating to the appointment of the new Board member, were also held with the Committee members throughout the year when the need arose.

Activities During the Year

During the year, the Committee's main focus was on the search for a new Non-Executive Director and to appoint a replacement Senior Independent Director.

During the year, the Committee:

- commenced the search for a new Non-Executive Director to replace David Adams;
- considered the appointment of Helen Jones as the Senior Independent Director;
- reviewed the composition of the Board and its succession plan;
- reviewed progress made on the recruitment for senior positions;
- 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 external Board performance evaluation process.

Board Appointments

As explained in the FY18 Annual Report, David Adams will have served nine years this year which means his term of appointment came to an end in the spring of 2020. However, as detailed above, David has agreed to stay until the end of 2020 to ensure continuity for the Board through the COVID-19 pandemic. Further details can be found on page 96. Whilst David continues to act as a Non-Executive Director, he will cease to act as Senior Independent Director at the AGM on Tuesday 15 September 2020 when Helen Jones will be appointed to cover this position. The search for a new Non-Executive Director will continue in FY21 with the expectation that a replacement will be appointed during the autumn/winter of 2020. Odgers Berndtson has been appointed as advisors to the Committee in the search for the external candidates for this role. The process is being led by myself, as Chair, together with the Committee. Odgers Berndtson does not have any other connection with the Company.

Diversity

The Group's Diversity Policy ("Diversity Policy") sets out our commitment to eliminate discrimination and to encourage diversity and equality across the Board of Directors and amongst all our colleagues, irrespective of their gender, race, ethnic origin, disability, age, nationality, national origin, sexual orientation, gender reassignment, marital or civil partnership status, pregnancy or maternity, religion, beliefs and social class. The Board has not considered it necessary to set a formal target for including diversity on the Board. In addition, half of our Board is female and we are in excess of the recommended target published by the November 2017 Hampton-Alexander Review. Our Diversity Policy 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 gender, race, ethnic origin, disability, age, nationality, national origin, sexual orientation, gender reassignment, marital or civil partnership status, pregnancy or maternity, religion, beliefs and social class. The Company does not currently publish specific diversity targets but, in practice, we have created a more balanced and diverse Board and Executive Team. We continue to work to monitor these issues across the entire business.

Further information regarding Board diversity can be found on pages 87 and 101.

Board Succession

As a Board, we consider succession planning each year in respect of both Director roles and our senior management team. Our senior Executives have well developed skills and experience to fulfil their roles, but we know that these have to be constantly updated as new challenges arise. A key factor in making better decisions is that we have a diverse range of Directors, Executives and colleagues throughout the business. Accordingly, we monitor our diversity and gender positions each year and are able to identify where we will benefit from changes and improvements.

Looking Ahead

We expect our monitoring activities to continue in future and this will ensure that the leaders within our business are best equipped to deal with the challenges ahead and ensure the long-term success of the Group.

Keith Williams

Chair of the Nomination Committee
6 July 2020

Board Appointment Process

Step One

- Identify and appoint external search consultancy; and
- Identify and approach suitable candidates.



Step Two

- Interview suitable candidates;
- Make a formal offer; and
- Consider the requirements of the Terms of Reference in relation to the appointment.



Step Three

- Announce appointment; and
- Commence induction programme



The Terms of Reference for the Committees are available at www.halfordscompany.com/governance

Environmental, Social and Governance (“ESG”) Committee Report



We have always worked to ensure that our ESG strategy is closely aligned to our Company goals and values.



Helen Jones
Chair of the ESG Committee

CHAIR'S LETTER

In the last year we have evolved our Environmental, Social and Governance (“ESG”) commitments into a more broadly based series of sustainable business initiatives, measures and targets.

Our new ESG strategy has been developed under the three strategic pillars of Inspire, Support and Lifetime.

The Inspire pillar includes our ‘North Star’ ambition to champion the shift to electric smart travel through education, engagement and community support.

In line with our commitment to support customers through a lifetime of motoring and cycling we undertook to set an example by making a lifetime commitment of our own – to make our business carbon neutral by 2050.

Helen Jones
Chair of the ESG Committee
6 July 2020

FY20 Key Achievements

- development of a new ESG strategy aligned with the three strategic pillars of Inspire, Support and Lifetime;
- agreement to adopt a North Star commitment – to champion the shift to electric smart travel;
- adoption of commitment to achieve carbon neutrality by 2050; and
- agreement to develop a Science Based Targets framework to create a roadmap towards the net zero target.

Areas of Focus FY21

- adopting a coherent set of measures and targets across all three pillars of our strategy;
- implementing measures necessary to make progress against the Science Based Targets;
- publishing our Scope 3 emissions baseline; and
- initiating campaign to champion the shift to electric smart travel.

2

ESG Committee meetings held

Committee Composition and Meetings

The Committee consisted of:

- Helen Jones (Chair)
- Graham Stapleton
- Andy Randall
- Michelle Burton (appointed September 2019)
- Clare Moore (resigned July 2019)

The Company's Chairman, Keith Williams, whilst not a member of the Committee, attends the meetings upon the invitation of the Committee Chair. During the year, the Committee appointed colleague representatives from different areas of the business who were invited to attend the meetings.

There were two Committee meetings held during the year and after each one, I reported to the Board on the key issues that we covered. I held informal discussions between Committee members and business leaders throughout the year as the need arose.

Activities Undertaken

During the year the Committee:

- evaluated ESG strategies of peer group companies to help inform our thinking;
- adopted a new ESG strategy (see below);
- researched and evaluated candidates for a 'North Star' sustainability objective;
- set the parameters for an environmental audit and appointed Trucost to establish the baseline for Science Based Targets towards the goal of achieving carbon neutrality by 2050;
- evaluated plastic and other waste recycling programmes;
- reviewed our bike recycling partner;
- reviewed partnerships and charity support in light of new ESG strategy; and
- appointed colleague representatives to the Committee.

Further information on ESG around the Group, including environmental details on emissions, can be found on page 52 of the Strategic Report.

Developing the ESG Strategy

The ESG Strategy has been developed to align with the three strategic pillars of the Company's Strategy, these being; Inspire, Support and Lifetime.

Looking Ahead

In FY21 we will publish Science Based Targets for reductions in our Scope 1, 2 and 3 emissions and make further progress on recycling and plastic-use reduction. We also plan to initiate a campaign to help consumers make the switch to electric, this will involve further investment in products and services, the roll-out of consumer education programmes, and lobbying the Government on E-scooter legalisation.

Helen Jones

Chair of the ESG Committee
6 July 2020

➔ The Terms of Reference for the Committees are available at www.halfordscompany.com/governance

Our New ESG Strategy

Our new ESG strategy supports the three strategic pillars:

1 Inspire

Championing the shift to electric smart travel through education, engagement and community support (further information on pages 46 to 48).

2 Support

Help put the consumer in control, through products, services and solutions (further information on pages 49 to 51).

3 Lifetime

Walk the walk: make our business carbon neutral by 2050 (further information on pages 52 to 58).



Audit Committee Report



Throughout the current year, the Audit Committee has challenged management on the robustness and effectiveness of internal controls and risk management systems alongside the consideration of a series of financial reporting judgements.



David Adams
Chair of the Audit Committee

CHAIR'S LETTER

I am pleased to present the report of the Audit Committee for the 53 weeks ended 3 April 2020, which describes how the Committee has carried out its responsibilities during the year. The Committee reviews financial reporting judgements and monitors risk and internal control through engagement with executive management, internal audit and the external Auditor.

We have considered a number of key issues during the year, most significantly:

- the impact of COVID-19 on the Group
- the adoption of the new leasing standard, IFRS 16;
- judgements in respect of M&A and disposal activity in the year;
- the carrying value of investments, tangible and intangible assets;
- review of the Financial Reporting Council's correspondence in respect of the Annual Report and Accounts to 29 March 2019; and
- updates to the Group's Tax and Treasury policy in relation to foreign exchange and hedging requirements in light of the evolving Brexit position

David Adams
Chair of the Audit Committee
6 July 2020

A key focus area for the Audit Committee for the year under review has been application of the new accounting standard IFRS 16 on Leases and the significant impact it has had on our financial statements. The Committee has reviewed other significant accounting judgements, including Inventory provisioning, the closure impact of Cycle Republic and the acquisition of McConechy's and Tyres on The Drive as the business pursues its strategic plan.

Throughout the current year, the Audit Committee has challenged management on the robustness and effectiveness of internal controls and risk management systems, alongside the consideration of a series of financial reporting judgements. Significant risks have been reviewed, within the framework for expressing and managing risk appetite. I would like to thank the members of the Committee, the management team and our external Auditor for the open discussions that take place at our meetings and their contribution and support during the year.



Audit Committee meetings held

Committee Composition and Meetings

During the year the Committee consisted of:

- David Adams (Chair)
- Helen Jones
- Jill Caseberry

Member	Role	Attendance
David Adams	Chair	4/4
Helen Jones	Member	4/4
Jill Caseberry	Member	4/4

Four scheduled Committee meetings were held during the year and were attended by all members. After each Committee meeting the Audit Committee Chair reported to the Board on the key issues discussed.

Although the Chairman of the Company, the CEO and the CFO are not members of the Committee, they do attend meetings regularly and so contribute to the work of the Committee and assist with the fulfilment of its oversight functions.

Membership and Remit of the Audit Committee

During the year members of the Audit Committee were considered to be independent Non-Executive Directors. David Adams is considered by the Board to have recent and relevant financial experience to chair the Committee, having been the Deputy Chief Executive and Finance Director of House of Fraser Plc, and over the last few years having chaired six listed companies' Audit Committees. Each of the other independent Non-Executive Directors has, through their other business activities,

significant experience in financial matters. The Audit Committee 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 Board has assessed that David Adams will no longer be regarded as independent for the purposes of the 2018 UK Corporate Governance Code because of his extended tenure. However, David has agreed to stay on until the end 2020 to ensure continuity for the Board through the COVID-19 pandemic. Full details can be found on page 96.

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 external Auditor. There have been four such meetings in the period ended 3 April 2020 and nothing of note was reported.

2019/20 Key Achievements

- Carried out our responsibilities as set out in the Terms of Reference, including reviewing the external reporting to ensure it is fair, balanced and understandable.
- Reviewed the accounting policies and judgements made in applying the new standard on leases.

- Reviewed the accounting treatment associated with the acquisitions and disposals made during the year.
- Reviewed and challenged the Longer-Term Viability Statement and Going Concern basis of preparation in advance of approval by the Board, including a review of the carrying value of goodwill.
- Reviewed and challenged the external Auditor's year-end and half-year reports.
- Reviewed the statement of external Auditor's independence.
- Approved the non-audit fee policy.
- Reviewed key and emerging risks and the effectiveness of the Group's risk management framework.
- Reviewed and challenged progress of the Internal Audit plan and received regular updates on internal control systems.
- Reviewed and approved the Internal Audit Charter.
- Received an update on the Group's GDPR and Compliance, and on Health and Safety matters.
- Reviewed and approved the Group's tax strategy and arrangements.
- Reviewed and approved the Committee's Terms of Reference.
- Reviewed and approved the external Auditor's annual strategy and fees.
- Reviewed and challenged the effectiveness of the Group's whistleblowing procedures and approved the Group Whistleblowing Policy.
- Reviewed and approved the Anti-Money Laundering Policy.
- Received regular updates on the Gifts and Hospitality register.

- The Group received a letter on 8 November 2019 from the Financial Reporting Council (FRC) noting it had carried out a limited review of the Annual Report and Accounts for the year ended 29 March 2019. The letter indicated that the FRC had not identified any matters on which it wished to raise specific questions with the Group but made some observations relating to certain disclosures included in the annual report on the impairment of non-financial assets and the presentation of the financial statements. As a result, the Group has sought to improve its goodwill impairment disclosures and certain critical accounting estimates. The Group recognises that the FRC's review was solely based on a review of its Annual Report and Accounts for the year ended 29 March 2019 and did not benefit from detailed knowledge of the Company's business or an understanding of the underlying transactions entered into. As a result, the review did not provide any assurance that the Company's Annual Report and Accounts are correct in all material respects.

Areas of Focus FY21

- Monitor the impact upon the Group's viability and going concern in response to the COVID-19 pandemic.
- Continued emphasis on the quality of financial reporting, including the application of accounting judgements.
- Maintain focus on the adequacy of the control environment and further development of the risk management framework.

Principal Responsibilities Financial Reporting

- Review the financial statements of the Group and assess whether appropriate suitable accounting policies have been adopted, and whether management has made appropriate estimates and judgements. Assess the appropriateness of disclosures in the Annual Report and Accounts and ensure that it is fair, balanced and understandable.

Risk and Control Environment

- Assist 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 the risk management framework and the Principal Risks and mitigation strategies.
- Review concerns of financial fraud.



Audit Committee Report

Internal Audit

- Review reports from Internal Audit 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.

External Audit

- Make 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.

Policies

- Approve a formal Whistleblowing Policy whereby colleagues 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, including arrangements to investigate and respond to any issues raised.
- Approve the Company's systems and controls for the prevention of bribery and corruption, including the receipt of any reports on non-compliance.
- Approve the Group's Tax Policy and published tax strategy.
- Approve 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 the full Terms of Reference are available on the Company's website or on request from the Company Secretary.

➔ The Terms of Reference for the Committees are available at www.halfordscompany.com/investors/governance

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 150 to 157.

With regard to the COVID-19 pandemic, the Committee reviewed its impact in consideration of the following key accounting judgements:

Impairment of Goodwill associated with the Group's Retail and Car Servicing Cash Generating Units (CGU):

- following a number of business combinations across both CGUs, the

Group holds significant goodwill. 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, therefore, there is 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 175 to 176 of the Financial Statements); and

- the Audit Committee has received detailed reports from Halfords' finance team and reports from the external Auditor addressing this issue. The finance team has undertaken detailed work to consider the impairment of goodwill associated with the CGUs. Consideration has been given to ensuring that cash flow models, discount rates, sensitivity analysis and store and centre profitability are all reasonable. It was concluded that no impairment is required. 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 15 on page 178 of the Financial Statements). Management has fully reviewed the inventory provision in the current year, with particular regard to the impact of COVID-19, and believe the level of provisioning is appropriate. Range reviews are regularly undertaken to ensure that all discontinued inventory is identified;
- the Audit Committee has received detailed reports from Halfords' finance team and reports from the 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; and
- following a review of inventory costing during the period, the Committee reviewed in detail the treatment of certain distribution costs that had historically been

included within the cost of inventories and the treatment of such distribution centre costs as an operating expense rather than a cost of sales. Subsequent to detailed discussions with management and the external Auditor, the Committee agreed that this was not in line with the Group's accounting policy and adjusted the Financial Statements accordingly. In the consolidated statement of financial position, inventories at 29 March 2019 and 30 March 2018 are stated after adjusting for this amount, and consequently retained earnings and net assets have been reduced by £11.7m. In correcting this misapplication, there is no impact on reported gross profit, operating expenses or other items in the consolidated income statement or in the consolidated statement of cash flows for the current or comparative periods.

Adoption of IFRS 16 'Leases'

The Group has initially applied IFRS 16 Leases as at 30 March 2019. The work to collect the relevant data, implement a new accounting system and agree the appropriate adoption method, accounting policies and disclosures has been significant. During both the prior and current period, the Committee and external Auditor received regular updates to ensure that the Committee reviewed all aspects of IFRS 16 adoption and is satisfied that the methodology used and the judgements and assumptions applied are fair and reasonable.

Non-underlying Costs Related to the Closure of Cycle Republic

Following the strategic review of the Group's cycling business, the decision was made to commence with the closure of the operations of Cycle Republic and the Boardman Performance Centre during the period. The Committee reviewed the treatment of the costs related to this closure and is satisfied with the relevant inclusion in non-underlying costs for the period.

External Auditor

BDO UK LLP present their audit plan, risk assessment, and audit findings to the Committee, identifying their consideration of the key audit risks for the year, including the impact of COVID-19, and the scope of their work. These reports are discussed throughout the audit cycle.

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 2020, 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.

Approach to Appointment or Reappointment

BDO UK LLP was appointed as external Auditor to the Group in 2019 following a formal tender process. 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 BDO UK LLP to retender for external audit work this year. The Audit Committee has recommended to the Board, for approval by shareholders at the Annual General Meeting on 15 September 2020, the reappointment of BDO UK 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.

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 the 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 a list of prohibited activities. Other than for these, for each separate service proposed to be provided by the external 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 Chief Executive Officer giving a description of the work to be undertaken, the reasons why the external 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 external 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 3 on page 170 to the Financial Statements.

Role and Effectiveness of Internal Audit

Internal Audit follows an annual risk-based programme of audits to review the effectiveness of the control environment. The Audit Committee reviews the annual audit programme for coverage and may revise it according to changing business circumstances or requirements. The Audit Committee ensures that there are sufficient resources to undertake the audit programme.

The Head of Internal Audit attends each Committee meeting, providing a summary of audit findings and an update on progress against the plan. The Committee also reviews the status of implementation of audit recommendations ranked by age and level of risk to the business. All internal audit reports are shared upon completion with the external Auditor.

Internal Audit reports to the Chief Financial Officer but maintains direct and regular communication to the Audit Committee Chair outside of Committee meetings.

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

Whistleblowing

A Whistleblowing Policy and procedure (the "Policy") 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 Policy 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 in a way that ensures it does not engage in or facilitate any form of corruption. It is Halfords' policy to prohibit all forms of corruption amongst its colleagues, suppliers and any associated parties acting on its 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

The Board is responsible for the Group's risk management processes and the system of internal control. The Audit Committee contributes to this purpose by providing oversight and challenge to the Group's risk management framework. During the year Risk Management was an agenda item at each Committee meeting where attention was given to risk appetite, the principal risks and development of the risk management framework. The Committee also receives regular 'deep dive' presentations on key risk areas, in the year this included GDPR, Health and Safety and Financial Controls.

Further details of the Group's internal control and risk management framework are set out on pages 66 to 78.

CMA Order 2014 Statement of Compliance

The Group confirms that it was compliant with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 during the financial year ended 3 April 2020.

David Adams

Chair of the Audit Committee
6 July 2020

Remuneration Committee Report



The revised Directors' Remuneration Policy that we will be submitting for shareholder approval at this year's AGM builds to the changes we made last year to comply with the UK Corporate Governance Code and to further align with best practice.



Jill Caseberry

Chair of the Remuneration Committee

CHAIR'S LETTER

Dear Shareholder

On behalf of the Remuneration Committee, I am pleased to present the Remuneration Report for the financial period ended 3 April 2020.

The Report consists of three sections:

- A summary of the pay outcomes for FY20, and our approach for FY21;
- The 2020 Directors' Remuneration Policy – in accordance with the Directors' Remuneration Reporting Regulations, Halfords is bringing a revised Directors' Remuneration Policy to the Annual General Meeting ("AGM") in September 2020 for shareholder approval; and
- The annual Directors' Remuneration Report – this summarises the remuneration outcomes for FY20 and explains how we intend to apply the Remuneration Policy in FY21.

2020 Directors' Remuneration Policy

For Executive Directors, Halfords operates an annual bonus with deferral plus a performance share plan. The Committee believes that this framework remains appropriate to support the Company's execution of the strategy and long-term shareholder value creation. The 2020 Directors' Remuneration Policy (the "Policy") that we are putting forward for shareholder approval at the 2020 AGM is therefore largely the same as the 2017 Directors' Remuneration Policy. The Committee has, however, made a number of changes to the Policy to reflect the introduction of the 2018 UK Corporate Governance Code (the "Code") and to align with best practice.

Key Area for FY21

Continuing to keep our approach to Directors' remuneration under review to ensure that it supports the business as we recover from the impact of COVID-19 and as we continue to execute our Strategy and our focus on service-related revenue increases.

6

Remuneration Committee meetings held

In last year's Directors' Remuneration Report I outlined a number of changes to our approach which have now been formalised as part of the 2020 Policy. These changes included:

- **Pensions** – for any new Executive Directors appointed to the Board the pension opportunity will be in line with the maximum employer contribution available for the majority of the workforce. In addition, mindful of shareholder guidance the Executive Directors have, however, agreed to reduce their pension in line with the rate available for the wider workforce from 1 April 2023.
- **Malus and clawback** – malus and clawback provisions have been expanded to include a broader range of circumstances, including a material failure of risk management, corporate failure and serious reputational damage.

- **Discretion** – incentive arrangements include the ability to exercise discretion to adjust incentive pay-outs (both upwards and downwards) if the original outcome is not considered to reflect the underlying financial or non-financial performance of the business or where the outcome is not considered appropriate in the context of the experience of shareholders or other stakeholders over the performance period.

In light of the Code and evolving market practice, as part of the policy review, the Committee has also introduced a post-employment shareholding guideline to support the alignment of interests between Executive Directors and shareholders following an Executive Director's departure from the Board. Under this guideline, Executive Directors will be expected to retain their shareholding guideline (200% of salary) for a period of two years post stepping down as an Executive Director. This guideline will apply to any performance incentive shares that vest from 1 April 2020.

Implementation of Remuneration Policy for FY21

Base Salary

Base salaries for Executive Directors were increased by 1.8% with effect from 1 October 2019 in line with the rate of increase received throughout the workforce. Salaries from 1 October 2019 are therefore £555,523 for the Chief Executive Officer ("CEO") and £365,300 for the Chief Financial Officer ("CFO").

Pension

Executive Directors currently receive a pension allowance of 15% of base salary. The Committee carefully considered the level of

pension allowance for Executive Directors and no changes have been made to this allowance for FY21. Whilst the Committee acknowledges that this level of pension is above the rate that is available to the wider workforce in the UK, the Committee did not consider that it was appropriate to lower the pension allowance for Executive Directors at this stage, given their existing contractual entitlements and short period of tenure. However, mindful of shareholder guidance that pensions for Executive Directors should be aligned with the pension provision available for the wider workforce, the Executive Directors have, however, agreed to reduce their pension to be in line with the rate available for the wider workforce from 1 April 2023.

