halfords

Halfords Group plc
Annual Report and Accounts
for the period ended 1 April 2022

To *Inspire* and *Support* a *Lifetime* of motoring and cycling.

Contents

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Welcome to our 2022 Annual Report

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

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

Our medium-term goal is to evolve into a consumer and B2B services-focused business.

Our Integrated Report

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

Online Annual Report

Read our Annual Report online, including a link to the full Remuneration Policy: **halfords.annualreport2022.com**

Corporate Website

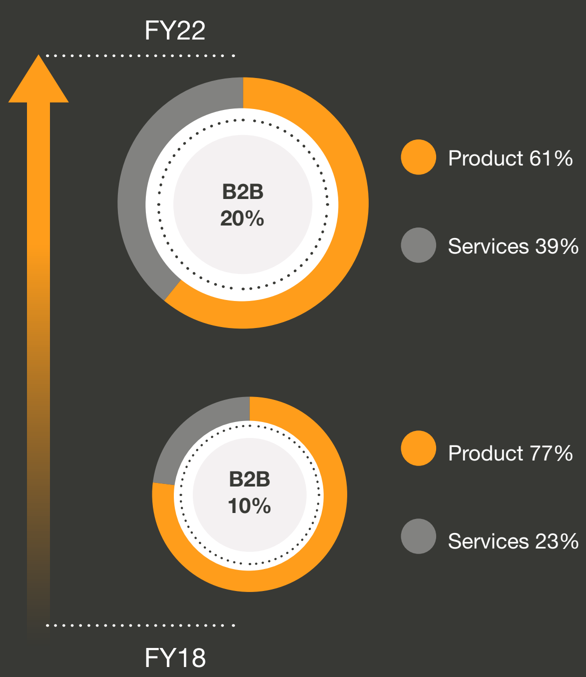
Catch up with our latest news and learn more about Halfords on our corporate website: **www.halfordscompany.com**

We're making **significant progress** in changing the **shape and scale** of our business.

Over the course of this year, we have further developed our business, making significant progress in our plans to evolve into a services-focused business – we have acquired three businesses, significantly increased our electric services and solutions capabilities and launched our Motoring Loyalty Club.

Read more on pages 2 and 3.

Group Revenue



Our Transformation

Scale of Change

In 2019, we outlined our accelerated strategy, focusing on building a services-focused business.

- Our original strategy – to Inspire and Support a Lifetime of motoring and cycling – is still extremely relevant today and remains our focus.
- We have invested heavily in this strategy and are now going from strength to strength with acquisitions helping to transform our business.
- Customers love what we're doing and are responding well with record Net Promoter Scores showing that we are exceeding their expectations.

Transforming our services business ▸

Our latest acquisitions secure our position as the UK's largest provider of vehicle services, maintenance and repairs.

Acquisition Timeline

March 2021	December 2021	December 2021	March 2022
Universal Commercial Fleet Services (a halfords company)	Iverson Tyres Ltd (a halfords company)	National Tyres and Autocare (a halfords company)	havebike... (a halfords company)
30 Centres 190 Vans	4 Centres	239 Centres 68 Vans 8 Warehouses	4 Vans

We have doubled the number of service locations.

FY18	
Stores	480
Garages	316
Mobile Vans	1

FY22	
Stores	403
Garages	606
Mobile Vans*	445

* 185 **Halfords** Mobile Expert vans + 192 Commercial vans + 68 'National' Tyre fitting Vans

% of Group Revenue coming from Services

FY18	FY19	FY20	FY21	FY22
23.6%	23.9%	26.4%	28.7%	38.8%

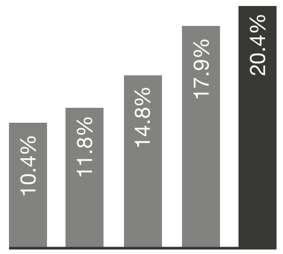
Strategic success, organic growth and recent acquisitions have helped drive the percentage of Group Revenue coming from Services to 39% which puts us well on track to achieve our medium-term target of half our business being in Services.

Note: 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 across the Retail and Autocentres businesses.

Growing our B2B revenue stream ▸

Leveraging and realising value for our existing assets.

% of Group Revenue coming from B2B

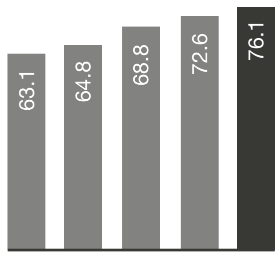


Our strategic ambition to evolve into a B2B-focused business is paying off with recent acquisitions and a strong focus on growing our commercial services offering significantly increasing the percentage of Group revenue coming from B2B channels.

Investing in customer experience ▸

We have delivered record customer NPS ratings for our services business.

Autocentres Net Promoter Score

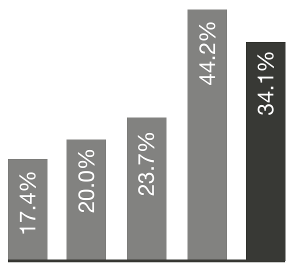


Autocentres NPS ratings have seen steady increases in the last few years as investments in colleague training, greater levels of convenience for customers and delivering increasingly strong levels of customer service help drive customer satisfaction ratings.

Developing a digital first business ▸

Ongoing investment in digital platforms and building brand awareness

Growth of Group online sales



Excluding FY21 due to the pandemic, our online sales have grown steadily with significant investment in our digital platforms such as our integrated Group website and enhanced delivery proposition helping encourage customers to shop online.

Our ambition to become a consumer and B2B services-focused business is being realised, at pace

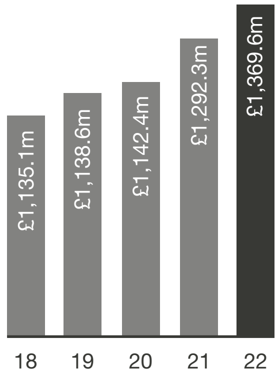
- Services businesses are inherently more resilient to external factors and, as our consumer and B2B services propositions continue to grow, our business is evolving into one which can more readily weather the challenging medium-term environment.
- Alongside this resilience, the evolution into a services-focused business is boosting the Group's underlying profitability, helping to generate more sustainable financial returns.
- In the medium term, half of our business will be in Services – which are essential in their nature – meaning our business has a higher customer retention, a lower risk profile and stronger and more sustainable returns on capital.

Group Highlights

Financial

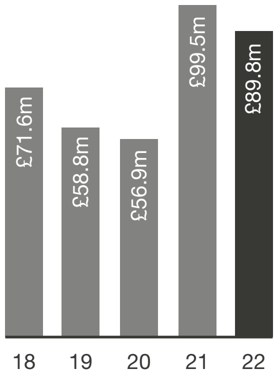
Revenue (£m)[1]

+6.0%



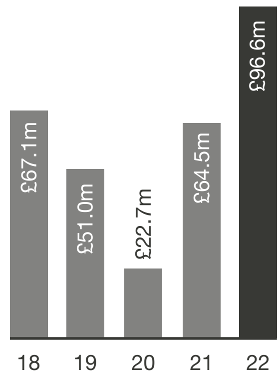
Underlying profit before tax (£m)[1]

-9.7%



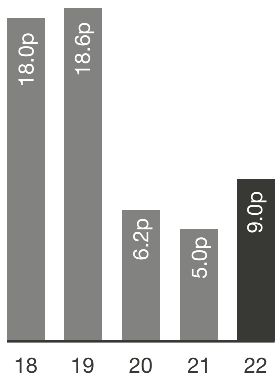
Profit before tax (£m)[1]

+49.8%



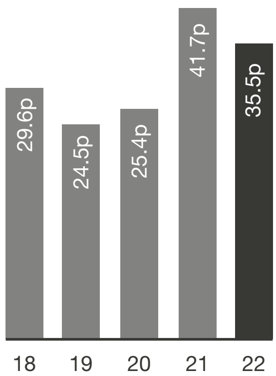
Dividend per ordinary share (p)

+80.0%



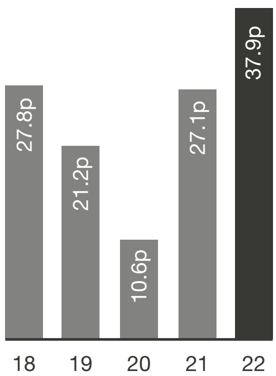
Underlying basic earnings per share (p)[1]

-14.9%



Basic earnings per share (p)[1]

+39.9%



Operational

- We have introduced two 'Fusion' towns in Colchester and Halifax this year. 'Fusion' looks to completely transform and improve the customer experience, bringing together all of the **Halfords** assets into one physical location and creating unparalleled convenience for our customers.
- This year, we launched our brand-new Motoring Loyalty Club, a loyalty scheme offering customers great benefits, such as free MOTs, free next day delivery and discounts across the Group, to help with their motoring journeys. The Motoring Loyalty Club gives us an even better way to get to know our customers and communicate with them. It has been well-received by our customers and we will continue to develop this proposition going forwards.
- We have heavily invested this year in both generally improving colleague skills (for example our on-demand fitting for customers), and in training new skills, with over 2,000 colleagues now trained to service and repair electric vehicles in our retail stores and garages.

ESG

- Our science-based targets for carbon emissions reductions were approved by the Science Based Target Initiative ("SBTi"), a global organisation which is the leading accreditation body for carbon reduction targets. This will help us focus our business on the medium-term goal of reducing our carbon emissions and the longer-term goal of Net Zero.
- We have launched Bike Xchange – a brand new proposition with new operational and technical processes putting **Halfords** into the rapidly growing second-hand market for the first time. The Bike Xchange promotes a circular economy, keeping products in use for longer.

[1] FY20 numbers are calculated on a 52-week basis.

All FY18 and FY19 financials are stated on a pre-IFRS-16 basis.

Strategic

Services

- This year we have acquired three new businesses, increasing the scale and coverage of our **Halfords** Group services. We have welcomed the teams of Axle Group Holdings Limited ("National"), Iverson Tyres, and most recently Havebike – a mobile cycle services provider – to our business. These acquisitions are helping transform our business and enabling us to grow our services proposition to meet our customers' demands.
- We have entered into the Software as a Service market with the launch of 'Avayler': a new business, offering **Halfords**' proprietary software to streamline service delivery for companies that operate in multiple locations and underpinned by the software that made our own business significantly more productive. We have also delivered Avayler Mobile to our first client ATD, and to a new digital partner, Tirebuyer.com, a leading online tyre retailer, which supplies to 14,000+ independent garages across North America.

Products

- We have made huge strides this year in our electric credentials, inspiring our customers with new market-leading E-bike and E-scooter ranges, together with the launch of the biggest electric bike trial scheme in the UK in over 90% of our stores.
- For our motoring customers, we have launched a new electric vehicle charging solution in partnership with BOXT, making us the first mainstream trusted retailer to offer a full end-to-end home charging solution.

Read more about Our Strategy on pages 32 to 39.

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.

Our Purpose

Why we exist

To ***Inspire*** and ***Support*** a ***Lifetime*** of motoring and cycling

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 products and services business.

Colleagues from across the Group believe in our Purpose and strive to deliver it every day with a focus on our medium-term goal of evolving into a consumer and B2B services-focused business.

Our Vision

Our aspirational goal

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

Our Mission

Our achievable goals

- ✔ **Make motoring easier, safer and more enjoyable for everyone.**
- ✔ **Get more people cycling, more frequently.**

Our Strategy

How we achieve our purpose and mission

1

Inspire

Inspire our customers with a differentiated and super-specialist offer.

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 about Our Strategy on pages 32 to 39.

Our approach to ESG

Enabling better decision making everyday

We are on a journey to embed Environmental, Social and Governance ("ESG") considerations into every decision made across the business, from the products we sell to the acquisitions we make. Many colleagues around the business are already mindful of ESG but we know we can be better and improve even further, ensuring our purpose, vision, values and culture all have ESG at their core, enabling us to bring our ESG strategy to life.

Our Culture

Our Values

Fundamental beliefs that underpin everything we do

one halfords family

wow our customers

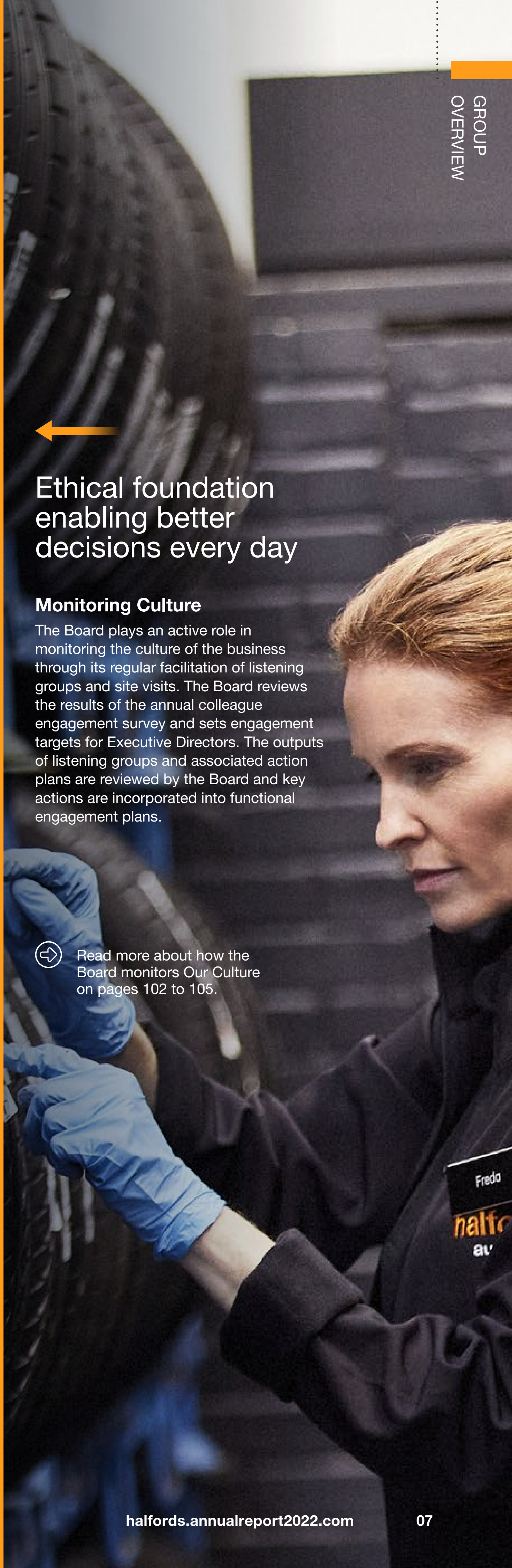
be better every day

pride in expertise

We are reliant on the culture of our business and the engagement of our colleagues to achieve our ambition.

This year, we launched a new set of Group values relevant to our strategy. These new values are the fundamental beliefs that underpin everything we do and have been incorporated into Group training, review and reward mechanisms.

Read more about ESG on pages 40 to 55.



Ethical foundation enabling better decisions every day

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. The outputs of listening groups and associated action plans are reviewed by the Board and key actions are incorporated into functional engagement plans.

Read more about how the Board monitors Our Culture on pages 102 to 105.

Group at a Glance

We are a market-leading business, with unique and differentiated products and services.

Our unique mix of stores, garages, mobile vans and home delivery means we can offer customers unparalleled convenience in the motoring and cycling markets.

We know that our customers want us to be there for them, when they need us. That means our stores and garages are open early and late, we offer a proposition which is mobile and comes to them wherever they are and we offer convenient delivery options to meet their needs. This year we made strong progress in further enhancing the journey our customers go on with us and now offer an even more convenient proposition with more garages – giving customers less distance to drive to drop their vehicle off – and significantly more mobile vans (both customer and commercial), meaning that more customers than ever can access our services without disrupting their busy lifestyle.

Our Unique Combination of Assets Creates a Market-Leading Consumer and B2B Proposition

Recognising that convenience is important to our customers, our combination of assets means customers can access our wide range of products and services in a way that suits their needs, be that in a store, garage, at home via a mobile van or online via our integrated web platform. Our B2B platform means business customers can also take advantage of our unique combination of assets.

Stores

400 **Halfords** Retail and 3 Performance Cycling stores offering a wide range of motoring and cycling products and on-demand services.

Garages

606 garages offering MOT, service, maintenance and repair services.

Mobile Vans

185 ‘**Halfords** Mobile Expert’ vans, 68 ‘National’ Tyre fitting vans and 192 Commercial vans, bringing services direct to customers.

Customer Contact Centre

Offering expert advice, knowledge and help from a centralised, virtual location.

Click & Collect

Enabling customers to pick up products at their local store.

Integrated Web Platform

Bringing together Halfords products and services under one website.

B2B

Offering products and services, across both motoring and cycling, to businesses around the UK and ROI, including our market-leading Cycle2Work scheme.

Case Study

Project Fusion

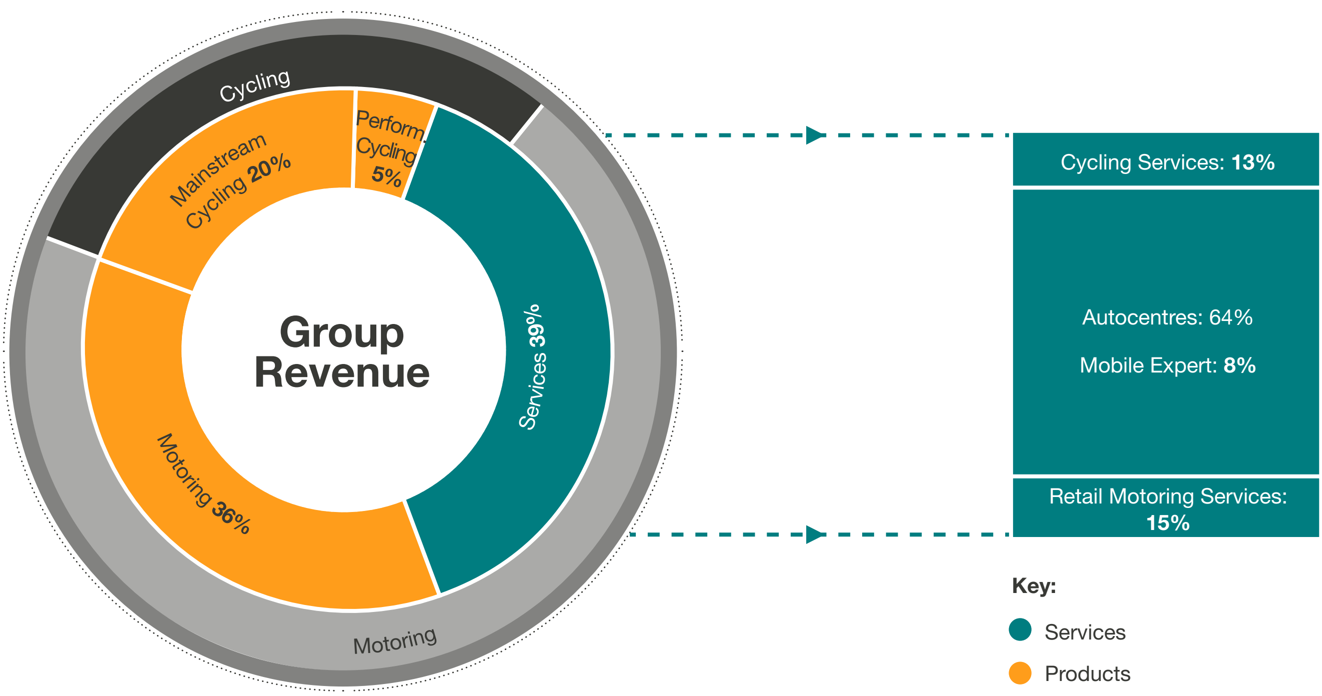
Project Fusion is our name for a new initiative we have launched in the last year to completely transform and improve the customer experience. Fusion is the customer experience seamlessly, consistently and conveniently executed across all of our assets in a town, making it even easier for customers to shop across the Group. Initially trialled in Colchester and Halifax, we have invested in the in-store and in-garage experience, improved the layout and design of the stores and enhanced the ways in which our business operates in a town, such as fulfilling service jobs at the most cost-effective location for us. The response from customers has been strong with Net Promoter Scores up nine points in these towns since we launched. We have already started to integrate learnings from these Fusion towns into the rest of our estate and will develop the Fusion initiative further over the course of the next financial year.

Customer NPS

+9pts

FY22 Group Revenue

FY22 Group Revenue broken into each business segment, highlighting the significant contribution from Group Services.



Chair's Statement

Keith Williams

FY22 will be marked as a historic year for the Group alongside the IPO in 2004 and the acquisition of Nationwide Autocentres in 2011.

Strategically, our objective for Halfords – to evolve into both a consumer and B2B services-focused business generating higher and more sustainable financial returns – feels more relevant than ever.

Profit Before Tax

£96.6m

Dividend Per Share (Full-Year)

9.00p

As I write this year's statement, the UK has been free from any real COVID-19 restrictions for over six months. This, however, understates the impact COVID-19 has played throughout a large proportion of our 2022 financial year ("FY22"). Two years of unpredictable consumer confidence, supply chain disruption and the extraordinary national debt mean the social and financial implications of COVID-19 on consumers and businesses extend well beyond any formal restrictions being lifted.

Across the Group, we employ over 11,000 colleagues, who remain the lifeblood of our business, and this year provided the UK with over 7.5m essential services. I want to thank each and every colleague for their hard work and dedication to the Group in what has been a tumultuous year of trading with many challenging times. We have continued to invest significantly in our colleagues; doing our best to support their mental and physical health with free flu vaccinations and mental health first aiders, supporting those hardest hit financially through our 'Here to Help' fund and Wagestream service, but also investing in growing our business, to provide job security, training and career progression across the Group.

Despite the continued disruption the pandemic has presented, we have made significant progress during this financial year. FY22 will be marked as a historic year for the Group alongside the IPO in 2004 and the acquisition of Nationwide Autocentres in 2011. By the close of FY22, we had made six acquisitions in a 27-month period, the largest and most significant of which was Axle Group Holdings Limited ("National") in December 2021. **Halfords** Group undertook a share placing to fundraise over £60m, with a nil discount on the share price – a testament to the support of our investors for both our strategy and the attractiveness of the National acquisition for a price of £62m. The acquisition of National was a major step forward against our strategy, bringing scale and opportunity that will transform our business further over the coming years. Today, nearly 40% of our revenues come from Services, and over 70% are Motoring based, offering resilience and strength as we move into FY23.

I am therefore particularly pleased with the Group's performance during FY22. As well as strong strategic progress, Group Profit Before Tax of £96.6m represented good growth, £73.9m ahead of FY20. The Group continues to be cash generative in the medium-term, though in FY22 a normalisation of working capital after COVID-19 disruption meant that Free Cash Flow was -£14.9m in the year.

Looking at the Year Ahead

Returning to a period of normality is something I'm sure we all hope to see soon, but I don't believe it is visible on the horizon yet, and certainly won't be seen within the next 12 months. As the worst of the pandemic is hopefully behind us, we transition into a post-COVID-19 period where the sacrifices we have all made begin to need repaying in some form or another. The most threatening of which appears to be the worst cost of living crisis in a generation. Higher taxes, record inflation and accelerating interest rates will all pose problems for consumers and businesses alike and, because of this, I don't believe we will return to a pre-COVID-19 economic and consumer environment in the short term. Finding a new normal is the best we can hope for, for now.

What will be clear, however, is that only the strongest and most relevant businesses are likely to emerge from this transitional period. Our significant efforts during the last three years, starting in FY20 by improving the profitability of the underlying business followed by the tremendous operational agility through the pandemic, has meant we are stronger financially and well-positioned for the year ahead. Strategically, our objective for **Halfords** – to evolve into both a consumer and B2B services-focused business generating higher and more sustainable financial returns – feels more relevant than ever. We therefore must continue to pursue this objective, by both growing our existing business, crystallising the very significant synergies identified during the acquisition process for National, and heading towards our new garage and van targets of 800 and 500 respectively. Capex spend for FY23 is estimated to be around £45m to £50m, with additional expenditure of up to £15m to complete the integration of National and deliver the projected synergy benefits.

Dividend

In FY21, we restarted our dividend policy after a short pause during the most uncertain period of the COVID-19 pandemic. We paid an interim dividend of 3.00p in January 2022 and the Board proposes a final dividend of 6.00p, payable in September 2022, giving a full-year dividend of 9.00p per share for FY22. As we look forward, our intention remains for this to be progressive but, should surplus cash remain in the business that we feel we cannot deploy with good rates of return, we will return this to shareholders in the most appropriate way.

Board of Directors

We have seen one change to our Board this year. In October, we announced that Jo Hartley would be joining the **Halfords** Board as Chief Financial Officer. Jo started in April 2022 and, with this, started a three-month handover from Loraine Woodhouse, who retires from **Halfords** and the Board in June. I would like to express the Board's thanks to Loraine for her commitment, professionalism and dedication to **Halfords** during her time at the Group. Jo brings a wealth of experience and expertise that will be invaluable as we look to build on the strong momentum within the business and navigate our way through the current challenges and uncertainties of the wider trading environment.

Keith Williams
Chair

15 June 2022

COVID-19 Statement

Looking back at FY22

At the start of the pandemic, our status as an essential retailer was a clear endorsement of the wider role **Halfords** plays in keeping the UK moving, by continuing to offer products and services to those who needed them.

Whilst we must look to the year ahead and the new normal, I'd like to recognise the hard work, dedication and loyalty our colleagues have shown over the last two years, helping to keep the UK moving and delivering fantastic results for the business. We have worked hard to keep our colleagues safe during this period and have continued to support their mental and physical health, financially supported those who have been hardest hit and continued to provide training and career progression across the Group.

The Year Ahead

We have learnt a lot during the last two years and, whilst we hope that the worst of the pandemic is behind us, we are better prepared for the difficult times ahead of us. We must now look to finding a post-COVID-19 normal as consumers and businesses struggle with challenges arising from the higher cost of living, the war in Ukraine and the uncertainty of what lies ahead.

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 c.4% share, we have significant opportunity for growth.

Motoring Services Market Share

4%

2

Building a services-focused business

In the medium term, over half of our business will be in Services – which are less discretionary 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.

Group Revenue from Services

39%

3

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.

Group Revenue from B2B

20%

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 in the medium-term, enabling investment in our plan.

Free Cash Flow

-£14.9m

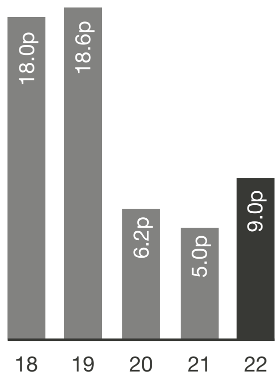
5

Dividend returns

The Group has an attractive dividend policy, designed to be progressive and supported by strong levels of Free Cash Flow in the medium-term.

Dividend per Ordinary Share (p)

9.00p



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.

Convenient services proposition delivered in over 1,400 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.

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.

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.

Strong sustainability credentials

Our sustainability strategy aligns well with our Commercial strategy, particularly our ambitions to lead the way in electric mobility as well as our ongoing commitment to supporting higher cycling uptake in the UK.

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.

Expertly trained colleagues

Consistently great customer service is key to our success and we achieve this through our expertly trained colleagues. All colleagues benefit from high levels of training via our Gears programme and more tailored training programmes via our central training hub. Cross-Group career opportunities give colleagues further ways to boost their knowledge and expertise.

1

Strategic Report

Contents

Chief Executive Officer's Statement

Graham Stapleton

It has been more critical than ever that we have continued to focus on keeping colleagues and customers safe, improving efficiency across the Group, and identifying cost reductions where possible.

Total Group Revenue

£1,369.6m

Group Revenue from Services

£531.5m

The Group delivered another strong performance through the second half of FY22, delivering both strong financial results and record levels of customer satisfaction across the full year. These two factors combined are a clear reflection of the progress we are making against our strategy, and the transformation in the business since FY20.

The Group delivered a good performance through the second half of FY22, resulting in both resilient financial results and record levels of customer satisfaction across the full year. The performance is a clear reflection of the progress we are making against our strategy, and the transformation in the business since FY20. Compared to FY20, Group revenues grew +19.9% as we increased market share in our motoring business and increased our scale through acquisitions. Underlying PBT of £89.8m, grew £32.9m ahead of FY20 and -£9.7m below FY21 as we continued to create a more profitable business.

Our strategy continues to be centred around becoming a consumer and B2B services-focused business, with a greater emphasis on motoring, generating higher and more sustainable returns. During FY22, we made two further Motoring Services acquisitions (National and Iverson Tyres), making us the UK's largest Motoring Service provider. Over 70% of Group revenues are now derived from Motoring and with Services revenues now £0.5bn, and B2B revenues at £0.3bn, we have an increasingly resilient, needs-based foundation.