Performance Based Incentives

On 7 November 2019 we set out our intention to accelerate the growth of the motoring services business, to generate higher and more sustainable financial returns for shareholders. The Committee has therefore reviewed performance measures for the annual bonus plan and performance share plan to ensure that they are appropriate in the context of our evolving strategy, current economic climate and the steps the business needs to take over the short and medium term to ensure we continue to recover from the impact of COVID-19.

Annual Bonus

The normal maximum annual bonus opportunity is 150% of base salary.

For FY21 the annual bonus performance will be based 77.5% on financial measures (Net Debt 30%, Cost Reduction 25%, Underlying Group PBT (post exceptions) 15%, Operating Cashflow 7.5%) and 22.5% on strategic measures. The strategic measures for FY21 are NPS, Employee Engagement and Digital Sales to incentivise management to drive sales in key strategic segments while improving the customer experience.

The Committee retains the discretion to adjust the annual bonus outcome if it is not considered to be reflective of underlying financial or non-financial performance of the business, the performance of the individual or where the outcome is not considered appropriate in the context of the experience of shareholders or other stakeholders.

Performance Share Plan ("PSP")

The normal PSP award is 200% of base salary. The Committee is mindful of shareholder guidance that award levels should be adjusted where the share price has fallen significantly compared to prior years. The Committee will take this into account when determining award levels in September.

2020 PSP awards will be based on the following performance measures (in 2019 awards were based 50% on EPS growth,

25% on Group Revenue Growth and 25% on Free Cash Flow):

- 20% based on EPS growth
- 10% based on Group Services-Related Revenue
- 30% based on Free Cash Flow
- 40% based on relative Total Shareholder Return vs. the constituents of the FTSE All-Share General Retailers Index at the share of the performance period.

The vesting of awards is subject to the achievement of a net debt underpin.

Given our strategic focus on increasing services-related revenue the Committee considered that it was appropriate to replace Group revenue with a more focused services-related revenue metric to incentivise and reward management for delivering against the Strategy. Vesting in respect of this portion will also be subject to the Company maintaining an appropriate margin on services revenue.

Group revenue will not be included as a performance measure for 2020. Whilst, growing Group revenue continues to remain an important strategic objective for the Company, the Committee wanted to incentivise a clear focus on growth in Group Services-Related Revenue over the next three years given the criticality of this to future shareholder value creation. Relative Total Shareholder Return has also been introduced as a performance measure to ensure that PSP outcomes are aligned with the value we have returned to our shareholders relative to our key retail peers. Free Cash Flow continues to be included as performance measures for the PSP reflecting our ongoing focus on earnings growth and our objective to increase free cash flow outlined at the capital markets day in September 2018 to strengthen the business over the longer term, as does EPS growth which the Committee considers incentivises management to both grow revenue and manage cost in a balanced way.

Our normal practice is to grant awards in September. In light of this and the continuing economic and business uncertainty facing the Company the Committee has not set financial targets for the 2020 PSP at this time. The Committee intends to set targets in advance of award and targets will be disclosed as part of the RNS at the time of award. In line with prior years the Committee will set targets which are considered to be appropriately stretching in the context of the business' evolving strategy and business circumstances.

As with the annual bonus, the Committee retains the discretion to adjust the PSP vesting outcome if it is not considered to be reflective of underlying financial or non-financial performance of the business or the performance of the individual or

where the outcome is not considered appropriate in the context of the experience of shareholders or other stakeholders.

FY20 Performance Share Plan awards

In last years' Directors' Remuneration Report we indicated our intention to grant PSP awards of 200% of base salary to Executive Directors. The Committee continued to monitor the Company's share price performance prior to the grant of awards in September 2019. The Committee determined that taking into account the strategic element of the bonus is subject to the Company's share price at that time compared to the share price used to determine the 2018 PSP award, it was appropriate to reduce the PSP awards granted to 175% of salary.

Remuneration Outcomes for FY20

Annual bonuses for FY20 were based 80% on Group PBT performance and 20% on Strategic KPIs. Any payment under the strategic element of the bonus is subject to the threshold PBT target being met. The threshold target was not met and the Committee did not therefore award any payments to Directors under the scheme. Whilst the Committee concluded that the threshold would have been achieved and payments triggered, had the business not experienced the impact of widespread store closures in the final week of the financial year, arising from the COVID-19 pandemic, the Committee concluded the proposed incentive outcomes are appropriate in the context of the shareholder experience.

Our CEO, Graham Stapleton, received a PSP award upon appointment in January 2018, based 75% on EPS performance and 25% on Group Revenue performance. This award was made in line with the PSP awards made to other Group senior executives in September 2017. The EPS and Revenue performance targets for these PSP awards have not been met and therefore no portion of these awards shall vest.

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 on both the 2020 Directors' Remuneration Policy and the 2019/20 annual Directors' Remuneration Report at the Company's Annual General Meeting.

Jill Caseberry

Chair of the Remuneration Committee
6 July 2020

Directors' Remuneration Policy

2020 Directors' Remuneration Policy – Key Principles

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 shareholder returns through an enhanced focus on services-related revenue alongside our traditional authoritative ranges of products, colleague and service excellence, digital participation and helpful retail and service environments.

The overall Remuneration Policy of the Committee, and of the Board, has been developed taking into account the following principles:

- **Simple, clear and aligned with our culture and purpose** – the remuneration framework has been designed to be simple and transparent to ensure that it is clear to shareholders, participants and other stakeholders. Our Policy is that Executive Directors only participate in an annual bonus and the performance share plan to ensure this simplicity. Incentive opportunities are capped so that the maximum potential payout under each scheme is clear. This simple reward framework is aligned with Halfords' culture and purpose of working together to achieve our strategic goals.
- **Attract and retain whilst remaining appropriate, taking into account external and internal comparisons** – 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 external and internal reference and ratios when determining the reward framework for Executive Directors. External market data is reviewed at appropriate intervals to inform the positioning of Executive Directors' 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. The Committee also regularly reviews remuneration arrangements for the wider workforce population to ensure that Executive Director's pay structure and levels are appropriate in this context.

- **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 financial, strategic and shareholder value creation objectives. Performance measures are aligned with strategic goals so that remuneration arrangements are transparent to executives, shareholders and other stakeholders. Different elements of Executive Directors' pay are delivered over the short and longer term and are designed to ensure that a substantial proportion of the Executive Directors' remuneration is variable and performance-related.
- **Align Executive Directors 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. Executive Directors are required to build up a shareholding in Halfords which they are expected to maintain whilst in employment and post-employment to provide an extended period of alignment with shareholders.

- **Drive sustainable performance** – remuneration arrangements are designed to support the sustainable delivery of performance and to prevent excessive risk-taking. We carry out a robust target-setting process each year taking into account our strategic plan as well as external expectations of performance. Targets are set to ensure that the maximum remuneration can only be earned for delivering exceptional performance whilst not encouraging excessive risk-taking. Our Policy includes provisions which enable the Committee to exercise discretion to ensure that incentive outcomes are appropriate and which allow for the application of clawback and/or malus in specific negative circumstances.

2020 Directors' Remuneration Policy

Pages 123 to 131 of this report sets out the Directors' Remuneration Policy (the "Policy") that the Company intends to apply, subject to shareholder approval, with effect from 15 September 2020 (the date of the ("AGM")). It is intended that this Policy will apply until the 2023 AGM, unless the Company seeks shareholder approval for a revised Policy which comes into force before this date.



Policy Table

Base Salary	
Purpose and link to Strategy	Maximum opportunity
<p>Base salary is payable in cash. It 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.</p>	<p>While there is no maximum salary level, salary increases will generally be in line with increases awarded to other colleagues in the Group.</p> <p>However, larger increases may be made at the discretion of the Committee to take into account circumstances such as:</p> <ul style="list-style-type: none"> • 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 out of line with market practice.
Operation	Performance measures
<p>Base salaries are normally reviewed annually with increases effective from 1 October for Executive Directors but may be reviewed at other times if the Committee considers this appropriate.</p> <p>In determining base salary levels and any salary increase, consideration is given to:</p> <ul style="list-style-type: none"> • 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; and • the pay levels and increases for other employees in the Group. 	<p>The payment of salary is not subject to performance conditions. However, when determining salary increases the performance of Executive Directors is taken into account.</p>
Benefits	
Purpose and link to Strategy	Maximum opportunity
<p>To provide Executive Directors with market-competitive benefits consistent with the role.</p>	<p>The overall level of benefits will depend on the cost of providing individual items and the individual's circumstances. Therefore, there is no maximum level of benefit.</p> <p>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).</p>
Operation	Performance measures
<p>The Committee's Policy is to set benefits at an appropriate level, taking into account the individual's circumstances and market practice.</p> <p>Executive Directors can currently receive a car plus fuel or a cash allowance, private health insurance, life assurance and a driver as standard benefits.</p> <p>However, the Committee may determine that additional benefits may be provided based on individual circumstances when it is considered appropriate.</p> <p>In the event that an Executive Director 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.</p> <p>The Company reimburses reasonable business expenses and may pay any tax incurred in relation to these.</p> <p>Executive Directors are also eligible to participate in any all-employee share plans operated by the Company on the same basis as other employees.</p>	<p>None.</p>

Directors' Remuneration Policy

Pension	
Purpose and link to Strategy	Maximum opportunity
<p>To enable the Company to offer market-competitive remuneration through the provision of additional retirement benefits.</p>	<p>The aggregate value of any annual pension contributions and cash allowance for each of the Executive Directors in role on 31 March 2019 will not exceed 15% of their base salary.</p> <p>Pension contributions/allowances for the Executive Directors in role will be aligned with the maximum employer pension contribution available to the majority of the workforce from 1 April 2023.</p> <p>For any Executive Director appointed to the Board from 1 April 2019, the value of any pension contribution and/or pension allowance will be in line with the maximum employer pension contribution available to the majority of the workforce in the UK.</p>
Operation	Performance measures
<p>Executive Directors are eligible for defined employer contribution funding to the Halfords Pension Plan, payments into a personal fund and/or a cash allowance in lieu of pension.</p> <p>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).</p>	<p>None.</p>
Annual bonus	
Purpose and link to Strategy	Maximum opportunity
<p>To incentivise Executive Directors 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.</p>	<p>The maximum annual bonus opportunity is 150% of base salary.</p>
Operation	Performance measures
<p>The annual bonus is normally based on performance over one financial year.</p> <p>After the year-end the Committee determines the extent to which targets have been met.</p> <p>The Committee may determine that it is appropriate to adjust the bonus outcome if, for example, outcomes are not considered to be reflective of underlying financial or non-financial performance of the business or the performance of the individual, where targets are no longer considered appropriate or where the outcome is not considered appropriate in the context of the experience of shareholders or other stakeholders over the performance period.</p> <p>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.</p> <p>Deferred awards normally vest three years from award (or after such other period as the Committee determines) and have no additional performance conditions.</p> <p>Malus and clawback provisions apply, detailed on page 126.</p> <p>Bonuses are non-pensionable.</p>	<p>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.</p> <p>For FY21 the annual bonus will be based 77.5% on financial and 22.5% on strategic measures.</p> <p>Performance measures are set annually to ensure they are appropriately stretching for the delivery of threshold, target and maximum performance.</p> <p>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.</p> <p>Performance targets are set by the Remuneration Committee with reference to prior year performance, the Group's business plan as well as external expectations of performance.</p> <p>Targets are considered to be commercially sensitive and will be disclosed retrospectively following completion of the relevant financial year.</p>

Performance Share Plan ("PSP")	
Purpose and link to Strategy	Maximum opportunity
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.	Maximum award under the PSP is 200% of base salary.
Operation	Performance measures
<p>Annual awards of shares with vesting normally based on performance over a three-year period (or such other period as the Committee determines). The vesting of awards to Executive Directors is subject to the satisfaction of performance conditions.</p> <p>The Committee may determine that it is appropriate to adjust the vesting outcome if, for example, outcomes are not considered to be reflective of underlying financial or non-financial performance of the business or the performance of the individual, where targets are no longer considered appropriate or where the outcome is not considered appropriate in the context of the experience of shareholders or other stakeholders over the performance period.</p> <p>A post-vesting retention period will apply to awards granted under the PSP. Shares that vest will not normally be released to Executive Directors (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.</p> <p>Malus and clawback provisions apply, as detailed on page 126.</p>	<p>For 2020, awards will vest subject to the achievement of earnings per share ("EPS"), Group Services Related Revenue, Free Cash Flow and relative Total Shareholder Return ("TSR") targets.</p> <p>Normally up to 25% of the award may vest for entry-level performance.</p> <p>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.</p> <p>Targets for the measures will normally be set ahead of each annual grant by reference to the latest strategic plan, long-term financial goals and market expectations.</p>
Share ownership guidelines	
Purpose and link to Strategy	Maximum opportunity
Align the interests of Executive Directors and shareholders and encourage long-term shareholding and commitment to the Company both in and post-employment.	n/a
Operation	Performance measures
<p>Executive Directors are expected to build and retain a shareholding with a value equal to at least 200% of their annual base salary. Executive Directors are expected to retain 75% of any post-tax shares that vest under any performance share incentive plans until this shareholding is reached.</p> <p>Executive Directors will normally be expected to maintain a minimum shareholding of 200% of salary (or actual shareholding if lower) for two years following stepping down as an Executive Director. The Committee retains discretion to waive this guideline if it is not considered to be appropriate in the specific circumstance.</p>	n/a

Directors' Remuneration Policy

Approved Payments

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 the Policy set out above came into effect, provided that the terms of the payment were consistent with any applicable shareholder-approved Directors' Remuneration Policy in force at the time they were agreed or where otherwise approved by shareholders; or (ii) at a time when the relevant individual was not a Director of the Company (or other persons to whom the Policy set out above applies) and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company or such other person. 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" no later than the time the award is granted. This Policy applies equally to any individual who is required to be treated as a director under the applicable regulations.

Information Supporting the Policy Malus and Clawback

Malus and clawback provisions apply to the cash bonus payments and deferred share awards for a period of three years from award. Malus and clawback provisions apply to PSP awards for a period of two years following its vesting.

The circumstances in which malus and clawback provisions may apply include: a material misstatement of the Company's results; or misconduct by the Executive Director; or where there is a material failure of risk management; or corporate failure; or serious reputational damage; or if the Committee considers there are other similar circumstances which mean that the malus and/or clawback provisions should apply.

Share Plan Operation

Awards under the Company's DBP and PSP:

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

- 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;
- may incorporate the right to receive additional shares 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;
- may in respect of the PSP, be settled in cash or with the grant of a vested option at the Committee's discretion. For Executive Directors, this provision will only be used in exceptional circumstances such as where, for regulatory reasons, it is not possible to settle awards in shares; and
- may 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.

Summary of Decision-Making Process and Changes to Policy

The previous Policy is considered to be fit for purpose and therefore no material changes are proposed. However, the Policy has been updated to reflect the new UK Corporate Governance Code as well as recent developments in best practice. In determining the new Remuneration Policy, the Committee followed a robust process which included discussions on the content of the Policy at Remuneration Committee meetings during the year. The Committee considered the input from management and our independent advisors, and as well as considering best practice and shareholder guidance from major shareholders. A summary of the changes to the Policy compared to the 2017 Policy is set out below:

- **Pension** – for any Executive Director appointed to the Board from 1 April 2019 the value of any pension contribution and/or pension allowance will be in line with the maximum employer pension contribution available to the majority of the workforce in the UK. This change has been made to align with shareholder

expectations. Pension contributions / allowances for the Executive Directors in role will be aligned with the maximum employer pension contribution available to the majority of the workforce from 1 April 2023.

- **Malus and clawback** – malus and clawback provisions have been expanded to reflect a broader range of circumstances, including a material failure of risk management, corporate failure and serious reputational damage, to reflect best practice.
- **Discretion** – discretion provisions have been broadened to provide the Committee with the ability to exercise discretion to adjust incentive pay-outs if appropriate.
- **Shareholding guideline** – a post-employment shareholding guideline has been introduced to comply with the UK Corporate Governance Code.
- Other minor changes have been made to the wording of the Policy to aid operation and to increase clarity.

The changes outlined above in relation to pension, malus and clawback and discretion were disclosed in the 2018/19 Directors' Remuneration Report.

Selection of Performance Measures

Annual Bonus:

The bonus is subject to a mix of financial and strategic measures. These measures are selected each year to provide an appropriate balance between financial and strategic objectives and to incentivise individual Executive Directors to meet corporate targets and drive individual performance.

Performance Share Plan ("PSP"):

The performance measures for 2020 awards are (1) EPS growth; (2) Free Cash Flow; (3) Group Services-Related Revenue; and (4) relative TSR.

EPS growth has been included to incentivise management to both grow revenue and manage cost in a balanced way. Free Cash Flow will also continue to be included as performance measures for the PSP, reflecting our ongoing focus on earnings growth and our objective to increase Free Cash Flow to strengthen the business over the longer term. Group Services-Related Revenue has been introduced to reflect our strategic focus on increasing services-related revenue to generate a higher and more sustainable financial return for shareholders. Relative TSR has been introduced to ensure vesting levels are aligned with relative returns to shareholders.

The Committee may determine that different performance measures will apply to future PSP 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 a similar basis as the Executive Directors (there are some variations to take account of the specific role performed by the relevant senior executive). Senior executives 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 c.10,400 colleagues are eligible to join the Halfords Sharesave Plan (also known as "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 Restricted Share Plan.

In FY20, all newly appointed colleagues and other existing colleagues who had experienced a 'joining-trigger' event were automatically enrolled into the Halfords Pension Plan 2009. All eligible colleagues who have met the auto enrolment criteria have the option to choose to join the Pension Plan from their first day of employment. All members of the Pension Plan are required to make a minimum contribution of 5% and the Company also contributes a minimum of 3%, 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.

Remuneration Outcomes 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 Executive Directors, shareholders and other stakeholders.

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

Four performance scenarios have been illustrated for each Executive Director:

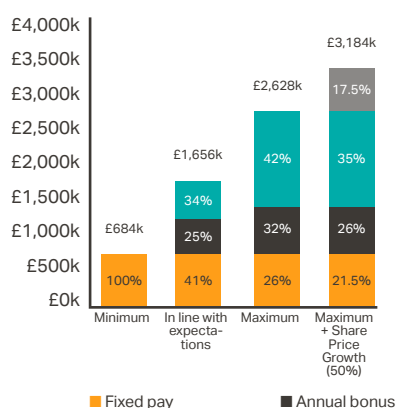
Below threshold performance	Fixed remuneration No annual bonus pay-out No vesting under the PSP
Mid-range performance	Fixed remuneration 50% annual bonus pay-out 50% vesting under the PSP
Maximum performance	Fixed remuneration 100% annual bonus pay-out 100% vesting under the PSP
Maximum performance plus 50% share price growth	Fixed remuneration 100% annual bonus pay-out 100% vesting under the PSP + 50% share price growth

The charts have been prepared on the following basis:

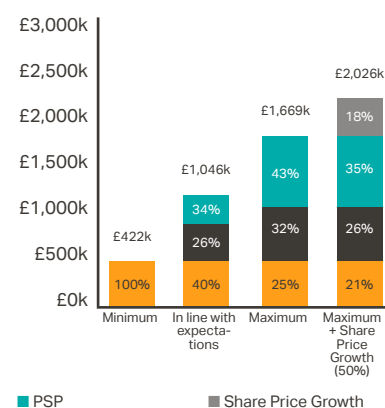
- Base salary – the base salary in place at 1 April 2020.
- Benefits – based on the disclosed benefits value in the single figure for 2019/20.
- Pensions – based on a contribution of 15% of salary.
- Bonus – based on the maximum award of 150% of base salary.
- PSP – based on the maximum award of 200% of base salary.

No payment of dividend equivalents has been assumed. Potential benefits under all-employee plans have not been included. No share price growth has been assumed other than where stated.

Graham Stapleton – CEO



Lorraine Woodhouse – CFO



Fixed pay has been calculated as follows:

	Base salary	Benefits	Pension	Total Fixed Pay
CEO	£555,523	£44,862	£83,328	£683,713
CFO	£356,300	£12,479	£53,445	£422,224

Directors' Remuneration Policy

Remuneration Policy for Newly Appointed Directors

When determining the remuneration package for a newly appointed Executive Director, the Committee would seek to apply the following principles:

- The package should be market competitive to facilitate the recruitment of individuals of sufficient calibre to lead the business. At the same time, the Committee would intend to pay no more than it believes is necessary to secure the required talent.
- New Executive Directors will normally receive a base salary, benefits and pension contributions in line with the Policy described on pages 122 to 131 and would also be eligible to join the bonus and share incentive plans up to the limits set out in the Policy.
- In addition, the Committee has discretion to include any other remuneration component or award which it feels is appropriate, taking into account the specific circumstances of the recruitment, subject to the limit on variable remuneration set out below. The key terms and rationale for any such component would be disclosed as appropriate in the Remuneration Report for the relevant year.
- Where an individual forfeits outstanding variable pay opportunities or contractual rights at a previous employer as a result of appointment, the Committee may offer compensatory payments or awards, in such form as the Committee considers appropriate, taking into account all relevant factors, including the form of awards, expected value and vesting timeframe of forfeited opportunities.
- When determining any such "buy-out", the guiding principle would be that awards would generally be on a "like-for-like" basis unless this is considered by the Committee not to be practical or appropriate.
- The maximum level of variable remuneration which may be awarded (excluding any "buy-out" awards referred to above) in respect of recruitment is 350% of salary, which is in line with the current maximum limit under the annual bonus and PSP.
- Where an Executive Director is required to relocate from their home location to take up their role, the Committee may provide assistance with relocation (either via one-off or ongoing payments or benefits).
- In the event that an internal candidate is promoted to the Board, legacy terms and conditions would normally be honoured, including any accrued pension entitlements and any outstanding incentive awards.

To facilitate any buy-out awards outlined above, in the event of recruitment, the Committee may grant awards to a new Executive Director relying on the exemption in the Listing Rules which allows for the grant of awards, to facilitate, in unusual circumstances, the recruitment of an Executive Director, without seeking prior shareholder approval or under any other appropriate Company incentive plan.

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 on page 130.

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 the 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.

Director	Date of service agreement	Notice period
Graham Stapleton	8 September 2017	6 months
Loraine Woodhouse	12 July 2018	6 months

Service agreements are available for inspection by shareholders at the Company's registered offices.

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, the sum of which shall normally be payable in monthly

instalments (but may be paid in a fixed amount at the discretion of the Committee).

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, and the Executive Director is engaged to provide services (under a service agreement, consultancy, or any other arrangement or understanding), with effect from the date upon which these services are provided each subsequent instalment of pay in lieu shall be reduced by an amount equal to any basic salary, fees, remuneration or other financial benefits received during the monthly interval prior to the payment of each instalment.

In good leaver circumstances the Executive Director might be offered a lump sum termination payment paid at the time they cease employment.

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.

Inspection of Contracts

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)
Performance Share Plan ("PSP")	
<p>Awards will normally vest at the end of the performance period and be released at the end of the retention period.</p> <p>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.</p> <p>The Executive Director has 12 months from the end of the retention period to exercise options if awards are structured as nil-cost options.</p> <p>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 Director has 12 months from his or her date of leaving to exercise options if awards are structured as nil-cost options.</p>	<p>Unvested awards lapse on leaving.</p> <p>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.</p> <p>The Executive Director 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.</p>
Deferred Bonus Plan ("DBP")	
<p>Outstanding awards vest on leaving.</p> <p>The Executive Director has six months from leaving to exercise options (12 months in the case of death).</p>	<p>Awards will lapse on leaving.</p>

'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.

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 regard 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.

Directors' Remuneration Policy

Remuneration Policy table for Non-Executive Directors

Purpose and Link to Strategy	Operation	Maximum value
To attract and retain high-calibre individuals to serve as Non-Executive Directors.	<p>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 at other UK listed retailers.</p> <p>The fees of Non-Executive Directors shall be reviewed at appropriate intervals to ensure that they are in line with market conditions and any changes to fees will be approved by the Board as a whole following a recommendation from the Chief Executive Officer.</p> <p>Fees for the Company Chairman shall be reviewed at appropriate intervals 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.</p> <p>The fees are normally paid in cash quarterly but may be paid in shares if this is considered appropriate.</p> <p>The Chairman is paid a single fee which includes his chairmanship of the Nomination Committee.</p> <p>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.</p> <p>Further additional fees may be paid to reflect additional time, Committee or Board responsibilities if this is considered appropriate.</p> <p>The Company reimburses reasonable business expenses and may settle any tax incurred in relation to these.</p> <p>The Chairman and Non-Executive Directors are not entitled to participate in any of the Group's incentive plans or pension plans.</p> <p>The Chairman and Non-Executive Directors do not currently receive other benefits, but reasonable benefits may be provided in the future if appropriate.</p>	<p>Overall fees paid to Directors will remain within the limit stated in the Company's Articles of Association, currently £600,000.</p> <p>Non-Executive Directors and the Chairman are not entitled to participate in any cash or share incentive schemes.</p>

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 current appointment	Expiry date	Unexpired term at the date of report
Keith Williams	24 July 2018	23 July 2021	12 months
David Adams	1 March 2020	31 December 2020	5 months
Helen Jones	1 March 2020	28 February 2023	31 months
Jill Caseberry	1 March 2019	28 February 2022	19 months

Terms and Conditions for the Chairman and Non-Executive Directors

The Chairman and Non-Executive Directors serve the Company on the basis of renewable letters of appointment which can be terminated by written notice by either party. The Chairman's appointment is subject to three months' notice and the other Non-Executive Directors are also subject to three months' notice. No compensation is awarded on termination. Letters of appointment are available for inspection at the AGM and the Company's registered office.

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.

Inspection of Contracts

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 consulted in detail regarding changes made to remuneration in 2019 and 2020 and the final proposals were shaped by the feedback provided.

Dialogue with Colleagues

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 colleagues in the Group.

The Committee does not consult directly with colleagues regarding Executive Directors' remuneration. However, at regular intervals, the Company conducts a survey of the views of colleagues in respect of their experience of working at Halfords, including their own reward. The Company also conducts regular listening groups across the Group; these are chaired by senior executives or Director-level colleagues and cover a wide range of subjects, including communication, pay, benefits and ESG issues.



Directors' 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 (the "Regulations"). This Report meets the requirements of the UK Listing Rules and the Disclosure Guidance and Transparency Rules.

The information set out below represents auditable disclosures referred to in the Independent Auditor's Report on pages 144 to 149, as specified by the UK Listing Authority and the Regulations.

Committee Composition

During the year the Committee consisted of:

Jill Caseberry (Chair)

Keith Williams

David Adams

Helen Jones

Six scheduled Committee meetings were held during the year, and were attended by all relevant members at the time of the meeting. In addition, a meeting was held primarily to discuss the remuneration relating to a member of the senior management team. After each Committee meeting the Remuneration Committee Chair reported to the Board on the key issues that had been discussed. A number of informal discussions were also held with the Committee members throughout the year when the need arose.

Activities during the Year

During the year, the Committee has:

- reviewed and approved the Directors' Remuneration Report in the FY19 Annual Report and Accounts;
- discussed and approved incentive outcomes for FY19;
- approved FY20 grants under the PSP, the Restricted Management Share Plan ("MSP") (to senior managers below the Board) and the Sharesave Scheme;
- prepared a revised Directors' Remuneration Policy to be submitted to shareholder approval, including changes to remuneration arrangements to reflect the 2018 UK Corporate Governance Code;
- considered the approach to implementing remuneration policy for FY21, including setting Executive Director salaries from 1 October 2019 and reviewing performance measures and considering the approach to

performance measures and target setting targets for FY21 annual bonus and performance share plans;

- reviewed the mechanics and assets of the Employee Benefit Trust and hedging arrangements;
- discussed and approved remuneration arrangements for the executive management team below the Board;
- reviewed the Committee's Terms of Reference;
- reviewed remuneration arrangements for the wider workforce and took these into account when considering executive pay;
- reviewed developments in shareholder guidance; and
- reviewed and approved the appointment of remuneration advisors.

Advisors and Other Attendees

During the year, the Committee has been supported by Clare Moore, Group People Director (to July 2019) and Michelle Burton, Group People Director (from July 2019), together with Tim O'Gorman, Company Secretary (who acts as secretary to the Committee). 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. In carrying out its responsibilities, the Committee is authorised to obtain the advice of external independent remuneration consultants and is solely responsible for their appointment, retention and termination. During the year, the Committee has taken advice from Deloitte LLP ("Deloitte"), which advised on the Directors' Remuneration Policy review and its implementation, remuneration reporting, share option evaluations and other remuneration matters. Deloitte also provided unrelated advice on tax, accounting standards and internal reorganisation during the year. Total fees paid to Deloitte in respect of remuneration advice were £37,850 charged on a time and materials basis.

Deloitte is a founding member of the Remuneration Consultants Group and adheres to the Remuneration Consultants Group Code of Conduct when providing services. The Committee considers Deloitte's advice independent and impartial, and is also satisfied that the Deloitte engagement team does not have connections with the Company or its Directors 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 Group Code of Conduct. Fees paid to Willis Towers Watson for this advice were £3,900 charged on a time and materials basis. Willis Towers Watson also provide insurance broking services and employee benefits services to the Group.

Shareholder Dialogue

We are pleased with the strong level of shareholder support received for our FY19 Directors' Remuneration Report which 99.38% of shareholders voted in support of at the 2019 AGM. We continue to be mindful of the views of our shareholders and other stakeholders and encourage discussion with shareholders on any issue related to executive remuneration. During 2019/20 the Committee undertook a review of our Directors' Remuneration Policy in advance of submitting a revised Policy to shareholders for approval at the 2020 AGM. The Committee has undertaken a detailed consultation with shareholders regarding the proposed changes to the Policy to align with best practice, as well as proposed changes to performance measures for PSP awards to better support the execution of our Strategy. The Committee was pleased with the level of support received for the changes and we thank our shareholders for engaging with us at this time.

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 to determine appropriate actions and detail any such actions in response to it in the Directors' Remuneration Report.

The following table sets out the votes cast at the 2017 AGM in respect of the Directors' Remuneration Policy, and the votes cast at the 2019 AGM in respect of the previous year's Directors' Remuneration Report.

	% of votes For	% of votes Against
FY19 Directors' Remuneration Report (2019 AGM)*	99.38%	0.62%
FY17 Directors' Remuneration Policy (2017 AGM)†	99.04%	0.96%

* 1.107m votes (0.67% of votes) were withheld in relation to this resolution.

† 457,000 votes (0.27% of votes) were withheld in relation to this resolution.

How the Remuneration Policy was Implemented in FY20 – Executive Directors

Single remuneration figure (audited)

	Base Salary (£)	Bonus (£)	Benefits (£)	Pension (£)	PSP ¹ (£)	Other (£)	Total "Single Figure" (£)
2019/20							
Graham Stapleton	550,611	–	44,862	82,592	–	–	678,065
Loraine Woodhouse	353,150	–	12,479	52,973	–	–	418,602
2018/19							
Graham Stapleton	540,329	–	48,832 ³	80,919	–	–	670,080
Loraine Woodhouse	145,833	–	4,667	21,875	–	7,909 ²	180,284

- Graham Stapleton was granted a PSP award upon joining, this did not vest as the performance conditions were not met. Loraine Woodhouse did not hold a PSP award which vested in the year. The table below shows the history of PSP award vesting over the last five years.
- A payment of £7,909 was made to Loraine in April 2019 to replace her pro-rated bonus from her previous employer, Waitrose, equivalent to the amount she would have received based on performance.
- An incorrect figure of £20,869 was reported for FY19 in error, which has been corrected.

	FY16	FY17	FY18	FY19	FY20
PSP vestings (% of maximum)	102.5% ¹	0%	0%	0%	0%

- Previously, up to 150% of the award could vest under the PSP for maximum performance.

FY20 Annual Bonus

The annual bonuses for FY20 for the Executive Directors were based as follows:

Chief Executive Officer	Graham Stapleton	80% PBT and 20% delivery of key strategic initiatives
Chief Financial Officer	Loraine Woodhouse	

The PBT targets and performance against these is set out below:

	Threshold (15% payable)	Target (50% payable)	Maximum (100% payable)	PBT performance for FY20	% of maximum bonus achieved
PBT performance	£57m	£60m	£66m	£57.1m ¹	0%

- This outturn does not include an accrual for Executive bonus payments and therefore the threshold has not been met. The acquisitions of Tyres on the Drive and McConechy's have been excluded from the FY20 Group PBT outturn.

The tables below set out the key strategic initiatives which made up the remainder of the annual bonuses for the Chief Executive Officer and the Chief Financial Officer, along with performance and resulting outturn against each measure.

KPI	Definition	FY20 outturn	Threshold	Maximum	% achieved (out of 5%)
NPS	Retail and Autocentres NPS *Both Retail and Autocentres threshold must be met	Retail 62.4% Autocentres 69%	Retail 62.9% Autocentres 66.5%	Retail 63.2% Autocentres 68%	0%
Employee Engagement	Index achieved for Group in April 2020	Note ¹	79%	81%	Note ¹
Group Services-related retail	Growth in total service-related sales, including product (Retail)	£299.5m	£293m	£301.8m	3.7%
Operating Cash Flow	Group Underlying EBITDA adjusted for the movement in average working capital year on year	£106.8m ²	£101.25m	£107.7m	4.3%

- The Engagement Survey has been delayed due to COVID-19 and therefore no score is available.
- The acquisitions of Tyres on the Drive and McConechy's have been excluded from the FY20 Operating Cash Flow outturn.

Directors' Remuneration Report

Group PBT targets were not met. Any payment under the strategic element of the bonus is subject to the threshold PBT target being met. Given that threshold PBT target was not met Executive Directors will not receive a bonus in respect of FY20. In determining performance outcomes the Committee considered the underlying financial performance of the Group during the performance period, taking into account performance against key financial indicators as well as broader performance and the experience of stakeholders. Whilst the Committee concluded that the threshold would have been achieved and payments triggered, had the business not experienced the impact of widespread store closures in the final week of the financial year, arising from the COVID-19 pandemic, the Committee concluded the proposed incentive outcomes are appropriate in the context of the shareholder experience.

Benefits

Benefits include payments made in relation to a car plus fuel or a cash allowance, private health insurance, life assurance and a driver.

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.

Share Awards Granted During the Year (Audited)

Performance Share Plan

During the period, the following awards were granted to the Executive Directors under the Performance Share Plan ("PSP") as follows:

	Date of award	Type of award	Number of shares ¹	Maximum face value of award ²	Threshold vesting (% of award)	Performance period
Graham Stapleton	20 September 2019	Nil cost option (0p exercise price)	563,074	£954,974	25%	30 March 2019 to 1 April 2022
Loraine Woodhouse	20 September 2019	Nil cost option (0p exercise price)	361,143	£612,499	25%	30 March 2019 to 1 April 2022

1. These awards were based on 175% of salary.

2. Based on the average mid-market price on three preceding days of the awards of £1.696 on 20 September 2019.

In last years' Directors' Remuneration Report we indicated our intention to grant PSP awards of 200% of base salary to Executive Directors. The Committee continued to monitor the Company's share price performance prior to the grant of awards in September 2019. The Committee determined that, taking into account the Company's share price at that time, compared to the share price used to determine the 2018 PSP award, it was appropriate to reduce the PSP awards granted to 175% of salary.

Performance Conditions

The performance conditions and targets for PSP awards granted during FY20 are as follows:

	Group Revenue Growth – CAGR (25% of the award)	Underlying EPS Growth – CAGR (50% of the award)	Free Cash Flow (aggregate FY20 to FY22) (25% of the award)	
Award (200% of salary)	100% vesting	6.0%	10%	£165m
	Straight-line vesting	Between 3.5% and 6.0%	Between 5% and 10%	Between £125m and £165m
	25% vesting	3.5%	5%	£125m
	0% vesting	Below 3.5%	Below 5%	Below £125m

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. The award shares that vest will become exercisable in August 2022. The shares that vest will be subject to a two-year holding period.

Deferred Bonus Plan

No awards granted during the year.

Outstanding Share Awards (Audited) Performance Share Plan ("PSP")

The following summarises outstanding awards under the PSP:

	Award date	Grant Price ⁴ (£)	Awards held 30 March 2019	Awards awarded during the period	Dividend reinvestment ⁵	Forfeited during the period	Lapsed during the period	Exercised during the period	Awards held 3 April 2020	Performance period years to	Holding period to
Graham Stapleton	24 Jan 2018 ¹	3.5173	323,615	–	35,600	–	–	–	359,215	3 Apr 2020	50% to 3 Apr 2021, 50% to 3 Apr 2022
	5 Oct 2018 ²	3.1970	343,277	–	37,763	–	–	–	381,040	2 Apr 2021	2 Apr 2023
	20 Sept 2019 ³	1.696	–	563,074	22,537	–	–	–	585,611	1 Apr 2022	1 Apr 2024
Loraine Woodhouse	9 Nov 2018 ²	3.079	233,180	–	25,652	–	–	–	258,832	2 Apr 2021	2 Apr 2023
	20 Sept 2019 ³	1.696	–	361,143	14,455	–	–	–	375,598	1 Apr 2022	1 Apr 2024

- FY18 awards are subject 25% to Group Revenue Growth targets (25% vesting for 3.5% p.a. growth, 100% vesting for 7% p.a. growth), 75% subject to underlying EPS growth (25% vesting for 1.5% p.a. growth, 100% vesting for 6% p.a. growth). In addition, any vesting of the PSP is subject to an underpin whereby the net debt to EBITDA ratio remains below 1.5 times on average for the three years of the plan. The performance targets for this award were not met based on performance for FY20 and therefore this award will lapse.
- FY19 awards are subject 50% to underlying EPS growth (25% vesting for 1.5% p.a. growth, 100% vesting for 6.0% p.a. growth), 25% to Group Revenue Growth targets (25% vesting for 3.5% p.a. growth, 100% vesting for 8% p.a. growth), and 25% subject to Free Cash Flow (25% vesting for £125m, 100% vesting for £165m). In addition, 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 three years of the plan.
- FY20 awards are subject 50% to underlying EPS growth (25% vesting for 5% p.a. growth, 100% vesting for 10.0% p.a. growth), 25% to Group Revenue Growth targets (25% vesting for 3.5% p.a. growth, 100% vesting for 6% p.a. growth), and 25% subject to Free Cash Flow (25% vesting for £125m, 100% vesting for £165m). In addition, 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 three years of the plan.
- The grant price is calculated by taking the mid-market average across the three preceding days prior to the grant date.
- Interim and final dividends have been reinvested in shares at prices between £1.544 and £1.841.

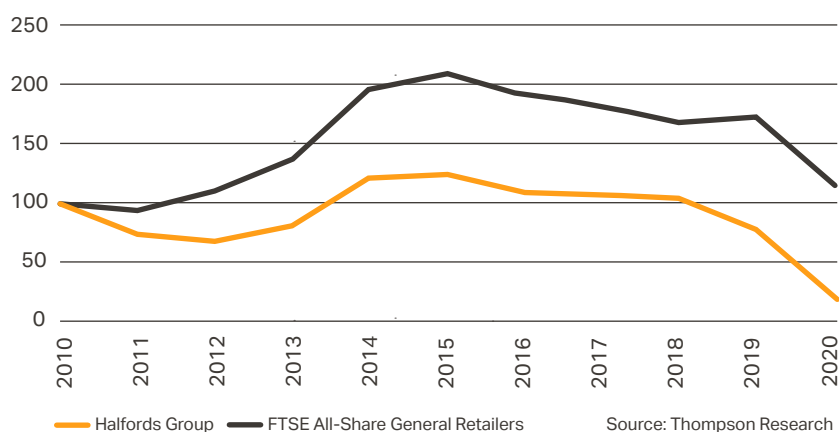
Deferred Bonus Plan ("DPB")

	Award date	Grant price ¹ (£)	Awards held 30 March 2019	Awards awarded during the period	Dividend reinvestment ²	Forfeited during the period	Lapsed during the period	Exercised during the period	Awards held 3 April 2020	Vesting
Graham Stapleton	31 May 2018	3.3760	12,162	–	1,337	–	–	–	13,499	31 May 2021–31 May 2022

- The grant price is calculated by using the mid-market quotation on the date of grant.
- Interim and final dividends have been reinvested in shares at prices between £1.544 and £1.841.

CEO Pay Compared to Performance

The following graph shows the TSR performance of the Company since April 2010, against the FTSE All-Share General Retailers Index (which was chosen because it represents a broad equity market index of which the Company is a constituent).



Directors' Remuneration Report

The following table summarises the CEO single figure for the past ten 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.

		FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
CEO Single Figure (£000)	Graham Stapleton ¹	-	-	-	-	-	-	-	1,818	670	678
	Jonny Mason ²	-	-	-	-	-	-	-	236	-	-
	Jill McDonald ³	-	-	-	-	-	851	741	295	-	-
	Matt Davies ⁴	-	-	499	1,372	645	54	-	-	-	-
	David Wild ⁵	531	617	198	-	-	-	-	-	-	-
Annual Bonus (% of maximum)	Graham Stapleton ¹	-	-	-	-	-	-	-	70%	-	-
	Jonny Mason ²	-	-	-	-	-	-	-	42.3%	-	-
	Jill McDonald ³	-	-	-	-	-	23.5%	-	-	-	-
	Matt Davies ⁴	-	-	50%	97.5%	-	-	-	-	-	-
	David Wild ⁵	-	0%	-	-	-	-	-	-	-	-
PSP Vesting (% of maximum)	Graham Stapleton ¹	-	-	-	-	-	-	-	-	-	-
	Jonny Mason ²	-	-	-	-	-	-	-	-	-	-
	Jill McDonald ³	-	-	-	-	-	-	-	-	-	-
	Matt Davies ⁴	-	-	-	-	-	-	-	-	-	-
	David Wild ⁵	-	99%	-	-	-	-	-	-	-	-

1. Graham Stapleton was appointed in January 2018. An incorrect benefits figure was reported for FY19 in error, this has been corrected and reflected in the total for FY19.
2. Jonny Mason was appointed as interim Chief Executive Officer for the period from September 2017 to the date of Graham Stapleton joining in January 2018, and the figures represent prorated amounts of his bonus and overall remuneration for FY18.
3. Jill McDonald was appointed in May 2015 and resigned as CEO in September 2017.
4. Matt Davies was appointed in October 2012 and resigned as CEO in April 2015.
5. David Wild resigned as CEO in July 2012.

Shareholding Guidelines

The Committee believes that it is important that Executive Directors' interests are aligned with those of the shareholders. Executive Directors are encouraged to acquire and retain shares with a value equal to 200% of their annual base salary. Executive Directors are expected to retain 75% of any post-tax shares that vest under any share incentive plans until this shareholding guideline is met.

	Graham Stapleton	Loraine Woodhouse
Shareholding guideline	200%	200%
Shareholding as at 3 April 2020	28,748	22,395
Current value (based on share price on 3 April 2020)	£18,657	£14,534
Current % of salary	3.42%	4.15%

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 3 April 2020 and 6 July 2020.

In light of the Code and evolving market practice, the Committee has introduced a post-employment shareholding guideline to support the alignment of interests between Executive Directors and shareholders following an executive's departure from the Board. Under this guideline, Executive Directors will be expected to retain their shareholding guideline (200% of salary) for a period of two-years post stepping down as an Executive Director. This post-employment shareholding guideline will apply to any performance incentive shares that vest from 1 April 2020.

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. During the year, none of the Halfords' Executive Directors held any Non-Executive roles.