Operational Review

Halfords won't be alone in reporting that the operating environment remained challenging for all retailers across the UK in FY22 and, whilst we anticipated an improvement through the last six months of trading, just as one challenge ended, the next one emerged. It has therefore been more critical than ever that we have continued to focus on keeping colleagues and customers safe, improving efficiency across the Group, and identifying cost reductions where possible.

Supply Chain

The global supply chain has been particularly challenging over the last two years, meaning moving anything around the globe with any degree of certainty has been difficult. Whilst there were general signs of improvement towards the end of H1, the reliability of freight remained poor. There have also been specific pockets of industry supply challenges with bike componentry suffering through COVID-19 factory closures. These factors meant it was often very difficult to accurately understand demand due to the unstable stock availability presented to customers. As noted earlier, premium bikes were most exposed to these problems throughout FY22, but problems extended to kids bikes during periods of particularly high seasonal demand, for example, Christmas, where late disruption resulted in inconsistent availability from week-to-week.

Integration of our Acquisitions

As we started FY22, we had already completed three acquisitions in 18 months (McConechy's, Tyres on the Drive and Universal Tyres) and as we noted during our last update, one of our biggest programmes this year was to efficiently integrate Universal Tyres. Our acquisitions are crucial to growing our scale and convenience to customers, but it is only when they are fully integrated and using our Avayler platform that their true potential begins to crystallise. It was particularly pleasing therefore, that we were able to integrate Universal Tyres in less than half the time it took to integrate McConechy's - a truly fantastic achievement and testament to the hard work and professionalism of our teams. With three further acquisitions in the second half of FY22 (Iverson Tyres, National Tyres and Havebike), our integration experience will ensure the valuable synergies of these deals are realised as soon as possible and help to grow the business in the future. Our integration of National, the most significant of these acquisitions, is discussed in more detail in the strategic highlights section later in this update.

Environmental, Social and Governance ("ESG")

We continue to make good progress on our ESG agenda, and it remains a core part of our strategy whilst simultaneously providing a valuable commercial opportunity.
We have identified four priority areas in Electrification, Net Zero, Diversity & Inclusion, and Product, Packaging and Waste Management. Over the course of FY22 we have made progress against all four including:

Case Study

Acquisition of National

This year, we announced the acquisition of Axle Group Holdings Limited ("National") which marks a significant milestone for the business, transforming the makeup of the Group and significantly accelerating our plans to evolve into a services-focused business. The Group is made up of three businesses: National, a national garage chain; Tyre Shopper, a leading UK online value tyre retailer; and Viking, a wholesale tyre distribution network.

The £64 million share placing enabled us to acquire the 239 centres and 68 vans, adding 1,200 highly skilled colleagues to our Group. This has transformed our scale and will create very significant levels of synergies across the **Halfords** Group, estimated at £18m+ EBITDA by our third year of ownership.

Viking, the wholesale tyre distribution network, creates important strategic and operational advantages for the Group, giving us the ability to supply tyres to our own Group businesses on a national scale.

Acquisition in Numbers:

239
Centres

68
Vans

1,200
highly skilled colleagues

£18m+
estimated EBITDA from Group synergies by year three

Chief Executive Officer's Statement

In Electrification:

- We have rolled-out free E-bike trials across our Retail store estate to encourage customers to switch to clean transport solutions.
- We achieved our target of training over 2,000 colleagues across Retail and Autocentres, to deliver Electric Services in Scooters, Bikes and Cars.
- We have created a unique partnership with BOXT to become the first mainstream retailer to offer end-to-end charging solutions for homes, aiding the switch to electric.

In Net Zero:

- Our Science-based targets for carbon reduction were approved by the SBTi ("Science Based Targets Initiative").
- 75% of **Halfords**' physical estate is powered by electricity from renewable sources, helping to reduce carbon emissions in our own operations by 25%. This moves us significantly closer to achieving our science-based target for Scope 1 and 2 emissions, which is aligned to the ambitious 1.5 degree pathway.

In Product, Packaging and Waste Management:

- Our primary plastic packaging was reduced even further, falling by 17% - equivalent to 279 tonnes.

In Diversity & Inclusion:

- We Launched four Colleague Network Groups giving a voice to all colleagues to discuss Diversity & Inclusion across the Group.
- We ran Diversity & Inclusion Masterclasses with our Senior Leadership Team.

Halfords holds an influential position in seeking to drive sustainability in both the motoring and cycling industries. In particular, we believe that the breadth of our electric products and services offer will play a critical role in supporting the UK to adopt electric forms of personal transport.

Colleagues and the Labour Market
Our colleagues have always been our most important asset. With almost 40% of revenue now service-related, this has never been more relevant than it is today. It is their expertise that has resulted in an astonishing 7.5m service jobs carried out this year, helping to keep customers moving when they need it most. Investing in our colleagues is one of the best investments we can make, providing them with best-in-class training and technology, whilst also supporting them financially and mentally through difficult times. We know that highly engaged colleagues result in high customer satisfaction, and our NPS scores during FY22 are testament to this.

This year, we completed our biggest training programme to date, which involved training our Retail colleagues in the full suite of customer services on offer. By doing this, our colleagues are now trained in twice as many skills as they were a year ago, meaning our on-demand fitting offer is more convenient for customers, reducing wait times and getting customers back moving quickly.

During H1 the labour market was particularly challenging, driven by high demand and short supply with self-isolation from COVID-19 often having an adverse impact on the availability of technicians. The labour market has remained difficult through the second half of FY22, and we believe it has suppressed our growth, with our capacity constrained by the supply of available technicians to our Autocentres and HME businesses.

Finally, to underpin our service offering, we also implemented a new store operating model in Retail which has resulted in more customer facing service technicians. Combined with our training investments, this means our Retail stores have more capacity to service customers in periods of high demand.

Strategic Progress

As I noted earlier, the success of FY22 has been a result of strong strategic progress against a clear and consistent vision.

Inspire our customers with a differentiated, super-specialist offer
Our inspire pillar is centred around transforming the customer experience by investing in both our digital and physical infrastructure, whilst simultaneously providing customers with access to new products and services in our core markets. Some of the key areas of progress this year have been:

Fusion
Halfords Fusion town experience is our project to transform the customer experience, investing in both the physical and digital estate. Fusion brings together all of our shopping and services locations across a town, leveraging all our customer touchpoints, and creating an end-to-end experience that provides a full solution to every customer.

A Fusion town incorporates a new format destination retail store, an updated Autocentres garage and an extended **Halfords** Mobile Expert offer – all operating in conjunction with an online and home delivery proposition across a single location. This results in our stores, garages and vans truly working as one, with no perceived transition for the customer when moving from one customer proposition to another.

Our two trial towns in Halifax and Colchester have delivered some very encouraging results. The ability for colleagues to book customers into any **Halfords** service has driven a step-change in the number of customers shopping across more than one of our propositions. Our on-demand WeCheck services, delivered by our highly skilled Retail colleagues from the Halifax store car park, now refer 20% of our Halifax garage's sales per week. These referrals have driven significant revenue to our garages, initiated from a Retail transaction, reducing the need for us to acquire customers through traditional marketing channels. Our Halifax garage is now ranked within the top three performing garages in our estate, having been 214th out of 300 pre-Fusion.

We have also invested in training and technology to aid colleagues in selling total solutions to customer's needs in Retail stores covering products, accessories, and services. When coupled with changes to the store environment, such as the Parts desk which helps to facilitate interaction with our colleagues, we can assist customers through the more complex shopping journeys, such as selecting the right bulbs, blades or batteries for their car or bike purchases. These changes have resulted in strong average transaction value uplifts, as well as increases in customer experience scores by +9 points relative to the estate.

New products and services
Our super-specialism is a key differentiator as we believe that no other company can deliver the breadth of offer across the life of a car or bike. We intend to continue to deepen this super-specialism. This year we have launched our Electric Vehicle charging

solutions partnership with BOXT, rolled out E-bike trials across our stores to give customers the chance to try before they buy, and entered the second-hand bike market by launching Bike Xchange. Bike Xchange creates a circular economy for bikes by offering customers the opportunity to trade in used bikes in exchange for money off future purchases, whilst also allowing us to nationally range fully serviced and warrantied pre-owned bikes.

We have continued to focus on our own brand and exclusive ranges of products deepening our specialism in Motoring and Cycling. We have launched exclusive brands within car cleaning including Yiannimize and Autobrite and our own brand ranges of bikes including Carrera, Voodoo and Boardman continue to receive excellent reviews and accolades including our Boardman SLR 8.8 winning the Road.cc award in May 2022.

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

Our Support pillar has arguably seen the most significant transformation during FY22, in part driven by the acquisition of National.

National

In December 2021, the Group undertook a £61.6m share placing in order to acquire National. The acquisition added 239 garages, 68 vans and 1,200 highly skilled colleagues to our Group. This has transformed our scale and will create very significant levels of synergies across the **Halfords** Group – estimated at £18m+ EBITDA by our third year of ownership. I am very pleased with the progress to-date, and we remain confident of delivering year 1 synergies in line with the business case through the work done in aligning to group purchasing contracts as well as moving National's freight procurement onto our Group contract.

An important aspect of the National deal was the acquisition of Viking, the wholesale tyre distribution network which, in itself, will create very important strategic and operational advantages for **Halfords**. This network gives us the ability to supply tyres to our own Group businesses on a national scale, having less reliance on third-party networks whilst simultaneously reducing costs.

Case Study

Launch of Avayler, our proprietary software business

This year, we entered the B2B software market with the launch of Avayler: a new business, offering **Halfords**' proprietary software to streamline service delivery for companies that operate in multiple locations, software that we have been using for a number of years internally.

Avayler's first customer was announced as American Tire Distributors Inc. ("ATD"), one of the largest independent suppliers of tyres to the replacement tyre market in North America and owner of leading online tyre retailer Tirebuyer.com. Avayler's platform will underpin ATD's operations, supplying tyres to 80,000 garages across the US. ATD will also be the exclusive provider of the Avayler Mobile platform to the North American automotive market.

The software was developed to manage **Halfords**' own garages, mobile vans and retail stores, and brings together systems and services developed in-house by **Halfords**.

Avayler brings benefits for both customers and companies alike. The Avayler Mobile product uses algorithms to calculate the available time slots for the customer according to where the nearest van is located and the parts available. It then uses dynamic pricing to value those slots accurately. The customer can track where the van is and receive notifications and updates whilst the colleague is en route.

The platform ensures companies can calculate the cheapest and quickest routes to their customer; maximise colleague productivity on the job; give details of traffic on the road; and provide the colleague with detailed checklists to ensure a safe and consistent service is provided.

The platform delivers a vastly superior customer experience, with no direct equivalent on the market today, and significantly increases productivity of our colleagues, helping to drive even greater efficiencies.

Chief Executive Officer's Statement

Halfords Mobile Expert
Our **Halfords** Mobile Expert business goes from strength-to-strength and continues to deliver best-in-class customer experience and convenience. Within two years we have grown the business from 7 to 253 vans, offering a range of 17 services to customers across over 75% of the UK. Revenues have grown +44% YoY and over 300% vs. FY20.

Avayler
Avayler is our market leading digital platform which underpins our motoring services businesses. We have developed this platform over a number of years, optimising the software which, in-turn, optimises our business. The success of our business using Avayler has enabled us to market the solution to third party service providers and, as a result, we successfully entered the Software as a Service market, supporting both ATD and Tirebuyer in the US.

Enable a lifetime of motoring and cycling
Our lifetime pillar is focused on establishing lasting relationships with customers. Whilst growing, we know that only 4% of our customers shop the breadth of our offer. This creates a significant opportunity, with relatively modest changes to customer behaviour required. Our research shows that those who shop across the Group spend three to five times more than those shopping from a single offer. This can increase further by forming a relationship over a three-year period.

Motoring Loyalty Club
To unlock these opportunities, we launched a unique Motoring Loyalty Club at the end of March 2022. Our Motoring Loyalty Club puts the customer and their car at the centre of our proposition, allowing us to harness data and form a relationship across the life of the car. We can now offer customers bespoke advice, offers and savings, and alongside our strategic investment in motoring pricing, we can give customers better value and strengthen our service proposition.

The launch of the Motoring Loyalty Club is an important step forward in both our lifetime pillar and overall strategy, but we see it as only the beginning. The Motoring Loyalty Club has created a valuable platform from which we will build further opportunities in the future, as we begin to support customers through the life of their car.

Underpinned by cost and efficiency
The success of our transformation continues to be underpinned by our focus on cost and efficiency. By creating a more profitable and efficient business, we create the capacity to reinvest and generate long-term returns for shareholders. We have delivered strong cost reduction in FY22, with some highlights including:

- Settling 69 Retail lease renewals at an average of 26% below existing rental levels.
- Delivering over £7.6m of goods not for resale savings and cost mitigation, including freight and energy.
- Saving a further £1.5m through Store efficiency programmes across 20 initiatives.

Underpinned by our colleagues
Colleagues are the heart of a services business, and we have continued to invest in training as well as their health and wellbeing:

- Our "Here to Help" Fund, set up during the height of the pandemic, has now delivered £0.4m of support to colleagues that need it the most.
- "Wagestream" launched during the year, giving colleagues early access to wages when needed.
- We have trained over 100 mental health first aiders.
- We have offered free winter flu jabs to all colleagues.

FY23 strategic focus:
I noted earlier that as one external challenge seemingly came to an end, another was poised to take its place. We look to be through the most severe impacts of COVID-19 in the UK, but we face a new period of uncertainty, this time created by the worst cost of living crisis in a generation. At the time of writing this update, inflation is approaching double-digit percentages, interest rates are increasing, and consumer confidence is at a 10-year low. With this period of uncertainty ahead, we feel it is right to sharpen our strategic focus to deliver what matters most to customers at this time.

Inspire
In Fusion, we will leverage the learnings from our trial towns, and roll out a capital efficient Fusion investment plan across the estate, including:

- Training colleagues in solution selling practices.
- Car park referrals and managers in up to 100 Retail sites.
- Roll out further 3Bs and Click and Collect Hubs in Retail.
- Capacity increased in Autocentres through additional colleagues.

We will further our super-specialism by deepening our ranges within our core markets. This will include extending our Retail offering by giving access to a broader range of car parts – a market worth over £1bn.

Support
Our B2C business:

- Integrate National to crystalise the next phase of performance synergies. This will include implementing PACE across the estate, installing MOT equipment in sites currently without equipment and all other equipment upgraded.
- Continuing to rebrand sites.
- Increase headcount and capacity.

Our B2B business:
- Look to fill white space in our UK coverage by moving closer to our commercial van target of 500.

Avayler:
- We will continue our investment in Avayler, the platform that underpins the success of our motoring services operation. This will optimise our own business further, but also allow us to drive further opportunities with third party service providers, focused on the Automotive industry.

Lifetime

In Lifetime we will accelerate and optimise our Motoring Loyalty Club platform:

- Focus on driving memberships and VRN data capture, targeting between 0.5 and 1.0 million customers by the end of FY23.
- Utilise our Group Data platform and Motoring Loyalty Club to engage with customers through the life of their car and drive lifetime value.
- Target 10% Premium mix to test subscription style memberships.

Capital structure and dividend

Our capital allocation priorities remain unchanged:

1. Maintaining a prudent balance sheet
2. Investment for growth
3. M&A, focused on Autocentres
4. Progressive dividend policy
5. Surplus cash returned to shareholders

Our Net Debt: EBITDA ratio, revised on an IFRS-16 basis, was 1.67 at the year-end , broadly in line with our expected range of 1.8× to 2.3×.

With a continued strong performance from our areas of strategic focus, we will continue with our transformation plan. Our forecast capital expenditure for the year is £45m to £50m, with additional expenditure of up to £15m to complete the integration of National and deliver the projected synergy benefits. Our growth plan will be complemented by acquisitions if we are able to find attractive targets with the right strategic fit for a fair price. Our capital expenditure and acquisition strategy will be focused on scaling our motoring services business in line with our strategy, cementing our market leading position in aftermarket service, maintenance, and repair and growing our market share in motoring products.

We understand the importance of the ordinary dividend to many of our investors, and we updated our dividend policy at our preliminary results in June 2021, reinstating the ordinary dividend starting FY22 at 9.00p per share, intending this to be progressive. Following the payment of an interim dividend of 3.00p per share on 21 January 2022, we are proposing a FY22 final dividend of 6.00p per share to be paid on 16 September 2022, with the corresponding ex-dividend date of 11 August 2022 and the record date of 12 August 2022.

As we have indicated previously, Loraine Woodhouse is stepping down as CFO and will be replaced by Jo Hartley. This Director change takes place on 16 June 2022, when Jo Hartley will be appointed as a Director of **Halfords** Group Plc and Loraine will resign from the Board.

Graham Stapleton
Chief Executive Officer

15 June 2022

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.

Market Size, Share and Growth Dynamics

Services Overview

Motoring

Size	Share	Growth Projection
£14.5bn	c.4%	High Growth

Cycling

Size	Share	Growth Projection
£150m	c.15%	Flat Growth

Products Overview

Motoring

Size	Share	Growth Projection
£2.5bn	c.20%	Flat Growth

Cycling

Size	Share	Growth Projection
£2bn	c.30%	Moderate Growth

Retail Macro-Customer Trends

DIY to DIFM

Whilst the shift from 'Do It Yourself' to 'Do It For Me' is continuing to progress over time, with more people spending time at home and less able to go out, over the last year we have seen an increase in people searching for DIY solutions and 'having a go' at home. As the shift to electric mobility accelerates and technology continues to advance, however, DIY solutions will be increasingly difficult to manage and DIFM will become the norm.

Link to Strategy 2

Omnichannel 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 colleagues in stores and garages.

Link to Strategy 1 2

Sustainability

The requirement for sustainable practices is now impacting all businesses in the UK, with COVID-19 bringing this to the forefront of consumers' thoughts. Consumers are increasingly expecting proactive policies and action on climate change, circular processes, reduction of plastic waste and ethical sourcing. The impact that we are having on the world and the footprint we are leaving behind is starting to shape the markets of the future, with conscience consumerism at the core.

Link to Strategy 1 2 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

Experiential Shopping

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 and service-providers to fit around their routines with on-demand services and friction-free interactions as standard. Convenience to them is not just about speed but about making their lives easier, even if this comes at an increased price. 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

Macroeconomic Trends

Cost of Living

Driven by an increase in inflation, raising of the energy price cap and a general increase in prices, consumers are feeling a financial squeeze with negative real wage growth for most and significantly lower disposable income.

Link to Strategy 1

International Pressures

The war in Ukraine, the impact of Brexit and delays within the shipping industry are some examples of how tensions within the international community continue to impact the UK and all consumers.

Link to Strategy 1

Ongoing Impact of COVID-19

Although we are now living with COVID-19, its impact is still being felt across the country from businesses struggling to get back to a 'normal' way of working with customers not returning to some industries, consumers and businesses with financial pressure, and even the new norms around 'hybrid' ways of working. The UK is having to adapt to find a balance between lockdown and life after lockdown.

Link to Strategy 1

Key:

1 Inspire

2 Support

3 Lifetime

Read more about Our Strategy on pages 32 and 39.

Our Marketplace

Services

Motoring

Market Opportunities

- Electric mobility is rapidly growing in popularity and, alongside this, so is the electric vehicle services marketplace. **Halfords** has positioned itself as the market leader in this space with significant numbers of colleagues trained in electric servicing of Electric Vehicles ("EVs"), E-bikes and E-scooters.
- Convenience remains essential for customers whether that's a delivery proposition to meet their needs, a service location that's open on their way home from work or even bringing the services to them via a mobile van.
- Businesses are continually looking for help with their company fleets and with the pressures of an increase in the cost of living, they are looking for more affordable ways to keep their vehicles running for longer.

Competitive Landscape

- Predominantly made up of independent garages which offer servicing, maintenance and repair, including car parts and associated fitting.
- Technological advancements limit the scope for effective delivery by small independent garages due to financial requirements.
- Car dealerships are expanding into used car servicing.
- Mobile services are a growing market segment, particularly the tyre fitting industry.

How We Differentiate Ourselves

Halfords has a unique ability to offer automotive services from a variety of locations – our Retail stores, garages and mobile vans. We have achieved our 2019 medium-term target to increase our services footprint to over 1,000 locations and have now set a new target - 800 garages and 500 vans. 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. In addition, we pride ourselves on our B2B proposition in this market, having developed a strong Fleet business over a number of years and recent acquisitions mean we have an ever-growing presence in the commercial tyre market.

Cycling

Market Opportunities

- Growth in electric mobility as a mode of transport is increasing the need for the servicing of E-bikes and E-scooters. **Halfords** is positioned well to capitalise on this with a well-established and well-known reputation for servicing mechanical bicycles and scooters which makes us the first retailer customers think of for E-servicing.
- With time-pressured customers requiring even greater convenience, mobile cycle servicing is becoming a sought-after service. Our recent acquisition of havebike gives us a great foothold in this marketplace, giving us the ability to reach our customers at a location convenient to them.

Competitive Landscape

- Traditional specialists and independents dominate the marketplace.
- Physical service locations are important.
- Rapidly growing E-mobility segment is a specialist area few retailers are able to offer, particularly not the smaller independent bike retailers.
- Mobile service providers are a growing segment but remain a small part of the overall marketplace.

How We Differentiate Ourselves

In the UK, **Halfords** is usually the first brand associated with cycling and our highly trained team of colleagues drives awareness of our services capabilities. Our network of stores are conveniently located giving customers great access to our services proposition. We have invested significantly in the training of our colleagues in the servicing of E-bikes and E-scooters and are now the largest provider of electric services in the UK. Our bike build proposition is leading the market with free six-week checks and bike care plans to make sure our customers continue to stay safe whilst enjoying the great outdoors. Our recent acquisition of Havebike takes us one step further, positioning us as one of the leading providers of mobile cycle servicing in the UK which is rapidly growing in popularity. As part of Bike Xchange, we service bikes in order to give them a second life in the UK or abroad in African communities, something which few others in the industry are able to offer.

Products

Motoring

Market Opportunities

- Increase in demand for electric products such as EV charging cables or home charging solutions.
- Increasingly busy lifestyles mean customers want convenience, with access to products when and where they need them. 'On-demand' fitting is increasingly important as fewer people are willing to fit their own products, opting to pay a small premium for assistance.
- Online selling continues to be important to customers with strong delivery propositions essential in getting products to customers when they want them.

Competitive Landscape

- Limited number of specialists but a highly diverse and competitive set of retailers (e.g. Amazon) selling generalist product ranges.
- Limited 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.

How We Differentiate Ourselves

Our heritage of over 125 years has established **Halfords** as a household name, with 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.

Cycling

Market Opportunities

- E-mobility is rapidly growing in importance to customers and to the planet, offering a lower carbon mode of transport. Customer demand for E-bikes is continuing to grow with E-bikes now accounting for one in every five bikes sold. Sales of E-scooters remains strong showing continued demand for new innovative vehicles is at record levels and we expect both of these segments of the market to continue growing.
- The majority of customer journeys begin online and the selling of cycling equipment online continues to be a growing area in the market. However, the need to see a bike in a physical location, to get the correct size and fit, is still an essential part of the customer journey.

Competitive Landscape

- Major sports retailers have diversified into cycling in recent years (e.g. JD Sports, Go Outdoors) but the market is still predominantly independents and traditional specialists.
- Cycle-to-Work continues to be an important driver.
- Online pure-play continuing to grow.
- Big brands selling directly to customers.

How We Differentiate Ourselves

Halfords Group boasts the biggest and most popular cycle brands in the UK – Carrera and Apollo. 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. 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.

Our Engagement with Stakeholders

Effective utilisation of our resources and relationships are an integral part of our plan to drive long-term sustainable growth.

The views of all of our stakeholders are considered by the Board and Executive Team on a regular basis.

Stakeholders that benefit from the value we create

Colleagues

Why it is Important to Engage
Our colleagues are fundamental to the achievement of our customer experience ambitions and are the cornerstone of our services proposition.

How We Engage
- Promotion of the Group values
- Listening: surveys and colleague groups
- '3-Gears' training programme
- 'Aspire' store management development courses
- Recognition and reward

Stakeholders Key Interests
- Support and development
- Career opportunities
- Fair remuneration
- An appropriate sustainability strategy

Our Response
- Conducted our annual Colleague Engagement Survey to ensure every colleague has the chance to have their voice heard.
- Launched four Colleague Network Groups giving colleagues the chance to discuss diversity and inclusivity in the workplace.
- We run weekly communications through team Huddles, a CEO blog and our intranet.
- Colleague awards take place regularly with the ability for any colleague to be nominated for living the **Halfords** values and role modelling behaviours that positively impact colleagues and our customers.

Link to Our Risks
- Stakeholder Support
- Regulatory & Compliance
- Service Quality
- Colleague engagement/Culture
- Skills shortage

Suppliers

Why it is Important to Engage
Engaging with our supply chain effectively ensures the 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.

How We Engage
- Far East trading office developing mutually beneficial relationships
- Organising logistics, driving efficiencies and improving environmental management
- Supplier conferences

Stakeholders Key Interests
- A trusted distributor in the UK and ROI
- Fair payment terms and pricing
- Responsible sourcing practices

Our Response
- In October, we ran a virtual conference for our top 200 suppliers, bringing them on our journey and building the relationships between us and them. These were followed up with one-on-one meetings with our senior leaders talking to each of our top strategic suppliers.
- A survey was sent to all our suppliers giving them the opportunity to feed back on ways of working and our future strategic plans.

Link to Our Risks
- Stakeholder Support
- Sustainable Business Model
- Critical physical infrastructure failure (including supply chain disruption)
- Climate Change and Electrification

Communities

Why it is Important to Engage
Engaging with the communities is the right thing to do and ensures continued viability of the business in the long term. We aim to contribute positively to the communities in which we operate.

How We Engage
- Charity & Community initiatives
- Media channels
- Recycling initiatives
- Net Zero commitment

Stakeholders Key Interests
- Environmentally friendly practices
- Charitable giving

Our Response
- As a Group, our colleagues voted to support Mind as our Group charity partner, signalling the importance of mental wellbeing to our colleagues.
- Donated to the Disasters Emergency Committee (DEC) Ukraine Humanitarian Appeal.
- Donated £100k to Hope Hospital in India during the COVID-19 pandemic.
- Continued partnership with Drake Hall prison, where we run a cycle training academy for women prisoners.
- Raised awareness among female students at technical colleges in the UK by showcasing the diverse and engaging work that our female colleagues perform in their roles.

Link to Our Risks
- Stakeholder Support
- Brand Appeal and Market Share
- Cyber Security

Read more about how the Board considers stakeholders in decision-making on pages 28 and 29.

Stakeholders that influence what we do

Investors

Why it is 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.

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

Stakeholders Key Interests
- Value creation opportunities and long-term sustainable growth
- Appropriate sustainability practices

Our Response
- Full and half-year results and strategy presentations to shareholders, performed this year virtually due to pandemic restrictions.
- Regular meetings with brokers, analysts and shareholders throughout the year via the Chair, CEO, CFO and Investor Relations team.
- Corporate website kept up to date with annual refresh of all information and more regular minor amendments.
- Ensuring transparent reporting on ESG-related performance.

Link to Our Risks
- Stakeholder Support
- Brand Appeal and Market Share
- Sustainable Business Model
- Regulatory & Compliance

Customers

Why it is Important to Engage
Understanding our customers' needs and behaviours allows us to deliver relevant products and services, retain customers and attract new ones. It also identifies opportunities for business growth.

How We Engage
- Satisfaction surveys
- Rewards
- Commercial website
- Social media engagement

Stakeholders Key Interests
- A great product or service, for a fair price

Our Response
- Regular communications through digital channels (e.g. email, social media) to talk to our customers.
- Regular customer 'listening groups' allowing more detailed feedback.
- Net Promoter Score surveys daily in stores and garages giving quantifiable feedback.
- Commercial website updated every week, enhancing the customer journey, providing the latest information, advice and guidance from our expert colleagues.
- The **Halfords** Blog gives customers more in-depth reports on topics such as electric mobility, ways to save money, competitions and essential information for motorists and cyclists.

Link to Our Risks
- Stakeholder Support
- Value Proposition
- Brand Appeal and Market Share
- Service Quality

Government

Why it is 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 appropriately.

Link to Our Risks
- Regulatory & Compliance
- Climate Change and Electrification

Media

Why it is Important to Engage
We need strong multi-channel exposure to connect with customers and our wider stakeholder audience. Engaging with the media ensures transparency and accuracy of information on the business.

Link to Our Risks
- Stakeholder Support
- Brand Appeal and Market Share
- Regulatory & Compliance

Our Engagement with Stakeholders

Section 172(1) Statement

Engaging with stakeholders delivers better outcomes for our business, fundamental to our long-term success

Our Approach

As referenced in the Corporate Governance Report on page 104, this section describes how the Directors consider the matters set out in section 172(1)(a) to (f) of the Companies Act 2016 (the "Act").