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 FY20 – Non-Executive Directors

Non-Executive Director single figure comparison (audited)

Director	Role	Board fees (£)	Senior Independent Director fee (£)	Committee Chair / Employee representative Director fees (£)	Taxable Benefits ¹ (£)	Total "Single Figure" 2020 (£)	Total "Single Figure" 2019 (£)
Keith Williams ²	Chairman	192,400	–	–	–	192,400	132,404
David Adams	Senior Independent Director and Audit Committee Chair	52,000	10,000	10,000	2,224	74,224	72,000 ³
Jill Caseberry ⁴	Remuneration Committee Chair	52,000	–	10,000	715	62,715	5,086 ³
Helen Jones ⁵	CSR Committee Chair	52,000	–	9,583	1,597	63,180	57,000 ³
Dennis Millard ⁶	Chairman	192,400	–	–	–	–	64,758 ³
Claudia Arney ⁷	Remuneration Committee Chair	52,000	–	10,000	–	–	56,914 ³

- Includes hotel and travel costs incurred when attending Halfords' meetings and Board visits.
- Keith Williams was appointed on 24 July 2018. His fee for the role of Chairman is £192,400. Keith did not claim any taxable benefits during the year.
- Due to a payroll error, a portion of fees which related to FY19 were actually paid in FY20. This amount was: £2,000 for David Adams; £164 for Jill Caseberry; £2,000 for Helen Jones; £2,427 for Dennis Millard and £1,836 for Claudia Arney.
- Jill Caseberry was appointed on 1 March 2019.
- To ensure compliance with the 2018 Corporate Governance Code, in March 2019 the Company appointed Helen Jones as the Workplace Voice Representative which commenced on 1 May 2019. The fee for this additional role was set at £5,000 and has been pro-rated accordingly.
- Dennis Millard stepped down as Chairman on 24 July 2018.
- Claudia Arney stepped down as a Non-Executive Director on 1 March 2019.

Non-Executive Director Shareholding

Director	2020	2019
Keith Williams	130,000	80,000
David Adams	9,041	8,157
Jill Caseberry	–	–
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 3 April 2020 and 6 July 2020.

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 FY21 – Executive Directors

Salary

Salaries for Executive Directors were increased by 1.8% with effect from 1 October 2019 in line with the increase received across the wider workforce. Current salaries for the Executive Directors are as follows:

Chief Executive Officer	£555,523
Chief Financial Officer	£356,300

Salaries will next be reviewed with effect from 1 October 2020.

Pension

Executive Directors will continue to receive a pension allowance of 15% of base salary. The Committee carefully considered the level of pension allowance for Executive Directors and no changes have been made to this allowance for 2020/21. While the Committee acknowledges that this level of pension is above the rate that is available to the wider workforce in the UK, the Committee did not consider that it was appropriate to lower the pension allowance for Executive Directors at this stage, given their existing contractual entitlements and limited tenure in role. However, mindful of shareholder guidance that pensions for executives should be aligned with the pension provision available for the wider workforce, the Executive Directors have, however, agreed to reduce their pension to be in line with the rate available for the wider workforce from 1 April 2023.

For any new Executive Director appointed to the Board, the pension opportunity will be in line with the policy for the majority of the workforce.

Directors' Remuneration Report

Annual Bonus

The normal maximum annual bonus for the CEO and CFO is 150% of base salary with 2/3 paid in cash and 1/3 paid in Halfords shares deferred for three years.

Performance measures for FY21 annual bonus

Financial Measures	77.5%
<ul style="list-style-type: none">• Net debt (30%)• Cost reduction (25%)• Underlying PBT, post exceptions (15%)• Operating cash flow (7.5%)	
Strategic Measures	22.5%
<ul style="list-style-type: none">• NPS (7.5%)• Employee engagement (7.5%)• Digital sales (7.5%)	

The strategic measures for FY21 are NPS, employee engagement and digital sales to incentivise management to drive sales in key strategic segments whilst improving the colleague and customer experience.

Targets have not been disclosed at the current time as they are considered to be commercially sensitive. The Committee intends to disclose targets in next year's Directors' Remuneration Report.

Performance Share Plan ("PSP")

The normal PSP award for Executive Directors is 200% of base salary. The Committee is mindful of shareholder guidance that award levels should be adjusted where the share price has fallen significantly compared to prior years. The Committee will take this into account when determining award levels in September.

FY21 PSP awards will be based on the following performance measures:

- 20% based on EPS growth
- 10% based on Group services-related revenue
- 30% based on free cash flow
- 40% based on relative total shareholder return vs. the constituents of the FTSE All-Share General Retailers Index at the share of the performance period.

Given our strategic focus on increasing services related revenue the Committee considered that it was appropriate to replace Group revenue with a more focused services related revenue metric to incentivise and reward management for delivering against the Strategy. Vesting in respect of this portion will also be subject to the Company maintaining an appropriate margin on services revenue.

Group revenue will not be included as a performance measure for 2020. While, growing Group revenue continues to remain an important strategic objective for the Company, the Committee wanted to incentivise a clear focus on growth in Group Services-Related Revenue over the next three years given the criticality of this to future shareholder value creation. Relative Total Shareholder Return has also been introduced as a performance measure to ensure that PSP outcomes are aligned with the value we have returned to our shareholders relative to our key retail peers. Free Cash Flow continues to be included as performance measures for the PSP reflecting our ongoing focus on earnings growth and our objective to increase free cash flow outlined at the capital markets day in September 2018 to strengthen the business over the longer term, as does EPS growth which the Committee considers incentivises management to both grow revenue and manage cost in a balanced way.

Our normal practice is to grant awards in September. In light of this and the continuing economic and business uncertainty facing the Company the Committee has not set financial targets for the 2020 PSP at this time. The Committee intends to set targets in advance of award and targets will be disclosed as part of the RNS at the time of award. In line with prior years the Committee will set targets which are considered to be appropriately stretching in the context of the business' evolving Strategy and business circumstances.

In determining whether any annual bonuses are payable or performance share plan awards vest, the Committee retains the discretionary authority to adjust incentive pay-outs (both upwards and downwards) if the original outcome is not considered to reflect the underlying performance of the Company or the participant over the period, the outcome is not considered appropriate in the context of circumstances that were unexpected or unforeseen at the time the targets were set, or where the outcome is not considered appropriate in the context of the experience of shareholders or other stakeholders over the performance period.

How the Remuneration Policy will be Implemented for FY21 – Non-Executive Directors

Fees

The fees of Non-Executive Directors are normally reviewed every two years. Any changes to these fees will be approved by the Board as a whole following a recommendation from the Chief Executive Officer.

To ensure compliance with the 2018 Corporate Governance Code, in March 2019 the Company appointed Helen Jones as the Workplace Voice Representative and the fee for this additional role was set at £5,000.

The fees of the Non-Executive Directors were reviewed in March 2020 and it was agreed that in the current market a fee increase would not be appropriate. The next fee review is due in March 2021.

Current fees for Non-Executive Directors are as follows:

	FY21	FY20
Chairman	£192,400	£192,400
Base fee	£52,000	£52,000
Additional fees		
Senior Independent Director	£10,000	£10,000
Committee Chair (Audit and Remuneration)	£10,000	£10,000
Employee Voice Representative	£5,000	£5,000
Committee Chair (ESG)	£5,000	£5,000

Change in Remuneration of Chief Executive Officer Compared to Group Employees

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

	% change in base salary FY19 to FY20	% change in bonus paid FY19 to FY20	% change in benefits FY19 to FY20
Chief Executive Officer	1.8%	0% ¹	No change ³
All colleagues	3.18%	-12.84% ²	No change ³

1. No bonus payable for FY19 or FY20.

2. Based on all colleagues who were paid a bonus during FY19 and FY20.

3. No change to the benefits available for both CEO and colleagues.

CEO pay ratio

Halfords being a UK listed Company with more than 250 employees means that the Company is required to disclose annually the ratio of its CEO's pay to the median, lower quartile and upper quartile pay of their UK employees. Details of this can be found in the table below.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019/20	Option B	40:1	36:1	28:1

In addition to the ratio of the CEO's pay to the 25th, median and 75th percentile of UK employees, companies are also required to disclose:

- an explanation of the methodology used, including an explanation of the reason where any components of total remuneration have been omitted and a brief explanation of any assumptions used to determine full-time equivalent remuneration;
- the total remuneration and salary value (the £ value) for the 25th, median and 75th percentile employees used in the pay ratio calculation;
- an explanation for changes to the ratio year on year (not applicable for first year disclosures); and
- whether the Company considers the median pay ratio consistent with the company's wider policies on employee pay, reward and progression.

Of the three options set out in the new legislation for calculating the CEO pay ratio, we have used Option B using Gender Pay Gap data. This option was chosen as it represents the most efficient method to determine the respective pay ratios. The colleagues at the three quartiles were identified and their respective single figure values calculated. To ensure the identified colleagues were representative, the total remuneration for a group of individuals above and below the identified colleague at each quartile were also reviewed.

In order to determine the full-time equivalent salary component for the representative colleagues, the hourly rate was multiplied by full-time hours to calculate the full-time equivalent salary. No component of total remuneration was omitted. The base salary and total remuneration for each representative colleague are outlined below.

Component	P25	P50	P75
Base Salary	£16,946.15	£18,719.35	£23,739.06
Total Remuneration	£16,981.65	£18,721.85	£24,454.26

Gender Pay Gap Report

Details of the Group's Gender Pay Gap Report for 5 April 2019 are available at www.halfordscompany.com/corporate-responsibility/colleagues/gender-pay-gap/.

Directors' Remuneration Report

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.

	2020 ¹	2019
EBITDA (underlying)	£185.9m	£98.2m
PBT (underlying)	£53.6m	£58.8m
Payments to employees:		
Wages and salaries	£232.7m	£217.8m
Executive Directors ²	£1.1m	£1.0m
Dividend paid to shareholders and share buybacks	£36.6m	£35.9m

1. The FY20 figures reflect the impact on adopting IFRS 16 and the 53-week period to 3 April 2020, and are therefore, not comparable to the prior period.
2. Based on the single figure calculation, not all of which is included within wages and salary costs.

Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have elected to prepare the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 company and of the profit or loss for the group for that period.

In preparing these 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 European Union, subject to any material departures disclosed and explained in the financial statements;
- 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business; and
- prepare a director's report, a strategic report and director's remuneration report which comply with the requirements of the Companies Act 2006.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 and,

as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website Publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' Responsibilities Pursuant to DTR4

The directors confirm to the best of their knowledge:

- The group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the group.
- The annual report includes a fair review of the development and performance of the business and the financial position of the group and the parent company, together with a description of the principal risks and uncertainties that they face.

Approved by order of the Board.

Keith Williams
Chairman
6 July 2020

Financial Statements

Independent Auditor's Report	144
Consolidated Income Statement	150
Consolidated Statement of Comprehensive Income	151
Consolidated Statement of Financial Position	152
Consolidated Statement of Changes in Shareholders' Equity	153
Consolidated Statement of Cash Flows	154
Note to Consolidated Statement of Cash Flows	155
Accounting Policies	156
Notes to the Financial Statements	168
Company Balance Sheet	190
Company Statement of Changes in Shareholders' Equity	191
Accounting Policies	192
Notes to the Financial Statements	193





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

Opinion

We have audited the financial statements of Halfords Group Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the 53 week period ended 3 April 2020 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Shareholders' Equity, Company Balance Sheet, Company Statement of Changes in Shareholders' Equity, Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

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 3 April 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions Relating to Principal Risks, Going Concern and Viability Statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the Directors' confirmation set out on page 79 in the annual report that they have carried out a robust assessment of the Group's emerging and principal risks and the disclosures in the annual report that describe the principal risks and the procedures in place to identify emerging risks and explain how they are being managed or mitigated;
- the Directors' statement set out on page 78 in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group and the Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 79 in the annual report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Matter	How we addressed the matter in our audit
<p>Going Concern</p> <p>The basis of preparation note to the financial statements explains how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Parent Company.</p> <p>That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.</p> <p>The risk most likely to adversely affect the Group and Company's available financial resources over this period was considered to be the uncertainty of the future impact of COVID-19 owing to the unprecedented nature of the event, and as a result, we determined going concern to be a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Assessment of assumptions within the COVID-19 adjusted cashflows: consideration of the Group's assessment of the impact of COVID-19 with reference to current year financial results and pre COVID-19 adjusted projections. • Disclosures: evaluation of the adequacy of the disclosures in relation to the specific risks posed and scenarios the Group has considered in reaching their going concern assessment. • Sensitivity analysis: evaluation of sensitivities over the Group's COVID-19 adjusted cashflows with reference to the financial covenants in place over the existing banking facilities. The analysis considered reasonably possible adverse effects that could arise as a result of a decrease in sales due to the impact of COVID-19 as well as a stress test to consider the level of future revenue reduction the Group could support. • Post year end trading performance: comparison of the post year end trading results to the COVID-19 adjusted forecasts so as to evaluate the accuracy and achievability of the forecasts prepared. <p>Our Results:</p> <p>Our observations in respect of this matter are set out in the Conclusions relating to principal risks, going concern and viability statement section.</p>
<p>IFRS 16 – Leases (Accounting policies, Note 13 Leases – closing right-of-use assets £349.9m, lease liabilities £416.0m)</p> <p>The Group has a large portfolio of retail and autocentre sites of which the majority are leased, the impact to the financial statements this year of adopting IFRS 16 is therefore significant.</p> <p>The calculation of lease assets and liabilities involves assumptions of the lease term and the incremental borrowing rate, small changes in either of these assumptions across a number of leases could lead to a material change in the valuation of lease assets and liabilities.</p> <p>Owing to the magnitude of the lease asset and liability balances and the estimation required in accurately assessing these balances, the implementation and application of IFRS16 was raised as a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Technical analysis: assessing the calculation methodology driving the lease liability and right-of-use asset against the requirements of the accounting standard. • Sample testing: testing the completeness and accuracy of the lease right-of-use asset and liability figures calculated by re-performing the calculation for a sample of leases within the transition adjustment, new leases agreed in the year and lease modifications. • Lease length assumptions: evaluating assumed lease terms with reference to both the underlying lease agreements and consideration of the broader economics of the lease contracts. • Valuation assumptions: corroboration of the inputs applied within the incremental borrowing rate calculation so as to confirm appropriate. • Disclosures: Assessing the adequacy of the Group's accounting policy and disclosures. <p>Our Results:</p> <p>We found the Group's approach to the adoption of and application of IFRS16 to be appropriate.</p>

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

Matter	How we addressed the matter in our audit
<p>Inventory Valuation (Accounting policies, Note 15 Inventories - £173.0m)</p> <p>The Group has significant levels of inventory and estimates are made over the potential net realisable value, obsolescence and shrinkage of the balance.</p> <p>Given the level of judgement and estimation involved to ensure that inventory is correctly valued at the lower of cost and net realisable value, this was considered to be a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none">• Methodology applied: assessing the appropriateness of the Group's inventory provisioning policies based on our understanding of the business and the industry. This was inclusive of consideration as to the potential impact of COVID-19.• Review of post year-end information: consideration of post year-end sales information to provide evidence as to the net realisable value of the inventory at the end of the reporting period.• Data analytics: comparison of the retail sales and inventory costing data on a product by product basis to identify instances of sales below cost to consider if appropriately provided for within the Group's provisioning assessment.• Shrinkage assumptions: recalculation of the retail shrinkage provision based on the Group's inventory count results. <p>Our Results: We found the estimates and judgements made by the Group in their assessment of the carrying value of inventory to be acceptable.</p>
<p>Goodwill Impairment (Accounting policies, Note 11 Intangible assets - £350.6m)</p> <p>Goodwill in the Group balance sheet is significant and subject to an annual impairment review.</p> <p>The review requires the Group to estimate the recoverable amount of its two cash generating units (retail and car servicing) which requires the forecasting and discounting of future cashflows for inclusion within a value in use model.</p> <p>The value in use model is inclusive of a high degree of estimation uncertainty, particularly owing to the uncertain impact of COVID-19 on the future cashflows of the Group and the goodwill impairment review has therefore been raised as a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none">• Technical analysis: assessing the calculation methodology applied within the goodwill impairment model against the relevant accounting standards and considering the appropriate interaction of IAS36 (impairment) and IFRS16 (leases).• Historical comparison: assessing the reasonableness of the Group's budgets by considering the historical accuracy of previous forecasts.• Assessment of cashflows: confirmed that the cashflows modelled agreed to the COVID-19 adjusted cashflows which have been used to support the Group's going concern assessment.• Valuation assumptions: using our internal valuation specialists to assess the reasonableness of the Group's discount rate applied, by corroborating the relevant inputs into the calculation to external sources.• Sensitivity analysis; performing sensitivity analysis over the key assumptions and ensuring the Group considered the same reasonably possible adverse effects that could arise as a result of a decrease in sales due to the impact of COVID-19 as applied to their going concern considerations.• Disclosures: assessing whether the Group's disclosures detail the key judgements within the impairment model and sources of estimation uncertainty. <p>Our Results: We found the Group's assessment of goodwill impairment to be appropriate.</p>

Matter	How we addressed the matter in our audit
<p>Cycle Republic Closure Costs (Note 5 Non underlying items - £26.8m)</p> <p>On 16 March 2020 the Group announced its plans to close the Cycle Republic business and Boardman Performance Centre.</p> <p>Material impairments and provisioning are therefore recorded in relation to redundancies and costs associated with the planned store and website closures which also resulted in fixed assets, right of use assets and inventory having a reduced recoverable amount.</p> <p>Provisioning and impairment are key areas of judgement and particularly owing to the proximity to the year end this was considered a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> Accounting treatment: analysis of management's assessment as to the treatment of the planned closures of the business components in accordance with IFRS5. Review of post year-end information: consideration of sub lease arrangements and lease surrender agreements reached following the year-end to inform the assessment of the recoverability of right-of use-assets at the balance sheet date. Lease testing: recalculation of a sample of lease modification adjustments with reference to the underlying lease agreement where the Group now intended to exercise the break option. Redundancy costs: confirmation of a communicated redundancy program prior to the year-end and recalculation of a sample of redundancy provisions. Corroborative work: corroboration of a number of estimates included within the provisioning with reference to comparable costs incurred by the Group during the financial year and post year end. Fixed asset / intangible asset impairment: evaluation of the recoverable amount of the fixed and intangible assets with reference to post year-end results and agreement of charges to the underlying asset registers. Disclosure: assessment of the adequacy of the Group's disclosures and consideration as to whether the closure costs met with the Group's definition of a non-underlying item owing to their size, nature and incidence. <p>Our Results: We found the resulting estimate of the closure costs to be acceptable.</p>

Our Application of Materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Level of Materiality Applied and Rationale

We determined materiality for the Group financial statements as a whole to be £2.6m which represents 5% of profit before tax and non-underlying items. We consider profit before tax and non-underlying items to be the most appropriate benchmark as it provides a more stable measure year on year than group profit before tax.

Materiality for the parent Company financial statements as a whole was set at £1.3m, determined with reference to 50% of Group materiality.

Individual significant component audits were carried out using component materialities of between 50 - 90% of overall Group financial statement materiality.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at 65% of materiality. In setting the level of performance materiality we considered a number of factors including the expected total value of known and likely misstatements.

We agreed with the Audit Committee that misstatements in excess of £130k, which were identified during the audit, would be reported to them, as well as smaller misstatements that in our view should be reported on qualitative grounds.

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

An Overview of the Scope of our Audit

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the group financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall approach to the Group audit, we assessed the audit significance of each reporting unit in the Group by reference to both its financial significance and other indicators of audit risk, such as the complexity of operations and the degree of estimation and judgement in the financial results.

All of the Group's 3 significant components (inclusive of Halfords Group Plc) were subjected to full scope audits for Group purposes. All components are located in the UK and were audited by the Group audit team.

The significant components within the scope of our work accounted for 95% of group revenues and 97% of total assets.

How the Audit was Considered Capable of Detecting Irregularities, including Fraud

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006, the FCA listing and DTR rules, the principles of the UK Corporate Governance Code, and IFRSs.

We designed audit procedures to respond to the risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the Group financial statements. Our tests included, but were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management;
- review of minutes of Board meetings throughout the year; and
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. We also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable** set out on page 141 – the statement given by the Directors that they consider 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, performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** set out on page 116 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** set out on page 91 – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on Other Matters Prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on Which we are Required to Report by Exception

In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 141, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other Matters Which we are Required to Address

Following the conclusion of a formal tender process led by the Group's Audit Committee, the Board proposed appointment of BDO LLP as the Company's auditor for the financial year ending 3 April 2020 and subsequent financial periods. The appointment was approved by the Company's shareholders at the Annual General Meeting on 31 July 2019. The period of total uninterrupted engagement is 1 year.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of Our Report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Diane Campbell (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor
London, UK
6 July 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Income Statement

For the period	Notes	53 weeks to 3 April 2020			52 weeks to 29 March 2019		
		Before non-underlying items £m	Non-underlying items (Note 5) £m	Total £m	Before non-underlying items £m	Non-underlying items (Note 5) £m	Total £m
Revenue		1,155.1	–	1,155.1	1,138.6	–	1,138.6
Cost of sales		(565.4)	–	(565.4)	(559.6)	–	(559.6)
Gross profit		589.7	–	589.7	579.0	–	579.0
Operating expenses	2	(522.5)	(34.2)	(556.7)	(516.8)	(7.8)	(524.6)
Results from operating activities	3	67.2	(34.2)	33.0	62.2	(7.8)	54.4
Finance costs	6	(13.9)	–	(13.9)	(3.4)	–	(3.4)
Finance income	6	0.3	–	0.3	–	–	–
Net finance expense		(13.6)	–	(13.6)	(3.4)	–	(3.4)
Profit before income tax		53.6	(34.2)	19.4	58.8	(7.8)	51.0
Income tax expense	7	(6.9)	5.0	(1.9)	(10.5)	1.4	(9.1)
Profit for the financial period attributable to equity shareholders		46.7	(29.2)	17.5	48.3	(6.4)	41.9
Earnings per share							
Basic	9	23.7p		8.9p	24.5p		21.2p
Diluted	9	23.3p		8.7p	24.2p		21.0p

All results relate to continuing operations of the Group.