In July 2019, the UK Corporate Governance Code reinforced the importance of section 172 of the Act which requires the Directors to consider (amongst other matters) the interests of all stakeholders, including:

- The likely consequences of decisions in the long term.
- The interests of the Company's workforce.
- The need to foster relationships with suppliers, customers and others.
- The impact of operations on the community.
- The high standards of business conduct.
- The need to act fairly between members of the Company.

Board Information
Keeping the Board Informed

- Leadership and management receive training on Directors' duties to ensure awareness of the Board's responsibilities.
- Board minutes include an explanation of s.172 factors and relevant information relating to them.
- Our Board continually engages with stakeholders.

Read more on pages 92 to 117.

Strategic Considerations
s.172 and the Company's Strategy

- s.172 factors considered in the Board's discussions on strategy.
- Chair ensures decision making is sufficiently informed by s.172 factors.

Read more on pages 92 to 117.

Board Decision Making
Outcomes of Considering s172

- Outcomes of decisions assessed and further engagement and dialogue.
- Actions taken as a result of Board engagement.
- Actions align with our culture.

Read more on pages 92 to 117.

Reduction of CO_2 in our Supply Chain

We are committed to achieving Net Zero as a business and have already made good progress in the reduction of our Scope 1 and 2 emissions. However, we recognise that we cannot achieve Net Zero alone and will need to collaborate and partner with our suppliers, vendors and customers to work towards a net zero future. We have already engaged our top suppliers to understand their position today and set out our expectations for the future.

s172 consideration

Environmental responsibility
Our goal is to achieve Net Zero emissions across our entire value chain by 2050 at the latest and have set science-based targets aligned to the ambitious 1.5°C climate science to focus us in the medium-term. This year, we have invested in the EcoVadis platform to support the collection of accurate Scope 3 carbon data from our suppliers which will provide a more accurate baseline and enable us to track and ultimately reduce our Scope 3 emissions.

Shareholders
Our shareholders are focused on the strategic plans we have in place to ensure our long-term business sustainability whilst reducing the impact of our operations on the environment. This relies upon us being able to demonstrate tangible reductions in our environmental footprint whilst ensuring resilience of our strategy and operations against the impact of climate change.

Colleagues
Our colleagues are key to our commercial success and will be instrumental in supporting the delivery of our sustainability targets. Across the Group, every colleague has a role to play in our sustainability journey which includes considerations in day-to-day operations as well as holding the business to account and encouraging us to go further.

Customers
Customers are increasingly aware of environmental issues and are even starting to make buying decisions based on retailers that are committed to improving ESG. We must demonstrate to existing and potential customers that we understand the environmental impact of the products we manufacture and sell and more importantly, that we are committed to reducing their impact going forward.

Colleague Engagement Weekly CEO Huddle and Blog

To help keep our colleagues connected and engaged in how our business is performing and how we're progressing with our strategic initiatives across the **Halfords** Group, our CEO hosts a weekly online Teams Live event known as a Huddle. This is a live broadcast aimed at our Support Centre colleagues which includes an update on our business trading performance and highlights the colleagues and teams who are delivering this performance. Each week a guest speaker from our Senior Leadership Team also shares an update on one of our key priorities. Colleagues can watch this live or view a recorded version following the event.

To continue this flow of communication to our customer-facing colleagues across all areas of the Group, our CEO, Graham Stapleton, issues a weekly blog on a Friday to all colleagues. This includes highlights of our business trading performance as well as sharing business-wide updates on key strategic initiatives. This is shared on our Group intranet Wheels, on email and via local communication channels to ensure all colleagues are connected to what's happening across the Group.

s172 consideration

Colleagues
Connects colleagues across all areas of the Group with our **Halfords**' strategy by sharing updates on the latest business performance, transformation activity, strategic commercial and customer experience initiatives as well as the colleague engagement activity.

Supporting the Disasters Emergency Committee ("DEC") Ukraine Humanitarian Appeal

At **Halfords** we continue to support many charities and communities and recently signed a three-year partnership with mental health charity Mind. In addition, and in response to the devastating humanitarian crisis taking place in Ukraine, we wanted to help the people of Ukraine in whatever way we could. With our Digital team working closely with an external agency based in Ukraine our colleagues felt deeply impacted and wanted to help their co-workers through fundraising for charities providing essential care locally.

s172 Consideration

Community
To help the people of Ukraine get access to the things they needed, such as medical support, food and shelter, we donated £50,000 to the Disasters Emergency Committee ("DEC") Ukraine Humanitarian Appeal. We also knew that our colleagues wanted to help with fundraising and so we pledged to match colleague fundraising up to a maximum £10,000 for the DEC. So that our customers could also easily donate to this great cause we included a link on **Halfords**.com.

How We Create Value

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

Our inputs enable us to . . .

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

Partners
Halfords is proud to work with suppliers, 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 trusted retailer for motorists and cyclists and a leading provider of motoring services. 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.

Offer a Unique Proposition . . .

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 parts or products they want for their motoring or cycling needs from E-bikes to socket sets, power washers to bicycle helmets. Our colleagues are true experts and can suggest suitable products for each customer situation.

Our offering

Motoring Products

Mainstream Cycling Products

Performance Cycling Products

Services

Our services proposition complements our strong product business; helping to keep the UK moving whilst delivering unrivalled customer service.

Operating from over 1,400 locations, **Halfords** has the national scale to offer services for our customers' cars or bicycles in a way and at a location which is convenient to them. 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 offering

Retail Motoring Services

Retail Cycling Services

Autocentres/ Mobile Expert

Our customers

Consumers
Consumers have been at the heart of our business since we started selling bikes 130 years ago. Today, we have a huge customer database giving us great insight into how our customers shop and allowing us to offer our customers products and services that we know they will love.

Businesses
Our business-focused proposition is growing rapidly with high demand from a wide variety of industries. From the servicing of fleet vehicles to the selling of cycling products, we aim to meet the motoring and cycling needs of any business.

Focused on value-creating opportunities . . .

Our accelerated strategy

> *Evolving into a consumer and B2B services-focused business, with a greater emphasis on motoring, generating higher and more sustainable financial returns.*

What this means for Halfords in the medium term:

Selling products and related solutions for our customers' motoring and cycling needs remains core to our offering. However, in recognising the market opportunity and our unique advantages, we will evolve into a services-led business, with a greater emphasis on motoring. Our integrated services offering will provide customers with unparalleled convenience, giving them access to the services they need, when and where they want them.

Building on our progress

2022

39%

revenue from Services

Our business now

- Motoring and Cycling product and services retailer.
- Strong operating model focused predominantly on consumers.
- Impacted by external factors out of our control.

Medium-term target

50%

revenue from Services

Our business in the future

- Consumer and B2B services-focused provider.
- Resilient revenue streams as Services and B2B channels continue to grow.
- Underlying business is more profitable.

Evolving into a customer and B2B services-focused business.

Read about our unique strengths on page 13.

Delivering long-term value for all stakeholders . . .

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 colleagues so that they are engaged to drive our growth ambitions.

Financial

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

Read the Chief Financial Officer's Report on pages 60 to 65.

Community

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

Read more in the Charity and Communities section on pages 51 to 53.

Environmental

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

Read more in the ESG Strategy on pages 40 to 55.

Our Strategy

Strong financial results and record levels of customer satisfaction are a clear reflection of the progress we are making against our strategy and the transformation of the business since FY18.

Graham Stapleton
Chief Executive Officer

Our Purpose

To ***Inspire*** and ***Support*** a ***Lifetime*** of motoring and cycling.

Our medium-term goal

To evolve into a consumer and B2B services-focused business.

Our Strategy

We set out a clear vision and purpose in September 2018, which remains unchanged. Our strategy is as relevant now as it was then, arguably more so given shifting markets and changes to consumer behaviour. We have achieved significant progress in recent years and will continue to invest in the execution of the strategy, for the benefit of all stakeholders.

Inspire our customers with a differentiated and super-specialist offer.

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

Enable a ***Lifetime*** of motoring and cycling.

Underpinned by:

Focus on Cost and Efficiency

Investment in Our Colleagues

Our ESG Commitments

Inspire

Inspire our customers with a differentiated and super-specialist offer.

- Transition from a general-specialist to a 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.

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 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.

Lifetime

Enable a ***Lifetime*** of motoring and cycling.

- A more focused and targeted approach to loyalty at a Group level in order to optimise the lifetime value of our customers.
- Accelerating the development of our Customer Relationship Management ("CRM") programme, offering compelling reasons for our customers to return and shop across the Group.

Our Strategy

Inspire

Inspire our customers with a differentiated and super-specialist offer

Objectives

Specialism
We will become a super-specialist by:

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

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:

- Continuing to optimise the Group's web platform and the full omnichannel journey.
- Focusing on personalisation by leveraging our Group-wide Single Customer View.
- Improving the in-store experience by providing a more experiential, inspirational and service-led environment.

Link to our KPIs

- Group Colleague Engagement
- Like-for-Like Sales
- Customer Net Promoter Score

Link to our Risks

- Value Proposition
- Skills Shortage
- Brand Appeal and Market Share
- Climate Change and Electrification

Progress made
- Launched two 'Fusion' towns which have both been successful, giving us some clear opportunities on how to expand in the next year, most notably cross-selling and sales opportunities in our garages.
- Launched a new electric vehicle charging solution in partnership with BOXT, making us the first mainstream trusted retailer to offer a full end-to-end home charging solution.
- Launched Bike Xchange, a brand-new proposition with new operational and technical processes, putting Halfords into the rapidly growing second-hand market for the first time.
- Further expanded our market-leading E-bike and E-scooter ranges.
- Launched the UK's biggest E-bike trial scheme.

Priorities for the year
- Roll out capital-efficient Fusion investments across the estate including Parts Hubs, Fitting stations and Fusion selling practices and technology.
- Further our super-specialism by deepening our ranges within our core markets, such as on-demand tyre fittings as well as access to a broader range of car parts.

Case Study

EV Charging Solutions

To further enhance the suite of electric services and solutions customers can access at **Halfords**, we have launched a new EV charging solution in partnership with technology firm BOXT and Stashbee. This partnership enables customers to have top-of-the-range EV charge points installed at their house by a BOXT engineer with the added confidence that comes due to the reputation of the **Halfords** brand.

The high cost associated with switching to using electric vehicles is only one barrier to adoption. According to the Department for Transport, concerns about where to charge is the biggest barrier to adoption. Around 40% of UK homeowners do not have access to off-street parking and the UK only has 15% of the electric vehicle charging points it needs to meet net zero by 2050.

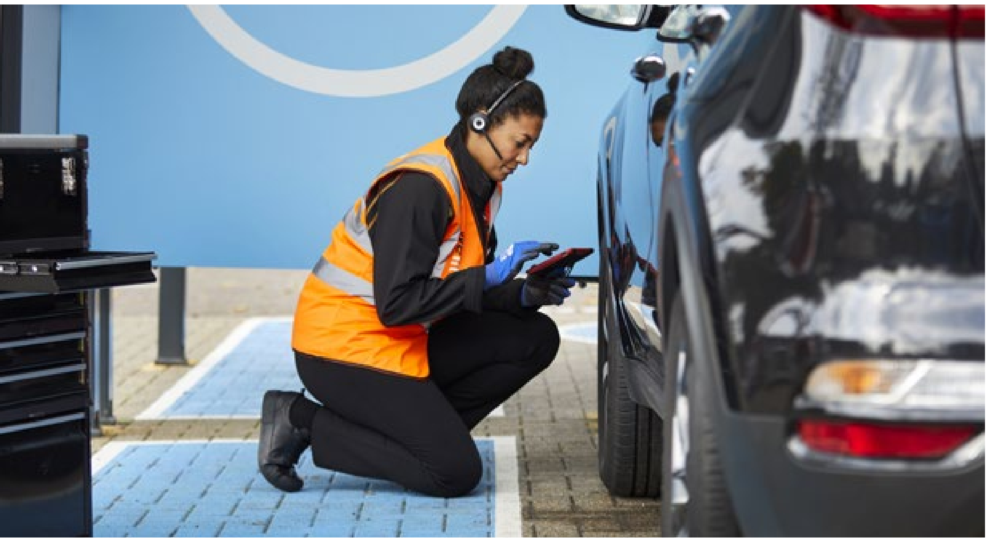
Our goal is to not only give customers confidence to switch to electric but also to help boost the number of charge points across the UK. Customers are encouraged to list their driveway out on Stashbee to help bridge the electric charging gap, which is significant in residential areas away from trunk roads.

This initiative makes us the first mainstream trusted retailer to offer a full end-to-end home charging solution and supports our overall mission to champion the UK's transition to electric forms of mobility.

Our Strategy

Support

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, **Halfords** Autocentres and **Halfords** Mobile Expert.
- Easy referral from Retail WeCheck findings to Autocentres booking.
- 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.

Link to our KPIs

- Services as a Percentage of Group Revenue
- LFL Sales
- Customer Net Promoter Score

Link to our Risks

- Service Quality
- Skills Shortage
- Brand Appeal and Market Share
- Stakeholder Support

Progress made

- Three acquisitions in Services helping us to become the biggest motoring services provider in the UK, exceeding our target of 200 vans and 550 garages.
- Entry into the software market with the launch of Avayler already supporting ATD and Tirebuyer in the US. Avayler is our market-leading digital platform which underpins our motoring services businesses.
- ‘WeCheck’ Phase 3 – allowing us to refer customers across the group from Retail directly to one of our garages or mobile locations.

Priorities for the year

- Integrate National to crystallise the next phase of performance synergies including rebranding sites, installing MOT equipment and implementing Avayler across the estate.
- Continue to make progress towards our medium-term target of 800+ garages, 300 **Halfords** Mobile Expert vans and 500 Commercial vans.
- Accelerate investment in Avayler to drive further opportunities with third party service providers, focusing on the Automotive industry.

Case Study

Growing our Group Services Proposition

Following on from the acquisition of The Universal Tyre Company in FY21, this year we acquired three new businesses, further increasing the scale and coverage of our Group Motoring Services. We have welcomed the teams of National, Iverson Tyres and Havebike into the Group, meaning that in 2021 we became the biggest motoring services provider in the UK. These acquisitions have led to a significant change to the Group physical estate, growing the number of fixed service locations by 60%, giving customers access to the services we offer at an even greater number of locations.

Alongside these acquisitions, we have entered into new B2B markets which offer international growth opportunities with our proprietary software business, Avayler. This platform utilises our existing digital technology, such as PACE, our market-leading in-garage digital operating platform, and offers businesses a way to streamline their customer proposition and maximise efficiencies across their operations.

Our Strategy

Lifetime

Enable a ***Lifetime*** of motoring and cycling.

Progress made

- Launched our unique and market-leading Motoring Loyalty Club, putting the customer and their car at the centre of our proposition.
- We can now offer our customers bespoke advice, offers and savings, meaning we can give customers better value and offer a better service proposition.

Priorities for the year

- Focus on driving memberships and VRN data capture, targeting more than one million customers by the end of FY23.
- Utilise our Group Data platform and Motoring Loyalty Club to engage with customers through the life of their car.
- Target 10% Premium mix to test subscription style memberships.

Objectives

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.

Customer First

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.

Link to our KPIs

- Customer Net Promoter Score

Link to our Risks

- Stakeholder Support
- Service Quality
- Brand Appeal and Market Share

Case Study

Motoring Loyalty Club

This year, we launched our brand-new Motoring Loyalty Club, a loyalty scheme offering customers great benefits, such as free MOTs, free next day delivery and discounts across the Group, to help with their motoring journeys. The Motoring Club gives us an even better way to get to know our customers and communicate with them. We have built new technology to provide real-time, personalised expertise and rewards for members who access our services through any channel – whether a store, garage, van or online – and the response from our customers has been great. This is just the start of the loyalty scheme and we will continue to develop this proposition going forwards.

Our Approach

Our ESG Strategy

FY22 was a strong year for delivery against our Environmental, Social and Governance (“ESG”) agenda.

Overview

Building on the strategy work that we undertook last year, we are pleased with the strong progress that we have made this year. As the regulatory landscape continues to evolve in response to climate change, supply chain transparency and corporate due diligence, we remain committed to evolving our approach and ensuring we have a sustainable business that delivers for all stakeholders.

Our Approach

Our approach to sustainability focuses on the ESG areas that are most important to our stakeholders and to our long-term business success. Our ESG agenda is aligned to the Group’s strategy ‘To Inspire and Support a Lifetime of motoring and cycling’ and also forms a strong part of our culture, recognising we all have a role to play in delivering against our commercial ambitions as well as minimising our impact on the planet.

Following a process of stakeholder engagement and materiality assessment, our priority areas have been identified as:

Electrification

“The leading name in electric services giving everybody the confidence to switch and continually enjoy the benefits of electric mobility.”

Net Zero Commitment

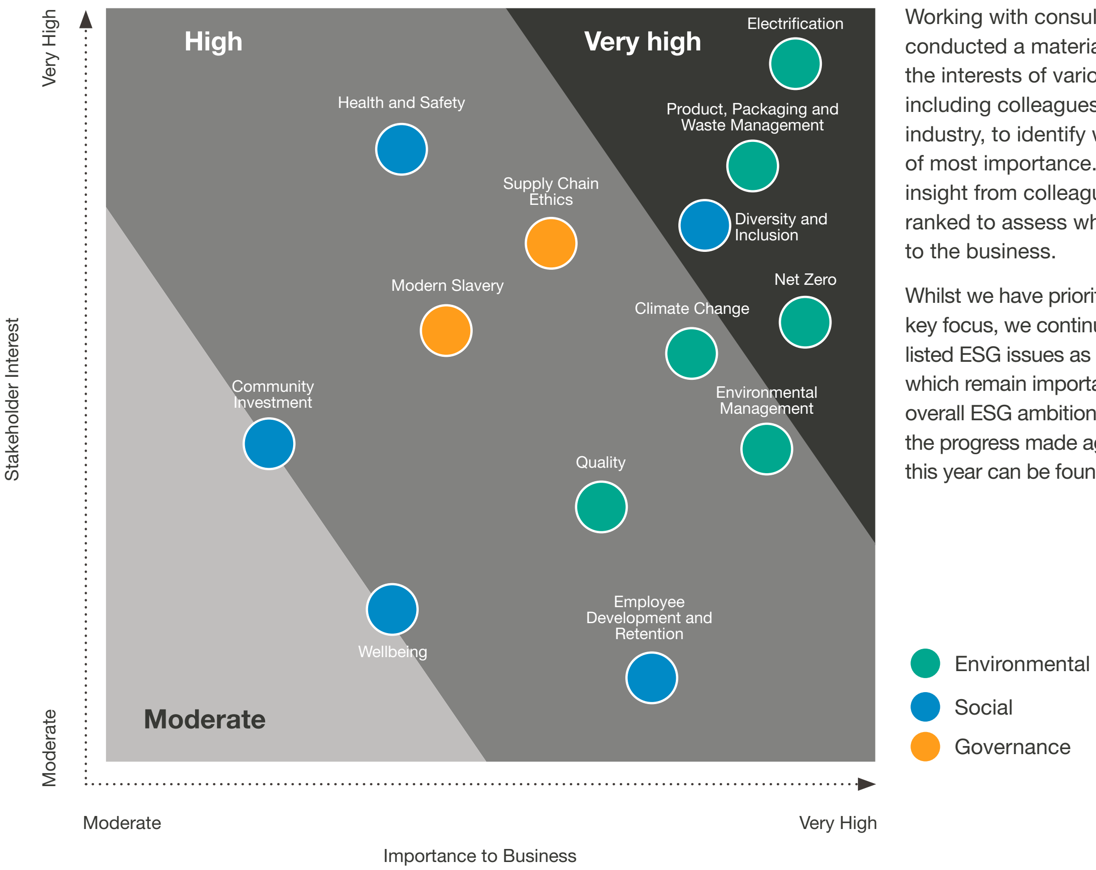
“Achieve Net Zero value chain emissions by 2050 and interim reductions aligned to science-based principles.”

Diversity and Inclusion

“Make Halfords a truly inclusive place to work and representative of the customers and communities we serve.”

Product, Packaging and Waste Management

“Minimise our environmental impact and increase our transparency whilst continuing to pursue sustainability opportunities within our product portfolio.”



Working with consultants from PwC, we conducted a materiality analysis, looking at the interests of various stakeholder groups, including colleagues, investors and the industry, to identify which ESG issues were of most importance. Then, incorporating insight from colleagues, these issues were ranked to assess which were most material to the business.

Whilst we have prioritised four areas for our key focus, we continue to manage the other listed ESG issues as 'business as usual', which remain important in the delivery of our overall ESG ambitions. Further information on the progress made against our ESG agenda this year can be found on the following pages.

Governance

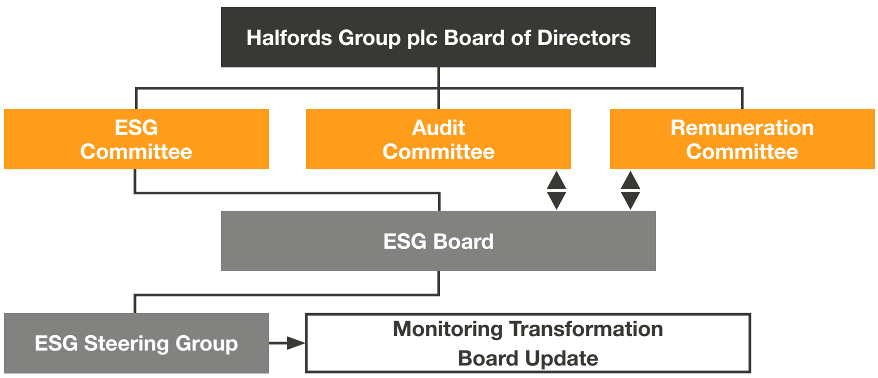
Our priority areas are underpinned by our commitment to operating responsibly. We have clear policies that ensure a consistent approach to the standards of operations and behaviours we expect from our colleagues and business partners. These policies include, but are not limited to, health and safety, environmental management, global sourcing code and data protection. Colleagues are required to complete mandatory learning to ensure policies are well understood and are actively encouraged to speak up without fear of reprisal should they believe these policies are not being adhered to and/or misconduct is taking place.

The ESG Committee comprises Non-Executive Directors and is a committee of the Board. Further information on the Committee's main responsibilities and activities undertaken during the year can be found on page 122.

The Executive Team is ultimately responsible for the day-to-day management of the ESG programme. Whilst ESG is regularly discussed at Executive meetings, recognising the importance of ESG, we have chosen to form an ESG Board comprising Executive members giving a dedicated monthly session to focus on strategic progress of our ESG programme. The ESG Board formally commenced in Q1 FY23.

With the formation of the ESG Board, we paused the previously reported ESG Steering Group towards the end of the financial year. The ESG Steering Group, which comprised functional leaders, met monthly throughout the year and was responsible for monitoring progress against our priority areas of focus, discussing external trends as well as sharing performance updates to the Transformation Board. The new ESG Board will review terms of reference for the ESG Steering Group in the new financial year to ensure we remain adequately positioned to deliver against our ESG strategy and priorities.

During this financial year, executive remuneration is linked to our performance in our Electric Services training target. We're pleased to have met this target which accounted for a portion of executive remuneration in FY22.



ESG Performance Overview

Electrification

Our Focus

- Lead the market in Electric Servicing as the UK shifts towards more sustainable mobility options, specifically electric vehicles ("EVs"), E-bikes and E-scooters.
- Investing in education and community engagement programmes to help and support consumers to make climate-smart choices.
- Providing industry-leading training to our colleagues to better support customers as they make the switch to electric.
- Broadening our ranges of electric services and solutions, e.g. E-bikes/E-scooters, making the transition to electric travel easier.
- Lobbying campaigns designed to accelerate the transition to electric vehicles.

Progress in FY22

- Trained over 2,000 colleagues in electric servicing (+66% vs. FY21).
- Increased E-mobility product ranges such as new Carrera Impact E-bikes and E-scooters.
- Launched E-bike affordability options making E-bikes accessible to all.
- Introduced home charging services.
- Ran the UK's largest E-bike fleet trial in over 70% of stores.
- Continued lobbying campaigns to accelerate the transition to electric vehicles.
- 32% of Retail company car fleet switched to alternative fuels.
- Doubled the revenue from the servicing of EVs (vs. FY21).

Priorities for Next 12 Months

- Focus on consistently delivering electric services and solutions to customers across the Group.
- Further develop the range of electric services and solutions we offer our customers.
- Enhance our customer communications to enable us to better support customers as they make the switch to electric mobility.
- Continue lobbying campaigns for the legalisation of private E-scooters in public areas.
- Invest in equipment and training to support growing demand for EV servicing.

Related UN SDGs

Net Zero Commitment

Our Focus

- Reduce our carbon emissions and make progress with our science-based targets ("SBTs"), as approved by the Science Based Targets Initiative ("SBTi"). These targets are aligned to the more ambitious 1.5ºC scenario set out in the Paris Agreement (2015).
- Reduce absolute Scope 1 and Scope 2 GHG emissions 42% by 2030 from a 2020 base year.
- Increase annual sourcing of renewable electricity to 100% by 2030 from 0% in 2020.
- Reduce absolute Scope 3 GHG emissions from 'Purchased Goods and Services', 'Capital Goods' and 'Upstream Transportation and Distribution' 25% by 2030 from a 2020 base year.
- Our ultimate aim is to achieve Net Zero emissions across our value chain by 2050. We recognise we cannot do this alone, so will collaborate and partner with our suppliers, vendors and customers to work towards a Net Zero future.

Progress in FY22

- Science-based targets for carbon reduction approved by the SBTi.
- Commenced the transition to renewable energy with 75% of our estate now powered by renewable sources.
- Included climate change as a principal risk to the business.
- Invested in the EcoVadis platform to support the collection of accurate Scope 3 carbon data from our suppliers.
- Continued to make progress with improving the efficiency of our stores with LED lights and Building Management System ("BMS") improvements in 75% of our estate.
- Engaged top suppliers to understand their carbon position today and set out our expectations for the future.

Priorities for Next 12 Months

- Develop a roadmap to achieve Net Zero.
- Continue to make progress against our SBTs.
- Roll out EcoVadis system with our suppliers to better understand their position in carbon management.
- Continue to embed climate risk within our risk management framework.

Related UN SDGs

For ESG Performance Data please see pages 54 and 55.

Diversity and Inclusion

Our Focus

- Create an inclusive workplace in which all colleagues are able to be themselves at work, feel valued for their contribution and are supported to perform their best.
- Provide equal opportunities for all colleagues.
- Remove the gender/ethnic/diversity pay gap.
- Create accessible opportunities and training to improve female representation across our Group, particularly in our garages.

Progress in FY22

- Built a D&I strategy to strengthen how we think about diversity, inclusivity and equal opportunities in day-to-day operations.
- Ran D&I Masterclasses with our Senior Leadership Team.
- Launched a set of four Colleague Network Groups focusing on Women of **Halfords**, LGBTQIA+, Ability and Disability, and Race and Ethnicity.
- Signed up to the British Retail Consortium Diversity and Inclusion Charter.
- Initiated process to collect diversity data from all colleagues across the Group.

Priorities for Next 12 Months

- Roll out D&I Masterclasses across the Group.
- Roll out our Colleague Network Groups to grow awareness and build understanding for colleagues across the Group and support cultural change at all levels.
- Continue to support the industry to understand how the automotive sector can be more attractive for all individuals but specifically those currently under-represented in the workforce.

Related UN SDGs

Product, Packaging and Waste Management

Our Focus

- To develop a packaging material strategy that improves environmental impact through increased recyclability, reduction of virgin plastic and responsibly certified card.
- Reduce packaging tax through plastic reduction.
- Continue to seek innovative ways to reduce, reuse and recycle core waste streams.
- Ensure that by 2025 all our packaging will be reusable or recyclable.

Progress in FY22

- Reduced virgin plastic in our Retail business by 17%, including a 10% overall plastic reduction.
- Zero waste sent to landfill.
- Developed a packaging hierarchy which is benchmarked to align with key non-food retail peers.
- Trialled a small range of products made from recycled materials.
- Promoted a circular economy for products by launching Bike Xchange in over 95% of our stores, putting **Halfords** into the rapidly growing second-hand market and keeping products in use for longer.

Priorities for Next 12 Months

- Analyse packaging data responses from suppliers to support changes in legal reporting obligations coming into force January 2023.
- Continue our virgin plastic reduction programme with emphasis on product categories, including proprietary brands and the cycling categories.
- Develop environmental Life Cycle Assessment for key product categories.
- Continue to assess circular processes for core waste streams.

Related UN SDGs

ESG Progress in FY22

Electrification

Overview

For **Halfords**, electrification means leading the way as the UK shifts towards electric modes of transport and supporting our customers as they make the switch. **Halfords** is uniquely positioned in the UK to offer electric services and solutions for both two and four-wheeled modes of transport and we are proud to support our customers with everything they need as the UK transitions towards lower carbon electric mobility.