The notes on pages 155 to 189 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Notes	53 weeks to 3 April 2020 £m	52 weeks to 29 March 2019 £m
Profit for the period		17.5	41.9
Other comprehensive income			
Cash flow hedges:			
Fair value changes in the period		7.9	7.4
Change in fair value of investment		-	(8.1)
Income tax on other comprehensive income	7	(0.7)	-
Other comprehensive income for the period, net of income tax		7.2	(0.7)
Total comprehensive income for the period attributable to equity shareholders		24.7	41.2

All items within the Consolidated Statement of Comprehensive Income are classified as items that are or may be recycled to the consolidated income statement.

The notes on pages 155 to 189 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

	Notes	3 April 2020* £m	29 March 2019 (Restated) [†] £m	30 March 2018 (Restated) [†] £m
Assets				
Non-current assets				
Intangible assets	11	395.7	387.4	393.9
Property, plant and equipment	12	83.1	97.3	101.3
Right-of-use assets	13	349.9	–	–
Deferred tax asset	21	7.3	–	–
Investments	14	–	–	8.1
Total non-current assets		836.0	484.7	503.3
Current assets				
Inventories [†]	15	173.0	173.7	183.8
Trade and other receivables	16	53.5	59.1	56.0
Derivative financial instruments	22	8.7	3.2	0.3
Current tax assets		8.2	–	–
Cash and cash equivalents	17	115.5	9.8	27.0
Total current assets		358.9	245.8	267.1
Total assets		1,194.9	730.5	770.4
Liabilities				
Current liabilities				
Borrowings	18	(0.2)	(18.5)	(20.8)
Lease liabilities	18	(83.2)	–	–
Derivative financial instruments	22	(1.1)	(1.4)	(5.4)
Trade and other payables	19	(217.0)	(176.4)	(187.0)
Current tax liabilities		–	(3.3)	(3.3)
Provisions	20	(9.7)	(15.1)	(11.9)
Total current liabilities		(311.2)	(214.7)	(228.4)
Net current assets		47.7	31.1	38.7
Non-current liabilities				
Borrowings	18	(179.1)	(73.1)	(94.0)
Lease liabilities	18	(332.8)	–	–
Trade and other payables	19	(1.9)	(28.1)	(31.2)
Deferred tax liability	21	–	(0.1)	(2.7)
Provisions	20	(4.1)	(5.2)	(3.9)
Total non-current liabilities		(517.9)	(106.5)	(131.8)
Total liabilities		(829.1)	(321.2)	(360.2)
Net assets		365.8	409.3	410.2
Shareholders' equity				
Share capital	23	2.0	2.0	2.0
Share premium	23	151.0	151.0	151.0
Investment in own shares	23	(10.0)	(10.0)	(9.4)
Other reserves	23	4.9	1.9	(2.9)
Retained earnings		217.9	264.4	269.5
Total equity attributable to equity holders of the Company		365.8	409.3	410.2

* The Group has initially applied IFRS 16 at 30 March 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application. See Note 13.

[†] see Note 15.

The notes on pages 155 to 189 are an integral part of these consolidated financial statements.

The financial statements on pages 150 to 189 were approved by the Board of Directors on 6 July 2020 and were signed on its behalf by:

Loraine Woodhouse
Chief Financial Officer

Company Number: 04457314

Consolidated Statement of Changes in Shareholders' Equity

	Attributable to the equity holders of the Company							Total equity £m
	Share capital £m	Share premium account £m	Investment in own shares £m	Other reserves			Retained Earnings* £m	
				Capital redemption reserve £m	Hedging reserve £m			
Closing balance at 30 March 2018	2.0	151.0	(9.4)	0.3	(3.2)	281.2	421.9	
Prior year adjustment	-	-	-	-	-	(11.7)	(11.7)	
Closing balance at 30 March 2018 (restated)	2.0	151.0	(9.4)	0.3	(3.2)	269.5	410.2	
Impact of adoption of IFRS 15	-	-	-	-	-	(3.3)	(3.3)	
Opening balance at 30 March 2018	2.0	151.0	(9.4)	0.3	(3.2)	266.2	406.9	
Total comprehensive income for the period								
Profit for the period	-	-	-	-	-	41.9	41.9	
Other comprehensive income								
Cash flow hedges:								
Fair value changes in the period	-	-	-	-	7.4	-	7.4	
Changes in fair value of investment	-	-	-	-	-	(8.1)	(8.1)	
Income tax on other comprehensive income	-	-	-	-	-	-	-	
Total other comprehensive income for the period net of tax	-	-	-	-	7.4	(8.1)	(0.7)	
Total comprehensive income for the period	-	-	-	-	7.4	33.8	41.2	
Hedging gains and losses and costs of hedging transferred to the cost of inventory	-	-	-	-	(2.6)	-	(2.6)	
Transactions with owners								
Share options exercised	-	-	(1.0)	-	-	-	(1.0)	
Share-based payment transactions	-	-	0.4	-	-	-	0.4	
Income tax on share-based payment transactions	-	-	-	-	-	0.3	0.3	
Dividends to equity holders	-	-	-	-	-	(35.9)	(35.9)	
Total transactions with owners	-	-	(0.6)	-	-	(35.6)	(36.2)	
Closing balance at 29 March 2019 (restated)	2.0	151.0	(10.0)	0.3	1.6	264.4	409.3	
Impact of adoption of IFRS 16	-	-	-	-	-	(25.1)	(25.1)	
Opening balance at 29 March 2019	2.0	151.0	(10.0)	0.3	1.6	239.3	384.2	
Total comprehensive income for the period								
Profit for the period	-	-	-	-	-	17.5	17.5	
Other comprehensive income								
Fair value changes in the period	-	-	-	-	7.9	(2.3)	5.6	
Income tax on other comprehensive income	-	-	-	-	(0.7)	(0.8)	(1.5)	
Total other comprehensive income for the period net of tax	-	-	-	-	7.2	(3.1)	4.1	
Total comprehensive income for the period	-	-	-	-	7.2	14.4	21.6	
Hedging gains and losses and costs of hedging transferred to the cost of inventory	-	-	-	-	(4.2)	-	(4.2)	
Transactions with owners								
Share options exercised	-	-	-	-	-	-	-	
Share-based payment transactions	-	-	-	-	-	1.0	1.0	
Income tax on share-based payment transactions	-	-	-	-	-	(0.2)	(0.2)	
Dividends to equity holders	-	-	-	-	-	(36.6)	(36.6)	
Total transactions with owners	-	-	-	-	-	(35.8)	(35.8)	
Balance at 3 April 2020	2.0	151.0	(10.0)	0.3	4.6	217.9	365.8	

* The Group has initially applied IFRS 16 at 30 March 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application. See Note 13.

The notes on pages 155 to 189 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Notes	53 weeks to 3 April 2020 £m	52 weeks to 29 March 2019 £m
Cash flows from operating activities			
Profit after tax for the period, before non-underlying items		46.7	48.3
Non-underlying items		(29.2)	(6.4)
Profit after tax for the period		17.5	41.9
Depreciation – property, plant and equipment	12	24.3	23.0
Impairment – property, plant and equipment	12	5.4	–
Amortisation and impairment of right-of-use assets		83.0	–
Amortisation – intangible assets	11	11.4	13.0
Net finance costs	6	13.6	3.4
Loss on disposal of property, plant and equipment and intangibles	3	2.8	5.5
Equity-settled share-based payment transactions		1.0	0.3
Exchange movement		(2.0)	(0.3)
Income tax expense		1.9	9.1
Decrease in inventories		3.9	11.9
Decrease/(increase) in trade and other receivables		3.7	(3.1)
Increase/(decrease) in trade and other payables		44.4	(19.2)
(Decrease)/increase in provisions		(3.1)	2.7
Income tax paid		(16.3)	(12.7)
Net cash from operating activities		191.5	75.5
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		(10.9)	–
Purchase of investment		–	(0.5)
Purchase of intangible assets		(12.5)	(11.0)
Purchase of property, plant and equipment		(21.1)	(18.4)
Net cash used in investing activities		(44.5)	(29.9)
Cash flows from financing activities			
Net proceeds from share options and purchase of own shares		–	(0.6)
Finance income received		0.3	–
Finance costs paid		(13.5)	(3.1)
Payment of loan following acquisition		(1.8)	–
Proceeds from loans, net of transaction costs		1,377.0	1,138.7
Repayment of borrowings		(1,262.0)	(1,159.0)
Payment of capital element of leases (2019: payments on finance leases)		(87.7)	(0.6)
Dividends paid	8	(36.6)	(35.9)
Net cash used in financing activities		(24.3)	(60.5)
Net increase/(decrease) in cash and bank overdrafts	l.	122.7	(14.9)
Cash and cash equivalents at the beginning of the period		(7.4)	7.5
Cash and cash equivalents at the end of the period	l.	115.3	(7.4)

Cash and cash equivalents at the period end consist of £115.5m (2019: £9.8m) of liquid assets and £0.2m (2019: £17.2m) of bank overdrafts.

The notes on pages 155 to 189 are an integral part of these consolidated financial statements.

Note to Consolidated Statement of Cash Flows

I. Analysis of movements in the Group's net debt in the period

	At 29 March 2019 £m	Cash flow £m	Recognised on adoption of IFRS 16	Other non-cash changes £m	At 3 April 2020 £m
Cash and cash equivalents at bank and in hand	(7.4)	122.7	–	–	115.3
Debt due after one year	(63.8)	(115.0)	–	(0.3)	(179.1)
Total net debt excluding leases	(71.2)	7.7	–	(0.3)	(63.8)
Current lease liabilities	(1.3)	87.7	(79.4)	(90.2)	(83.2)
Non-current lease liabilities	(9.3)	–	(377.4)	53.9	(332.8)
Total lease liabilities	(10.6)	87.7	(456.8)	(36.3)	(416.0)
Total net debt	(81.8)	95.4	(456.8)	(36.6)	(479.8)

	At 30 March 2018 £m	Cash flow £m	Other non-cash changes £m	At 29 March 2019 £m
Cash and cash equivalents at bank and in hand	7.5	(14.9)	–	(7.4)
Debt due after one year	(83.7)	20.3	(0.4)	(63.8)
Total net debt excluding leases	(76.2)	5.4	(0.4)	(71.2)
Current lease liabilities	(1.3)	0.6	(0.6)	(1.3)
Non-current lease liabilities	(10.3)	–	1.0	(9.3)
Total lease liabilities	(11.6)	0.6	0.4	(10.6)
Total net debt	(87.8)	6.0	–	(81.8)

Non-cash changes include finance costs in relation to the amortisation of capitalised debt issue costs of £0.4m (2019: £0.6m) and changes in classification between amounts due within and after one year.

Cash and cash equivalents at the period end consist of £115.5m (2019: £9.8m) of liquid assets and £0.2m (2019: £17.2m) 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 3 April 2020 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 below, and under the historical cost convention, except where adopted IFRSs require an alternative treatment. The principal variations relate to financial instruments (IFRS 9 "Financial instruments"), share-based payments (IFRS 2 "Share-based payment") and leases (IFRS 16 "Leases"). Management have undergone rigorous financial reviews taking into account specific consideration in regards to the trading position of the Group in the context of the current COVID-19 pandemic in the UK.

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 53 weeks to 3 April 2020, whilst the comparative period covered the 52 weeks to 29 March 2019.

Going Concern

In determining the appropriate basis of preparation of the financial statements for the year ended 3 April 2020, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the Going Concern basis, having undertaken a rigorous assessment of financial forecasts, with specific consideration to the trading position of the Group in the context of the current COVID-19 pandemic in the UK.

Due to the government's enforced lock-down, and the requirement of the UK population to self-isolate, the COVID-19 will result in a material reduction in expected revenue and profit for the next financial period ending 2 April 2021. This is mainly due to decreased footfall in the first half of the next financial year arising from store and garage closures, revised store operating models and government-enforced social distancing measures.

The Directors have reviewed the rapidly evolving situation relating to COVID-19 and have modelled a series of scenarios that cover the period to July 2021 and beyond in order to assess not only the Going Concern status of the Group but also longer-term viability (see Viability Statement on page 79).

For the Going Concern assessment, management focused on two key scenarios:

- A - Base case – a steep sales reduction in the first half of the year resulting in a c.16% full year reduction in sales from FY20
- B - Low Case – a more prolonged reduction in sales resulting in a c.27% full year reduction in sales from FY20

The key assumptions used in these models are:

- A – Lockdown lifting in stages from end of May, furlough and rates benefits are received and further savings made across the business. Dividend suspended and working capital reduced;
- B – Same as base case but with consumers continuing to isolate at similar level until October, further reduced capital expenditure and increased furlough benefit;

The scenarios, particularly scenario B, are considered to be prudent given trading seen since the end of the FY20 financial year, but, when modelled, have a significant impact on sales, margin and cash flow. In response, the Directors have taken immediate and significant actions to reduce costs and optimise the Group's cash flow and liquidity. Amongst these are the following mitigations:

- Approval for increased funding to extend the available facilities from £200m to £225m;
- Approval for a covenant relaxation from syndicate banks to ensure that covenants are not breached in the next 12-month period;
- Reducing capital and investment expenditure through postponing or pausing projects and change activity;
- Freezing non-essential recruitment;
- Deferring or cancelling discretionary spend.

These mitigations were modelled within the scenarios and combined with the in-year government support resulted in cost savings vs planned expenditure in FY21 of £89m.

The Group has a revolving credit facility of £200m at the date of approval of these financial statements, which expires on 3 September 2022. In addition, the Group has access to a further £25m in the form of CLBILS financing (expiring in January 2021). The Group has no other debt or facilities. Covenants have been amended for the full financial year ended 2 April 2021.

The Board has a reasonable expectation that the Group and the Company will be able to continue in operation and meet its liabilities as they fall due; retain sufficient available cash and not breach any covenants under any drawn facilities over the remaining term of the current facilities. They do not consider there to be a material uncertainty around the Group's or the Company's ability to continue as a going concern.

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, in which case an adjustment is made in the opening balance sheet.

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 3 April 2020 are detailed in Note 4 to the Company balance sheet on page 193.

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

The Group recognises revenue when it has satisfied its performance obligations to external customers and the customer has obtained control of the goods or services being transferred.

The revenue recognised is measured at the transaction price received and is recognised net of value added tax, discounts, and commission charged and received from third parties for providing credit to customers.

The Group operations comprise the retailing of automotive, leisure and cycling products and car servicing and repair operations. The table below summarises the revenue recognition policies for different categories of products and services offered by the Group.

For the vast majority of revenue streams, there is a low level of judgement applied in determining the transaction price or the timing of transfer of control.

Products and services	Nature, timing and satisfaction of performance obligations and significant payment terms
Automotive, leisure and cycling products, car servicing and repair operations	<p>The majority (both value and volume) of the Group's sales are for standalone products and services made direct to customers at standard prices either in-store or online. In these cases all performance obligations are satisfied, and revenue recognised, when the product or service is transferred to the customer. The customer pays in full at the same point in time.</p> <p>In the case of Cycle to Work, a company will pay to be part of the scheme on a contracted basis but the balance will be held on the balance sheet until the product or service has been transferred to the customer, at which point revenue is recognised.</p>
Service and repair plans	<p>The Group offers various service and repair plans to customers. The Group recognises revenue on these on a straight-line basis over the period of the plan. The performance obligation of the Group, being the level of service and repair offered with the plan, will be the period of the plan and therefore revenue should be recognised over this period. The product is paid for on commencement of the plan, and unrecognised income is held within trade and other payables.</p>
Product warranties	<p>Certain products, principally motoring and cycling, have a warranty period attached which is built in to the price of the product rather than being sold separately as an incremental purchase. The warranty element has been identified as a separate performance obligation to the sale of the product, and given it is not sold separately, a transaction price has been allocated for the warranty element based on the expected cost approach.</p> <p>This element of revenue is recognised on a straight-line basis over the period of the plan. The performance obligation of the Group, being the rectification of faults on products sold, will be the period over which the customer can exercise their rights under the warranty and therefore revenue should be recognised over this period. The full price of the product is paid for on commencement of the warranty, and unrecognised income is held within trade and other payables.</p>

Accounting Policies

Returns

A provision for estimated returns is made based on the value of goods sold during the year which are expected to be returned and refunded after the year end based on past experience.

The sales value of the expected returns is recognised within provisions, with the cost value of goods expected to be returned recognised as a current asset within inventories.

Gift Cards

Deferred income in relation to gift card redemptions is estimated on the basis of historical returns and redemption rates.

Supplier Income

As is common in the retail industry, the Group receives income from their suppliers based on specific agreements in place. These enable the Group to share the costs and benefits of promotional activity and volume growth and are explained below. This supplier income received is recognised as a deduction from cost of sales based on the entitlement that has been earned up to the balance sheet date for each relevant supplier agreement. The Group receives other contributions that do not meet the definition of supplier income, including, but not limited to, marketing, advertising and promotion contributions that are offset against the costs included in administrative expenses to which they relate.

The supplier income arrangements are often not co-terminus with Group's financial period end. Such income is only recognised when there is reasonable certainty that the conditions for recognition have been met by the Group, and the income can be reliably measured based on the terms of the contract. The Group is sometimes required to estimate the amounts due from suppliers at year end. However, as the majority of supplier income is confirmed before the year end, the level of estimation and judgement required is limited.

Supplier income is recognised on an accruals basis, based on the entitlement that has been earned up to the balance sheet date for each relevant supplier contract. The accrued supplier income is included within trade and other receivables.

Supplier income comprises:

- Rebates – typically these are based on the volume of purchases of goods for resale. These are earned based on purchase triggers over set periods of time. In some cases, rebates will also be received to support promotional pricing.
- Fixed contributions – typically these will be for cost price discounts or for favourable positioning of products in store.

Supplier income recognised is recorded against cost of sales and inventory, which is adjusted to reflect the lower purchase cost for the goods on which the income has been earned. Depending on the agreement with the supplier, supplier income is either received in cash from the supplier or netted off payments made to suppliers.

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-underlying Items

Non-underlying items are those items that are unusual because of their size, nature (one-off, non-trading costs) or incidence. The Group's management considers 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-underlying items and presented prior to IFRS 16 adjustments. 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 £0.1m. Items included in the financial statements of the Group's entities are measured in pounds sterling which is 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.

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.

As a result of IFRIC23, the group no longer holds any provisions against uncertain tax positions. An historic provision of £1.1m relating to transfer pricing, R&D claims and capital allowances was released in the period as the uncertainty over these positions was resolved in discussions with HMRC.

Accounting Policies

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, and 10 years in respect of cBoardman;
- Supplier relationships – 5 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). Property, plant and equipment relating to Retail stores or for Car Servicing garages are grouped on an individual store or garage basis.

Leases

The Group has changed its accounting policy for leases where the Group is the lessee as a result of IFRS 16 "Leases". The new policy and the impact of the change are described on page 166.

Until 29 March 2019, 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 were 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 was 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, were included in borrowings. The interest element of the rental was 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.

Leases in which a significant portion of the risks and rewards of ownership were retained by the lessor were classified as operating leases. Payments made under operating leases were charged to the income statement on a straight-line basis over the period of the lease. The benefit of incentives from lessors were recognised on a straight-line basis over the term of the lease.

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 were recognised in the income statement on the exchange of contracts, where there was no further substantial acts to complete.

The Group leases properties from which it no longer trades. These properties are often sublet to third parties. Rents receivable were recognised by offsetting the income against rental costs accounted for within selling and distribution costs in the income statement.

The following policies apply subsequent to the date of initial application, 30 March 2019.

The Group leases various offices, warehouses, retail stores, car servicing garages, equipment and vehicles. Rental contracts are typically made for fixed periods between 3 months and 25 years, but may have break clauses or extension options.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative standalone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

At the commencement date of property leases the Group determines the lease term to be the full term of the lease, assuming that any option to break or extend the lease is unlikely to be exercised. The Group considers the lease term to be the non-cancellable period and in assessing this applies the definition of a contract and determines the period for which the contract is enforceable.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary

to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third-party financing was received
- uses a build-up approach that starts with a risk free interest rate adjusted for credit risk for leases held by the Group; and
- makes adjustments specific to the lease, for example location, type of property.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Accounting Policies

For leases acquired as part of a business combination, the lease liability is measured at the present value of the remaining lease payments. The right-of-use asset is measured at the same amount as the lease liability adjusted to reflect favourable or unfavourable terms of the lease when compared to market terms.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it reassesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying value of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

The right-of-use assets are considered for impairment at each reporting date, see Note 13.

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy;
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount;
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise warehousing, IT and telephone equipment.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

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 purchase costs, 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 estimates and judgements can be seen in Note 20.

Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset when the reimbursement is certain.

A wear and tear 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 for maintaining the property. 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.

Cash and Cash Equivalents

Cash and cash equivalents on the consolidated statement of financial position comprise cash at bank and in hand and short-term deposits with original maturities of less than 90 days which are subject to an insignificant risk of changes in value. In the consolidated statement of cash flows, net cash and cash equivalents comprise cash and cash equivalents, as defined above, net of bank overdrafts.

Financial Instruments

i) Recognition and Initial Measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

On initial recognition, a financial asset is measured at: amortised cost; FVOCI – equity instrument; or FVTPL. A financial liability is measured at either amortised cost or FVTPL.

ii) Classification and Subsequent Measurement

Financial assets

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets (Note 22). On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets: Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a CGU level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the business unit and the operation of those policies in practice. This includes whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate portfolio, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- How the performance of the business unit is evaluated and reported to Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business unit) and how those risks are managed;
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- Contingent events that would change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable rate features;
- Prepayment and extension features; and
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

Financial assets: Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit and loss. However, see Note 22 for derivatives designated as hedging instruments.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of investment. Other net gains and losses are recognised in OCI and never reclassified to profit or loss.

Accounting Policies

Financial liabilities: Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit and loss. All other financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

iv) Offsetting

Financial assets and financial liabilities are offset and the net position presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

v) Derivatives

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. Where the Group uses the derivatives to hedge highly probable forecast transactions, the instruments are designated as cash flow hedges.

Derivatives are initially recognised at fair value on the date a contract is entered into and are subsequently remeasured at their fair value.

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in the cash flows of the hedged item and hedging instrument are expected to offset each other.

The effective element of any gain or loss from remeasuring the derivative instrument is recognised in OCI and accumulated in the hedging reserve. 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 cost of sales.