Our ambition is to be the leading name in electric services, giving everybody the confidence to switch and continue to enjoy the benefits of electric mobility. We are in a privileged position to champion the needs of consumers and we intend to use our voice to develop the UK's electric mobility industry.

Progress in FY22

Electric mobility remains at the core of our plans both today and in the future. We have seen fantastic progress within the Group supporting both our commercial and ESG ambitions.

Electric Services

There is a significant shortage of technicians in the industry who are capable of servicing electric forms of transport. Increasingly, consumers and businesses are switching to electric and it is essential that this skills shortage is addressed. This year, we have trained over 2,000 colleagues on electric servicing from E-bikes and E-scooters and electric vehicles (+66% vs. FY21), meaning we are leading the market in terms of being the experts in servicing of electric transportation.

Our customers have recognised this shift with a significant increase in demand for our colleagues' expertise, and, as a result, we have seen strong progress on customer NPS ratings as customers benefit from the increased training our colleagues have.

Electric Solutions

Customer demand has grown rapidly for electric modes of transport and in the past year we have accelerated our plans to meet these demands. In the last year we have:

- **Increased E-mobility product ranges** such as launching innovative new Carrera Impact E-bikes and scooters.
- **Launched industry-leading E-bike affordability options** – from as little as £15 per month, making E-bikes accessible to all.
- **Introduced home charging services** to give customers the confidence to switch to an EV and have the charging installed at home from a brand that they trust.
- Successfully ran the **UK's largest** E-bike fleet trial at 295 stores to give customers the opportunity to 'try before you buy'.

Other Highlights

- We are increasing our voice through 'Thought leadership' and 'campaigns' including #Plugtheskillsgap – calling on the industry to train EV techs to meet the needs of EV servicing and ongoing lobbying on E-scooters and electric vans.
- We have made great progress with switching our company car fleet to electric/hybrid and by the end of the year we exceeded our target, resulting in 32% of our Retail company car fleet being powered by alternative fuels.
- We have more than doubled the revenue gained from the servicing of EVs (vs. FY21).

Performance highlights

2,091

Technicians trained in Electric Servicing
(+66% vs. FY21)

32%

of Retail fleet now on Alternative fuel

Case Study

Making E-mobility accessible to all

The shift to lower carbon electric modes of transport is something that is rapidly gaining momentum. EVs are increasingly popular and electric charging points are now commonplace across the UK. At **Halfords**, our goal is to make sure that E-mobility is something that all consumers can access.

We have developed a number of initiatives to help customers feel confident making the switch to electric and continue to invest in ensuring that E-mobility is accessible to everyone.

- **Halfords** is a brand everyone can trust and we continue to provide training to our colleagues so they can offer advice and expertise to everyone who seeks it.
- We offer products and services at a wide variety of price points which means that customers can purchase an electric product that fits with their financial circumstances. Our E-bike affordability options also help customers spread out payments.
- Our 'Electric Hub' is updated regularly to keep customers informed of the latest government advice and guidance, the benefits of switching to electric and ultimately advise on how best to fit electric mobility into their lifestyles.

We will continue to champion the switch to electric across all areas of our business and will ensure that E-mobility options remain accessible to all.

Net Zero Commitment

Overview

Addressing climate change through the reduction of greenhouse gas ("GHG") emissions is now a key priority for most companies and **Halfords** is no exception. As one of the UK's largest employers it is critically important that we make a strong commitment to tackle climate change and put this at the top of our ESG agenda.

Performance highlights

25%

Scope 1 and 2 reduction

75%

of sites with LED lights (excluding all recent acquisitions)

Progress

We are pleased that our Scope 1, 2 and 3 targets have been approved by the SBTi. These targets are:

- Reduce absolute Scope 1 and Scope 2 GHG emissions 42% by 2030 from a 2020 base year.
- Increase annual sourcing of renewable electricity to 100% by 2030 from 0% in 2020.
- Reduce absolute Scope 3 GHG emissions from 'Purchased Goods and Services', 'Capital Goods' and 'Upstream Transportation and Distribution' 25% by 2030 from a 2020 base year.

Receiving this formal accreditation and the subsequent communication of these targets marks a significant step forward for us in achieving our Net Zero ambition and helps to give the business focus and clarity in the medium term.

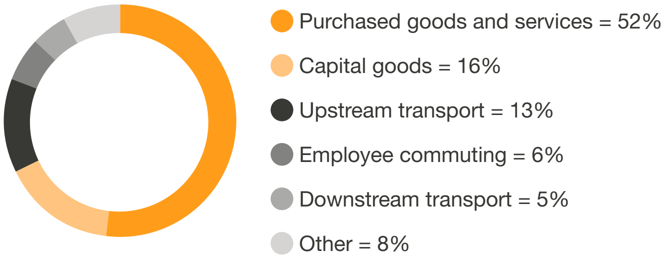
We are in the early stages of **developing our Net Zero roadmap**; however, we are already seeing emissions reductions through initiatives such as switching to LED lighting and switching 25% of our vehicle fleet to alternative fuels, all of which help deliver strong progress against our emissions reduction targets.

This year we included climate change as a principal risk to the business, recognising that the climate crisis is already having a profound effect through extreme weather events – floods, drought and rising sea levels – all of which have the ability to disrupt our supply chains and impact our ability to operate our business effectively. Further information on our mitigation efforts can be found on pages 68 to 71.

Throughout the course of this year, we have worked with PwC to complete our first climate-related scenario analysis. This forms the basis of our first Taskforce for Climate-related Financial Disclosure ("TCFD") statement which can be found on pages 68 to 71.

Scope 3

Our Scope 3 emissions categorisation is based primarily on estimates obtained through analysis of spend in each Scope 3 category. The chart below shows the breakdown of Scope 3 categories, highlighting our material focus on 'Purchased Goods and Services', 'Capital Goods' and 'Upstream Transport and Distribution'. We are now in the early stages of collecting more accurate Scope 3 emissions data from these categories to better track our Scope 3 emissions reductions.



Recognising the importance of collaboration to deliver against our Scope 3 targets, we have invested in the EcoVadis platform to support the collection of accurate carbon data. We have begun the process of working with our suppliers to understand their position in carbon management and will report more information on our progress next year.

The EcoVadis platform will also enable us to manage our responsible sourcing programme which includes how we monitor adherence to our newly revised Global Sourcing Code, the management supply chain risk including labour issues such as modern slavery and environmental issues such as sustainable forestry.

Case Study

Our Journey to Net Zero

Gaining SBTi approval of our Science Based Targets is a significant achievement for our business and gives us a strong platform on which to build our plans to achieve Net Zero. The pathway to Net Zero remains a significant challenge for global businesses with no simple route to achieve the goal. Businesses must unite with their suppliers to better understand how to work together to reduce carbon emissions.

Our Science Based Targets give colleagues across the business a medium-term, more tangible goal on which to focus, giving meaning to the longer-term target of achieving Net Zero. The next decade is a critical time to limit global warming and our target reflects this, with our targets aligning to the stricter and more challenging 1.5 degree pathway set out in the Paris Agreement. Colleagues across the business are being asked to engage with all suppliers in order to begin the process of capturing carbon data, ensuring we maintain momentum. We are encouraged that a number of our suppliers have already started their own Net Zero journeys and we are learning from each other to understand how we can all do more.

We remain committed to doing our part to combat climate change and will remain transparent throughout our journey towards Net Zero.

ESG Progress in FY22

Diversity and Inclusion

Overview

Halfords Group is committed to providing equal opportunities to colleagues and candidates. 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.

We are proud to promote diversity in the motoring and cycling industries through engagement and representation on Diversity and Inclusivity ("D&I") working groups within the Institute of the Motor Industry ("IMI"). We work hard to ensure every colleague feels they can be themselves at work and perform to their best. We recognise there is always more we can do, and we are excited to build on our foundations through ongoing engagement with colleagues.

Performance highlights

4

Colleague Network Groups launched

3.82%

Medium Gender pay gap

Progress

This year we have worked hard to build a strategy to develop how we at **Halfords** think about diversity, inclusivity and equal opportunities in day-to-day operations. An important aspect of this strategy is better understanding the challenges that we face and being honest and truthful with ourselves about where we can do better. Our focus remains on two areas: improving diversity across the Group and building awareness amongst our colleagues of career progression opportunities, such as promoting female technicians in garages.

During the course of the year, we have run D&I Masterclasses with our Senior Leadership Team, bringing together leaders from across the business to talk about D&I. The objective was to give the senior team the confidence to be proactive and make changes within their own teams. Planning is underway to roll this out to regional teams, to build an awareness and understanding of D&I that is embedded throughout our business and support cultural change at all levels.

After comprehensive work across the Group, we have launched a set of four Colleague Network Groups focusing on Women of **Halfords**, LGBTQIA+, Ability and Disability, and Race and Ethnicity. Each group has an Executive Sponsor but is led by colleagues at all levels and receives suitable funding to grow awareness and build understanding for all colleagues across the Group. Outputs and feedback from these groups will be fed back into the central team to incorporate into the holistic D&I strategy. The creation of these groups has been met with a lot of support and we will further develop them over the course of the next financial year.

Gender Pay Gap

Achieving gender balance is really important to us and our values. We are pleased to have reduced the gender pay gap year on year and that our median pay gap of 3.82% is significantly below the national median of 15.4%. In the last five years, we have moved the mean gap from 6.12% to 2.29%. For more information please see our Gender Pay Gap Report[1]. Importantly, for our standard roles, we pay our hourly colleagues equally, regardless of gender, and our reward and recognition policies are gender neutral. We remain focused on improving the gender balance across the Group and increasing awareness of our career progression opportunities, both internally and externally.

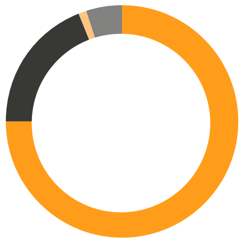
Activity within the Industry

- In 2021, we signed up to the British Retail Consortium ("BRC") Diversity and Inclusion Charter, demonstrating our commitment to making **Halfords** a truly inclusive workplace.
- We have partnered with the Institute of Motoring Industry D&I Taskforce to take part in a study to understand how the automotive sector can be more attractive to work in for all individuals, specifically focusing on those groups currently under-represented in the workforce.

D&I Data

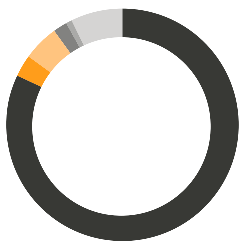
Over the last year, we have focused on improving the various datasets we hold on diversity and inclusion across the business. Gathering better data unlocks a greater understanding of the make-up of the business today, giving us a baseline and enabling us to develop plans to tackle any challenges we face.

Gender



- Male = 75%
- Female = 19%
- Other = 1%
- Prefer not to say = 5%

Ethnicity



- White/Caucasian/White other = 82%
- Black/Black African/Black Caribbean/ Black Other = 3%
- Asian or Asian British = 5%
- Middle Eastern = 0%
- Mixed or Multiple Ethnic Heritage = 2%
- Other = 1%
- Prefer not to say = 7%

[1] www.halfordscompany.com/environment-social-and-governance/our-colleagues/gender-pay-gap/

Delivering Skills

Case Study

Making Training Accessible for all

We are proud to support Ronnie Wilson MBE and First Step Trust ("FST") who are delivering skills for work in the motoring industry with the use of digital technology. FST provides a safe learning space that enables learners who live with issues such as anxiety and poor literacy skills to develop confidence, skills and competence in a practical workplace environment.

The training, which has been developed by FST with support from **Halfords**, incorporates VR (virtual reality), video, AI (artificial intelligence) and other vocational technologies to enable members to learn new skills, despite the challenges they may face processing written instructions. We have started to run trial placements in our garages for members who have learnt skills through FST and are committed to working further to make training accessible to all.

ESG Progress in FY22

Product, Packaging and Waste Management

Overview

Halfords has a rich heritage as a destination for cycling and motoring services, maintenance and repair. Through its full estate, **Halfords** is responsible for millions of repairs each year and therefore plays an important role in enhancing the longevity of products and promoting a circular economy. We will expand these strengths to offer this industry-leading service in the emerging electric mobility market, to reduce the impact of full-product replacements by upskilling our store colleagues in service and repairs – leading to a better customer experience and reduced environmental impact.

Progress

Product and Packaging

We are proud to be one of the first companies to sign the Cycling Industries Sustainable Packaging Commitment. This pledge seeks to ensure that all our cycling packaging will be reusable or recyclable by 2025. Our commitment to reducing our use of virgin plastics remains strong and we have worked hard to achieve solid progress this year. We have utilised the packaging database which we redesigned in FY21 to identify impactful changes to strategic products which would have a significant contribution in reducing our consumer-facing retail plastic packaging.

At the end of the financial year, we had successfully removed 279 tonnes of virgin plastics in the preceding 12 months from packaging across the Group, with a particular focus on product areas such as bicycle inner tubes and car screen wash. This accounts for 17% of overall plastics used in our retail business. This is slightly below the target of a 20% reduction we had aimed for during the year due to the timing of contractual changes, and as such we're pleased that further reductions will be made early in the next financial year.

Some examples of plastic reductions made include:

- Changing AdBlue bottle products from rigid bottles to lightweight flexible pouches.
- Swapping from plastic shrink wrap to cardboard sleeves.
- Replacing plastic in motoring liquids categories (e.g. oils and screenwash) with post-consumer recycled ("PCR") content.

We are working closely with our suppliers to continually look for ways to reduce virgin plastics in our packaging and products.

In addition to our product packaging changes, we have also progressed our e-commerce customer offering, reducing plastic usage by 80% in online shipments. Next year, we will trial shredded waste cardboard as void fill which will replace air pillows, and swap to a water-activated paper tape.

To develop continuity of packaging data, we've developed a packaging hierarchy that has been benchmarked to align with key non-food retail peers. This has been launched to educate suppliers on our minimum requirements for sustainable packaging solutions such as the use of On-Pack Recycling Labelling ("OPRL").

This priority area remains a focus going forward with both customers and colleagues seeking to reduce plastic usage in their lives.

Performance highlights

279
tonnes of virgin plastic removed

Zero
Waste to Landfill

Case Study

Recycling Stations in Fusion

Our 'Fusion' town trial gave us an exciting opportunity to test a wide range of sustainability initiatives, one of which was the introduction of recycling stations. These stations enable customers to bring in used parts or packaging so that they can be recycled rather than ending up in landfill. The stations have clear labelling and are situated at the front of the stores to enable maximum awareness.

We have engaged with store managers across the Group and delivered appropriate training so that our colleagues are able to advise customers appropriately.

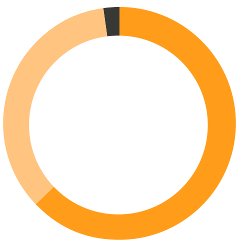
The success of these recycling stations within the trial stores will be assessed before possible further roll-out to all stores and garages across the Group.

Product Safety
We make product and consumer safety a priority. We operate a new product development and assessment process that incorporates all applicable safety and legal standards, as well as our own additional quality standards. Despite this, there may on occasion be the need to carry out a safety recall on a product. Product safety recall communications are managed according to our Incident Management Plan and industry best practise. Product Safety Recall Notices are published in the Help and Advice section of our website: www.halfords.com/help-and-advice/product-information/product-support/product-recalls/product-recalls.html.

Waste Management
Halfords takes its environmental responsibilities seriously and we aim to manage our operations in a way that is environmentally sustainable, economically feasible and socially responsible. We are committed to minimising the impact of waste on the environment by promoting and facilitating the waste hierarchy through prioritising reduce, reuse and recycle, and, where necessary, managing waste disposal in a responsible and compliant manner.

During FY22, we consolidated our waste reporting across the Group to further improve our approach to waste management. We produced just over 23,000 tonnes of waste last year and are pleased that zero waste was sent to landfill. Our most material waste streams are automotive tyres (31%), cardboard (24%) and automotive batteries (20%). All three categories are disposed of responsibly, with 100% of batteries and cardboard being recycled. Tyres are disposed of through a combination of recycling and incineration with energy recovery.

Currently, 35% of our general waste is incinerated with energy recovery, we recognise that more can be done to progress waste materials up the waste hierarchy and we see opportunity in reducing this further through better segregation of waste.



- Total recycled = 63%
- Total incinerated with energy recovery = 35%
- Total incinerated = 2%
- Total Landfilled = 0%

Bike Xchange
In February, we launched the Bike Xchange in over 95% of our stores. This initiative gives customers an incentive for trading in their old bike and in return we are giving them up to £250 to spend on anything at **Halfords**. Our expert technicians will assess, repair and refurbish all second-hand bikes so they are ready for a new owner. For some of these bikes, this means that they will be shared with charity partners to donate to African communities. This process extends the lifetime of a bike already in circulation, promoting circular economy, reducing waste and ultimately helping customers with more affordable bikes or supporting those in communities that rely on bikes for their livelihoods.

Since launch, this scheme has been popular with customers and by the end of the financial year, we had received over 2,000 bikes.

ESG Progress in FY22

Responsible Sourcing

We are committed to maintaining high ethical standards within the supply chain. During the year, we revised our Global Sourcing Code ("Code") which sets out the principles that are instrumental in enabling our commercial and responsible sourcing goals. Our Code also works to raise global supply chain standards and positively enhance the lives of the many people working in our global supply chain.

Our Code supports our commitment to respect human rights and uphold international standards, including the United Nations ("UN") Guiding Principles on Business and Human Rights and the Organisation for Economic Cooperation and Development ("OECD") Guidelines for Multinational Enterprises. Our commitment to respect human rights is based on the International Bill of Human Rights consisting of the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights; and the International Labour Organization's ("ILO") Declaration on Fundamental Principles and Rights at Work.

The Code details the minimum standards we expect our suppliers to adhere to and in turn ensure that their own business partners meet similar standards. Our Code covers expectations in the areas of environmental management, responsible sourcing of materials, safe working practices and human rights.

We take all reasonable and practical steps, including factory and site inspections and independent audits, as required, to ensure the principles detailed in our Code are being met by our suppliers and in turn by their own business partners. We only trade with those who comply fully with our Code and in the event of any failure to do so, we reserve the right to end the business relationship and cancel outstanding orders. We recognise that in the event of non-compliance, withdrawal of our business may cause severe hardship to those employed. Therefore, our preference is to work with our suppliers in partnership to achieve compliance and carefully review progress made before considering severing any relationship. We encourage a culture of 'speaking up' and expect our suppliers and their workers to do so in confidence and without fear of retaliation.

Due Diligence

During the year, we strengthened our due diligence process by partnering with EcoVadis. We work with EcoVadis to enable our responsible sourcing programme and monitor compliance with our Code. We will require suppliers to complete self-assessments through the EcoVadis platform, which will help to assess a supplier's performance in various areas, including: ethics; environmental management; labour practices; and human rights.

The EcoVadis score card will help to inform our own due diligence process, highlighting good practice and where there may be greater need for auditing, remediation or corrective action. We apply a risk-based (or tiered) approach to assessing and auditing our suppliers. For Tier 1 suppliers, which are those operating in higher risk countries, we conduct in-depth audits, including in-person factory visits, confirming compliance every two years as standard, and every year for bike suppliers. Tier 2 suppliers are generally own-brand manufacturers operating in low-risk countries. For these, we may accept an alternative audit report as a means of validating compliance, and we will accept a reduced frequency of audit. Tier 3 suppliers are proprietary branded goods for resale. Our standard terms include conditions to explicitly reference our Global Sourcing Code, which all suppliers must sign up to.

In FY23

We will engage our suppliers to:

- Onboard suppliers onto the EcoVadis platform.
- Begin data collection to track and manage Scope 3 emissions.
- Review our risk management process for identifying supply chain risk.

Our Colleagues

Colleague Engagement

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. Each year we conduct a colleague engagement survey, administered by a third party and providing actionable, anonymised reports at a team level. This year's survey, conducted in April 2022, had a response rate of 90% and an engagement index score of 81%, which is a significant 6% increase from the previous year despite the challenging year and the continued disruption from COVID-19. In response to the survey results, every team produces an engagement plan for the year ahead, which rolls up into department and Group plans.

Training and Development

We remain committed to providing best-in-class training to our colleagues. This includes field-based training, such as electric servicing, all the way to online training courses via our intranet to upskill colleagues who wish to progress their career. Some highlights from FY22 are:

- Introduced our Values Recognition Scheme with over 780 colleagues nominated by other colleagues for living our values, from these, 50 Colleagues of the Quarter across the business were awarded, culminating in our first Colleague of the Year and three runners up.
- In support of our Electric Strategy, we now have over 2,000 colleagues across the business trained in electric services, including having trained 640 Autocentre colleagues in Hybrid L2 or L3.
- Supporting our colleagues' wellbeing, we now have 79 Mental Health First Aiders in the business and 109 colleagues attended Mental Health Awareness sessions.
- 56 Apprentices have successfully completed their programmes, 48 of these being in Autocentres.
- In Autocentres, 128 colleagues achieved the IMI's DVSA MOT tester accreditation and 59 achieved IMI Level 3 accreditation.
- We increased Retail colleagues' technical skills by training 14,000 colleagues to meet our new Target Operating Model.

Health and Safety

We are committed to delivering good health and safety (H&S) management and practices, recognising that our people are our most important asset. Our priority is to run **Halfords** with the protection of the health, safety and welfare of all people that are affected by our activities being at the forefront of all our decisions. Our commitment is to have a reputation for health and safety that exceeds expectations within our industry and amongst our peers.

In order to live our philosophy of 'each accountable, all responsible' everyone in **Halfords** has responsibility for ensuring the safety of colleagues, customers and others impacted by our business. Specific roles, responsibilities and reporting lines are made clear and detailed within our Health and Safety Policy. We have a formal Health and Safety Committee ("HSC"), which is a formal sub-committee of the Executive who are responsible for co-creating and agreeing policy, implementation framework and standards as well as monitoring performance, reviewing any remedial action and sharing good practice and lessons learned from across the Group.

During the year we refreshed our health and safety induction modules to ensure the ongoing safety of our colleagues. The revised modules developed for Retail and Autocentre colleagues will ensure that new starters avoid undertaking tasks that they may not be trained for and could cause risk or injury.

Maintaining COVID-19 safe operations to protect colleagues and customers remained a priority during the year. In line with government guidance, enhanced cleaning and hand hygiene regimes were maintained along with adequate ventilation levels in confined areas.

As our business continues to grow, the integration of newly acquired sites into the **Halfords** family will remain a health and safety priority in the coming year. We have begun reviewing H&S systems and introducing colleagues to the new H&S induction process. Safe working practices and risk assessment are under review and will progress into the next financial year.

Charity and Communities

Halfords is proud to support charities and communities across the UK, through charitable donations, gifts in kind and time.

During the year, our colleagues nominated Mind, along with their sister charities SAMH (Scotland) and Inspire (Northern Ireland) as our national charity partner. Mind, Inspire and SAMH are mental health charities, with local presence across the UK and Northern Ireland. They champion for mental health to ensure no one has to face a mental health problem alone. This aligns with our wellbeing and D&I programmes, allowing us to continue supporting the wellbeing of colleagues and broader communities across the country. We have committed to a three-year pledge, donating a total of £150,000.

Case Study

Support to Ukraine

The conflict and humanitarian crisis in Ukraine this year was deeply shocking, and both directly and indirectly affected many of our colleagues, partners and customers. We wanted to support the people of Ukraine and help them get access to some of the basic needs, such as medical support, food and shelter. We did this by making a donation of £50,000 to the Disasters Emergency Committee ("DEC") Ukraine Humanitarian Appeal.

Our colleagues also wanted to help through fundraising within their local communities and so we pledged to match colleague fundraising for the DEC Appeal.

As One **Halfords** Family, we continue to stress the importance of wellbeing and mental health to our colleagues and partners and have mental health first aiders to support as required. As the crisis in Ukraine rages on, we will continue to do all that we can to support colleagues impacted by the crisis.

ESG Progress in FY22

Case Study

COVID-19 support in Kolkata

We were pleased to support our colleagues globally through the pandemic by donating to The Hope Foundation in Kolkata with a £100,000 donation. Our donation covered the full running costs of the COVID-19 emergency hospital for two months, along with facilitating the purchase of much-needed PPE and sanitiser. This aligned with our One **Halfords** Family value – supporting the communities in which we live and work. We continue to send good wishes to our colleagues and their families in Kolkata.

Case Study

Freewheel by Ride for Freedom

We were pleased to support the Freewheel programme by Ride for Freedom with bike accessories. Ride for Freedom aim to harness the universal appeal of cycling to raise awareness, educate and forge partnerships to end modern slavery and provide remedy to survivors.

Freewheel is a remediation programme that empowers survivors of modern slavery – women, children and men – to cycle to support their physical and mental health and wellbeing, independence and mobility to aid their rehabilitation into society. The Barking and Dagenham hub, launched in March 2022, is the first of several hubs to be rolled out in cities and regions across the UK where the need and ongoing demand for the provision and service is identified.

The hubs intend to enable survivors of modern slavery by providing them with a bike and bike accessories including helmets, locks and lights, alongside cycling proficiency and road awareness training through a national cycle training programme.

SDGs

Case Study

HMP Drake Hall

The **Halfords** Academy at HMP Drake Hall was launched a number of years ago and it is a scheme to which we remain fully committed. It offers participants the opportunity to train as cycle mechanics and create the prospect of steady employment upon release.

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 although COVID-19 meant the programme had to pause, we have resumed training, and are currently training 12 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 all colleagues within the Group – 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 bikes that require reconditioning. 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.

SDGs

We have aligned our priority ESG focus areas with seven of the UN SDGs (see page 42) however, through our business activities and charitable donations, we are able to positively contribute to additional SDGs, recognising the importance of all 17 SDGs.

Case Study

Free-bike!

Everyone was affected by the COVID-19 pandemic, but for young people coming into the job market, things were particularly tough. We wanted to go some small way to help young people overcome the challenge of youth unemployment, which led to the launch of the Free-bike! scheme.

Endorsed by Olympic gold medallist Victoria Pendleton, Free-bike! gave 18–24-year-olds the chance to apply for one of 20 brilliant Apollo, Carrera and Pendleton e-bikes (plus accessories) by sharing a little about the economic struggles they were facing due to the pandemic. We received over 6,000 applications and faced the tricky task of choosing just 20 winners. During the year, we were pleased to announce the winners and provide them with their E-bikes, totalling approximately £20,000. Further case studies on six of the winners can be found here www.halfords.com/electrification/free-bike-scheme.html

SDGs

ESG Progress in FY22

Performance Data

Carbon Emissions and SECR report	Unit	FY20 (baseline)	FY21	FY22	Comments
Gas consumption	tonnes	11,749	10,107	9,312	FY22 Retail usage: 5,666 FY22 Autocentres usage: 3,646 Proportion of Group carbon emissions: 45%
Gas consumption	kWh	63,902,230	54,965,455	50,648,378	FY22 Retail usage: 30,816,511 FY22 Autocentres usage: 19,831,867
Vehicles on Company business	tonnes	2,547	2,988	3,469	Proportion of Group carbon emissions: 16%. The rapid expansion of our fleet of mobile vans is pushing up the emissions for miles travelled despite 32% of Retail company cars being switched to alternative fuel sources.
Total Scope 1	tonnes	14,296	13,095	12,781	10% reduction in Scope 1 since FY20 baseline.
Electricity consumption	tonnes	13,473	10,126	8,107	FY22 Retail usage: 5,839 FY22 Autocentres usage: 2,268 Proportion of Group carbon emissions: 39%
Electricity consumption	kWh	52,712,652	43,434,355	38,583,748	FY22 Retail usage: 27,497,880 FY22 Autocentres usage: 11,065,868
Renewable energy (% of Group estate)	%	0	0	75	75% of our estate is now powered by electricity from renewable sources.
Total Scope 2	tonnes	13,473	10,126	8,107	40% reduction in Scope 2 since FY20 baseline
Total Scope 1 and Scope 2	**tonnes**	**27,769**	**23,221**	**20,888**	25% reduction in total carbon emissions since FY20 baseline.
tCO_2e per £1m Group revenue	tonnes	23.45	17.97	15.26	Second successive year of reduction.

Total Scope 3 (see page 45 for detailed breakdown)

	Unit	FY22	Comments
Water*			
Water consumption	m^3	153,461	Water usage is relatively low across the estate and continues to hold at steady levels.
Waste*			
Total waste	tonnes	23,441	During the year, we improved our Group reporting of waste and aim to make further improvement on data collection in FY23.
Waste recycled	tonnes	14,766 (63%)	The majority of our waste is recycled. Our material waste streams of cardboard and automotive batteries are 100% recycled.
Waste incinerated with energy recovery	tonnes	8,156 (35%)	Better segregation of our general waste will help to move waste up the waste hierarchy, therefore recycling or reusing more.
Waste incinerated without energy recovery	tonnes	519 (2%)	A small amount of waste was incinerated without energy recovery.
Waste to landfill	tonnes	0	We are pleased that zero waste goes to landfill.
Product			
Bikes returned through Bike Xchange	Number	2,078	Data covers the period from the launch of the proposition in week 44 until the end of the financial year.
Packaging			
Reduction in consumer-facing virgin plastic	%	17	We met our 20% reduction target, however with a slight contractual change, 3% of these reductions won't be realised until FY23.
Occupational Health and Safety			
Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR)	Number	42	Data covers our Retail stores, Autocentres and warehouse operations but excludes recent acquisitions. We continue to review our health and safety management systems to ensure we remain effective in promoting a safe working environment for our colleagues.
Ethics Training[1]			
All FCA training, including Conduct Rules, Treating Customers Fairly and Vulnerable Customers.	% Completion	80	Cultivating and maintaining strong responsible business practices is essential in driving responsible business. We have several training modules to support colleagues with awareness and understanding of moral and legal obligations. Colleagues across the Support Centre, Retail, Autocentre, Tredz, HGS, and McConechy's are expected to compete mandatory learning.
Anti-bribery	% Completion	73	We have several training modules to support colleagues with awareness and understanding of legal obligations. Colleagues across Support Centre, Logistics, and HGS are required to complete this mandatory learning.
Competition Law	% Completion	66	
Modern Slavery	% Completion	35	Towards the end of FY22, we launched a new mandatory modern slavery e-learning module. This is important in supporting colleagues with understanding the signs and feeling confident in raising potential issues.

* Environmental data includes our Retail Stores, Autocentres, Distribution Centres and Tredz business. Newly acquired sites, including National, are currently excluded as we consolidate and validate data internally.

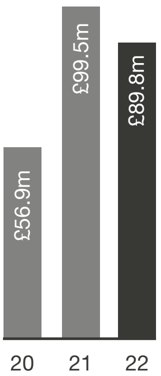
1 Ethics training data is correct as of 9 May 2022.

Key Performance Indicators

Shareholder KPIs

Note: Our key comparator is FY20 due to FY21 being heavily disrupted by the impacts of COVID-19. FY20 has been restated on a 52-week basis for better comparability.

Underlying Profit Before Tax



Definition

Profit before income tax and non-underlying items as shown in the Group Income Statement.

Commitment

The Board considers that this measurement of profitability provides stakeholders with information on trends and performance before the effect of non-underlying items.

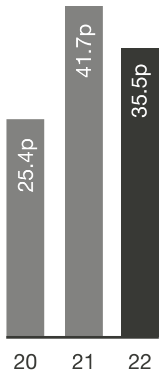
FY22 Performance

The Group had a strong profit performance up £32.9m vs. FY20. This has been driven by strong revenue growth of 19.9% and ongoing profitability improvements to the underlying business. PBT was lower than FY21 by -£9.7m with strong profit growth of the underlying business offsetting the business rates relief of FY21.

Link to Remuneration

Bonus

Underlying Earnings Per Share



Definition

Profit after income tax and before non-underlying items as shown in the Group Income Statement, divided by the number of shares in issue.

Commitment

EPS is a measure of our investment thesis and as such we aim to manage revenues, margins and invest in long-term growth.

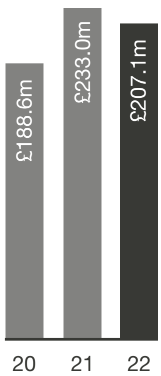
FY22 Performance

The strong EPS performance was driven by the overall profitability improvement of the business since FY20. On a per share basis, the movement vs. FY21 was primarily a result of the placing in December 2021 as part of the acquisition of Axle Group Holdings Limited ("National"). This placing was dilutive in the year but in the near term we expect it to be accretive.

Link to Remuneration

Performance Share Plan

Underlying EBITDA



Definition

Underlying EBITDA adds back Depreciation and Amortisation to EBIT.

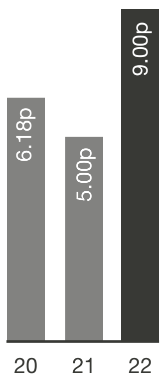
Commitment

The Board considers that these measurements of profitability are a viable alternative to underlying profit and uses these measures to incentivise Management.

FY22 Performance

Underlying EBITDA grew +9.8% (vs. FY20) reflecting the strong profit performance of the Group. Overall depreciation decreased due to an impairment in the prior year.

Dividend per Share



Definition

Cash returned to shareholders as a return on their investment in the Company.

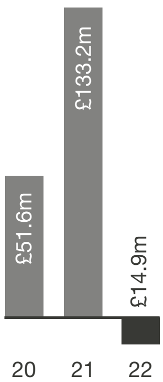
Commitment

We have reinstated the ordinary dividend after a period of uncertainty during the peak of the pandemic, and intend for this payment to be progressive. Should surplus cash remain in the business that we feel we cannot deploy with good rates of return, we will return this to shareholders in the most appropriate way.

FY22 Performance

With a strong close to FY22, the Board is proposing a final dividend of 6.00p payable in September 2022, bringing the full-year dividend to 9.00p.

Free Cash Flow

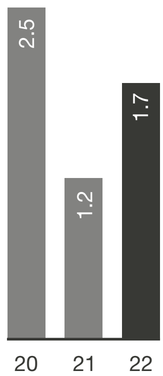


Definition
Adjusted Operating Cash Flow less capital expenditure, net finance costs, taxation, exchange movement, arrangement fees on loans, and lease payments.

Commitment
Our medium-term target remains to achieve strong levels of Free Cash Flow each year, but we recognise that external factors may impact our ability to do so.

FY22 Performance
The Group continues to be cash generative in the medium-term, though in FY22 a normalisation of working capital after COVID-19 disruption meant that Free Cash Flow was -£14.9m in the year.

Net Debt to Underlying EBITDA Ratio



Definition
Represented by the ratio of Net Debt to Underlying EBITDA.

Commitment
We are expecting to operate within a range of 1.8x to 2.3x, with the latter allowing for appropriate M&A. This ratio helps to compare the financial result for the year to debt levels.

FY22 Performance
The Group ended with net positive cash, partly offsetting lease debt of £391m. Lease debt increased vs. FY21 as a result of the acquisition of National, offset by rent reductions on lease renewals.

Like-for-Like Sales

Definition
Group revenue from operations that have been trading as part of the Group for at least a year (but excluding prior year sales of stores and Autocentres closed during the year) at constant foreign exchange rates.

FY22 Like-for-Like Sales Movement vs FY20

Halfords Group	16.7%
Retail	15.2%
Motoring	12.5%
Cycling	18.0%
Autocentres	23.4%

Commitment
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.

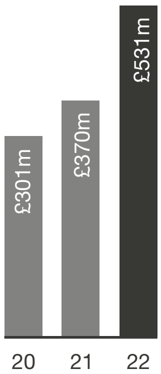
FY22 Performance
The Group has a strong revenue performance vs. FY20 with all areas finishing in double-digit like-for-like growth reflecting our investments in customer satisfaction and resulting market share growth.

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 213. 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.

Key Performance Indicators

Operational KPIs

Service-related Group Sales Growth



Definition
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.

Commitment
To grow service-related Group sales faster than total Group sales growth.

Performance
Group Services revenue of £531m represents 38.8% of Group revenues, up from 28.7% in FY21. This is a particularly strong performance and clear demonstration of the progress against our strategy of becoming a Services and B2B focused business.

Link to Remuneration
Bonus and Performance Share Plan

Customer Net Promoter Score ("NPS")

Definition
Measure the changes in NPS of our Retail stores and Autocentres.

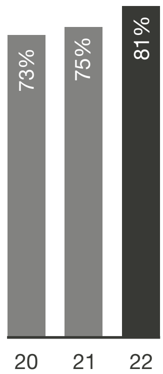
	FY22	FY21	FY20
Retail	**66.5**	59.7	57.9
Autocentres	**76.1**	72.6	68.8

Commitment
We are committed to improving the score with our customers across the Group.

Performance
Our NPS has been very strong this year as we continue to focus on the customer experience in our stores and garages. Our Autocentres business continues to perform very well with NPS at 76.1 but most notable is Retail achieving 66.5, an increase of +6.8 YoY. This has been driven by our investments in training and our new operating model which have enabled us to offer greater coverage of customer-facing colleagues and on-demand fitting services.

Link to Remuneration
Bonus

Group Colleague Engagement



Definition
The proportion of Group colleagues who respond positively to the questions in the Colleague Engagement Survey.

Commitment
We aim to improve colleague engagement across the Group with specific focus on required areas identified by colleagues.

Performance
Response rate of 90% and engagement score of 81%, an increase of +6% on the previous year. Recognising the burden that has been felt by colleagues this year, we have invested in our colleagues with a focus on helping them financially and supporting their mental health.

Link to Remuneration
Bonus

ESG Performance Metrics can be found on pages 54 and 55.


halfords
mobile expert
BRIDGESTONE

Chief Financial Officer's Review

Loraine Woodhouse

"The strength of our results in FY22 reflect the commercial and strategic progress we have made in the last two years, as we grow our motoring services business to deliver higher and more sustainable returns for the Group."

Highlights

+19.9%

Total Revenue Growth

2022 vs 2020

+57.8%

Growth in Underlying Profit Before Tax

2022 vs 2020

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 Autocentres represent the consolidation of the **Halfords** Autocentres, McConechy's, Universal, National and Avayler (HSSD) trading entities. All references to Group represent the consolidation of the Retail and Autocentres segments.

The "FY22" accounting period represents trading for the 52 weeks to 1 April 2022 ("the financial year"). To provide a better understanding of underlying performance, comparisons of sales and profit will primarily be made relative to FY20, that is, on a 2-year basis unless otherwise stated. The disruption to last year (FY21) from COVID-19 means that one-year comparators are more difficult to interpret, albeit are provided within the tables below for completeness. Balance Sheet comparisons have been made on a FY22 to FY21 basis. All numbers shown are on a post-IFRS16 basis, unless otherwise stated.

Group Financial Results

	FY22 (52 weeks) £m	FY21 (52 weeks) £m	FY20 (52 weeks) £m	FY22 versus FY21 change	FY22 versus FY20 change
Group Revenue	**1,369.6**	1,292.3	1,142.4	+6.0%	+19.9%
Group Gross Profit	**721.7**	656.3	584.0	+10.0%	+23.6%
Underlying EBIT	**101.1**	114.5	70.5	-11.7%	+43.4%
Underlying EBITDA	**207.1**	233.0	188.6	-11.1%	+9.8%
Net Finance Costs	**(11.3)**	(15.0)	(13.6)	-24.7%	-16.9%
Underlying Profit Before Tax	**89.8**	99.5	56.9	-9.7%	+57.8%
Net Non-Underlying Items	**6.8**	(35.0)	(34.2)	-119.4%	-119.9%
Profit Before Tax	**96.6**	64.5	22.7	+49.8%	+325.6%
Underlying Basic Earnings per Share	**35.5p**	41.7p	25.4p	-14.9%	+39.8%

Although COVID-19 restrictions started to ease in the early part of our financial year, the reality was that FY22 was still a heavily disrupted year for most consumer-facing businesses, including **Halfords**. The UK targeted a quick return to normality after the impact of the pandemic, but supply and demand conditions remained unpredictable through much of our financial year. Other countries, and the Far East in particular, mandated COVID-19 restrictions for longer, contributing to ongoing supply-chain disruption. Subsequently, as we approached the end of FY22, both we and our customers began to face into a new challenge brought about by almost two years of supply and demand disruption. Higher inflation began to emerge in the second half of our financial year, compounded by the onset of war in Ukraine. Although the impact on FY22 was limited, there is no doubt that the economic environment for UK companies and consumers has become tougher than six months ago, giving rise to both challenge and opportunity as we navigate the year ahead.

Our strong financial results in FY22, with Group PBT of £96.6m, +£73.9m versus FY20, reflect good strategic progress, a sharpened focus on improving the profitability of our underlying business and a necessarily agile approach to our operation in a very challenging environment. Over the last two years we have mitigated many headwinds, not least a complex and disrupted supply chain, whilst simultaneously improving the profitability of our business.

Despite the challenging external environment, we were pleased with the progress we made against our Strategy in the year. Our acquisition of Axle Group Holdings Limited (referred to as "National") in December 2021, comprising National and Viking, was an important step forward and testament to our commitment to grow our Services business. The acquisition, on 9 December 2021, for consideration of £61.5m, and the associated share placing, which raised £61.6m of proceeds, was well supported by our shareholders, demonstrating support for our Services-focused strategy and the compelling opportunity of the acquisition itself. As a result of this transaction, alongside smaller prior year acquisitions, the Group is a very different business from two years ago, financially stronger and with a greater proportion of revenues coming from the more resilient and non-discretionary areas of Motoring Services and B2B.

Group revenue in FY22, at £1,369.6m, was up 19.9% from FY20, comprised of Retail revenues of £1,001.6m and Autocentres revenue of £368.0m. This compared to FY20 Group revenue of £1,142.4m, which saw Retail revenue of £950.6m and Autocentres revenue of £191.8m. Retail Revenues grew +5.4% (+£51.0m) versus FY20, but declined -3.7% versus FY21, primarily due to a normalised cycling market after strong demand during the early COVID-19 period. Both Motoring and Cycling revenue grew versus FY20 but, against FY21, Motoring recovered significantly whereas Cycling declined versus the strong peak seen in FY21. Autocentres revenue almost doubled across the two-year period and grew +45.7% versus FY21, reflecting good underlying LFL growth alongside the impact of our acquisitions.

Group gross profit of £721.7m (FY20: £584.0m) was 52.7% of Group revenue (FY20: 51.1%), comprising of Retail gross margin of 51.0%, up +277bps from FY20, partly offset by a decrease in the Autocentres gross margin of 815bps to 57.3%. In Retail, our Cycling profitability improvements delivered in FY21 annualised, offset in part by our decision to invest in Motoring pricing to underpin our Services business. In Autocentres, the acquired businesses (Universal Tyres in March 2021 and National in December 2021) carry lower gross margins due to a heavy focus on tyres, but with a lower labour cost they have an operating margin potential in line with the core Autocentres business.

Total underlying costs increased to £620.6m (FY20: £513.5m), of which Retail comprised £420.9m (FY20: £395.6m), Autocentres £196.6m (FY20: £115.8m) and unallocated costs £3.1m (FY20: £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, Tredz and Wheelies in May 2016, McConechy's in November 2020, The Universal Tyre Company (Deptford) Limited ("Universal") in March 2021 and National in December 2021, which arise on consolidation of the Group.

The overall cost increase of 20.9% (+£107.1m) was in line with revenue growth over the same period. Of the increase, over half (+12.2%, +£62.4m) was a result of new acquisitions, or those annualising part year ownership, with the remainder driven by volumetric sales growth alongside investment in areas of strategic importance such as customer contact, digital, and colleague training. The Government continued to provide Business Rates Relief through much of our first half, resulting in £11m of rates not levied versus FY20, but notably lower than the £39m of relief received in FY21.

We continued to focus on our cost and efficiency programmes, delivering £7.6m of GNFR (goods not for resale) cost savings, alongside cost reductions associated with our store and garage closures in FY21 that gave rise to year-on-year benefits in the first three quarters of FY22. We achieved rental savings in our Retail estate on 69 lease renewals, with an average decrease of approximately 26% in FY22. These underlying savings helped to mitigate cost increases associated with the growth of the business and to fund strategic investment.

Group Underlying EBITDA increased 9.8% to £207.1m (FY20: £188.6m; FY21: £233.0m), whilst net finance costs were £11.3m (FY20: £13.6m; FY21: £15.0m).

Chief Financial Officer's Review

Underlying Profit Before Tax for the year increased 57.8% to £89.8m (FY20: £56.9m; FY21: £99.5m). Non-underlying items totalled a £6.8m credit in the year (FY20: £34.2m debit; FY21: £35.0m debit), following two years of charges that arose from reorganisations of our physical infrastructure and organisational redesign. After non-underlying items, Group Profit Before Tax was £96.6m (FY20: £22.7m; FY21: £64.5m).

Retail

	FY22 (52 weeks) £m	FY21 (52 weeks) £m	FY20 (52 weeks) £m	FY22 versus FY21 change	FY22 versus FY20 change
Revenue	**1,001.6**	1,039.8	950.6	-3.7%	+5.4%
Gross Profit	**510.7**	502.0	458.4	+1.7%	+11.4%
Gross Margin	**51.0%**	48.3%	48.2%	+270bps	+277bps
Operating Costs	**(420.9)**	(398.3)	(395.6)	+5.7%	+6.4%
Underlying EBIT	**89.8**	103.7	62.8	-13.4%	+43.0%
Non-underlying items	**8.9**	(31.7)	(30.7)	-128.1%	-129.0%
EBIT	**98.7**	72.0	32.1	+37.1%	+207.5%
Underlying EBITDA	**168.4**	199.3	159.0	-15.5%	+5.9%

Revenue of £1,001.6m reflected a 2 year like-for-like ("LFL") sales increase of +15.2%. Total revenue in the year increased +5.4% after adjusting for the impact of closing 64 Retail stores through FY21. Revenues declined -3.7% versus FY21, significantly skewed by COVID-19 in both Motoring and Cycling, with the latter dipping versus a strong peak in FY21. The volatility of the trading environment over the last two years was most evident in our Retail business, which made forecasting particularly difficult. This is demonstrated by the sharp changes in mix witnessed across the years FY20, FY21 and FY22. Motoring mix fell by 12ppts from FY20 to FY21 as a result of fewer journeys made during lockdowns, but represented 59.4% of the Retail business for FY22 as traffic began to normalise. Pleasingly, our Motoring business had a strong period, with revenues of £595m, total revenue growth of +6.5% and LFL growth of +12.5% versus FY20, with revenue growth of +22.7% versus FY21. This is positive given the importance of our Motoring products business to the growth of our Services proposition and demonstrates the strength and convenience of our Retail offer. Cycling sales also performed well, growing LFL revenues +18.0% versus FY20 (+2.7% total), although declining versus FY21 by 27.2% in total. We did not expect Cycling revenues to grow versus the peaks of lockdown cycling seen in FY21, but nevertheless supply chain disruption and availability played its part in limiting its potential.

The Retail Operational Review in the Chief Executive Officer'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:

	FY22 LFL 2yr (%)	**FY22 Total sales mix (%)**	FY21 Total sales mix (%)	FY20 Total sales mix (%)
Motoring	**+12.5**	**59.4**	46.1	58.4
Cycling	**+18.0**	**40.6**	53.9	41.6
Total	**+15.2**	**100.0**	100.0	100.0

Gross profit for the Retail business, at £510.7m (FY20: £458.4m) represented 51.0% of sales, an increase of +277bps on FY20 (FY20: 48.2%). There were three key factors behind the performance; firstly, substantial improvements in the Cycling gross margins, up over +700bps versus FY20, following the margin optimisation programme detailed in last year's report. The improvement annualised this year versus FY21, but the full impact can be seen versus FY20. Secondly, Motoring margins were also stronger versus FY20, +60bps, despite our strategic investment in Motoring pricing aimed at strengthening and underpinning the Services business. And finally, the material swing in product mix also impacted gross margin, albeit with materially less impact versus FY20 than versus FY21. Of the +277bps improvement versus FY20, +300bps is a result of rate changes, -60bps dilution driven by growth in commissions as a result of our growing B2B business, foreign exchange movements, and the balance reflected product mix, which had a small positive impact vs FY20.

Retail operating costs before non-underlying items were £420.9m (FY20: £395.6m) an increase of 6.4% on FY20. The focus on operational efficiency and procurement continued in FY22, offsetting the impact of the inflationary headwinds that began to build during FY22, and funding our strategic investments across a number of customer-facing initiatives. Some of the efficiency highlights included £7.6m of GNFR costs removed from the Retail business through an ongoing review of services and tendering processes, the lease renewals detailed earlier, and £1.5m of store payroll removed through our 'We Operate 4 Less' in-store savings initiatives. Of the £11m Business Rates Relief afforded to the Group, £9m was within Retail versus £33m in FY21.

Autocentres

	FY22 (52 weeks) £m	FY21 (52 weeks) £m	FY20 (52 weeks) £m	FY22 versus FY21 change	FY22 versus FY20 change
Revenue	**368.0**	252.5	191.8	+45.7%	+91.9%
Gross Profit	**211.0**	154.3	125.6	+36.7%	+68.0%
Gross Margin	**57.3%**	61.1%	65.5%	-380bps	-815bps
Operating Costs	**(196.6)**	(141.2)	(115.8)	+39.2%	+69.7%
Underlying EBIT	**14.4**	13.1	9.8	+9.9%	+46.9%
Non-underlying items	**(2.1)**	(3.3)	(3.5)	-36.4%	-40.0%
EBIT	**12.3**	9.8	6.3	+25.5%	+95.2%
Underlying EBITDA	**38.7**	33.7	29.6	+14.8%	+30.7%

Autocentres generated total revenues of £368.0m (FY20: £191.8m), an increase of 91.9% on FY20, with a strong LFL increase of 23.4%. Non-LFL revenues versus FY20 included either full or part year benefits from our six acquisitions: Tyres on the Drive and McConechy's acquired in October and November 2020 respectively, Universal Tyres in March 2021, Iverson Tyres in December 2021, Axle Group in December 2021, and havebike in March 2022. Our acquisitions added approximately £125m of revenue versus 2020 and c. £93m versus 2021. In Q3 FY22, we entered the Software as a Service market through our Avayler platform and were delighted to sign our first deal with ATD for provision of the software.

Gross profit of £211.0m (FY20: £125.6m) was 57.3% of sales, a decrease of 815 bps on FY20 but Gross Profit £ was nearly 70% ahead of FY20. The decrease in gross margin % was a result of the annualisation of our acquisitions, which are gross margin rate dilutive given their business model focus on tyres. Most notably, Universal Tyres and McConechy's operate predominantly within the B2B commercial tyre sector and, as such, have a different operating model of lower gross margin but strong margin per worked hour, and more resilient revenues. National operates primarily within the B2C sector, more aligned to our core Autocentres business, but also with a heavy tyre mix and lower gross margins. Overall Autocentres saw underlying rate improve by +320bps with the mix into acquisitions worth almost -1,150bps overall. Going forward we are confident that significant synergies are available to us through a combination of greater scale and leveraging our digital operating model, which will result in stronger operating margins across the enlarged Autocentres group.

Operating costs were £196.6m, +£80.8m above FY20, of which £62m was a result of the annualisation and growth of our acquisitions from FY20 and FY21. The remaining cost increase was the result of investment in the underlying business with incremental investment in colleagues driving the very strong LFL performance.

Underlying EBIT was £14.4m, (FY20: £9.8m) a strong performance that reflected good organic growth complemented by strategically important acquisitions. Underlying EBITDA of £38.7m (FY20: £29.6m) was 30.7% higher than FY20.

Portfolio Management

In FY22 we continued to grow our Services business through the acquisitions of National, Iverson Tyres and havebike.

The total number of fixed stores or garages within the Group stood at 1,009, with a further 181 HME vans, 4 Cycling Vans, 192 Commercial vans and 68 vans supporting mobile tyre fitting in McConechy's, Universal and Axle Group as at 1 April 2022. The portfolio comprised 403 stores (end of FY21: 404) and 606 Autocentres garages (end of FY21: 374).

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

	Stores	Garages	Vans
Relocations	–	–	–
Leases renegotiated	69	7	–
Refreshed	–	–	–
Openings/ Acquisitions	–	243	72
Closed	4	11	–

In Retail, four stores closed during the year, three of them in the final quarter. When analysing the anticipated sales transfer to other channels and neighbouring stores, it was considered more profitable to the Group to close these stores and reduce the overall cost base.

The number of lease expiries, or breaks under option, continues at a similar rate in the next five years. Retail will see three quarters of stores experience optionality within five years, allowing for a high degree of flexibility within the estate.

Chief Financial Officer's Review

Within Autocentres, no garages were opened organically, but 243 locations were acquired in the year and 11 were closed, taking the total number of Autocentre garages to 606 as at 1 April 2022 (end of FY21: 374).

With the exception of nine long-leasehold and three freehold properties in Autocentres, the Group's locations are occupied under 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. The acquisition of Universal resulted in the purchase of six freehold properties, but all were sold and leased back in the first half of FY22.

Net Non-Underlying items

The following table outlines the components of the non-underlying items recognised in the 52 weeks ended 1 April 2022:

	FY22 £m	FY21 £m
Organisational restructure costs (a)	**0.3**	5.9
Impairment of right-of-use assets (b)	**–**	(0.4)
Acquisition and investment-related fees (c)	**2.8**	0.6
One-off claims (d)	**(2.2)**	2.9
Closure costs (e)	**(8.5)**	26.0
Replacement warehouse management system (f)	**0.8**	–
Net non-underlying items	**(6.8)**	35.0

a. In the current and prior period, separate and unrelated organisational restructuring activities were undertaken. A strategic redesign of the in-store operating model was undertaken to better meet our customers' expectations and deliver a consistent shopping experience across our estate. Redundancy costs of £0.3m (PY: £5.9m) were incurred during the transition to the new operating model.

b. In light of the ongoing COVID-19 pandemic, the Group revised future cash flow projections for stores and garages in FY20, which led to the recognition of an impairment in relation to stores or garages where the current and anticipated future performance did not support the carrying value of the right-of-use asset and associated tangible assets. During the prior year, £0.4m of this impairment was reversed as the stores and garages returned to a profitable position.

c. In the current and prior periods, costs were incurred in relation to the investments in National, Iverson, havebike, and Universal.

- In FY22, £2.5m relating to professional fees in respect of acquisition of National;
- £0.2m related to the acquisition of trade and assets of both Iverson and havebike;
- £0.1m (PY: £0.6m) related to the acquisition of Universal.

d. During the prior period a provision of £2.9m was held in the accounts in relation to the HMRC audit into National Minimum Wage, based on management's best estimate using information available at the time. During the current period this has been fully settled and paid, which has led to a release of the provision of £2.2m.

e. During FY20 and FY21 the group completed a strategic review of the profitability of the physical estate and subsequently closed a number of stores and garages. Assets were impaired and costs associated with the ongoing onerous commitments under the lease agreements and other costs associated with the property exits were provided for accordingly. In the current period £8.5m (costs of £26m during FY21) of provisions and lease liabilities have been released as the group continues to negotiate lease disposals and review provisions held in place. At the year end property provisions carried forward included an amount of £10.2m in relation to these store and garage closures. These will continue to unwind as property exits are negotiated with landlords or tenants, and could result in further amounts being released to the income statement due to the significant estimation uncertainty over the timing of exits and the final negotiated settlements.

f. An additional charge of £0.8m has been incurred during the current year for the replacement of the warehouse management system ("WMS"). Under the new IFRIC guidance on IAS 38, this cannot be capitalised and therefore, as it is not part of recurring business it is deemed a non-underlying expense.

Finance Expense

The net finance expense (before non-underlying items) for the 52 weeks ended 1 April 2022 was £11.3m (FY21: £15.0m) reflecting reduced interest on lease liabilities, plus the fact the Revolving Credit Facility (RCF) was not drawn in the current year, partially offset by additional non-utilisation fees.

Taxation

The taxation charge on profit for the 52 weeks ended 1 April 2022 was £18.9m (FY21: £11.3m), including a £1.7m charge (FY21: £6.1m credit) in respect of non-underlying items. The effective tax rate of 19.5% (FY21: 17.5%) differs from the UK corporation tax rate (19%) principally due to increased disallowable expenditure this year (in part relating to the share issue and National acquisition) and prior period adjustments

Earnings Per Share ("EPS")

Underlying Basic EPS post IFRS 16 was 35.5 pence and after non-underlying items 37.9 pence (FY21: 41.7 pence and 27.1 pence after non-underlying items), a –14.9% and 39.9% movement on the prior year. Basic weighted-average shares in issue during the year were 204.7m (FY21: 197.1m).

Dividend ("DPS")

Following the payment of an interim dividend of 3.0p per share on 21 January 2022, we are proposing an FY22 final dividend of 6.0p per share (FY21: 5.0p per share).

IFRS 16

IFRS 16 has had the effect of increasing profit by £2.5m. The two main drivers for this being the increase in held over leases which have decreased the depreciation charge in comparison to the rental payments, and the increased ageing of the lease portfolio which has led to a lower interest charge in comparison to the rental payments.

Capital Expenditure

Capital investment in the 52 weeks ended 1 April 2022 totalled £49.2m (FY21: £45.3m) comprising £31.1m in Retail and £18.1m in Autocentres. Within Retail, £11.5m (FY21: £6.0m) was invested in stores. Additional investments in Retail infrastructure included a £17.9m investment in IT systems, including the continued development of the new Group website.