When the hedged forecast transaction subsequently results in the recognition of a non-financial item, such as inventory, the amount accumulated in the hedging reserve is included directly in the initial cost of the non-financial item when it is recognised.

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.

vi) Impairment

The Group recognises loss allowances for expected credit losses ("ECLs") on financial assets measured at amortised cost. These are always measured at an amount equal to lifetime ECL for trade receivables and lease receivables. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk. There is limited exposure to ECLs due to the business model.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both qualitative and quantitative information and analysis, based on the Group's historical experience and informed credit assessment and forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Group considers a financial asset to be in default when the financial asset is more than 90 days past due.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have the assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

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 judgements 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 estimates 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. These assumptions have been reviewed in light of COVID-19.

A sensitivity analysis has been carried out on the carrying value of inventory, including consideration of the uncertainties arising from COVID-19. A 10% change in provisions applied to clearance stock would impact the net realisable value of inventories by £0.8m. A 10% change in the current selling price of products would impact the net realisable value of inventories by £0.6m.

Impairment of Assets within Retail and Autocentres

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 168 to 189. Sensitivity analysis on the key assumption in the value-in-use calculations has been undertaken on the two Group cash-generating units (Retail and Car Servicing) independently of one another, which found that there is a more than adequate amount of headroom before an impairment could be triggered.

This included the consideration of the COVID-19 base case.

Lease terms and incremental borrowing rate

Under IFRS 16, the Group recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The lease liability is initially measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate, adjusted to take into account the risk associated with the length of the lease which ranges between 1 and 25 years and the location of the lease. The Group has therefore made a judgement to determine the incremental borrowing rate used. As a result of the significant impact the transition to IFRS 16 has had on the Group's opening balance sheet, the discount rate is considered to be a significant judgement. The discount rate applied ranges between 1.14% and 3.77% dependent on the length of the lease term.

At the commencement date of property leases the Group determines the lease term to be the full term of the lease, assuming that any option to break or extend the lease is unlikely to be exercised. The Group considers the lease term to be the non-cancellable period and in assessing this applies the definition of a contract and determines the period for which the contract is enforceable. The length of the lease term is based on the contractual right to utilise the asset and is not considered to involve a significant level of judgement because the Group has not taken into account break clauses unless they have been approved.

Adoption of New and Revised Standards

New standards impacting the Group that will be adopted in the annual financial statements for the 53 weeks ended 3 April 2020, and which have given rise to changes in the Group's accounting policies are:

- IFRS 16 Leases (IFRS 16); and
- IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23)

Details of the impact these two standards have had are set out below. Other new and amended standards and interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to impact the Group as they are either not relevant to the Group's activities or considered immaterial.

The Group has adopted IFRS 16 "Leases" with a date of initial application of 30 March 2019. IFRS 16 supersedes IAS 17 "Leases" and related interpretations.

IFRS 16 introduces a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

Accounting Policies

(a) Transition Method and Practical Expedients Utilised

The Group has applied IFRS 16 using the modified retrospective transition approach, with recognition of transitional adjustments on the date of initial application (30 March 2019), without restatement of comparative figures.

Previously, the Group determined at the inception of a contract whether an arrangement was or contained a lease under IFRIC 4 'Determining Whether an Arrangement contains a Lease'. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient allowing the standard to be applied only to contracts that were previously identified as leases under IAS17 and IFRIC 4. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 30 March 2019.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application;
- Reliance on previous assessments on whether leases are onerous;
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases. However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

At the commencement date of property leases the Group, on a lease by lease basis, determines the lease term to be the full term of the lease, assuming that any option to break or extend the lease is unlikely to be exercised. Leases are regularly reviewed and will be revalued if it becomes likely that a break clause or option to extend the lease is exercised.

(b) Right-of-use assets

The Group recognises a right-of-use asset at the lease commencement date. The right-of-use assets are measured at either:

- Their carrying amount as if IFRS 16 has been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – the Group applied this approach to the majority of the Retail property portfolio; or
- An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all other leases.

Subsequent to measurement, right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if this is judged to be shorter.

(c) Lease liabilities

The lease liabilities are measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at 30 March 2019. The Group's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. Judgement is required to determine an approximation, calculated based on UK Government Gilt rates, of an appropriate duration and adjusted by an indicative credit premium and a lease specific adjustment. The incremental borrowing rate applied to the lease liabilities was in the range of 0.76% to 3.77% in the period.

Subsequently, the lease liability is increased by the interest cost on the lease liability and decreased by the lease payment made. It is remeasured if there is a modification, a change in lease term or a change in the fixed lease payments.

(d) Impacts on the financial statements

For leases previously classified as finance leases, the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

The table below shows a reconciliation from the total operating lease commitment as disclosed at 29 March 2019 to the total lease liabilities recognised in the accounts immediately after transition:

For the period	30 March 2019 £m
Operating lease commitment at 29 March 2019 as disclosed in the Group's consolidated financial statements:	507.6
Discounted using the incremental borrowing rate at 30 March 2019	(61.5)
Recognition exemption for lease of low-value assets/short-term leases	0.1
Finance lease liabilities recognised at 29 March 2019 under IAS 17	10.6
Total lease liabilities recognised at 30 March 2019	456.8
Of which:	
Current lease liabilities	79.4
Non-current lease liabilities	377.4
	456.8

The implementation of IFRS 16 affected the following items on the balance sheet at transition.

- Property, plant and equipment – decrease by £7.2m
- Right-of-use asset – increase by £389.1m
- Deferred tax assets – increase by £6.2m
- Prepayments – decrease by £13.0m
- Provisions and accruals – decrease by £39m
- Lease liabilities – increase by £446.2m

The net impact on retained earnings at 30 March 2019 was £25.1m.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires:

- The Group to determine whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- The Group to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

This measurement is required to be based on the assumption that each of the tax authorities will examine amounts they have a right to examine and have full knowledge of all related information when making those examinations. The Group elected to apply IFRIC 23 retrospectively with the cumulative effect recorded in retained earnings as at the date of initial application, 30 March 2019. The adoption of IFRIC 23 resulted in no impact on the Group's £1.1m provision for transfer pricing structure. There was therefore no impact on retained earnings.

New Standards and Interpretations Not Yet Adopted

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The most significant of these are as follows, which are all effective for the period beginning 4 April 2020:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material)
- IFRS 3 Business Combinations (Amendment – Definition of Business)
- Revised Conceptual Framework for Financial Reporting

The Group is currently assessing the impact of these new accounting standards and amendments.

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 believes 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, with the exception of IFRS 16, 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.

	53 weeks to 3 April 2020		
	Retail	Car Servicing	Total
	£m	£m	£m
Income statement			
Revenue	961.0	194.1	1,155.1
Segment result before non-underlying items	52.0	5.5	57.5
Non-underlying items	(29.5)	(2.6)	(32.1)
Segment result	22.5	2.9	25.4
Unallocated expenses ¹			(2.1)
Operating profit pre IFRS 16			22.3
IFRS 16 -underlying			11.8
IFRS 16 - non-underlying			(2.1)
Operating profit			33.0
Finance income			0.3
Finance costs			(13.9)
Profit before tax			19.4
Taxation			(1.9)
Profit for the year			17.5
Products and services transferred at a point in time	913.5	168.3	1,081.8
Products and services transferred over time	47.5	25.8	73.3
Revenue	961.0	194.1	1,155.1

	52 weeks to 29 March 2019		
	Retail	Car Servicing	Total
	£m	£m	£m
Income statement			
Revenue	977.2	161.4	1,138.6
Segment result before non-underlying items	58.8	5.5	64.3
Non-underlying items	(8.7)	0.9	(7.8)
Segment result	50.1	6.4	56.5
Unallocated expenses ¹			(2.1)
Operating profit			54.4
Finance income			-
Finance costs			(3.4)
Profit before tax			51.0
Taxation			(9.1)
Profit for the year			41.9
Products and services transferred at a point in time	932.2	116.6	1,048.8
Products and services transferred over time	45.0	44.8	89.8
Revenue	977.2	161.4	1,138.6

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 £2.1m in respect of assets acquired through business combinations (2019: £2.1m).

1. Operating Segments continued

	Retail £m	Car Servicing £m	53 weeks to 3 April 2020 Total £m
Other segment items:			
Capital expenditure	28.8	18.0	46.8
Depreciation and impairment expense	25.0	4.7	29.7
Impairment of right-of-use assets	8.5	0.9	9.4
Amortisation of right-of-use assets	63.7	9.9	73.6
Amortisation expense	8.5	0.8	9.3

	Retail £m	Car Servicing £m	52 weeks to 29 March 2019 Total £m
Other segment items:			
Capital expenditure	26.3	4.7	31.0
Depreciation and impairment expense	18.6	4.4	23.0
Amortisation expense	9.7	1.2	10.9

There have been no transactions between segments in the 53 weeks ended 3 April 2020 (2019: £nil).

2. Operating Expenses

For the period	53 weeks to 3 April 2020 £m	52 weeks to 29 March 2019 £m
Selling and distribution costs	436.0	424.3
	436.0	424.3
Administrative expenses, before non-underlying items	86.5	92.5
Non-underlying administrative expenses	34.2	7.8
	120.7	100.3
	556.7	524.6

3. Operating Profit

For the period	53 weeks to 3 April 2020 £m	52 weeks to 29 March 2019 £m
Operating profit is arrived at after charging/(crediting) the following expenses/(incomes) as categorised by nature:		
Operating lease rentals (2020: in relation to short term or low value leases):		
– plant and machinery	0.6	3.8
– property rents	2.5	93.1
– rentals receivable under operating leases	(3.0)	(3.1)
Landlord surrender premiums	(0.6)	(1.3)
Loss on disposal of property, plant and equipment and intangibles	2.8	5.5
Amortisation of intangible assets	11.4	13.0
Amortisation of right-of-use assets	73.6	–
Depreciation of:		
– owned property, plant and equipment	24.3	22.3
– assets held under finance leases	–	1.0
Impairment of:		
– owned property, plant and equipment	–	(0.3)
– impairment of right-of-use assets	9.4	–
– assets held under finance leases	–	–
Trade receivables impairment	0.2	0.1
Staff costs (see Note 4)	256.2	239.4
Cost of inventories consumed in cost of sales	563.8	554.2

Notes to the Financial Statements

3. Operating Profit continued

The total fees payable by the Group to BDO LLP (2019: KPMG LLP) and their associates during the period was £0.6m (2019: £0.4m), in respect of the services detailed below:

	53 weeks to 3 April 2020 £'000	52 weeks to 29 March 2019 £'000
For the period		
Fees payable for the audit of the Company's accounts	43.0	34.0
Fees payable to BDO LLP (2019: KPMG LLP) and their associates in respect of:		
The audit of the Company's subsidiary undertakings, pursuant to legislation	487.0	334.9
Audit-related assurance services	55.0	53.0
	585.0	421.9

4. Staff Costs

	53 weeks to 3 April 2020 £m	52 weeks to 29 March 2019 £m
For the period		
The aggregated remuneration of all employees, including Directors, comprised:		
Wages and salaries	232.7	217.8
Social security costs	17.0	15.9
Equity-settled share-based payment transactions (Note 24)	1.1	0.3
Contributions to defined contribution plans (Note 26)	5.4	5.4
	256.2	239.4

	Number	Number
For the period		
Average number of persons employed by the Group, including Directors, during the period:		
Stores/Autocentres	9,437	9,538
Central warehousing	595	579
Support Centre	975	1,031
	11,007	11,148

Key Management Compensation

	53 weeks to 3 April 2020 £m	52 weeks to 29 March 2019 £m
For the period		
Salaries and short-term benefits	3.1	4.0
Compensation for loss of office	-	0.6
Social security costs	0.5	0.7
Pensions	0.3	0.4
Share-based payment charge	-	0.4
	3.9	6.1

Key management compensation includes the emoluments of the Board of Directors (including Non-Executive Directors) and the emoluments of the Halfords Limited and Halfords Autocentres management boards.

Full details of Directors' remuneration and interests are set out in the Directors' Remuneration Report on pages 132 to 140 which form part of these financial statements.

5. Non-underlying Items

For the period	53 weeks to 3 April 2020 £m	52 weeks to 29 March 2019 £m
Non-underlying operating expenses:		
Non-underlying operating expenses:		
Organisational restructure costs (a)	2.8	6.8
Group-wide strategic review (b)	1.0	2.4
Closure costs (c)	26.8	-
Acquisition and investment-related fees (d)	1.9	0.2
One-off claims (e)	0.8	-
Impairment of right-of-use-asset (f)	0.9	-
One-off royalty income (g)	-	(1.6)
Non-underlying items before tax	34.2	7.8
Tax on non-underlying items (h)	(5.0)	(1.4)
Non-underlying items after tax	29.2	6.4

- a. In the current and prior period separate and unrelated organisational restructuring activities were undertaken. Current period costs comprised:
- Redundancy and transition costs of £1.4m relating to roles which have been outsourced or otherwise will not be replaced (FY19: £1.5m); and
 - £1.4m of asset write-offs, principally resulting from the strategic decision to re-platform the Retail and Autocentres websites (FY19: £5.3m)
- b. In the current and prior periods costs were incurred in preparing and implementing the new Group strategy.
- £0.4m of external consultant costs (FY19: £2.0m); and
 - £0.6m of store labour costs, point of sale equipment and other associated costs in completing the cycling space relay across the store estate (FY19: £nil).
- Prior period costs also included £0.4m of warehouse and distribution costs in order to align our network with the new strategy.
- c. Closure costs represent costs associated with the closure of the operations of Cycle Republic and the Boardman Performance Centre ("Cycle Republic") following a strategic review of the Group's cycling businesses. The provision mostly relates to the impairment of right-of-use assets, intangible assets, tangible assets and inventories.
- d. In the current and prior periods costs were incurred in relation to the investment in McConechy's Tyre Services and Tyres On The Drive.
- Tyres On The Drive acquisition costs comprise of £1m principally relating to the costs of dual running Halfords Mobile Expert and Tyres on The Drive, as well as the write-off of the receivables balance due from Tyres On the Drive related to Halfords Mobile Expert prior to acquisition; and
 - £0.9m relating to professional fees in respect of the acquisition of McConechy's Tyres Services
- £0.2m of costs were incurred in the prior period in relation to the investment in Tyres on The Drive and costs relating to a potential acquisition which did not progress.
- e. During the year a provision was created for expected costs of settling an ongoing court case, which was then settled during the second half of the period. In addition, a provision of £0.6m has been created in relation to the audit by HMRC relating to the national minimum wage.
- f. In light of the ongoing COVID-19 pandemic, the Group has revised future cash flow projections for stores and garages. As a result, £0.9m incremental impairment has been recognised in relation to garages where the current and anticipated future performance does not support the carrying value of the right-of-use asset and associated tangible assets. This charge is directly attributable incremental impairment due to COVID-19 and relates primarily to the right-of-use asset value.
- g. A one-off royalty income was received in the prior period in relation to the use of a software licence.
- h. The tax credit of £5.0m represents a tax rate of 14.6% applied to non-underlying items. The prior period represents a tax credit at 18.0% applied to non-underlying items.

Notes to the Financial Statements

6. Finance Income and Costs

	53 weeks to 3 April 2020 £m	52 weeks to 29 March 2019 £m
Recognised in profit or loss for the period		
Finance costs:		
Bank borrowings	(1.6)	(1.6)
Amortisation of issue costs on loans	(0.4)	(0.4)
Commitment and guarantee fees	(0.6)	(0.6)
Interest payable on lease liabilities	(11.3)	(0.8)
Finance costs	(13.9)	(3.4)
Finance income:		
Bank and similar interest	0.3	–
Finance income	0.3	–
Net finance costs	(13.6)	(3.4)

7. Taxation

	53 weeks to 3 April 2020 £m	52 weeks to 29 March 2019 £m
For the period		
Current taxation		
UK corporation tax charge for the period	5.4	11.5
Adjustment in respect of prior periods	(0.5)	0.2
	4.9	11.7
Deferred taxation		
Origination and reversal of temporary differences	(1.5)	(1.4)
Adjustment in respect of prior periods	(1.5)	(1.2)
	(3.0)	(2.6)
Total tax charge for the period	1.9	9.1

The tax charge is reconciled with the standard rate of UK corporation tax as follows:

	53 weeks to 3 April 2020 £m	52 weeks to 29 March 2019 £m
For the period		
Profit before tax	19.4	51.0
UK corporation tax at standard rate of 19% (2019: 19%)	3.7	9.7
Factors affecting the charge for the period:		
Depreciation on expenditure not eligible for tax relief	0.5	0.5
Other disallowable expenses	0.8	0.1
Adjustment in respect of prior periods	(1.9)	(1.0)
Impact of overseas tax rates	(0.3)	(0.2)
Impact of change in tax rate on deferred tax balance	(0.9)	–
Total tax charge for the period	1.9	9.1

The tax rate was due to reduce from 19% to 17% from 1 April 2020, following changes substantively enacted on 6 September 2016. In the March 2019 Budget it was announced that the corporation tax rate would remain at 19% from 1 April 2020. This was substantively enacted on 17 March 2020.

The deferred tax asset at 3 April 2020 has been calculated based on the rate of 19% substantively enacted at the balance sheet date.

The effective tax rate of 9.7% (2019: 17.8%) is lower than the UK corporation tax rate principally due to the impact of overseas tax rates, adjustments in respect of prior periods now closed with HM Revenue and Customs, and the impact of the rate change in deferred tax recognised in the balance sheet.

The tax charge for the period was £1.9m (2019: £9.1m), including a £5.0m credit (2019: £1.4m credit) in respect of tax on non-underlying items.

An income tax charge of £0.7m (2019: nil 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.

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 £208m (2019: £172m) with the main taxes including corporation tax of £16.3m (2019: £12.7m), net VAT of £101.4m (2019: £72.2m), employment taxes of £54.3m (2019: £48.2m) and business rates of £36.3m (2019: £39.8m).

8. Dividends

For the period	53 weeks to 3 April 2020 £m	52 weeks to 29 March 2019 £m
Equity – ordinary shares		
Final for the 52 weeks to 29 March 2019 – paid 12.39p per share (2019: 12.03p)	24.4	23.7
Interim for the 53 weeks to 3 April 2020 – paid 6.18p per share (2019: 6.18p)	12.2	12.2
	36.6	35.9

In addition, the Directors are not proposing a final dividend (2019: £24.4m at 12.39p per share) in respect of the financial period ended 3 April 2020.

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 53 weeks to 3 April 2020.

The Group has also chosen to present an alternative earnings per share measure, underlying earnings per share, with profit adjusted for non-underlying items because it better reflects the Group's underlying performance. This measure is defined on page 199.

For the period	53 weeks to 3 April 2020 Number of shares m*	52 weeks to 29 March 2019 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)	(2.1)	(2.0)
Weighted average number of shares for calculating basic earnings per share	197.0	197.1
Weighted average number of dilutive shares	3.3	2.1
Weighted average number of shares for calculating diluted earnings per share	200.3	199.2

For the period	53 weeks to 3 April 2020 £m	53 weeks to 3 April 2020 (pre-IFRS 16) £m*	52 weeks to 29 March 2019 £m
Basic earnings attributable to equity shareholders	17.5	17.6	41.9
Non-underlying items (see Note 5):			
Operating expenses	34.2	32.1	7.8
Finance costs	-	-	-
Tax on non-underlying items	(5.0)	(4.7)	(1.4)
Underlying earnings before non-underlying items	46.7	45.0	48.3

* Note that all numbers are quoted as per IAS 17 in order to show comparability with the prior period.

Earnings per share is calculated as follows:

For the period	53 weeks to 3 April 2020	53 weeks to 3 April (pre-IFRS 16) 2020	52 weeks to 29 March 2019
Basic earnings per ordinary share	8.9p	8.9p	21.2p
Diluted earnings per ordinary share	8.7p	8.8p	21.0p
Basic underlying earnings per ordinary share	23.7p	22.9p	24.5p
Diluted underlying earnings per ordinary share	23.3p	22.5p	24.2p

Notes to the Financial Statements

10. Acquisition of Subsidiaries

a) McConechy's

On 5 November 2019, the Group acquired 100% of the issued share capital of McConechy's Tyre Service Limited and its subsidiary companies (see page 194) ("McConechy's") for a cash consideration of £6.0m (excluding transaction costs). The acquired business comprises of Scotland's leading tyre and autocare specialist. The principal reason for the acquisition was to increase the Group's footprint in Car Servicing by 60 sites and establish a strong coverage in Scotland and the North of England.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows (fair value is used apart from leases, contingent liabilities and income taxes).

	Book value £m	Fair value adjustment £m	IFRS 16 adjustment £m	Final fair value £m
McConechy's net assets at the acquisition date				
Intangible assets	1.2	1.5	–	2.7
Tangible assets	2.1	0.8	11.4	14.3
Inventories	3.4	(0.2)	–	3.2
Trade and other receivables	6.3	–	–	6.3
Cash	–	–	–	–
Trade and other payables	(8.9)	(1.1)	(11.5)	(21.5)
Borrowings	(1.0)	–	–	(1.0)
Bank overdraft	(3.1)	–	–	(3.1)
Other taxation and social security	(0.9)	–	–	(0.9)
Deferred tax liability	(0.2)	(0.7)	–	(0.9)
Total	(1.1)	0.3	(0.1)	(0.9)

Goodwill

Goodwill was recognised as a result of the acquisition as follows:

	£m
Total cash consideration	6.0
Less fair value of identifiable (assets)/liabilities (excluding intangible assets)	3.6
Goodwill and intangible assets	9.6
Intangible assets:	
Customer relationships	(2.0)
McConechy's brand names	(0.7)
Goodwill	6.9

None of the goodwill acquired is expected to be deductible for income tax purposes. The goodwill constitutes value of locational benefits giving Halfords ability to expand growth within the Scottish market.

The McConechy's businesses contributed £18.2m revenue and a loss of £0.4m 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 McConechy's businesses had been completed on the first day of the financial year, Group revenues for the period would have been £26.0m higher and Group profit before tax of the parent would have been £0.5m higher (before amortisation of intangible assets arising on consolidation).