The £18.1m (FY21: £22.0m) capital expenditure in Autocentres principally related to the replacement of garage equipment and replacement of fixtures and fittings, and further development of PACE, our digital operating model in garages.

During the year, new IFRIC guidance was published relating to IAS38 Intangible Assets, in particular the capitalisation of spend on SaaS solutions. It was determined by **Halfords** that spend on a new Warehouse Management System should be expensed, which resulted in £0.8m being recorded in non-underlying costs due to the non-recurring nature of the costs.

Inventories

Group inventory held as at the year-end was £222.1m (FY21: £143.9m). Retail inventory increased to £194.5m (FY21: £134.3m), reflecting normalised stock levels after a COVID-19 disrupted FY21.

Autocentres' inventory was £27.6m (FY21: £9.6m). The increase in inventory primarily relates to the acquisition of National group and their stock holding of tyres.

Cash flow and Borrowings

Operating Cash Flow was £131.8m (FY21: £280.8m), reflecting a working capital outflow of £70.0m, which arose due to the normalisation of inventory levels as described above. After taxation, capital expenditure, net finance costs, and lease payments, Free Cash Flow was -£14.9m (FY21: £133.2m) in the year. Group Net Debt was £344.9m (FY21: £277.3m).

Principal Risks and Uncertainties

The Board considers the assessment of 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 2022 Annual Report and Accounts. These include:

- Business Strategy
  - Capability and capacity to effect change
  - Stakeholder support and confidence in strategy
  - Value proposition
  - Brand appeal and market share
  - Climate change & electrification
- Financial
  - Sustainable business model
- Compliance
  - Regulatory and compliance
  - Service quality
  - Cyber security
- Operational
  - Colleague engagement / culture
  - Skills shortage
  - IT infrastructure failure
  - Disruption to end to end supply chain

Specific risks associated with performance include the success, or otherwise of peak trading periods (e.g., Christmas) as well as weather-sensitive sales, particularly within the Car Maintenance and Cycling categories in the Retail business.

Loraine Woodhouse
Chief Financial Officer

15 June 2022

Risk Management

Risk Management Framework

The Board has overall responsibility for the management of risk and the identification of principal risks that may affect the Group's strategic objectives. Specifically, the Board determines the nature and extent of risk exposure that the business is willing to take in pursuit of its strategy. The Audit Committee, on behalf of the Board, has responsibility for maintaining oversight of the Group's framework for risk management.

Our framework for risk management ensures a standardised approach from identification to the reporting of risks. Applying the Group's appetite for risk ensures a consistent approach can be applied to threats and opportunities throughout all our operations.

Changes to the risk profile of the business, alongside significant and emerging risks, are escalated to the Audit Committee, which routinely receives deep dive analysis and regulatory updates on key risks. Please see page 125 for details of Audit Committee activities during the year.

Principal Risks

The Audit Committee reviews the effectiveness of the risk management processes and monitors the assessment of the Group's principal risks, reflecting on external factors and their impact on strategic priorities. Each principal risk has an Executive owner and is included 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 to identify emerging risks.

Principal risk changes:

- Climate change and electrification: This was previously identified as an emerging risk and opportunity. For a long time, risks associated with global climate change and the sustainability agenda have been given serious reflection as part of several of our principal risks. Separation as a principal risk is recognition of the increasing importance to the **Halfords** strategy in terms of electrification and the significance to our stakeholders as demonstrated by the mandating of the Task Force on Climate-related Financial Disclosure ("TCFD") framework.
- End-to-end supply chain: This risk is an evolution of the critical physical infrastructure failure (including supply chain disruption). The focus has shifted to the resilience of the supply chain and the potential for disruption to customer fulfilment and what that would mean for sales and profit projections.

The significant impact of COVID-19 throughout FY21 continued into FY22 with further lockdowns and travel restrictions disrupting global supply chains and changing consumer behaviour.

The Group was able to limit the impact of the pandemic by continuing to trade safely as an essential retailer and by making any necessary proposition changes, such as enhancing our online offer, to respond to changes in customer behaviour. The management of financial risks and liquidity was strengthened to protect the business and deliver a positive result for the year. Throughout this period, risk management was at the forefront of our response, designed to protect both customers and colleagues.

Emerging Risks

The evolution of risk is actively considered at Board level and across the senior management team. Emerging risk is seen as an undefined risk that may eventually develop to materially impact the business in the future. The Audit Committee receives presentations from contributors to the risk management process with insight on key risk themes such as economic, environmental, technological, societal, and geopolitical.

Risk Appetite

The Board has defined risk appetite for its principal risks based on the categories of strategy, financial, compliance and operational. By grouping risks into categories, the Board can distinguish the risk appetite for each of the principal risks and whether mitigations are adequate.

Board and Audit Committee

Overall oversight of risk management and internal control framework:

- Full annual review of effectiveness of risk management and internal control systems, corporate risk register, and risk appetite undertaken by Audit Committee with assessment delivered to Board for approval.
- Update on changes to risk and internal control environment presented by Internal Audit to Audit Committee at each meeting.

Whistleblowing process
Regular KPI reporting

Regular management presentation to Board and Audit Committee

Internal Audit Reports
Corporate Risk Register

Shops, Garages, Distribution Centres and Customer-Facing Businesses

First Line Assurance
Operating within agreed policies and procedures, for example:

- Delegated authorities (‘How We Do Business’).
- Quality Standards.
- Retail guidelines (‘Retail Basics’).
- Health and Safety policies.
- Colleague handbooks.
- Regular oversights.
- Performance monitoring.
- Regular management presentation to Board and Audit Committee.

Corporate Functions

Second Line Assurance

- Identify developments in risk and internal control environment.
- Develop and implement strategy, policies, procedures and controls to manage risk.
- Internal audits.
- Risk and internal control analysis.
- Internal audit reports.
- Corporate Risk Register.

Internal Audit

Third Line Assurance

- Independently review quality of key internal controls and management assessment of risk.
- Challenge management to enhance control environment.
- Maintain Corporate Risk Register.

Internal Audits
Risk and internal control analysis

Risk Management

Task Force on Climate-related Financial Disclosures ("TCFD")

Introduction

We recognise the importance of understanding and managing the climate-related risks and opportunities to our business and supply chain. Over the past few years, we have evolved our approach to assessing these risks and opportunities in line with the recommendation set out by the Task Force on Climate-related Financial Disclosure ("TCFD"). This is our first year of reporting against the TCFD framework and we are committed to continuous improvement as we work hard to mitigate climate-related risk and activate the various opportunities available to us for accelerating the transition to a lower-carbon economy.

Governance

The Board oversees our approach to climate change and is committed to reducing the impact of climate change on our operations whilst monitoring the opportunities that it presents. The ESG Committee is a committee of the Board, made up purely of Non-Executive Directors, and offers advice and guidance to the business based on a wealth of experience.

The Executive Team is ultimately responsible for the day-to-day management of the ESG programme. Whilst ESG is regularly discussed at Executive meetings, recognising the importance of ESG, we have chosen to form an ESG Board comprising Executive members giving a dedicated monthly session to focus on strategic progress of our ESG programme. Members of the Executive Team regularly attend ESG Committee meetings and keep the ESG Committee up to date on the progress of the ESG programme. During this financial year, executive remuneration is linked to our performance in our Electric Services training target (see Metrics & Target section on page 71). Our Executive Team has also had oversight of the TCFD process and has contributed to the scenario analysis process.

Training for ESG and climate change has been conducted throughout the year for both Executive and Non-Executive Directors, with structured training slots run by external experts being supplemented by ad hoc training provided by Executive and Senior Management colleagues. We acknowledge that this is an ongoing process and will keep running these training sessions to ensure all business leaders have the best information on which to base decisions.

Next Steps

- Further Board training on climate change and the Board's due diligence requirements, including specialist training for those directly responsible for climate-related issues.

Strategy

In response to climate change, the UK Government has set out a target[1] of no new internal combustion engine ("ICE") vehicles being sold in the UK from 2030. Electric vehicles ("EVs") are therefore going to be crucial over the next decade as the country prepares for the shift away from conventional fuel sources. Both our Corporate and ESG strategies are closely focused on the growth of electric and we have set out our ambitions to help lead the market in electric servicing as the UK shifts towards more sustainable mobility options, specifically EVs, E-bikes and E-scooters. We have also committed to providing industry-leading training to our colleagues to better support customers as they make the switch to electric.

The acceleration of our strategy – to evolve into a consumer and B2B services-focused business – also positions us well for any climate-related changes in the future with service-led markets being significantly more resilient than product-based ones, e.g. not reliant on complex supply chains.

As we progress and better understand the impact of climate change on our business and demands of our key stakeholders, we commit to regularly reviewing our strategy and ensuring that we evolve to do all that we can to mitigate the risks and explore the opportunities that we are presented with.

Risks and Opportunities

This year, we engaged with PwC to perform an independent risk assessment, combining our strategy and future trends. The output is summarised below, showing the key risks and opportunities that we face. They are split into two areas:

- Transitional risks are those associated with policy, technology, and market changes due to the transition to a lower-carbon economy.
- Physical risks describe the physical impacts of climate change, which include event-driven impacts (acute) and longer-term shifts in climate patterns (chronic).

Timeframe

Short term: 5 years	Medium term: 10 years	Long term: 20+ years

[1] www.gov.uk/government/news/government-takes-historic-step-towards-net-zero-with-end-of-sale-of-new-petrol-and-diesel-cars-by-2030.

Area	Timeframe	Risk/Opportunity	Description
Transition			
Political & Legal	Medium-Long	Risk	UK Government's ban of no new petrol/diesel vehicles by 2030, meaning more servicing for EVs which are currently less time consuming (though we recognise this may change in the future).
Market	Short-Medium	Risk	Miss the opportunity of becoming leaders in e-mobility. This can be either because of very high or very low uptake of e-mobility.
Market	Short-Medium	Opportunity	Be at the forefront of e-mobility products and service offerings, helping customers to make the transition to e-mobility and capture increased market share.
Product & Services	Short-Medium	Opportunity	Introducing new products with smaller environmental footprints (e.g. low-impact materials or recycled products).
Physical			
Acute & Chronic	Medium	Risk	Disruption of either supply chains, operations or customers due to infrastructure damage from extreme weather events.

Scenario Analysis

PwC also helped with detailed quantitative scenario analysis over four key climate-related risks and opportunities to explore the potential range of climate-related outcomes and financial impact to the business. In alignment with the TCFD recommendations, 1.5°C, <2°C, 2-3°C and 4°C scenarios have been selected for timeframes 2030 and 2050.

We have selected the Future Energy Scenarios from the National Grid to model transition risks, and the Intergovernmental Panel on Climate Change ("IPCC") Shared Socioeconomic Pathway ("SSP") scenarios to model physical risks. We chose the Future Energy Scenarios as these are grounded in the current characteristics of the UK's transportation system and take into account legislation on the ban of new petrol/diesel cars in the UK. Jupiter Intelligence data was used to model physical risks to chosen **Halfords** sites.

Note:

- 1.5°C scenario was only for transition risk and 4°C scenario was only for physical risk.
- For transition risk, scenario analysis was conducted to assess how climate change and the transition to a lower-carbon economy could impact motoring and EV products and servicing at **Halfords**. This was only conducted on the Motoring element of **Halfords**' business.

	Potential impact on business	Halfords Response	Mitigations/Reinforcements
Transition			
Lower Product & Servicing Revenue **Note:** Scenario analysis was prioritised on motoring products and services as it is recognised that the insights are important to guide Halfords' strategic direction moving forward.	• Reductions in Motoring services revenues are driven by the assumed lower cost per serviced EV but are also influenced by a changing total vehicle stock. • Reductions in Motoring product revenues are driven by selling fewer maintenance-related products for EVs compared with ICE vehicles.	Vehicle servicing currently represents a very small proportion of total Group sales (low single digit percentages). The assumed lower EV servicing costs do not account for the opportunity to increase the volume of serviced vehicles due to reduced turn-around time or the potential need to increase prices due to the specialist skillset required for EV servicing. Despite only making up a fraction of overall revenue, we feel we are well positioned to manage this risk and associated opportunities. For a number of years, the Group's strategy has been to mix increasingly into services, thereby becoming a more resilient, needs-based business. Alongside the potential to sell EV-related products, we are well positioned to manage this risk and realise this opportunity.	• Continue to grow share in areas of the market which are not impacted by fuel type. • Ensure buying teams are kept up to date with **latest product trends** to mitigate products revenue loss from lower BEV product sales. • **Monitor the regulatory environment** for changes to policies around e.g. sale of ICE vehicles, tax breaks for e-mobility or infrastructure developments. • **Monitor market for EVs both from a manufacturing side and consumer uptake** side so **Halfords** can appropriately shift its business model to account for the rise of e-mobility, increasing volume to counter lower profitability per unit under current business models.

Risk Management

Task Force on Climate-related Financial Disclosures ("TCFD")

	Potential impact on business	Halfords Response	Mitigations/Reinforcements
Electric Vehicle Technical Skills	• As the number of EVs increases, the number of EV technicians must also increase. • In every scenario, all servicing will be 100% electric by 2050.	We recognise the need to upskill EV servicing technicians and are already making good progress with our training programme. During the year, we trained over 2,000 colleagues on EV servicing. We also led the #Plugtheskillsgap campaign, calling on the industry to train EV technicians to meet the needs of EV servicing. We believe we are well positioned to manage this risk.	• Keep technicians up to date with the **latest developments in EV servicing**. • Continue **supporting customer education** on e-mobility to allow them to make more sustainable choices, whilst making the transition simple and convenient. • **Partnerships to advance e-mobility** and create new market opportunities.
Physical			
Extreme Weather Events **Note:** Analysis carried out on select Halfords UK and supplier sites only, i.e. sites with the most material impact on Halfords operations.	• Significant and diverse risks to our physical sites due to extreme weather. • Increased flooding in the UK and increased heat in South East Asia are most prominent risks. • All scenarios suggest an increased magnitude of floods with more damage to contents and inventory.	Whilst only a small number of our retail sites were deemed as being at high risk of flooding, we recognise the potential for supply disruption due to flooding and extreme weather. We are working with our suppliers to better understand their climate resilience and carbon reduction strategies. This information and data collection will support further scenario analysis to gain a more complete picture of this risk. We consider ourselves well placed to manage this risk.	• Work with **insurance providers** to ensure our estate is covered with adequate weather-related cover and importantly any necessary structural amends are prioritised for sites at potential risk. • **Work with suppliers** to better understand climate risk management and resilience within key supply areas. • **Assign accountability** for assessing and managing risks. • **Integrate physical risk** assessment into core risk management processes. • **Improve data collection** to increase the accuracy of scenario analysis and expand scope of analysis.
Increased Temperatures	• Climate change will cause hotter, longer summers and milder winters, resulting in risks and opportunities for our product and servicing categories which correlate to temperature. • All scenarios suggest relatively low impact to overall revenue due to the balance of positive and negative shifts.	We recognise the potential for peaks in demand for product ranges that are more receptive to warmer climates and the opportunity this presents. We are well positioned to realise these opportunities and will continue analysis for additional product ranges in this area.	• **Monitor the markets** to ensure buying teams are kept up to date with projection of impact on product sales. • **Expand analysis** for additional product areas. • **Assess supply chain** resilience against the projected demand increases and identify potential periods of supply chain stress.

Next Steps

- Begin data collection of **Halfords** specific footprint; garages, supply chain as well as goods (tyres, bikes) and services to support next phase of scenario analysis, building on the FY22 foundations.

Risk Management

The climate crisis is already having a profound effect through extreme weather events – floods, drought and rising sea levels – all of which have the ability to disrupt our supply chains and impact our ability to operate our business effectively.

These risks have been assessed in detail and whilst flooding is likely to impact select **Halfords** stores and garages across the UK, our most material climate-related risks and opportunities are in response to the evolving regulatory landscape; in particular, the ban on new ICE vehicles being sold in the UK from 2030 as part of the UK Government's net zero ambitions. More sustainable mobility options, including electric vehicles, E-bikes and E-scooters are therefore going to be crucial over the next decade as the country prepares for the shift away from conventional fuel sources and transition to a lower-carbon economy. This transition will impact our motoring and cycling business in the short, medium and long term.

We have upgraded climate change to a Principal Risk from an Emerging Risk, recognising the urgency of the climate crisis, the increasing demands from stakeholders and the forthcoming introduction of new regulatory obligations and reporting requirements. As such, the risk management process for climate change is now in line with how we manage our other Principal Risks.

Our principal climate-related risks are:

- Failure to respond adequately to the demand for sustainable mobility options through our products and servicing offers, leading to a loss in confidence, market position and revenue.
- Our service proposition does not match customer demand for electrification solutions in motoring and cycling, leading to profound disruption in our core markets.
- Failure to deliver against our climate strategy and net zero targets, leading to a loss in confidence from our stakeholders and potential reputational damage.

We recognise the need to engage with various stakeholder groups to manage these risk and are working with suppliers on Scope 3 emissions reductions and the management of climate risk in the supply chain (see Scope 3 engagement target in the Metrics and Targets section below).

Read more on page 45.

Next Steps

- Develop a process whereby climate-related risks and opportunities can be updated on an annual basis.

Metrics and Targets

We recognise the value of regularly tracking progress and are committed to a transparent reporting process. Our targets are ambitious, though achievable, and will put our business in a better position to mitigate risks arising from climate change and take advantage of the opportunities we are presented with.

	Target	Progress
Carbon Emissions		
Scopes 1 & 2	**Reduce absolute Scope 1 and 2 emissions by 42% by 2030** (vs. FY20 baseline).	25% reduction since FY20 baseline. Read more on page 45.
Scope 3	**Engage with 67% of our suppliers** with the objective of them setting carbon reduction targets of their own, ideally approved by the SBTi, by the start of 2026. **Reduce absolute Scope 3 emissions by 25% by 2030** from purchased goods and services, capital goods and upstream transportation (vs. FY20 baseline). **Begin collecting more accurate Scope 3 data from our suppliers.**	Engaged top suppliers to understand their position today and to begin collection of accurate carbon data. Read more on page 45.
Electric Services Colleague Training	**Increase the number of colleagues capable of servicing EVs, E-bikes and E-scooters.**	2,091 colleagues trained. Read more on page 44.

Next Steps

- Detail **Halfords** Net Zero plan; headline information on how we will transition to a lower-carbon economy.

Our Principal Risks and Uncertainties

Capability and Capacity to Effect Change

Failure to build sufficient capacity and capability (in terms of our people, processes, and systems) to successfully implement the transformation required across the business may result in the expected benefits of our strategy not being delivered, thereby risking the future sustainability of the business.

Current Mitigation

- A dedicated Transformation and Change team led by the Chief Transformation Officer and supported by experienced Programme and Project Managers has enabled progress to be made during a period of increased capital investment and focus on delivery of significant strategic initiatives.
- The continued advancement of our change programme is managed through a Transformation Board, providing the necessary governance for delivery of the strategy. The Transformation Board ensures there is a robust approval process for each project, allocates resource and monitors progress. Programme and 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 affecting change, **Halfords** is requiring all contributing colleagues to observe the principles of Responsible, Accountable, Consulted, and Informed ("RACI").

Focus in 2023

- Continue to align our Transformation plan with the key objectives of our corporate strategy.
- Closely monitor progress on individual programmes, realigning requirements and resources where relevant.
- Embedding a new organisational design to strengthen with even greater focus on best practice change management and adoption, delivery of benefits and standardisation of process.
- Delivery of a new operating model, specifically in technology and digital teams, will drive more agile, effective and efficient delivery of changes, with a greater emphasis on the unlocking of value to stakeholders.

Stakeholder Support

Failure to secure and maintain our stakeholders' (investors, suppliers, colleagues) support for our strategy will mean they may lose confidence in the business and withdraw their resources.

Current Mitigation

- Throughout the year, we demonstrated progress in the execution of our strategy, building confidence in external and internal stakeholders.
- Our equity placing in FY22 received exceptional support from our investors, and we continue to see strong progress in both customer NPS and colleague engagement.

Focus in 2023

- Maintain progress on the delivery of our strategic objectives.
- Address colleague engagement challenges through a regular cycle of survey and review.
- Proactive investor relations programme of events and communication with a planned Capital Markets day for the second half of the year.

Value Proposition

If investment in our motoring product value proposition and Group value perception is insufficient to retain existing customers and/or attract new ones, and/or we continue to lose market share to online retailers and discounters, the impact could be a loss of sale volume. Balancing price investment will be important in the current environment and there is a risk that investing in price without a corresponding increase in volume leads to a diminution of financial returns, but equally, increasing prices outside of market movements could create further damage to our value perception.

Current Mitigation

- 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. Progress continued through a refreshed financial services campaign and ongoing Cycle to Work proposition supporting greater accessibility for our customers, further enhanced by the launch of our pre-pedalled bikes offering.
- Launch of the **Halfords** motoring club loyalty programme, designed to reward loyal customers and inspire a greater proportion to shop across the Group.

Focus in 2023

- Introduction of a new halo message to support a change in perception over the medium to long term.
- Establishment of the motoring club help club customers enjoy greater savings and benefits and ensure we help customers motor for less across the UK.
- Further investment in pricing motoring products to deliver greater value for customers.

Key: Risk increasing Risk decreasing No risk movement N New risk

Brand Appeal and Market Share

Investment in awareness of our brand and our services is insufficient to increase our brand relevance, in which case we will be unable to maintain and grow our customer base or improve our customer shopping frequency and spend and correspondingly build market share.

Current Mitigation

- Building on a positive response to our status as an essential retailer we have grown awareness of our **Halfords** Mobile Experts and garage services. Customer NPS and satisfaction has achieved record levels for Trust Pilot and Google scores for the Group.
- Improvement of our cycling proposition, allied with better than market availability and support for the cycle to work voucher scheme, has strengthened market share.

Focus in 2023

- Integration of National will support greater brand awareness of garages and mobile vans.
- Promotion of the motoring club offering free and premium plans.
- Investment in the growth in electric mobility to strengthen our market-leading proposition.

Climate Change and Electrification N

The climate crisis is already having a profound effect through extreme weather events – floods, drought and rising sea levels – all of which have the ability to disrupt our supply chains and impact our ability to operate our business effectively. These risks have been assessed in detail and whilst flooding is likely to impact select **Halfords** stores and garages across the UK, our most material climate-related risks and opportunities are in response to the evolving regulatory landscape; in particular, the ban on new internal combustion engine ("ICE") vehicles being sold in the UK from 2030 as part of the UK Government's net zero ambitions. More sustainable mobility options, including electric vehicles, E-bikes and E-scooters are therefore going to be crucial over the next decade as the country prepares for the shift away from conventional fuel sources and transition to a lower-carbon economy. This transition will impact our motoring and cycling business in the short, medium and long-term.

Failure to respond adequately to the demand for sustainable mobility options through our products and servicing offers could lead to a loss in confidence, market position and revenue.

Our service proposition does not match customer demand for electrification solutions in motoring and cycling, leading to profound disruption in our core markets.

Failure to deliver against our climate strategy and net zero targets, leading to a loss in confidence from our stakeholders and potential reputational damage.

Current Mitigation

- Robust Electrification strategy – discussed at the Transformation Board regularly. Challenges, performance and successes are analysed, and strategy regularly adjusted as appropriate.
- Regular monitoring of legislative changes, climate-related due diligence and reporting requirements as well as monitoring of the regulatory environment for changes to policies around e.g., sale of ICE vehicles, tax breaks for e-mobility or infrastructure developments
- Regular landscape monitoring for electric vehicles ("EVs") both from a manufacturing side and consumer uptake side so that we can appropriately respond to the rise of e-mobility.
- Task Force on Climate-related Financial Disclosure ("TCFD") roadmap developed and being actioned to support ongoing reporting and risk management requirements.
- Science-based carbon targets developed to tackle the immediate carbon emissions reductions required across our business and supply chain. These will form the foundations for our net zero pathway and will be monitored to ensure we hit our longer-term net zero target.
- Investment in systems approved that will enable the collection of supply chain emissions, to measure, monitor and reduce our Scope 3 emissions – which make up a significant proportion of our overall carbon footprint.

Focus in 2023

- Continue to work with Government to support the path to legality for private E-scooters.
- Continue to train and equip our colleagues to work safely and confidently on hybrid and battery EVs and continue to meet all appropriate regulatory standards.
- Focus on growing the penetration of hybrid and battery electric vehicles in our fleet.
- Further Board training on climate change and the Board's due diligence requirements, including specialist training for those directly responsible for climate-related issues.
- Develop a process whereby climate-related risks and opportunities can be updated on an annual basis.
- Integrate climate risk relating to weather (floods, etc) into risk management process for our estate.
- Begin collecting supply chain data on Scope 3 carbon emissions and climate management, particularly for areas of supply that may be disrupted due to severe weather.
- Develop and report on **Halfords** Net Zero plan; headline information on how we will transition to a lower-carbon economy.

Our Principal Risks and Uncertainties

Sustainable Business Model

Alongside pre-existing changes in customer habits and expectations, the recent spike in UK supply chain and consumer inflation is creating challenging economic conditions. Unless we can continue to mitigate the significant levels of cost inflation (through cost mitigation and savings, growth in new business areas, and increasing selling prices), we will be unable to maintain a sustainable business model.

Current Mitigation

- An ongoing strategic focus on the growth of services will build more stable revenue streams, lessening the Group's relative exposure to discretionary expenditure.
- Selling solutions and cross-shop initiatives will maximise the revenue from existing transactions.
- Detailed price/elasticity analysis alongside price trials will optimise consumer pricing decisions.
- Long-standing supplier relationships will be optimised to extract value from supplier contributions/support.
- A new Cost Transformation framework programme has been established to target cost reduction during FY23/FY24.
- US dollar hedging programme in place.
- Recent three-year refinancing extended for a fourth year.

Focus in 2023

- Strategic programme focused on selling more full solutions to customers, supported by digital technology.
- Cross-shop sales opportunities boosted by launch of the new Motoring Loyalty Club programme.
- Customer referral encouraged from Retail to Autocentres/**Halfords** Mobile Experts via new services roles in Retail.
- Cost Transformation programme established to focus on short, medium and long-term cost reduction opportunities.
- Ongoing 'goods for resale' supplier discussions targeting mutual value opportunities.
- Fixed cost contracts entered into for inflationary cost categories – e.g. Freight and Utilities.
- Rental costs reduced through property renegotiations; underperforming stores/garages closed at lease renewal.
- Productivity analysis ongoing through digital technology.
- New Group Data Platform identifying sales, cost and productivity opportunities.
- FX hedging programme.
- Continuing to focus on margin improvement, eliminating unnecessary cost through targeted efficiencies and scale benefits.

Regulatory and Compliance

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.

Current Mitigation

- There is continual monitoring of legal and regulatory developments for all regions where the Group operates. A suite of policies sets out the Group's commitment to conduct its business with honesty and integrity. The senior leadership team communicates tone from the top to provide guidance to colleagues on all policy commitments.
- Compliance training is provided to new colleagues as required with refresher courses thereafter. Regular horizon scanning is undertaken to capture new regulations and requirements.
- We have a code of conduct with our suppliers whom we monitor for compliance across ethics: environmental management; labour practices; and human rights.
- Health and safety, data protection and Financial Conduct Authority compliance are managed by experts reporting to dedicated committees with representatives across the business to assess our regulatory rigour.
- An established whistleblowing process enables colleagues to report suspected or actual wrongdoing in confidence.

Focus in 2023

- Continued monitoring of legal and regulatory developments for all regions where the Group operates.
- Increased headcount within the Health and Safety function to support the growth of the Group.
- Review and improvement of policies supported by training programmes for colleagues.
- Regular training and information provided through user-friendly channels.
- Establishment of a new Finance Risk Committee to focus on all aspects of financial risk and compliance.

Service Quality

The services we provide fall below the quality standards to which we are committed, placing customers at risk of harm.

Current Mitigation

- All 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 regulated activities.
- In Autocentres our digital operating platform PACE enables increased workflow, productivity, and quality assurance. PACE drives service quality by requiring quality controls to be completed on all workshop colleagues as determined by the Technician Quality Rating. All our Quality Controllers follow an approved training pathway and receive refresher training annually.
- We have a Retail Contact Centre that provides a level of call answer rates that ensures we can provide a quality service to our customers whatever channel they choose.

Focus in 2023

- Stores and Service calls to be migrated to self-service or digital channels for ease and optionality for customers to access support in channel of choice.
- Our Retail Plan will remain unchanged into FY23 to ensure we drive consistency across the estate and continue the focus on embedding the Retail Operating Model.
- An annual skills plan ensures we are able to maintain our skill level as we drive down our labour turnover.
- Integration of National garages to include the adoption of the **Halfords** Quality procedures and roll out of PACE.
- Our Operational Excellence team will continue to review our inventory of tools to do the job.
- Fusion will be our focus on our next 'go to' operating model as we roll out Core and Enhanced formats.