Acquisition costs of £0.9m arose as a result of the transaction. These have been recognised as part of non-underlying costs in the consolidated income statement (see Note 5).

b) Tyres on the Drive

On 14 October 2019, the Group acquired the trade and assets of Victor Holdings Limited (trading as "Tyres on the Drive") for an immaterial amount. The acquisition secured the outright ownership of market leading mobile services software for Halfords Mobile Expert and acts as a significant enabler in the Group's plans to grow that business. Goodwill of £0.7m arose on acquisition.

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 30 March 2018	9.8	14.9	7.8	2.3	64.9	364.7	464.4
Additions	–	–	–	–	11.0	–	11.0
Disposals	–	–	–	–	(8.3)	–	(8.3)
At 29 March 2019	9.8	14.9	7.8	2.3	67.6	364.7	467.1
Additions	0.7	2.0	–	–	12.5	7.6	22.8
Reclassification to right-of-use assets	–	–	–	(2.3)	–	–	(2.3)
Disposals	–	–	–	–	(2.1)	–	(2.1)
At 3 April 2020	10.5	16.9	7.8	–	78.0	372.3	485.5
Amortisation							
At 30 March 2018	2.9	10.6	0.9	0.7	33.7	21.7	70.5
Charge for the period	0.7	0.7	0.5	0.1	11.0	–	13.0
Disposals	–	–	–	–	(3.8)	–	(3.8)
At 29 March 2019	3.6	11.3	1.4	0.8	40.9	21.7	79.7
Charge for the period	0.7	0.7	0.5	0.1	9.4	–	11.4
Reclassification to right-of-use assets	–	–	–	(0.9)	–	–	(0.9)
Disposals	–	–	–	–	(0.4)	–	(0.4)
At 3 April 2020	4.3	12.0	1.9	–	49.9	21.7	89.8
Net book value at 3 April 2020	6.2	4.9	5.9	–	28.1	350.6	395.7
Net book value at 29 March 2019	6.2	3.6	6.4	1.5	26.7	343.0	387.4

No intangible assets are held as security for external borrowings.

Goodwill is allocated to two groups of cash-generating units, being Retail and Car Servicing as follows:

1) Retail

Product rights of £0.2m, which are fully amortised, have been included within brand names and trademarks.

Goodwill of £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 £10.7m arose on the acquisition of Boardman Bikes Limited and Boardman International Limited on 4 June 2014 which form part of the Retail offering.

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.

2) Car Servicing

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.

During the current period Autocentres acquired McConechy's Tyre Service Limited with goodwill of £6.9m and Tyres on the Drive with goodwill of £0.7m. These acquisitions have also been allocated to the Car Servicing segment. The goodwill relates to a portfolio of garages within Scotland which management monitors on an overall basis as part of the Car Servicing 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 Group is required to test, on an annual basis, whether goodwill has suffered any impairment. 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.

This requires estimation of the present value of future cash flows expected to arise from the continuing operation of the CGU. Cash flow projections are based on financial budgets approved by management covering a five-year period, which are reviewed by the Board. Budgets are based on both past performance and expectations for future market development, linked to the strategy of the Group as set out in the Strategic Report section in these financial statements.

Notes to the Financial Statements

11. Intangible Assets continued

These estimates require assumptions over future sales performance; future costs; and long-term growth rates, as well as the application of an appropriate discount rate. Management have used the Viability Scenario projections which have been adjusted for the uncertainty surrounding COVID-19 (see the basis of preparation note) for the basis of the impairment reviews. Further sensitivity analysis over the projected cashflows has then been completed using other scenarios modelled as part of the Group's going concern analysis. Cash outflows required to replace leased assets which are essential to the ongoing operation of the CGU were also considered and the estimates informed by the Group's recent lease negotiations. Management has considered other reasonably possible changes in key assumptions that would cause the carrying amounts of goodwill to exceed the value in use for each asset.

The growth rates used to extrapolate cash flows beyond the budget period, as set out in the table below, do not exceed long-term industry averages and reflect the revenue growth and ongoing efficiency initiatives, and the relative maturity of the two CGUs. The growth rates for both the retail and car servicing CGUs has been reviewed and updated as required to reflect the current strategy.

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, incorporating the impact of IFRS-16, and adjusted for the specific risks relating to each cash-generating unit. The discount rates used are shown below.

	Notes	Retail		Car Servicing	
		2020	2019	2020	2019
Discount rate	1	10.6%	10.6%	10.6%	10.8%
Growth rate	2	1.0%	0.0%	1.0%	1.0%

Goodwill for the retail CGU was £273.3m (2019: £273.3m) and for the car servicing CGU was £77.3m (2019: £69.7m).

Notes:

1. Pre-tax discount rate applied to the cash flow projections.
2. Growth rate used to extrapolate cash flows beyond the five-year budget period.

Sensitivity analysis on the key assumptions in the value-in-use calculations has been undertaken taking into account the affect of COVID-19. This found that there is a more than adequate amount of headroom before an impairment would be triggered. For Retail and Car Servicing, there is no reasonably possible change in key assumptions including those relating to future sales performance and future costs that would lead to an impairment, modelling included the viability base case and low case.

Overall, the Directors have concluded that the recoverable value of the Group's CGUs exceeded their carrying amount.

12. Property, Plant and Equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Payments on account and assets in course of construction £m	Total £m
Cost				
At 30 March 2018	80.1	229.2	2.0	311.3
Transfer between classes	–	2.0	(2.0)	–
Additions	2.3	17.7	–	20.0
Disposals	(2.0)	(8.6)	–	(10.6)
At 29 March 2019	80.4	240.3	–	320.7
Reclassification to right-of-use assets	(13.7)	(3.5)	–	(17.2)
Additions	3.3	20.7	–	24.0
Disposals	(0.4)	(2.2)	–	(2.6)
At 3 April 2020	69.6	255.3	–	324.9
Depreciation and impairment				
At 30 March 2018	47.3	162.7	–	210.0
Depreciation and impairment for the period	4.7	18.3	–	23.0
Disposals	(1.1)	(8.5)	–	(9.6)
At 29 March 2019	50.9	172.5	–	223.4
Reclassification to right-of-use assets	(7.5)	(1.6)	–	(9.1)
Depreciation for the period	4.2	20.1	–	24.3
Impairment for the period	0.6	4.8	–	5.4
Disposals	(0.4)	(1.8)	–	(2.2)
At 3 April 2020	47.8	194.0	–	241.8
Net book value at 3 April 2020	21.8	61.3	–	83.1
Net book value at 29 March 2019	29.5	67.8	–	97.3

No fixed assets are held as security for external borrowings. Impairment of £5.4m relates to Cycle Republic assets and is included within non-underlying items (note 5).

13. Leases

All leases where the Group is a lessee are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a term of 12 months or less.

IFRS 16 "Leases" was adopted on 30 March 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 30 March 2019, see page 166.

i) Amounts recognised in the Consolidated Statement of Financial Position

Right-of-Use Assets

	Land and buildings £m	Equipment £m	Total £m
At 30 March 2019	388.5	7.8	396.3
Reclassification from intangible assets	2.4	–	2.4
Additions on acquisition of subsidiary	11.1	0.3	11.4
Additions to right-of-use assets	10.0	1.9	11.9
Amortisation charge for the year	(70.2)	(3.4)	(73.6)
Effect of modification of lease	11.6	–	11.6
Derecognition of right-of-use assets	–	(0.7)	(0.7)
Impairment	(9.4)	–	(9.4)
At 3 April 2020	344.0	5.9	349.9

Of the £9.4m right-of-use asset impairment, £7.7m relates to Cycle Republic and is included in non-underlying costs (note 5).

Lease Liabilities

	Land and buildings £m	Equipment £m	Total £m
At 30 March 2019*	448.6	8.2	456.8
Additions on acquisition of subsidiary	11.0	0.2	11.2
Additions to lease liabilities	10.5	1.8	12.3
Interest expense	11.1	0.2	11.3
Effect of modification to lease	11.7	–	11.7
Lease payments	(83.8)	(4.2)	(88.0)
Foreign exchange movements	0.7	–	0.7
At 3 April 2020	409.8	6.2	416.0

Carrying value of lease liabilities included in the statement of financial position

	Total £m
Current liabilities	83.2
Non-current liabilities	332.8

* In the previous year, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17, 'Leases'. The assets were presented in property, plant and equipment and the liabilities as part of the Group's borrowings. For adjustments recognised on adoption of IFRS 16 on 30 March 2019, please refer to page 166.

	3 April 2020 £m
Lease liabilities	
Maturity analysis – contractual undiscounted cash flows	
Less than one year	92.9
Between one and two years	76.6
Between two and five years	177.0
After five years	108.7
Total contractual cash flows	455.2

Notes to the Financial Statements

13 Leases continued

ii) Amounts recognised in the Consolidated Income Statement

	Land and buildings £m	Equipment £m	Total £m
53 weeks ended 3 April 2020			
Depreciation charge on right-of-use assets	70.2	3.4	73.6
Interest on lease liabilities	11.1	0.2	11.3
Expenses relating to short-term leases	2.5	–	2.5
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	–	0.6	0.6
52 weeks ended 29 March 2019			
Lease expense	93.1	3.8	96.9
Sub-lease income presented in 'other revenue'	(3.1)	–	(3.1)

iii) Amounts recognised in Statement of Cash Flows

The total cash outflow for leases for the period ended 3 April 2020 was £87.7m.

14. Investments

In February 2019 Tyres On The Drive went into administration. Tyres on the Drive sold its entire trade and assets to Victor Holdings Limited (or its subsidiaries). This has left the business with no value. Subsequently, The Group has acquired back the trade and assets during the current year, see Note 10. During the previous year, the investment has been derecognised which has resulted in a debit to OCI as a result of the irrevocable election taken on transition to IFRS 9 in the prior year to account as FVOCI.

15. Inventories

	2020 £m	2019 (Restated) £m	2018 (Restated) £m
Finished goods for resale	173.0	173.7	183.8

Finished goods inventories include £18.0m (2019: £20.0m) of provisions to carry inventories at lower of cost and net realisable value where such value is lower than cost. The Group did not reverse any unutilised provisions during the period.

During the period £6.9m was recognised as an expense in respect of the write-down of inventories (2019: £8.4m) to net realisable value, of which £3.8m related to Cycle Republic and is included in non-underlying items (note 5). No inventories are held as security for external borrowings.

Goods bought for resale recognised as a cost of sale amounted to £563.8m (2019: £554.2m).

Following a review of inventory costing during the period, the Group concluded that the historic inclusion of certain distribution centre costs within the cost of inventories and the treatment of such distribution centre costs as an operating expense rather than a cost of sale was not in line with the Group's accounting policy.

In the consolidated statement of financial position, inventories at 29 March 2019 and 30 March 2018 are stated after adjusting for this amount, and consequently retained earnings and net assets have been reduced by £11.7m. In correcting this misapplication, there is no impact on reported gross profit, operating expenses or other items in the consolidated income statement or in the consolidated statement of cash flows for the current or comparative periods.

Inventories at 3 April 2020 include a right to recover returned goods amounting to £1.9m (2019: £1.8m). These are measured by reference to the former carrying amount of the sold inventories.

16. Trade and Other Receivables

	2020 £m	2019 £m
Falling due within one year:		
Trade receivables	16.6	11.6
Other receivables	14.3	15.1
Prepayments and accrued income	22.6	32.4
	53.5	59.1

Information about the Group's exposure to credit and market risks and impairment losses for trade and other receivables is included in Note 22.

17. Cash and Cash Equivalents

	2020 £m	2019 £m
Cash at bank and in hand	115.5	9.8

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. £5.1m (2019: £5.1m) of the Group's cash and cash equivalents included in the balance sheet and the cashflow statement, is held by the trustee of the Group's employee benefit trust in relation to the share scheme for employees. Therefore, these funds are restricted and are not available to circulate within the Group on demand.

18. Borrowings

	2020 £m	2019 £m
Current		
Unsecured bank overdraft	0.2	17.2
Lease liabilities (see Note 13)	83.2	1.3
	83.4	18.5
Non-current		
Unsecured bank loan and other borrowings ¹	179.1	63.8
Lease liabilities (see Note 13)	332.8	9.3
	511.9	73.1

1. The above borrowings are stated net of unamortised issue costs of £0.9m (2019: £1.2m).

The Group's borrowing facility was extended in the prior year, after exercising the option to extend the facility for a further year. It is a five-year £200m revolving credit facility which began on 4 September 2017 and now expires on 3 September 2022. 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 195 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.

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:

	2020 £m	2019 £m
Expiring within one year	20.0	20.0
Expiring between one and two years	-	-
Expiring between two and five years	-	65.0
	20.0	85.0

The overdraft facility expiring within one year is an annual facility subject to review at various dates during the period. The facility of £nil (2019: £85.0m) relates to the Group's revolving credit facility. All these facilities incurred commitment fees at market rates.

Notes to the Financial Statements

19. Trade and Other Payables

	2020 £m	2019 £m
Current liabilities		
Trade payables	106.7	95.2
Other taxation and social security payable	33.2	25.3
Other payables	12.3	13.0
Deferred income – lease incentives	–	5.2
Accruals and other deferred income	64.8	37.7
	217.0	176.4
Non-current liabilities		
Deferred income – lease incentives	–	26.2
Accruals and other deferred income	1.9	1.9
	1.9	28.1

Trade and other payables at 3 April 2020 includes £3.4m (2019: £3.4m) of deferred income in relation to product warranties; of which £1.5m (2019: £1.5m) is in current liabilities and £1.9m (2019: £1.9m) is in non-current liabilities.

20. Provisions

	Property- related £m	Other trading £m	Total £m
At 29 March 2019	11.5	8.8	20.3
Charged during the period	2.2	8.0	10.2
Adjustment on adoption of IFRS 16	(6.4)	–	(6.4)
Utilised during the period	(0.8)	(8.4)	(9.2)
Released during the period	–	(1.1)	(1.1)
At 3 April 2020	6.5	7.3	13.8
Analysed as:			
Current liabilities	5.2	4.5	9.7
Non-current liabilities	1.3	2.8	4.1

Property-related provisions consist of costs associated with wear and tear.

Other trading provisions comprise a sales returns provision, a provision for the costs associated with the closure of stores where necessary, an employer/product liability provision and provision for unused gift vouchers in issue.

21. 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 30 March 2018	3.6	(6.5)	1.8	(1.6)	(2.7)
Credit/(charge) to the income statement	(0.3)	5.6	(1.4)	(1.3)	2.6
Credit to other comprehensive income	–	–	–	–	–
Credit to equity	–	–	–	–	–
At 29 March 2019	3.3	(0.9)	0.4	(2.9)	(0.1)
Adjustment on adoption of IFRS 16	6.2	–	–	–	6.2
Acquisition of subsidiary	(0.2)	–	–	(0.7)	(0.9)
Credit/(charge) to the income statement	2.1	1.0	–	(0.1)	3.0
Credit to other comprehensive income	–	(0.7)	(0.2)	–	(0.9)
Credit to equity	–	–	–	–	–
At 3 April 2020	11.4	(0.6)	0.2	(3.7)	7.3

21. 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:

	53 weeks to 3 April 2020	52 weeks to 29 March 2019
Deferred tax assets	11.6	3.7
Deferred tax liabilities	(4.3)	(3.8)
	7.3	(0.1)

22. Financial Instruments and Related Disclosures

a. 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 18.

b. Accounting Classifications and Fair Value

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

3 April 2020	Notes	Carrying amount					Total carrying amount £m
		Fair value – hedging instruments £m	Mandatorily at FVTPL – others £m	FVOCI – equity instruments £m	Amortised cost £m	Other financial liabilities £m	
Financial assets measured at fair value							
Forward exchange contracts used for hedging		8.7	–	–	–	–	8.7
Equity investments	14	–	–	–	–	–	–
		8.7	–	–	–	–	8.7
Financial assets not measured at fair value							
Trade and other receivables*	16	–	–	–	30.9	–	30.9
Current tax assets		–	–	–	8.2	–	8.2
Cash and cash equivalents	17	–	–	–	115.5	–	115.5
		–	–	–	154.6	–	154.6
Financial liabilities measured at fair value							
Forward exchange contracts used for hedging		(1.1)	–	–	–	–	(1.1)
		(1.1)	–	–	–	–	(1.1)
Financial liabilities not measured at fair value							
Borrowings	18	–	–	–	–	(179.3)	(179.3)
Lease liabilities	18	–	–	–	–	(416.0)	(416.1)
Trade and other payables†	19	–	–	–	–	(106.7)	(106.7)
		–	–	–	–	(702.0)	(702.0)

* Prepayments and accrued income of £22.6m are not included as a financial asset.

† Other taxation and social security payables of £33.2m, deferred income and accruals of £66.7m, and other payables of £12.3m are not included as a financial liability.

Notes to the Financial Statements

22. Financial Instruments and Related Disclosures continued

29 March 2019	Notes	Carrying amount					Total carrying amount £m
		Fair value – hedging instruments £m	Mandatorily at FVTPL – others £m	FVOCI – equity instruments £m	Amortised cost £m	Other financial liabilities £m	
Financial assets measured at fair value							
Forward exchange contracts used for hedging		3.2	–	–	–	–	3.2
Equity investments	14	–	–	–	–	–	–
		3.2	–	–	–	–	3.2
Financial assets not measured at fair value							
Trade and other receivables*	16	–	–	–	26.7	–	26.7
Cash and cash equivalents	17	–	–	–	9.8	–	9.8
		–	–	–	36.5	–	36.5
Financial liabilities measured at fair value							
Forward exchange contracts used for hedging		(1.4)	–	–	–	–	(1.4)
		(1.4)	–	–	–	–	(1.4)
Financial liabilities not measured at fair value							
Borrowings	18	–	–	–	–	(81.0)	(81.0)
Current tax liabilities		–	–	–	–	(1.3)	(1.3)
Finance lease liabilities	18	–	–	–	–	(10.6)	(10.6)
Trade and other payables**	19	–	–	–	–	(95.2)	(95.2)
		–	–	–	–	(188.1)	(188.1)

* Prepayments and accrued income of £32.4m are not included as a financial asset.

** Other taxation and social security payables of £25.3m, deferred income of £31.4m, accruals of £39.6m and other payables of £13.0m are not included as a financial liability.

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 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 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 mark to market 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.

c. Financial Risk Management

The Group has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk; and
- Market risk.

22. Financial Instruments and Related Disclosures continued

i) Risk management framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors are responsible for establishing the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are regularly reviewed to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was £163.3m (2019: £39.7m).

Impairment losses on financial assets recognised in profit or loss were as follows:

£m	53 weeks to 3 April 2020	52 weeks to 29 March 2019
Impairment loss on trade and other receivables	0.2	0.1
Impairment loss on cash and cash equivalents	–	–
	0.2	0.1

Trade receivables

The Group does not have any individually significant customers and so no significant concentration of credit risk.

The majority of the Group's sales are paid in cash at point of sale which further limits the Group's exposure. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Board of Directors has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment terms and conditions are offered. The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of one month for customers. All trade receivables are based in the United Kingdom.

The Group has taken into account the historic credit losses incurred on trade receivables and adjusted it for forward-looking estimates. The movement in the allowance for impairment in respect of trade receivables during the year was £0.2m.

Cash and cash equivalents

The Group held cash and cash equivalents of £115.5m at 3 April 2020 (2019: £9.8m). The cash and cash equivalents are held with bank and financial institution counterparties which are designated 'A-' by Standard & Poor and Fitch and A3 by Moody's. The Group does not consider there to be any impairment loss in respect of these balances (2019: £nil).

Derivatives

The derivatives are entered into with bank and financial institutions counterparties which are designated at least BBB by Standard & Poor and Fitch and Baa3 by Moody's.

iii) 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.

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.

The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of their respective cash flows. The Group assesses whether the derivative designated in each hedging relationship is expected to be and has been effective in offsetting changes in cash flows of the hedging item using the hypothetical derivative method.

Notes to the Financial Statements

22. Financial Instruments and Related Disclosures continued

In these hedge relationships, the main sources of ineffectiveness are:

- The effect of the counterparty and Group's own credit risk on the fair value of the forward exchange contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in exchange rates; and
- Changes in the timing of the hedged item.

During the 53 weeks to 3 April 2020, the foreign exchange management policy was to hedge via forward contract purchase between 75% and 100% of the material foreign exchange transaction exposures on a rolling 18-month basis. Hedging is performed through the use of foreign currency bank accounts and forward foreign exchange contracts.

At 3 April 2020, the Group held the following instruments to hedge exposures to changes in foreign currency:

Forward exchange contracts	Maturity		
	1-6 months	6-12 months	More than one year
Net exposure (in £m)	57.1	28.3	15.3
Average GBP:USD forward contract rate	1.3084	1.3060	1.3097

At 29 March 2019, the Group held the following instruments to hedge exposures to changes in foreign currency:

Forward exchange contracts	Maturity		
	1-6 months	6-12 months	More than one year
Net exposure (in £m)	85.6	45.3	21.8
Average GBP:USD forward contract rate	1.3267	1.3243	1.3519

The amounts at the reporting date relating to items designated as hedged items were as follows:

Forward currency risk	Change in value used for calculating hedge ineffectiveness £m	Cash flow hedge reserve £m	Balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied £m
At 3 April 2020			
Inventory purchases	28.6	5.3	-
At 29 March 2019			
Inventory purchases	20.0	1.8	-

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	3 April 2020		29 March 2019	
	USD £m	Other £m	USD £m	Other £m
Cash and cash equivalents	2.4	2.8	-	0.5
Trade and other payables	(44.2)	(0.6)	(9.6)	(0.4)
	(41.8)	2.2	(9.6)	0.1

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.

	2020 Increase/ (decrease) in equity £m	2019 Increase/ (decrease) in equity £m
10% appreciation of the US dollar	17.6	17.3
10% depreciation of the US dollar	(14.4)	(14.2)

A strengthening/weakening of sterling, as indicated, against the USD at 3 April 2020 would have increased/(decreased) 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.

22. Financial Instruments and Related Disclosures continued

The movements in equity relates to the fair value movements on the Group's forward contracts that are used to hedge future stock purchases.

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 £0.7m (2019: £0.7m).

Interest rate movements on deposits, obligations under leases, trade payables, trade receivables, and other financial instruments do not present a material exposure to the Group's statement of financial position.

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 2020 (2019: 0.8:1).

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 £170m of the £200m available facility, to include the Overdraft Facility of £20m. However, with the onset of the COVID-19 pandemic, and to ensure the group had instant access to the funds available to it in the event of a UK wide lockdown, a temporary derogation from this was obtained, such that the group drew down the available facility in full across the balance sheet date. This ensured that the group had instant access to the liquidity made available to it under the RCF, to ensure the business could continue to operate in the event of a period of extended closure.

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 the amend and extend agreement (September 2017). The Group may, subject to Board approval in any and every such incidence, allow a counterparty to have a credit rating of less than A but no less than investment grade at the time of signing the facilities on the basis that the counterparty only has a junior role in the debt syndicate and has zero ancillary business until if/when its credit rating is designated A-. At the year-end the senior banks within the banking group maintained a credit rating of A- or above, in line with Treasury policy, with the junior bank holding a credit rating of BB+. The counterparty credit risk is reviewed by the Chief Financial Officer regularly as part of the Treasury Committee process. In addition, the Head of Tax & Treasury reviews credit exposure on a daily basis.

The risk is measured through review of forecast liquidity each month by the Head of Tax & Treasury 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 biannually 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:

	3 April 2020	29 March 2019
	Bank borrowings	Bank borrowings
	£m	£m
Due less than one year	0.9	1.2
Expiring between one and two years	0.9	1.2
Expiring between two and five years	180.0	65.0
Expiring after five years	-	-
Contractual cash flows	181.8	67.4
Carrying amount	179.1	63.8

Notes to the Financial Statements

22. 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 3 April 2020 (29 March 2019).

	2020 Receivables £m	2020 Payables £m	2019 Receivables £m	2019 Payables £m
Due less than one year	146.1	(90.7)	133.2	(130.9)
Due between one and two years	17.5	(6.4)	22.6	(21.7)
Contractual cash flows	163.6	(97.1)	155.8	(152.6)
Fair value	8.7	(1.1)	3.2	(1.4)

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

23. Capital and Reserves

Ordinary shares of 1p each:	2020 Number of shares	2020 £000	2019 Number of shares	2019 £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.

There has been no change in share premium, which has remained at £151.0m (2019: £151.0m).

In total the Company received proceeds of £nil (2019: £0.4m) from the exercise of share options. During the year the Company purchased £nil (2019: £1.0m) of its own shares.

Investment in Own Shares

At 3 April 2020 the Company held in Trust 2,134,139 (2019: 2,134,139) of its own shares with a nominal value of £21,341 (2019: £21,341). 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 3 April 2020 was £1.4m (2019: £5.1m). In the current period nil (2019: nil) were repurchased and transferred into the Trust, with nil (2019: 254,689) 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.

24. Share-based Payments

The Group has five 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 (2019: £0.3m).

1. Halfords Company Share Option Scheme 'CSOS'

The CSOS was introduced in June 2004 and the Company has made annual grants up to and including 2016. Options were 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 ten years.

Options granted before August 2013 became 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 the 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.

24. Share-based Payments continued

2. Management Share Plan ("MSP")

The CSOS has been replaced by the MSP. Nil cost options have been granted which can be exercised on or after the third anniversary of the date on which they are granted. The option cannot be exercised later than ten years from the date on which it was granted. Exercise of an option is subject to continued employment.

The expected volatility is based on historical volatility of a peer group of companies. 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.

3. Halfords Sharesave Scheme ("SAYE")

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.

4. 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.

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. The shares awarded under the PSP in 2016 and 2017 earned final dividends of 12.03p per share and were reinvested in shares at a cost of £3.23 per share. Shares awarded in 2016, 2017 and 2018 under the PSP earned interim dividends of 6.18p per share and were reinvested in shares at a cost of £2.41 per share.

The previous PSP performance criteria were weighted 25% towards Group revenue growth targets and 75% towards Group EPS growth targets. From the 2018 award onwards the PSP performance criteria are weighted 50% towards Group EPS growth, 25% towards Group revenue growth and 25% towards Group Free Cash Flow. In order to focus management the awards will be underpinned by the Remuneration Committee determining whether, in its opinion, the extent to which the performance conditions have been satisfied is a genuine reflection of the Company's underlying financial performance and has generated value for Company's shareholders over the performance period, and by a net debt to EBITDA ratio no greater than 1.5 throughout the three-year performance period.

For other senior participants conditions are based on the performance of the individual business units. The awards are weighted 25% towards Group EPS growth targets, 12.5% weighted towards Group revenue growth targets, 12.5% weighted towards Group free cash flow and 50% weighted toward EBIT of the individual business unit.

Options were valued using the Black-Scholes option-pricing models.

5. Restricted Share Plan – Senior Management Plan ("RSP-SMP")

Two RSP-SMP awards were granted to senior management excluding the CEO and CFO. They were granted to participants on 13 September 2017 and have two different performance period end dates: 30 March 2018 and 29 March 2019.

Nil cost options have been granted which can be exercised on the first anniversary and second anniversary of the grant date for the 2018 and 2019 schemes respectively. Exercise of an option is subject to performance conditions in relation to Group PBT and continued employment.

Options were valued using the Black-Scholes option-pricing models.

Notes to the Financial Statements

24. Share-based Payments continued

The following tables reconcile the number of share options outstanding and the weighted average exercise price ("WAEP") for all share award plans.

For the period ended 3 April 2020

	CSOS		MSP		SAYE		PSP		RSP-SMP	
	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)
Outstanding at start of year	2,363	3.63	713	2.73	2,996	2.71	2,262	-	323	-
Granted	-	-	746	1.25	2,937	1.8	2,161	-	-	-
Shares representing dividends reinvested	-	-	-	-	-	-	271	-	-	-
Forfeited	-	-	-	-	(12)	2.7	(134)	-	(9)	-
Exercised	-	-	-	-	-	-	-	-	-	-
Lapsed	(1,635)	3.38	(61)	0.34	(2,963)	2.2	(323)	-	(257)	-
Outstanding at end of year	728	3.71	1,398	1.94	2,958	2.0	4,237	-	57	-
Exercisable at end of year	-	-	-	-	-	-	-	-	-	-
Exercise price range (£)	3.07-5.43		-		1.77-2.78		-		-	
Weighted average remaining contractual life (years)	3.3		8.8		2.6		1.8		-	

For the period ended 29 March 2019

	CSOS		MSP		SAYE		PSP		RSP-SMP	
	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)
Outstanding at start of year	4,198	3.64	358	-	3,078	2.76	2,086	-	561	-
Granted	-	-	371	2.69	851	2.78	1,288	-	-	-
Shares representing dividends reinvested	-	-	-	-	-	-	98	-	-	-
Forfeited	(228)	3.34	(8)	2.78	(689)	2.75	(837)	-	(90)	-
Exercised	(59)	3.07	-	-	(40)	2.84	(8)	-	(148)	-
Lapsed	(1,548)	3.73	(8)	2.78	(204)	3.57	(365)	-	-	-
Outstanding at end of year	2,363	3.63	713	2.73	2,996	2.71	2,262	-	323	-
Exercisable at end of year	-	-	-	-	-	-	-	-	57	-
Exercise price range (£)	3.07-5.43		-		2.50-4.25		-		-	
Weighted average remaining contractual life (years)	6.3		9.0		1.6		1.8		0.2	

24. Share-based Payments continued

The following tables give the assumptions applied to the options granted in the respective periods shown:

Grant date	53 weeks to 3 April 2020		
	MSP	SAYE	PSP
Share price at grant date (£)	2.30/1.70	2.10	1.70
Exercise price (£)	–	1.77	–
Expected volatility	31.87%/29.7%	30.46%	30.11%
Option life (years)	10	3	3
Expected life (years)	3	3.5	2.53
Risk free rate	–	0.46%	–
Expected dividend yield	8.22%/10.86%	9.06%	–
Probability of forfeiture	33%	41%	39%
Weighted average fair value of options granted (£)	1.78/2.22	0.27	1.70

Grant date	52 weeks to 29 March 2019		
	MSP	SAYE	PSP
Share price at grant date (£)	3.20	3.21	3.19/3.08/2.32
Exercise price (£)	–	2.78	–
Expected volatility	29.86%	29.03%	29.60%/29.14%/31.18%
Option life (years)	10	3	3
Expected life (years)	3	3.5	2.5/2.4/2.0
Risk free rate	–	0.99%	–
Expected dividend yield	5.77%	5.59%	–
Probability of forfeiture	33%	44%	0%/0%/32%
Weighted average fair value of options granted (£)	2.69	0.55	3.19/3.08/2.32

As the MSP, PSP and RSP-SMP 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.

25. Commitments

	2020 £m	2019 £m
Capital expenditure: Contracted but not provided	1.2	0.6

26. 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 £5.4m (2019: £5.4m).

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.

27. 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 3 April 2020 amounted to £1.5m (2019: £4.0m).

The Group's banking arrangements are subject to a netting facility whereby credit balances may be offset against the indebtedness of other Group companies.

28. Related Party Transactions

The Group's ultimate parent company is Halfords Group plc. A listing of all related undertakings is shown within the financial statements of the Company on pages 190 to 195.

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 132 to 140. Key management compensation is disclosed in Note 4.

Directors of the Company control 1.0% of the ordinary shares of the Company.

29. Off Balance Sheet Arrangements

The Group has no off balance sheet arrangements to disclose as required by S410A of the Companies Act 2006.

Company Balance Sheet

	Notes	3 April 2020 £m	29 March 2019 £m
Fixed assets			
Investments	4	22.2	21.2
Current assets			
Debtors: amounts falling due within one year	5	501.1	494.4
Cash and cash equivalents		71.4	5.1
		572.5	499.5
Creditors: amounts falling due within one year	6	(218.5)	(227.3)
Net current assets		354.0	272.2
Creditors: amounts falling due after more than one year	6	(179.1)	(63.8)
Net assets		197.1	229.6
Capital and reserves			
Called up share capital	8	2.0	2.0
Share premium account	8	151.0	151.0
Investment in own shares	8	(10.0)	(10.0)
Capital redemption reserve		0.3	0.3
Profit and loss account	9	53.8	86.3
Total shareholders' funds		197.1	229.6

The notes on pages 192 to 195 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 192.

The financial statements on pages 190 to 195 were approved by the Board of Directors on 6 July 2020 and were signed on its behalf by:

Loraine Woodhouse

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 30 March 2018	2.0	151.0	(9.4)	0.3	116.8	260.7
Profit for the period	-	-	-	-	5.1	5.1
Share options exercised	-	-	0.4	-	-	0.4
Issue of new share options	-	-	(1.0)	-	-	(1.0)
Share-based payments	-	-	-	-	0.3	0.3
Dividends paid	-	-	-	-	(35.9)	(35.9)
At 29 March 2019	2.0	151.0	(10.0)	0.3	86.3	229.6
Profit for the period	-	-	-	-	3.1	3.1
Share options exercised	-	-	-	-	-	-
Issue of new share options	-	-	-	-	-	-
Share-based payments	-	-	-	-	1.0	1.0
Dividends paid	-	-	-	-	(36.6)	(36.6)
At 3 April 2020	2.0	151.0	(10.0)	0.3	53.8	197.1

The notes on pages 192 to 195 are an integral part of the Company's financial statements.

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 53 weeks to 3 April 2020, whilst the comparative period covered the 52 weeks to 29 March 2019. 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 financial statements of Halfords Group plc are prepared on a going concern basis for the reasons set out on page 78, and under the historical cost convention.

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100). The Company financial statements have been prepared in accordance with 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 IFRSs have been applied, with amendments where necessary in order to comply with Companies Act 2006. During the year IFRS 16 was adopted in line with Group policy.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, 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. Additionally, no cash flow statement is presented as permitted by FRS 101.8 (h). The profit for the year is disclosed in Note 1 to the financial statements.

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 £3.1m (52-week period to 29 March 2019: £5.4m). 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 Auditors

Fees payable by the Group to BDO LLP (2019: KPMG LLP) and their associates during the current and prior period are detailed in Note 3 to the Group financial statements.

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 Remuneration Report on pages 132 to 140 which forms part of the audited information.

4. Investments

	£m
Shares in Group undertaking	
Cost	
At 29 March 2019	21.2
Additions – share-based payments	1.0
At 3 April 2020	22.2

The investments represent shares in the following subsidiary undertakings as at 3 April 2020 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. Registered office; Icknield Street Drive, Washford Ln, Redditch, B98 0DE.

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 3 April 2020 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, Redditch, 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
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
McConechy's Tyres Services Holdings Limited*	Intermediate holding company	100
McConechy's Tyre Services Limited*	Car servicing	100
Gordon's Auto Centre (Sheffield) Limited*	Dormant	100
Gordon's Auto Centre (Castleford) Limited*	Dormant	100
Gordon's Auto Centre (Wakefield) Limited*	Dormant	100
Strathclyde Tyre Services Limited*	Car servicing	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 Holdings Limited*	Intermediate holding company	100
Tredz Limited*	Non-trading	100
Wheelies Direct Limited*	Dormant	100
Performance Cycling Limited*	Retailing of cycles and cycle accessories	100
Giant (Wales) Limited*	Non-trading	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 Derryall Road, Portadown, Craigavon, Northern Ireland, BT62 1PL		
Hamilton Internet Services Limited*	E-Commerce	0.27

* 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 and Performance Cycling Limited.

5. Debtors

	2020 £m	2019 £m
Falling due within one year:		
Amounts owed by Group undertakings	501.1	494.4
	501.1	494.4

Amounts owed by Group undertakings are subject to interest. At 3 April 2020, the amounts bear interest at a rate of 1.92% (2019: 1.92%).

6. Creditors

	2020 £m	2019 £m
Falling due within one year:		
Bank borrowings (Note 7)	–	19.2
Amounts owed by Group undertakings	217.3	207.2
Accruals and deferred income	1.2	0.9
	218.5	227.3
Falling due after more than one year:		
Bank borrowings (Note 7)	179.1	63.8
	179.1	63.8

7. Borrowings

	2020 £m	2019 £m
Current		
Unsecured bank overdraft	–	19.2
Non-current		
Unsecured bank loan and other borrowings (expiring between two and five years)	179.1	63.8
	179.1	83.0

The above borrowings are stated net of unamortised issue costs of £0.9m (2019: £1.2m).

Details of the Company's borrowing facilities are in Note 18 to the Group's financial statements.

8. Equity Share Capital

	2020 Number of shares	2020 £000	2019 Number of shares	2019 £000
Ordinary shares of 1p each:				
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. There has been no change in share premium, which has remained at £151.0m (2019: £151.0m).

In total the Company received proceeds of £nil (2019: £0.4m) from the exercise of share options. During the year the Company purchased £nil (2019: £1.0m) of its own shares.

Potential Issue of Ordinary Shares

The Company has five employee share option schemes, three of which were set up following the Company's flotation, and the MSP and RSP-SMP which were set up in the prior year. Further information regarding these schemes can be found in Note 24 to the Group's financial statements.

Investment in Own Shares

At 3 April 2020 the Company held in Trust 2,134,139 (2019: 2,134,139) of its own shares with a nominal value of £21,341 (2019: £21,341). 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 3 April 2020 was £1.4m (2019: £5.1m). In the current period nil (2019: nil) were repurchased and transferred into the Trust, with nil (2019: 254,689) reissued on exercise of share options.

9. Reserves

The Company settled dividends of £36.6m (2019: £35.9m) in the period, as detailed in Note 8 to the Group's financial statements.

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 3 April 2020 amounted to £1.5m (2019: £4.0m).

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.

Shareholder Information

Five Year Record	198
Glossary of Alternative Performance Measures	199
Company Information	200





Five Year Record

	52 weeks to 1 April 2016 (audited) £m	52 weeks to 31 March 2017 (audited) £m	52 weeks to 30 March 2018 (audited) £m	52 weeks to 29 March 2019 (audited) £m	52 weeks to 27 March 2020* £m
Revenue	1,021.5	1,095.0	1,135.1	1,138.6	1,142.4
Cost of sales	(478.4)	(536.4)	(564.9)	(559.6)	(558.4)
Gross profit	543.1	558.6	570.2	579.0	584.0
Operating expenses	(458.6)	(481.5)	(495.6)	(516.8)	(525.3)
Operating profit before non-underlying items	84.5	77.1	74.6	62.2	58.7
Non-underlying operating expenses	(1.7)	(3.4)	(4.8)	(7.8)	(32.1)
Operating profit	82.8	73.7	69.8	54.4	26.6
Net finance costs	(3.0)	(2.3)	(2.7)	(3.4)	(2.8)
Underlying Profit Before Tax†	81.5	75.4	71.6	58.8	55.9
Non-underlying operating expenses	(1.7)	(3.4)	(4.8)	(7.8)	(32.1)
Non-underlying finance costs	–	(0.6)	0.3	–	–
Profit before tax	79.8	71.4	67.1	51.0	23.8
Taxation	(16.6)	(15.9)	(13.2)	(10.5)	(8.0)
Taxation on non-underlying items	0.3	0.9	0.8	1.4	4.7
Profit attributable to equity shareholders	63.5	56.4	54.7	41.9	20.5
Basic earnings per share before IFRS 16	32.5p	28.7p	27.8p	21.2p	10.3p
Basic underlying earnings per share before IFRS 16†	33.2p	30.3p	29.6p	24.5p	24.3p
Weighted average number of shares	195.2m	196.6m	197.0m	197.1m	197.0m

* The statutory 53-week period to 3 April 2020 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 2020.

† These alternative performance measures are defined on page 199.

Glossary of Alternative Performance Measures

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures ("APMs"), previously termed as 'Non-GAAP measures'. APMs should be considered in addition to IFRS measurements, of which some are shown on page 150. The Directors believe that these APMs assist in providing useful information on the underlying performance of the Group, enhance the comparability of information between reporting periods, and are used internally by the Directors to measure the Group's performance.

The key APMs that the Group focuses on are as follows. All numbers are shown pre-IFRS 16 (on an IAS 17 basis) to enable comparability with the prior period performance:

1. Like-for-like ("LFL") sales represent revenues from stores, centres and websites that have been trading for at least a year (but excluding prior year sales of stores and centres closed during the year) at constant foreign exchange rates.
2. Underlying EBIT is results from operating activities before non-underlying items. Underlying EBITDA further removes Depreciation and Amortisation.
3. Underlying Profit Before Tax is Profit before income tax and non-underlying items as shown in the Group Income Statement.
4. Underlying Earnings Per Share is Profit after income tax before non-underlying items as shown in the Group Income Statement, divided by the number of shares in issue.
5. Net Debt is 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.

	FY20 Pre- IFRS 16 £m	FY20 Post- IFRS 16 £m	FY19 £m
Cash & cash equivalents	115.5	115.5	9.8
Borrowings – current	(1.8)	(83.4)	(18.5)
Borrowings – non-current	(186.9)	(511.9)	(73.1)
Net Debt*	(73.2)	(479.8)	(81.8)

* The statutory 53-week period to 3 April 2020 comprises reported results that are non-comparable to the 52-week period reported in the previous period.

6. Net Debt to Underlying EBITDA ratio is represented by the ratio of Net Debt to Underlying EBITDA (both of which are defined above).

7. Adjusted Operating Cash Flow is defined as EBITDA plus share-based payment transactions and loss on disposal of property, plant and equipment, less working capital movements and movement in provisions; as reconciled below.

	FY20 Pre- IFRS 16 £m	FY20 Post- IFRS 16 £m	FY19 £m
Underlying EBIT	55.4	67.2	62.2
Depreciation, amortisation & impairment	37.2	118.7	36.0
Underlying EBITDA	92.6	185.9	98.2
Non-underlying operating expenses	(32.1)	(34.2)	(7.8)
EBITDA	60.5	151.7	90.4
Share-based payment transactions	1.0	1.0	0.3
Loss on disposal of property, plant & equipment and intangibles	2.8	2.8	5.5
Working capital movements	48.7	52.0	(10.4)
Provisions movement and other	(3.1)	(3.1)	2.7
Adjusted Operating Cash Flow*	109.9	204.4	88.5

* The statutory 53-week period to 3 April 2020 comprises reported results that are non-comparable to the 52-week period reported in the previous period.

8. Free Cash Flow is defined as Adjusted Operating Cash Flow (as defined above) less capital expenditure, net finance costs, taxation, exchange movement and arrangement fees on loans; as reconciled below.

	FY20 Pre- IFRS 16 £m	FY20 Post- IFRS 16 £m	FY19 £m
Adjusted Operating Cash Flow	109.9	204.4	88.5
Capital expenditure	(34.1)	(33.6)	(29.4)
Net finance costs	(2.4)	(13.2)	(3.1)
Taxation	(16.3)	(16.3)	(12.7)
Exchange movement	(2.5)	(2.0)	(0.3)
Arrangement fees on loans	–	–	(0.3)
Free Cash Flow*	54.6	139.3	42.7

* The statutory 53-week period to 3 April 2020 comprises reported results that are non-comparable to the 52-week period reported in the previous period.

Company Information

Financial Calendar

Tuesday 15 September 2020

Annual General Meeting

Tuesday 8 September 2020

20 Week Trading Update

Registered Office

Halfords Group plc
Icknield Street Drive
Redditch
Worcestershire
B98 0DE

Registrars

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Joint Brokers

Investec plc
30 Gresham Street
London
EC2V 7QP

J.P. Morgan Cazenove
25 Bank Street
Canary Wharf
London
E14 5JP

Auditor

BDO LLP
55 Baker Street
London
W1U 7EU

Solicitors

Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ

halfords®

Corporate and IR website

www.halfordscompany.com

Online Annual Report 2020

halfords.annualreport2020.com

Commercial Website

www.halfords.com