Cyber Security

If we fail to sufficiently prevent, detect, and respond to cyber incidents and attacks they may result in disruption of service, compromise of sensitive data, financial penalties from regulatory authorities, financial loss, and reputational damage.

Current Mitigation

- Our security partner, TCS, provides first line assurance security operations capabilities including vulnerability management, email filtering, and website security.
- Within our Risk Management Framework our Information Security team provides the second line assurance role identifying and managing cyber-related risk, and developing and implementing our internal control framework.
- Third line assurance is provided by Internal Audit.
- A perpetual education and awareness campaign is provided to all colleagues. Regular briefings promote an understanding of the risks to our data and the benefits of good security practices.
- The Audit Committee is regularly briefed by senior Technology management on the business' cyber security framework.

Focus in 2023

- Consolidate technical cyber security solutions across the Group, including acquisitions.
- Mature processes for internal control assessments to improve identification and ongoing management of cyber risk. Conduct gap analysis against the CIS Critical Security Controls for critical systems. Remediate findings to ensure critical systems are protected.
- Mature cyber resilience of critical systems, including both proactive and reactive incident response capabilities.
- Mature processes and documentation relating to security of data focusing first on regulated personal data of both customers and colleagues.
- Conduct a network security review including segmentation and firewall positioning, legacy and end-of-life devices, and regular security testing (vulnerability scanning and penetration testing).

Key: Risk increasing Risk decreasing No risk movement N New risk

Our Principal Risks and Uncertainties

Colleague Engagement/Culture

Our employment model may not be sufficiently attractive to recruit and retain the talent that we need. We do not maintain a sufficiently positive culture, failing to support a diverse and inclusive community.

Current Mitigation

- A five-year People Strategy that develops the colleague journey across the areas of 'Find me, Train me, Grow me, Keep me' and that creates the opportunity for a career at **Halfords** with an employee brand 'Your Journey, Our Journey – make it your own'.
- The continued development of our colleague engagement programme and survey, and further focus on our colleague network groups.
- Through the provision of wellbeing facilities and regular updates using huddles and blogs we keep our colleagues informed and supported.

Focus in 2023

- Implementation of Year 1 of our People Strategy with activities focused on delivering improvements to the colleague journey of 'Find me, Train me, Grow me, Keep me'.
- Benchmark our pay and benefits to ensure we are competitive in the market.
- Move to an engagement model that inspires ongoing engagement, listening and action.
- Develop our colleague network groups to support change in areas of diversity that develops our attraction and engagement with our colleagues.

Skills Shortage

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.

Current Mitigation

- We have reduced our reliance on external recruitment and as part of our colleague strategy developed our internal pipeline for technical and leadership capability. We have also further developed cross-group career pathways and succession planning as well as continued investment in our training and development.
- Training and development are a fundamental part of our business and a great attraction for new applicants. We apply a targeted approach to further enhance skill levels for centres as we do with stores, by mapping against the optimal skills mix.

Focus in 2023

- Launch our employee brand and integrate through our attraction and recruitment materials. Broaden our attraction resources and develop simpler and quicker recruitment processes.
- Develop and expand our apprenticeship strategy and the **Halfords** Academy to grow our own technical skill base.
- Expand our 'Tyre fitter to Tech' programme and change hiring approach to recruit on behaviour as we will train the skill.
- Develop a cross-group approach to talent and succession.
- Investment in our selling skills across Group.

IT Infrastructure Failure

Failure in our IT system(s) may cause significant disruption to, or prevention of, normal business-as-usual activities.

Current Mitigation

- Extensive controls are in place to maintain the integrity of our systems and to ensure that systems changes are implemented in a controlled manner. We have resilient infrastructure in place for remote working colleagues to access **Halfords** hosted applications, such as SAP.
- **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.

Focus in 2023

- Continue progression towards a fully cloud-based hosting structure with a transfer of risk to cloud-based service providers who can maintain higher levels of contracted availability.
- Reduce dependencies on legacy and end-of-life systems for key business-as-usual activities.
- Deep-dive analysis into targeted areas of infrastructure, managed through the Risk Committee.

Disruption to end to end supply chain (N)

The **Halfords** end to end ("E2E") supply chain is an integration of the process from sourcing of products (including the raw material procurement and product design by our supply partners) through to scheduling and delivery of goods to our customers (through our distribution centre ("DC") network and via stores or direct to consumer).

Disruption to the E2E process creates a major impact to customer fulfilment and/or customer-facing price increases due to supply shortages, increased demand for raw materials impacting availability and input price, production delays that lead to an extension in supply lead times, logistics delays in the form of shipping of goods, or the potential closure of one of our distribution centres, all of which challenges our ability to meet sales and profit projections.

Current Mitigation

- The need to respond to the pandemic in FY21 has tested our business continuity plans and given us confidence in alternative supply chain solutions and resilience.
- Our Commercial and Financial processes support continued active demand forecasting through regular weekly reviews, a transparent Open to Buy process, a stock policy that increases cover for important and volatile lines and a currency hedge policy that smooths out variability.
- Our sourcing capability and supplier relationships are delivered through dedicated UK, Asian and Near sourcing teams. These teams maintain both strategic and upstream supplier relationships, operate multiple sources, dual sourcing, product engineering and are engaged in the ESG agenda.
- Our in-house expertise delivers the high global trading standards from Authorised Economic Operator accreditation, import/export expertise and dedicated security at each of our DC sites.
- Our 3PL relationships give expertise and options. We contract with multiple shipping lines for flexibility and leverage, we have access to large organisational support from Yusen Logistics, Wincanton and Clipper logistics and PwC provide external trading and compliance expertise.
- Our transformation plans reduce risk through scheduled work on the replacement of our Warehouse Management System, a UK distribution centre physical network review, the replacement of our Forecasting and replenishment tools and our Customs and Duty platform.
- We have invested in a multi-sea freight carrier solution to balance costs and flexibility to move our direct import cargo in an unprecedented inflationary market.

Focus in 2023

- Development of a replacement Warehouse Management System.
- Development of an enhanced Customs and Duty platform.
- Investment in a more senior dedicated Customs and Trade compliance team to reduce the risks associated with international sourcing activity.
- Investment in additional storage space in a fifth DC to hold overstocks and protect availability rather than cut intake too hard and damage both customer availability and supplier relationships.

Key: Risk increasing · Risk decreasing · No risk movement · (N) New risk

Our Principal Risks and Uncertainties

Going Concern

In determining the appropriate basis of preparation of the financial statements for the year ended 1 April 2022, 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 an assessment of the financial forecasts for the 12 month period to the 12th June 2023.

The Group has outperformed projections reviewed as part of the going concern assessment in the Annual Report and Accounts to 2 April 2021.

Management has updated the assessment of going concern, which included reviewing financial forecasts and projections to 30 June 2023. Within these financial projections, management reviewed profit and net cash flow, and tested financial covenants in the period. No issues were found.

The financial forecasts have been stress tested to determine the required sales decline versus the Going Concern scenario before the covenant conditions were breached. This assessment also included variable and other cost saving measures the Group would employ in this scenario and showed that sales would have to reduce by 23.3% annually before the first covenant condition is broken (interest payable to EBITDAR). With the significant risk to business operations from COVID-19 abating, the macro-economic environment is now affected by the cost-of-living crisis with inflationary increases the highest in decades. The leading drivers of this are the disruption to supply chains from recovery of the world economy after COVID, further exacerbated by the 2022 war in Ukraine which has also materially increased energy costs for businesses and consumers. Mitigating this, the Group is contracted to market competitive freight and energy prices for at least the next 12 months and has further cost saving programmes in progress. We are expecting some impact on consumer spending given the pressures on disposable incomes, especially in “non-needs” based spending areas but do not believe that these external risks would cause a sales reduction of greater than 23.3% in the next 12 months. If sales were to reduce at this level, then further actions could be taken by management to prevent the breach. The key mitigating action would be to halt strategic investment in FY23.

The Audit Committee recently reviewed the corporate risk register and confirmed that it gave no reason not to adopt the Going Concern principle.

The Group ended the year with cash of £46.3m and continues to be cash generative. The Group has a revolving credit facility of £180m at the date of approval of these financial statements, which expires on 4 December 2024, and has no other debt or facilities. 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 debt facility. They do not consider there to be a material uncertainty around the Group or Company’s ability to continue as a Going Concern.

Viability Statement

In accordance with the Corporate Governance Code, the Directors have assessed the viability of the Company over a three-year period to 28 March 2025. The Directors believe this period to be appropriate as the Company's strategic planning encompasses this period, and because it is a reasonable period over which the impact of key risks can be considered within a fast-moving retail business. This period is consistent with the approach last year, and with many other retailers' disclosures.

The Directors have assessed the prospects of the Group by reference to its current financial position, its recent and historical financial performance, its business model and strategy, and the principal risks and mitigating factors described on pages 72 to 77.

The Board regularly reviews financial headroom and cash flow projections to ensure that the business retains sufficient liquidity to meet its liabilities in full as they fall due.

The Group is, as results demonstrate, financially strong, historically generating cash and profit each year, which was true throughout the year ended 1 April 2022 and is expected to continue. The business has delivered in line with scenarios developed as part of the modelling during the year end close process last year.

In making this viability statement, the Directors have reviewed the overall resilience of the Group and have specifically considered:

- **The likelihood and impact of the principal risks**. At a recent review by the Audit Committee, Directors agreed that 'the risk register identifies no matters that may jeopardise a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due in the reasonably foreseeable future (i.e., three years)'. The Audit Committee's review included a robust assessment of the impact, likelihood and management of principal risks facing the Group, including those risks that could threaten its business model, future performance, solvency, liquidity or day-to-day operations and existence. Mitigating actions that would serve to protect the sustainability of the business model include an ongoing shift to a services proposition, a continued focus on reducing underlying costs (e.g., rental costs through property renegotiations) and driving down cost of goods where possible through targeted efficiencies and scale benefits.
- **Financial analysis and forecasts**. The Board recently reviewed the five-year financial plan, including the current financial position and performance, cash flow projections, dividend strategy, funding requirements and funding facilities. Sensitivity and stress testing was subsequently applied to the financial plan to determine the extent to which sales and cash would need to deteriorate before breaching the financial covenants embedded within the Group's bank facilities. The testing indicated that the business could experience a sustained reduction in sales of 23.3%, amounting to an average of (£420m) revenue reduction per annum across the next five years, and still remain within existing facilities and covenants. The downside scenario makes an assumption on variable cost savings, assuming that costs equating to 15% of sales, or £63m per annum, are removed. The downside scenario also incorporates a further £69m of fixed and semi fixed costs which would be saved annually were this sales scenario to materialise, with savings across a number of business areas including performance related incentives, transformation programme investment and head office costs. Based on their assessment of the plan, the Directors believe a downside sales scenario of this magnitude and duration is unlikely to materialise. During FY22 the Group have extended the facility expiration date to December 2024 and have the option to further extend to December 2025 with agreement from the lenders.

Viability statement

Based on this review, the Directors confirm that they have a reasonable expectation that the Group will continue to meet its liabilities as they fall due over the three-year period.

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Our Governance

Contents


RADIO
MEDIA

Board of Directors

Keith Williams (N)

Chair

Current role
Appointed Chair of the Company and of the Nomination Committee on 24 July 2018.

Additional roles held
Keith is the Non-Executive Chair of Royal Mail Group (previously interim Executive Chair). Keith is a qualified Chartered Accountant.

Past roles
Keith was formerly a Non-Executive Director and Deputy Chair of John Lewis, a Non-Executive Director of Aviva plc, and Chief Executive Officer and then Executive Chair of British Airways, having previously been at Boots, Reckitt and Colman, and Apple Computer Inc. Keith was the independent Chair of the government-supported Rail Review.

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 customer service and digital.

Graham Stapleton

Chief Executive Officer

Current role
Graham was appointed Chief Executive Officer ("CEO") on 15 January 2018.

Additional roles held
Graham is a Non-Executive Director of The Magic Bean Co. Limited.

Past roles
Previously, Graham was 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 skills and experience to the plc Board.

Loraine Woodhouse

Chief Financial Officer

Current role
Chief Financial Officer ("CFO") since 1 November 2018.

Additional roles held
Loraine is a Non-Executive Director of The British Land Company plc.

Past roles
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 (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 Membership

- (A) Audit Committee
- (E) ESG Committee
- (EV) Employee Voice Director
- (N) Nomination Committee
- (R) Remuneration Committee

Helen Jones A E N R EV

Senior Independent Director

Current role
Non-Executive Director since 1 March 2014 and Senior Independent Director from 15 September 2020; Chair of the Environmental, Social and Governance ("ESG") Committee since 7 December 2015 and Employee Voice Director since 1 May 2019.

Additional roles held
Helen is a Non-Executive Director and Chair of the Remuneration Committee and a member of the Audit Committee of Fuller, Smith & Turner plc and Virgin Wines UK plc; a Non-Executive Director and member of the Audit Committee of Premier Foods plc; and a Director of Hamsard 3145 Limited. Helen is a Board member of the Toast Ale charity.

Past roles
Previously, Helen was a member of the Supervisory Board and the Audit Committee for Vapiano S.E. and a member of the Supervisory Board of Directors of Ben & Jerry's. Prior to that Helen was the CEO of the Zizzi Restaurants group and was also responsible for successfully launching the Ben & 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 E

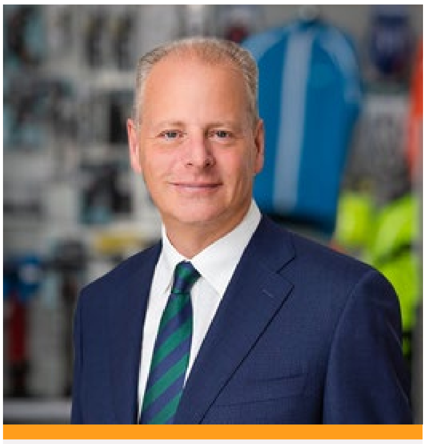
Independent Non-Executive Director

Current role
Non-Executive Director and Remuneration Committee Chair since 1 March 2019.

Additional roles held
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 member of the Remuneration and ESG Committees of C&C Group plc; a Non-Executive Director, Employee Voice Director and a member of the Remuneration and Nomination Committees of Bakkavor Group plc; Jill is also a Senior Independent Director, Remuneration Committee Chair and member of the Audit and Nomination Committees of St Austell Brewery.

Past roles
Previously, Jill was 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 drink 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.



Tom Singer A N R E

Independent Non-Executive Director

Current role
Non-Executive Director since 16 September 2020, and Chair of the Audit Committee since 1 January 2021.

Additional roles held
Tom is a Non-Executive Director of Mediclinic International plc.

Past roles
Tom was the Senior Independent Director and Chair of the Audit and Remuneration Committees at DP Eurasia NV and Chair of the Audit Committee at Liberty Living. Previously, he served as CFO of InterContinental Hotels Group plc, Group Finance Director of British United Provident Association ("BUPA"), CFO and Chief Operating Officer of William Hill plc and Finance Director of Moss Bros plc, having started his career in professional services and spending a total of 12 years at Price Waterhouse and McKinsey.

Key strengths
Tom brings extensive experience of strategy development, corporate governance and numerous finance disciplines.

Executive Team

Karen Bellairs
Chief Customer Officer
Please see full biography on the corporate website: www.halfordscompany.com/about-us/our-executive-team/

Andy Randall
Group Chief Operating Officer
Please see full biography on the corporate website: www.halfordscompany.com/about-us/our-executive-team/

Paul O'Hara
Chief Property Officer
Please see full biography on the corporate website: www.halfordscompany.com/about-us/our-executive-team/

Neil Holden
Chief Information Officer
Please see full biography on the corporate website: www.halfordscompany.com/about-us/our-executive-team/

David Hutchinson
Chief Commercial Officer
Please see full biography on the corporate website: www.halfordscompany.com/about-us/our-executive-team/

Rob Keates
Chief Transformation Officer and Managing Director of Tredz
Please see full biography on the corporate website: www.halfordscompany.com/about-us/our-executive-team/

Wendy Taylor
Chief People Officer
Please see full biography on the corporate website: www.halfordscompany.com/about-us/our-executive-team/

See the Executive Teams biographies at www.halfordscompany.com/

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 1 April 2022.

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

The Company, in accordance with section 414C of the Companies Act 2006, has chosen to provide disclosures and information to the extent necessary to understand the Company's development, performance and position and the impact of its activity, relating to, as a minimum: environmental matters, the Company's employees, social matters, respect for human rights and anti-corruption and anti-bribery matters.

These matters and cross-references to the relevant sections of this Annual Report are shown in the table below:

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Disclosures required under Listing Rule 9.8.4R

The Company, in accordance with Listing Rule 9.8.4C, has disclosed the information required to be included in the Annual Report under Listing Rule 9.8.4R. This information can be found on the following pages of the Annual Report:

Topic	Report	Page
Statement of the amount of interest capitalised	Note 16 to the Financial Statements	191
Long-term incentive schemes	Directors' Remuneration Report	130
Allotment for cash of equity securities (Placing)	Consolidated Statement of Cash flow	166
Waiver of dividends	Director's Report	88

No other disclosures under Listing Rule 9.8.4 are required.

Disclosures Required under Listing Rule 9.8.6

The Company, in accordance with Listing Rule 9.8.6, has included climate-related financial disclosures consistent with the Task Force on Climate-related Financial Disclosures ("TCFD") recommendations and recommended disclosures. This information can be found on the following page of the Annual Report:

Topic	Report	Page
Risk Management: Task Force on Climate-related Financial Disclosures ("TCFD")	Strategic Report: Principle Risks and Uncertainties	68

No other disclosures under Listing Rule 9.8.6 are required.

Directors' Report

UK Corporate Governance Code
The Company has applied the principles of, and complied with, the provisions of the 2018 UK Corporate Governance Code (the "Code") throughout the year.

Principal Activities
The principal activities of the Group are: the retailing and provision of motoring and cycling products and services; auto servicing, maintenance and repairs through garages and mobile vans; and the provision of software as a service. The principal activity of the Company is that of a holding company. The Company's registrar is Link Group, 10th Floor, Central Square, 29 Wellington Street, Leeds, LS1 4DL.

Profits and Dividends
The Group's results for the year are set out in the Consolidated Income Statement on page 162. The profit before tax was £96.6m (2021: £64.5m) and the profit after tax amounted to £77.7m (2021: £53.2m). The Board proposed that a final dividend of 6.0 pence per ordinary share be paid on 16 September 2022 to shareholders whose names are on the register of members at the close of business on 12 August 2022. An interim dividend payment of 3.0 pence per ordinary share was paid on 21 January 2022.

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 56 to 58 are appropriate measures to assess the delivery of the Group's Strategy.

Directors
The following were Directors of the Company during the period ended 1 April 2022 and at the date of this report:

- Keith Williams
- Graham Stapleton
- Loraine Woodhouse
- Helen Jones
- Jill Caseberry
- Tom Singer

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 1 April 2022 will retire and offer themselves for re-election at the 2022 Annual General Meeting ("AGM"), with the exception of Loraine Woodhouse who, as announced on 13 October 2021, will retire from her position on 16 June 2022 and will leave the business on 1 July 2022, and Jo Hartley will be appointed as Chief Financial Officer in her place. Subsequently, Jo will stand for election for the first time at the 2022 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 page 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 2021 Annual General Meeting ("AGM"), held on 8 September 2021, will expire on the date of the 2022 AGM. As announced on 2 December 2021, some of the Directors agreed to subscribe for new ordinary shares issued as part of the placing of ordinary shares announced on 1 December 2021, these shares are included in their shareholding information reported in the Directors' Remuneration Report on pages 144 and 145.

Directors' Interests
The Directors' interests in, and options over, ordinary shares in the Company are shown in the Directors' Remuneration Report on pages 144 and 145.

Since the end of the financial year and the date of this report, the only changes to such interests have been in relation to Graham Stapleton, who exercised his 2018 Deferred Bonus Plan award on 13 April 2022, further details can be found in the Directors' Remuneration Report on page 142.

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 28 to 29.

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 51 and the Corporate Governance Report on page 104.

Employment Policies

The Group encourages diversity and inclusion 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 training as necessary.

Further details of our Diversity Policy are included in the Nomination Committee Report on page 121.

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 blended training and development programmes, across the Group, in Retail, Autocentres (including National, McConechy's and Universal) and Performance Cycling businesses. We regard the training and development of our colleagues as being particularly important for our business and also for the communities in which we operate.

For many years we held strong relationships with a number of Apprenticeship partners that allow us to offer personal and professional growth. In addition, the Group runs targeted Leadership Development programmes and operational succession programmes to further build capability in skills identified to both ensure colleagues are successful in their chosen roles, as well as to help colleagues identify and develop skills that will support them to be our leaders of the future. Further information on colleague training can be found on page 51 of Our ESG Strategy.

Whistleblowing

The Group's Whistleblowing Policy and Procedure (the "Whistleblowing Policy") enables colleagues to report concerns on matters affecting the Group or their employment, without fear of recrimination. As part of our commitment to ensuring a culture of honesty and integrity, during FY22 we partnered with SeeHearSpeakUp in order to launch externally operated reporting channels, including a new web-based channel. Posters publicising whistleblowing channels are distributed to all stores, Autocentres, Distribution Centres and the Support Centre.

During the year, the Whistleblowing Policy was reviewed and approved by the Audit Committee, and the Audit Committee receives regular summaries of whistleblowing contacts and resolutions.

Directors' Report

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 198. 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.

Significant Shareholders

As at 1 April 2022, the Company had 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. The information provided below was correct at the date of notification. These holdings are likely to have changed since the Company was notified.

Manager	Holding	% of Issued Shares
Fidelity International	9.51	20,819,291
BlackRock	5.78	12,645,781
Aberdeen	4.76	10,428,212
Dimensional Fund Advisors	4.43	9,701,157
Janus Henderson Investors	4.27	9,358,972
JP Morgan Asset Management	4.15	9,080,917
Columbia Threadneedle Investments	3.85	8,434,813
Vanguard Group	3.67	8,026,096
Rathbones	3.08	6,745,071

Authority to Purchase Shares

At the 2021 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 12 July 2021, such authority expiring at the conclusion of the Annual General Meeting to be held in 2022 or, if earlier, on 30 September 2022.

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 (FY21: nil). It remains the Company's policy not to make political donations or to incur political expenditure. However, we recognise that 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 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 200 to 202.

Modern Slavery Statement

In order to support its estate of Retail stores, garages, mobile vans 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, as detailed within the Global Sourcing Code (the "Sourcing Code").

The Company is committed to ensuring due diligence processes remain robust, and, as such, during the year, the Global Sourcing Code was revised to further strengthen minimum expectations in relation to labour practices, including modern slavery and environmental management. The Sourcing Code supports the Company's commitment to respect human rights and uphold international standards, including the United Nations (UN) Guiding Principles on Business and Human Rights and the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises. The Company has partnered with EcoVadis, a platform which rates the environmental, social and governance performance of suppliers. The output of this data will support due diligence process – and will assess good supplier performance as well as where corrective action, remediation or additional audits may be required.

In line with the requirements of the Modern Slavery Act, all colleagues are trained on the issue of modern slavery. During the year, a new e-learning module was launched to support colleagues with their understanding and what they should do if they suspect modern slavery taking place. The Company is proud to have supported the Freewheel remediation programme with biking accessories. The programme seeks to empower survivors of modern slavery and human trafficking to cycle to support their physical and mental health, independence, mobility, and their reintegration into society. The Barking and Dagenham hub, launched in March 2022, is the first of several hubs to be rolled out in cities across the UK. At each hub, the intention is to support recovery for up to 20–30 survivors per year by giving them a bike and accessories, including helmets, locks and lights, providing them with cycling proficiency and road awareness training. Further information on the Freewheel programme can be found on their website www.rideforfreedom.org.uk/freewheel-barking-dagenham/.

During the year, no concerns were raised regarding any of the Group's suppliers. It is recognised that whilst no incidents were raised (through contractual mechanisms) this does not mean issues do not potentially exist. The Company, therefore, remains committed to further enhancing its approach and understanding and enhancing its due diligence process.

The Group's Board of Directors reviews its Modern Slavery Statement on an annual basis. It was last approved on 2 February 2022.

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 1 April 2022 for the Group was 70 days (2021: 73 days). The Company is a holding company and has no trade creditors.

Branches

The Company and its subsidiaries, where relevant, have established overseas branches in the 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 2022 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:

i. so far as the Directors are aware, there is no relevant audit information of which the Company's Auditor is unaware; and

ii. 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

On 6 April 2022, the Group acquired APT Tyre Distributors Limited, please refer to page 37 of the Strategic Report for further information.

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 Wednesday 7 September 2022. 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

15 June 2022

Corporate Governance Report

Keith Williams

We continued to make strong progress on aligning the culture of our organisation with our business strategy.

Chair's Letter

Strategy

During FY22, we have continued to develop our Group strategy which is "To Inspire and Support a Lifetime of motoring and cycling". This strategy has been strengthened considerably by the acquisitions we have made throughout the year, as these are helping to transform our business and deliver on our increased focus on providing the best-in-class range of services for our customers. More details of our acquisitions and our transformation programme can be found on page 10 and on pages 32 to 39 in the Strategic Report.

Purpose, Culture and Engaging with the Workforce

During FY22, we continued to make strong progress on aligning the culture of our organisation with our business strategy. We know that we will only continue to be successful in wowing our customers if we engage the hearts and minds of our colleagues, and enable them to work together as One **Halfords** Family for the benefit of our customers. Achieving this will help us to continuously develop our expertise to meet the needs of our customers. We have further developed our framework of values and behaviours which support colleagues as they progress their careers with us – from when they initially joined **Halfords**, to becoming the leaders in our business.

We have created a one **Halfords** team approach, which aims to unite all parts of the business, including the acquisitions we make from time to time. In FY22, we also invested heavily in our technical skills training, and as part of this, we have continued to embed our values. We have introduced a recognition programme for our colleagues and at the end of FY22, we recognised three individuals as "Colleague of the Year", one winner and two runners-up.

Annual General Meeting ("AGM")

In 2021, we were delighted to welcome shareholders to the AGM held at our Support Centre, and we look forward to being able to do so in 2022. Further details of the 2022 AGM arrangements can be found on page 117 of this report.

Board changes

Finally, Loraine Woodhouse will be retiring as Chief Financial Officer ("CFO") on 16 June 2022 and I would like to thank Loraine for all her considerable work and support over the period, particularly during the COVID-19 pandemic, and to welcome Jo Hartley as the new CFO.

Keith Williams
Chair

15 June 2022

Corporate Governance Report

Governance at a Glance

Corporate Governance Statement

The Board confirms that during the year ended 1 April 2022, 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.

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.

Promoting Our Purpose, Culture and Long-Term Success

Board Leadership and Company Purpose

Description

The Company is led by an effective Board, which promotes the long-term success of the Company and engages with its shareholders and stakeholders.

The Board has established the Company's purpose, values and strategy and is satisfied that these and its culture are aligned.

The Board has established an effective governance and risk framework.

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.

Read more

- Read more on Our Strategy on pages 32 to 39
- Read more on Culture on pages 102 to 104
- Read more on Risk Management on pages 66 to 78

Ensuring a Clear Division of Responsibilities

Division of Responsibilities

Description

The Chair leads the Board which includes an appropriate combination of Executive Directors and Non-Executive Directors.

The Non-Executive Directors provide constructive challenge, strategic guidance and advice and, have sufficient time to meet their Board responsibilities.

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

- Read more on Board Composition on pages 88 and 110
- Read more on the Division of Responsibilities on pages 110 to 113
- Read more on Matters Reserved for the Board on page 110

Delivering Effectiveness Through a Balanced Board

Composition, Succession and Evaluation

Description

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 Group's performance.

A rigorous, effective and transparent appointment process is in place, which, together with the effective succession plans, promotes diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

Read more

Read more on Board Appointments and Induction on page 119

Read more on Board Evaluation on page 116

Enabling Reporting Integrity and an Effective Controls Environment

Audit Risk and Internal Control

Description

The Board has established formal and transparent policies and procedures to ensure the independence and effectiveness of both internal and external audit functions. The Board satisfies itself on the integrity of financial and narrative statements.

The Board presents a fair, balanced and understandable assessment of the Group's position and prospects.

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.

Read more

Read more on the Audit Committee on pages 124 to 129

Read more on Risk Management on pages 66 to 78

Read more on Risk Management and Internal Control on page 117

Ensuring Alignment with the Successful Delivery of Our Long-Term Strategy

Remuneration

Description

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 interests of our shareholders and to the Company's purpose and values and is clearly linked to the successful delivery of our long-term strategy.

There is a formal and transparent procedure for developing Executive remuneration policy and determining Director and senior management remuneration.

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

Read more on Directors' Remuneration on pages 130 to 149

Corporate Governance Report

Board Leadership and Company Purpose

Promoting Long-Term Sustainable Success of the Company

Addressing Opportunities and Risks to the Future Success of the Business

The Board's primary role is to ensure the long-term success of the Group, by delivering sustainable value for all its stakeholders. The Board has responsibility for setting the Group's strategy and monitoring its execution, for ensuring the implementation of a robust risk management framework, and for overseeing financial and operational performance. These responsibilities are supported by the Group's culture and values, designed to drive the right behaviours and by a strong corporate governance framework.

The Sustainability of our Business Model

Our current strategy was launched in September 2018, built around our purpose to '*Inspire and Support a Lifetime of motoring and cycling*'. Through formal Board meetings and regular engagement with the Executive Team, the Board continues to oversee the implementation of this strategy to ensure it remains fit for purpose, thus providing the Group with a sustainably differentiated business model. Further details of our strategy and business model are provided on pages 32 to 39.

How the Board Contributes to the Delivery of Halfords' Strategy

These values are critical in driving the right behaviours and for underpinning the culture of the Group.

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

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 we conduct our business.

OUR PURPOSE
To Inspire and Support a Lifetime of motoring and cycling

OUR VISION
The super-specialist in motoring and cycling, trusted by the nation

OUR MISSION
1. Make motoring easier, safer and more enjoyable for everyone.
2. Get more people cycling, more frequently.

Our Strategic Priorities

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

Culture
A team inspired and motivated to drive towards delivering our Goals, Mission, Vision and Purpose who live and breathe our brand values and represent the very best of what we offer as a business to our customers.

Our Values

one halfords family – With togetherness and teamwork we have strength and compassion

wow our customers – We put customers first and are obsessed with meeting their needs

be better every day – We act and behave as market leaders

pride in expertise – We continually develop our skills to deliver market-leading services

Our approach to ESG
Enabling better decision making everyday.

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 markets in which customer needs and expectations are ever-changing. We need to be able to evaluate 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 strategy (i.e. motoring services and offering financial products that provide more convenient ways for customers to pay).

Board members

- Keith Williams
- Helen Jones
- Jill Caseberry
- Tom Singer

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 shareholder consultation in relation to our Remuneration Policy.

Board members

- Keith Williams
- Helen Jones
- Jill Caseberry
- Tom Singer

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 and services markets.

Board members

- Keith Williams
- Helen Jones
- Jill Caseberry
- Tom Singer

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

- Keith Williams
- Helen Jones
- Jill Caseberry
- Tom Singer

Corporate Governance Report

Board Leadership and Company Purpose

Task Force on Climate-related Financial Disclosures ("TCFD")

We recognise the importance of managing and mitigating our impact on the environment as well as the risks and opportunities we are faced with from a changing climate. We have published our first climate-related disclosure in line with the requirements set out by the TCFD, see pages 68 to 71, where we report our approach to climate-related governance, strategy, risk management, and metrics and targets, detailing how scenario analysis has helped to inform our approach.

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. An additional Board call was held during the period to discuss the capital structure approval as part of the acquisition of Axle Group Holdings Limited ("National") in December 2021. During the year, the Board also held strategy sessions during the Board meetings to review and refresh the Company's strategic direction.

Board member	Board scheduled: 12	Audit Committee scheduled: 4	Remuneration Committee scheduled: 5	Nomination Committee scheduled: 3	ESG Committee scheduled: 2
Executive Directors					
Graham Stapleton	12 12	N/A	N/A	N/A	N/A
Loraine Woodhouse	12 12	N/A	N/A	N/A	N/A
Non-Executive Directors					
Keith Williams	12 12	N/A	N/A	3 3	N/A
Helen Jones	12 12	4 4	5 5	3 3	2 2
Jill Caseberry	12 12	4 4	5 5	3 3	2 2
Tom Singer	12 12	4 4	5 5	3 3	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.

Case Study

Board in Action

Our colleagues are our greatest asset, and a focus on colleague engagement across the Group is one of our key priorities every year.

To ensure that we capture feedback from every part of the business, a comprehensive programme of listening groups is in place, bringing together colleagues from across the Group with senior leaders, to discuss how we can make **Halfords** an even better place to work.

These forums encourage debate around what's going well, what's on colleagues' minds, ideas and solutions colleagues may have developed in their role or part of the business, and sharing best practice from across other parts of the retail and garage industry.

Listening Groups are attended by regional and divisional managers, members of our senior leadership team, and our Executive team. Non-Executive Director and Employee Voice Director, Helen Jones, also attends Listening Groups across a diverse cross-section of the business.

The feedback captured is then used to identify common Group-wide themes, issues specific to certain business areas, and ideas which can be scaled up and form part of our ongoing colleague engagement plan.

Corporate Governance Report

Board Leadership and Company Purpose

Board Activities in FY22

Main Areas:

Strategy

- Received updates on FY22 key strategic initiatives and operational highlights.
- Discussed and reviewed updates on the acquisition strategy and M&A activities.
- Received an update on Group Strategy and Budget.
- Received an update on the Tredz Strategy and an update on the Transformation milestone plan.
- Discussed and reviewed a presentation on external competitive benchmarking.
- Discussed the integration plan for National and agreed the required capex.
- Discussed and reviewed the long-term recruitment and retention strategy.

Link to Stakeholder

Link to Strategy

1 2 3

Governance

- Received regular updates from the Chairs of the Remuneration, Audit, Nomination and ESG Committees.
- Reviewed and approved the FY21 Annual Report.
- Reviewed and approved the Directors' Conflicts of Interests Register, Group policies, the Group Risk Register and the roles of the Chair, the Chief Executive Officer and Senior Independent Director.
- Reviewed and approved the proposal to engage an external third-party whistleblowing helpline.
- Discussed and reviewed the Group's ESG targets and disclosures.
- Discussed the joining arrangements of the new Chief Financial Officer.
- Received regular corporate governance updates.

Link to Stakeholder

Link to Strategy

1 2 3

Board Matters

- Reviewed the succession plans for the Board and the restructure of the senior management team.
- Reviewed the Board and Committees' programme and forthcoming meeting schedule.
- Received updates from the Nomination Committee on the progress of the search for a new Chief Financial Officer.
- Discussed and agreed the scope of the internal FY22 Board evaluation.

Link to Stakeholder

Link to Strategy

1 2 3

Financial and Risk Management

- Reviewed monthly business reviews and trading performance.
- Reviewed and approved the prelim, interim and trading update approaches and announcements.
- Reviewed updates on banking arrangements, liquidity, cash control, treasury matters and currency hedging.
- Reviewed and approved the FY21 Group Viability Statement.
- Received an update on the Group legal entity reduction project.
- Reviewed and approved the FY22 budget and forecast.
- Reviewed the FY23 stress test.

Link to Stakeholder

Link to Strategy

1 2 3

Commercial Matters

- Received updates on the process for, and approval of, the annual renewal of the Group's insurance policies.
- Reviewed and approved a number of large commercial contracts and spend.
- Discussed, managed and mitigated the risks presented by the COVID-19 pandemic.

Link to Stakeholder

Link to Strategy

1 2 3

Shareholder and Stakeholder Relations

- Reviewed results of colleague engagement surveys and the launch of the new Company Values.
- Discussed and approved colleague health and wellbeing programmes.
- Reminder to Directors of their obligations under Section 172 of the Companies Act 2006.
- Reviewed monthly investor relations reports and annual shareholder body reports.
- Reviewed and approved the 2021 Notice of the Annual General Meeting and the arrangements for the 2021 Annual General Meeting.

Link to Stakeholder

Link to Strategy

1 2 3

Key to stakeholders:

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

Key to strategy:

1 Inspire
2 Support
3 Lifetime

Board Priorities for FY23:

Main Areas:

Strategy

- Review the annual strategy refresh and associated financial business plan.
- Review any potential M&A opportunities.

Link to Stakeholder

Link to Strategy

1 2 3

Governance

- Receive regular updates from the Chairs of the Remuneration, Audit, Nomination and ESG Committees.
- Review and approve the FY22 Annual Report.
- Review and approve the Directors' Conflicts of Interests Register, Group policies, the Group Risk Register and the roles of the Chair, CEO and SID.
- Continue the process to ensure that the composition of the Board is compliant with the Parker Review.

Link to Stakeholder

Link to Strategy

1 2 3

Board Matters

- Review succession plans for the Board and the Senior Management Team.
- Review the Board and Committees' programme and forthcoming meeting schedule.
- Discuss the outcome of the FY22 Board evaluation and agree the scope of the FY23 Board evaluation.
- Review the Board programme of visits.

Link to Stakeholder

Link to Strategy

1 2 3

Financial and Risk Management

- Review monthly business reviews and trading performance.
- Review and approve trading update approaches and announcements.
- Review and approve the dividend policy and any dividend payments.
- Review and approve the FY23 updated forecast, the FY24 budget, banking arrangements and the debt/hedging strategy.

Link to Stakeholder

Link to Strategy

1 2 3

Commercial Matters

- Review commercial matters brought to the Board for attention and potential approval.
- Discuss and review deep dives on the supply chain, on commercial margin, on garage capacity and the roll-out of selling training and tools across the estate.

Link to Stakeholder

Link to Strategy

1 2 3

Shareholder and Stakeholder Relations

- Review colleague engagement survey results and the progress on the health and wellbeing programme.
- Focus on ESG agenda, particularly environmental issues.
- Reminder to Directors of their obligations under Section 172 of the Companies Act 2006.
- Review monthly investor relations reports and annual shareholder body reports.
- Review and approve the 2022 Notice of the Annual General Meeting.

Link to Stakeholder

Link to Strategy

1 2 3

Corporate Governance Report

Board Leadership and Company Purpose

Our Board has made progress against monitoring culture in the past year

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 customer led, market-leading services business. In support of this, a full cultural review was completed in early 2021 which resulted in the refresh of colleague values with several activities undertaken to embed the values. Our Colleague Engagement Survey in April 2021 told us that over 90% of colleagues know and feel aligned with our values. During FY22 we created a One **Halfords** team approach and united all parts of the business, including new acquisitions.

We know that we will only be successful in wowing our customers through engaging the hearts and minds of our colleagues, compelling them to work together, as One **Halfords** Family, to continuously develop and deliver expertise to meet the customers' needs. The values and behaviour framework defines how we expect colleagues across the business to role model our values as they progress their careers with us – from joining as a colleague, to leading others, leading teams, and ultimately leading the business.

Well established technical skills training complements this framework by providing the technical knowledge to support the delivery of our market leading services. During FY22 we invested heavily in technical skills training and increased skills from 16,000 to 40,000 additional skills.

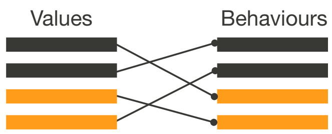
We continued to embed our values. The roll out saw all colleagues across the Group attend leader-led workshops. These workshops were followed by the launch of a series of initiatives designed to both fully embed our values and to recognise and reward our values in action, as referenced in the plan that we shared with you last year. A refreshed Group induction programme was launched in April 2022. This has been designed to ensure all colleagues have a warm welcome to **Halfords** and

Culture and Values

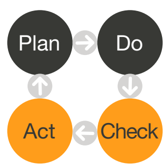
Goals

Create a '**One Halfords**' performance culture where colleagues enjoy working efficiently and effectively together using their skills and expertise to win the hearts and minds of our customers.

Key Achievements



Work with colleagues across all areas of the business, to define the appropriate values and behaviours for our Group as a whole, that will underpin our forward strategy and build on the language of our purpose and create beliefs that are active and give all our colleagues clear direction.



Create a leader-led roll out plan that will introduce all colleagues across the Group to the refreshed values which will shape our culture and offer all colleagues clarity and a sense of belonging as part of the One **Halfords** Family.

Integrate our newly defined values into the performance management framework and appropriate elements of the colleague lifecycle.

Outcomes

Customers

- Will have a joined-up experience wherever they shop across the Group

Colleagues

- Engaged colleagues will work together and use their skills and expertise to deliver an excellent and efficient customer experience

Shareholders

- Will benefit from our financial commitments, through the generation of additional profitable sales and a reduction in costs can immediately see our values living and breathing through a number of values-led activities. All new colleagues are introduced to our values as part of their induction, we also now review annual performance against the values, and colleagues are assessed against the behaviours that underpin each value. To further support embedding our values, we have introduced a recognition programme which recognises our "Colleague of the Quarter". We received over 800 nominations throughout the year, over 50 colleagues were recognised as a "Colleague of the Quarter" and at the end of FY22, three colleagues were recognised as "Colleague of the Year".

As a truly amazing place to work, we recognise that some of our colleagues may, at times, unfortunately have to deal with difficult personal issues and/or financial difficulties. We are committed to supporting colleagues through difficult times to help them move through the challenges they face and return to normality as quickly as possible. The **Halfords** "Here to Help" Fund has been set up by the **Halfords** Group to enable us to provide grants to colleagues who suffer significant financial hardship or who find themselves at risk of significant financial hardship. Colleagues who are eligible can apply to the **Halfords** "Here to Help" fund for a grant to support them through their situation. We really care about the wellbeing of our colleagues and believe this intervention supports our wellbeing strategy.

We have also launched Wagestream, which is a financial benefit App that gives our colleagues greater control over their pay and can help educate on better money management. The App has four modules, these are:

- **Track** – gives colleagues visibility of earnt wages in real time and supports personal finance management;
- **Stream** – allows colleagues to have early access to earnt wages through the month. Streaming is capped at 30% of wages earnt that month, which helps them to absorb a financial shock without getting into debt;
- **Learn** – access to a trusted and impartial financial education hub, to help build money confidence. Delivering a range of bite-sized topics, to enable colleagues to be in a better position to engage with their finances and start planning for their future; and
- **Save** – encouraging colleagues to build an emergency or rainy-day fund. Colleagues can choose to contribute a set amount each month, with no penalties for accessing or pausing contributions.

In FY23, we will be designing leadership capability programmes for all. These programmes are designed to ensure that all our managers and leaders are immersed immediately into an experience that clearly sets out 'how to be a great **Halfords** manager and leader' and how we live and breathe our values and leadership behaviours through strong communication and team management. The programme is also intended to provide the opportunity to further practice and enhance these skills.

Initiatives to embed the values included integrating our values and behaviours into our performance review framework, so ensuring a link to pay and reward; as well as the introduction of a values recognition scheme which recognises and rewards colleagues that role model our values. Under the scheme, 800 nominations were received throughout FY22. The success of the roll out can be measured through data collected in our most recent engagement survey, in which 90% of colleagues confirmed they "know what **Halfords** values are."

This activity was undertaken as part of a broader programme of engagement initiatives, which are referenced in the section below.

FY22

H1

- Roll out of the values and behaviour framework to all colleagues across the Group commenced.
- Annual pay review for all hourly colleagues completed.
- Full annual colleague engagement survey conducted.
- "Supporting colleagues to feel safe and engaged, putting One **Halfords** Family at the heart of everything we do" is positioned as one of our top three business priorities and discussed weekly in colleague huddles.
- **Halfords** launched the Wagestream App.
- Group-wide intranet was launched to all colleagues.
- Colleague of the Year launched – values recognition.
- Bonusable engagement targets set for Executive Directors and the Executive Committee and approved by the Board.

H2

- Listening groups recommenced across all areas of the business.
- Mental Health First Aider training rolled out.
- Wellbeing toolkit launched to all managers.
- Annual pay review for all management colleagues across the Group.
- Selected a national charity partner, as part of colleague nomination process.
- Launched four Colleague Network groups.
- First "Colleague of the Year" winner announced and received a prize of £5,000.

Corporate Governance Report

Board Leadership and Company Purpose

Workforce Engagement

Halfords has a long established practice of inviting feedback from colleagues across all areas of the business, including holding regular listening groups, appointing and meeting with local colleague engagement ("people") champions, and conducting regular colleague surveys.

The People Champions hold meetings to gauge how colleagues are feeling which informs the programme of engagement and wellbeing activities. During the course of the year, People Champions were invited to provide input into broader business initiatives, including ESG and reward practice, to gain an understanding of corporate governance and executive remuneration.

To support colleague communications, a Group-wide intranet was launched during FY22. This site has a dedicated wellbeing hub with useful tools and links for colleagues to access. Colleagues also have access to Mental Health First Aiders. We rolled out Mental Health training to managers to be better placed to support their colleagues. The intranet is a one stop shop for access to benefits and high street discounts, further supporting financial wellbeing. Over 3,000 colleagues are enrolled on the Wagestream App, allowing them to have early access to their earnings, to better control their finances and to tap into financial education information.

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 129. 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.

The table on page 102 outlines the key culture, values and engagement activities undertaken this year:

Monitoring Culture

The Board monitors culture on an ongoing basis, both formally and informally, through the outputs of colleague engagement surveys, and through regular listening groups that are held across all areas of the business.

Helen Jones, the Senior Independent Director, with accountability for representing the voice of our colleagues in Board meetings, personally attends many of the listening groups held, alongside other Board and Executive colleagues.

Survey and listening group outputs and associated actions are regularly reviewed by the Board and are incorporated into Executive Directors' and Executive Committee functional engagement plans. As in prior years, colleague engagement remains a bonusable objective for this population.

Our more holistic review of the culture of the business 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. Our most recent survey confirmed that this remains the case today with our colleague engagement index at 81%, which means our engagement index remains in the upper quartile when compared with other benchmarks.

Engagement with Our Stakeholders

We understand the importance of engagement with all our stakeholders. It is of significant value to our decision-making and planning processes and, ultimately, the long-term success of the business.

Read more about How We Engage With Stakeholders on pages 26 to 29.

Section 172(1) Statement

The Chair leads the Board which is collectively responsible for the long-term success of the Company. The Chair's role is to ensure that the Board 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.

A key element of business success is having good corporate governance. **Halfords** has effective frameworks and practices to ensure that high standards of governance, as well as good values and behaviours, are consistently applied throughout the Group. The Board considers these as being critical factors for the integrity of the business and in helping to maintain the trust of all stakeholders in **Halfords**.

Read our Section 172(1) Statement on pages 28 to 29.

Board Listening Approach

	What This Channel Brings
Non-Executive Director Employee Voice	• Provides a forum for colleagues to express their views, suggestions or concerns to ensure they are heard and acted upon where possible.
Virtual focus groups	• Insights and feedback from colleagues employed in different parts of the Group focused on a particular topic such as communication, wellbeing or engagement.
Colleague engagement survey	• Measures how engaged colleagues are and how they feel about working at **Halfords**. The insights are used to identify priority areas and drive actions to improve these measures.
Blogs and written communications	• Connects colleagues across all areas of the Group with our **Halfords**' strategy by sharing updates from senior leaders on the latest business performance, transformation activity, strategic commercial and customer experience initiatives as well as colleague engagement activity.

Stakeholder Management

The Board understands the importance of strong relationships with all stakeholders and strongly values their input into its decision-making and planning processes. The Board seeks to ensure that engagement with our stakeholders is effective, either by engaging directly or through oversight of the management team. This includes the monitoring of KPIs, such as Customer Net Promoter Score and Colleague Engagement Index. Furthermore, the Board ensured that stakeholder interests were carefully considered in the Company's recent sustainability strategy review, playing a key role in determining our key focus areas for the years ahead.

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 130 to 149.

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.

Concerns

The Chair 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 Chair, who would bring such concerns to the attention of the Board.

No such concerns have been raised throughout the period.

Corporate Governance Report

Board Leadership and Company Purpose

Stakeholder Engagement

Key Themes Discussed with Shareholders in FY22

- Resilience of the business and mitigating actions in response to the global COVID-19 pandemic and its ongoing implications on the global supply chain.
- 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 and cycling markets, including our growth opportunities, short and longer-term trends given the significant disruption of the last two years, and relative financial returns from each segment.
- Risk and opportunities caused by macroeconomic trends or legislation such as Government spending on cycling infrastructure or the ban on combustion engines from 2030.
- Capital allocation priorities, specifically the balance of maintaining a prudent balance sheet, maintaining the dividend and enabling investment for growth.
- Gross and operating margin performance.

The Chair 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.

Corporate Governance Report

Board Leadership and Company Purpose

The Board is committed to ensuring colleagues have a forum where their views, suggestions or concerns will be heard.

Helen Jones
Senior Independent Director
Employee Voice Director

Workforce Engagement at a Glance

3

Colleague of the Year winners announced

4

Colleague Network groups launched

Q&A with our Employee Voice Director, Helen Jones

Q. How do you ensure the employee voice is heard on the Board?

A. I was nominated by the Board to be the representative for colleagues back in 2018. Since then, I've attended many listening groups across the business, both in person and more recently via virtual sessions. The Board is committed to ensuring colleagues have a forum where their views, suggestions or concerns will be heard, so I provide that link. This is a responsibility I take very seriously, and I always encourage colleagues to be open and honest when providing their feedback. In addition to these listening groups, the Company conducts an annual Colleague Engagement Survey which also provides a wealth of valuable insight and data. During FY22, I attended over 20 listening sessions across Retail, **Halfords** Autocentres, Tredz, **Halfords** Mobile Expert and the Support Centre. I also visited a number of stores throughout the year, both independently and with members of the Senior Leadership team. I continue to report to the Board quarterly, highlighting the key themes, including what's working well for colleagues but also, importantly, those of concern which the Company should address. The work with our Colleague Engagement Champions on pay reporting to ensure they have a good understanding of our approach to reward at **Halfords** is ongoing. The People team also invite colleagues to comment on what we might consider when developing future pay policies for Executives and colleagues across the Group.

Q. For you, what were the key highlights this year?

A. The positive sentiment expressed towards the Company and in particular the prospects for colleagues, given our focus on multi-skills training. The opportunity to develop and progress as we strengthen our expertise in services was noted by colleagues along with our investment in systems, enabling them to serve our customers more effectively and efficiently. The team spirit is evident across the Group and colleagues feel well supported despite the many challenges faced during, and as a result of the pandemic. The impact on families has, in some instances, taken its toll and we're mindful to ensure our colleagues' health and wellbeing are prioritised. Whilst there will always be issues which need to be brought to the Board's attention and addressed, I was struck this year by the overwhelming sense of pride our colleagues feel for **Halfords** as we progress towards a market-leading, digitally enabled services business.

Q. How do you share outcomes with the wider employee base?

A. All feedback from listening groups is captured in writing and then shared with attendees. The information is logged centrally and 'You Said, We Did' communications are shared across the **Halfords** Group through the various platforms. Subsequent listening groups report on actions taken as a result of the feedback and I'm aware that colleagues really appreciate these sessions and value the opportunity to share their views in a safe space.

Q. What areas does the Board want to focus on in future?

A. The Group continues to expand its garage services business and expertise across motoring and cycling. The ambitious ESG agenda is now gaining traction with a clear plan in place to achieve our net zero targets. In addition, we continue to promote diversity and inclusion across the Group and are working to further strengthen our succession plans and talent pipeline. As we continue to emphasise our specialist credentials, ensuring we provide the appropriate skills training to colleagues and therefore exceptional levels of expert service to our customers, remains a priority.

Corporate Governance Report

Division of Responsibilities

Board Composition

At the date of this report, the Board of Directors comprised of six members, namely the Non-Executive Chair, three other Non-Executive Directors and two Executive Directors. The composition of the Board is set out on page 88, and the biographies of each Director, including any other business commitments, are available on pages 82 to 83. The Board believes it has an appropriate balance of Executive and independent Non-Executive Directors, having regard to the size and nature of the business. 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.

Board Changes

In October 2021 it was announced that Jo Hartley would be joining the business in mid-April 2022, replacing Loraine Woodhouse who announced her intention to retire from a full-time plc. In order to ensure a smooth transition, Loraine will remain in post until 16 June 2022 at which point she will step down from her role and pass her responsibilities to Jo. Loraine will leave the business on 1 July 2022.

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 Chair, 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 review, the Board considers Helen Jones, Jill Caseberry and Tom Singer to be independent in character and judgement.

The Chair, Keith Williams was considered independent upon his appointment.

Re-election and Election

In compliance with the Code and the Company's Articles of Association, as at 15 June 2022, the following Directors will seek re-election at the 2022 Annual General Meeting ("AGM") on 7 September 2022: Keith Williams, Helen Jones, Jill Caseberry, Tom Singer and Graham Stapleton.

Jo Hartley, having been appointed on 16 June 2022, will seek election for the first time at the 2022 AGM.

Board Key Responsibilities

The Board is collectively 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 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. Details of the Group's business model and strategy can be found on pages 32 to 39.

A complete list of Matters Reserved for the Board is available on the Company's website www.halfordscompany.com/environmental-social-and-governance/governance/matters-reserved-for-the-board

Division of Responsibilities

The roles of Chair and Chief Executive Officer are separate and clearly defined, with the division of responsibilities set out in writing and agreed by the Board.

The Chair 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.

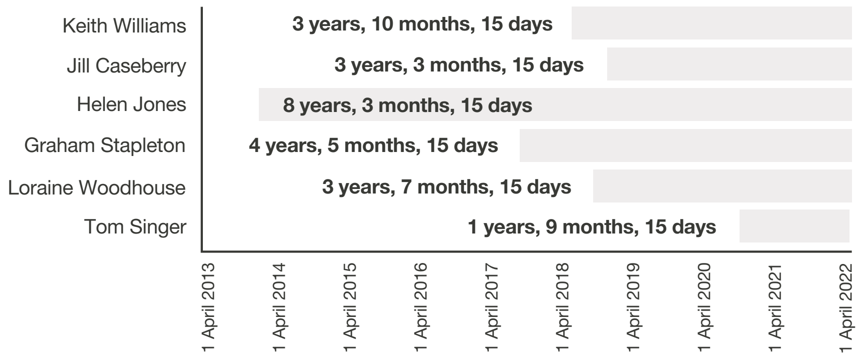
A formal schedule of matters reserved for the Board is in place and is annually reviewed as referred to above.

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.

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 on page 116. Details of the tenure for all Board members are as follows:



Board Committees

The Board's principal Committees are the Audit Committee, the Nomination Committee, the Remuneration Committee and the Environmental, Social and Governance ("ESG") Committee. Each Committee has its own Terms of Reference which are approved and regularly reviewed by the Board.

On the following pages each Committee Chair reports how the Committee they chair discharged its responsibilities in FY22 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, professional advisors and members of senior management attend when invited to do so, as do those Directors who are not formally a member of the relevant Committee. 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.

There were no Board Committee meetings held during the period.

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. Six Disclosure Committee meetings were held 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. During the year, the Finance Risk Committee was established, the purpose of which is to progress governance over areas of financial crime exposure concerning HMRC and FCA, as well as anti-fraud measures and existing policy areas such as Anti Money Laundering.

Corporate Governance Report

Division of Responsibilities

Halfords Group plc Board of Directors

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
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 Board and Executive Team succession plans with a commitment to improving gender and ethnic diversity; and
- identifying and making recommendations to the Board on potential Board candidates.

Chair:
Keith Williams

Members:
Helen Jones
Jill Caseberry
Tom Singer

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
- 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.

Chair:
Tom Singer

Members:
Helen Jones
Jill Caseberry

Remuneration Committee

Key Objectives
To ensure that a Board policy exists for the remuneration of the Chief Executive Officer, the Chair, Non-Executive Directors, other Executive Directors and members of the executive management.

Main Responsibilities
- 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 Chair's fee, following a proposal from the Chief Executive Officer; and
- maintaining an active dialogue with institutional investors and shareholder representatives.

Chair:
Jill Caseberry

Members:
Helen Jones
Tom Singer

ESG Committee

Key Objectives
To ensure that the Company has an ESG strategy which is aligned with the Company's strategy.

Main Responsibilities
- development of an ESG strategy including the setting of appropriate targets; and
- monitoring progress against key targets and initiatives.

Chair:
Helen Jones

Members:
Jill Caseberry
Tom Singer

Chief Executive Officer

Key Objectives
- 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 Chair informed on all important matters; and
- manages the Group's risks in line with the Board-approved risk profile.

Executive Committee

Key Objectives
- oversees the creation of customer and commercial strategy, approves marketing and digital creative, monitors performance against the implementation of the commercial plan, and approves investment against strategy;
- acts as the senior steering group for the Transformation Programme, approving and monitoring significant programme spend and monitoring programme risk;
- oversees the Group's risk management framework, providing assurance over risk mitigation and scanning the horizon for emerging risk; and
- approves all Group financial investment.

Chair

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, and the results are acted upon;
- acts as an advisor to the Chief Executive Officer;
- meets with the Non-Executive Directors without Executive Directors being present;
- facilitates the effective contribution of Non-Executive Directors; and
- ensures constructive relations between Executive Directors and Non-Executive Directors.

Senior Independent Director

Key Responsibilities

- provides a sounding board for the Chair;
- holds meetings with the other Non-Executive Directors without the Chair at least once a year to appraise the Chair'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.

Employee Voice Director

Key Responsibilities

- ensures colleague feedback is brought to the attention of the Board to help shape and influence some of the decisions that are taken.

Company Secretary

Key Responsibilities

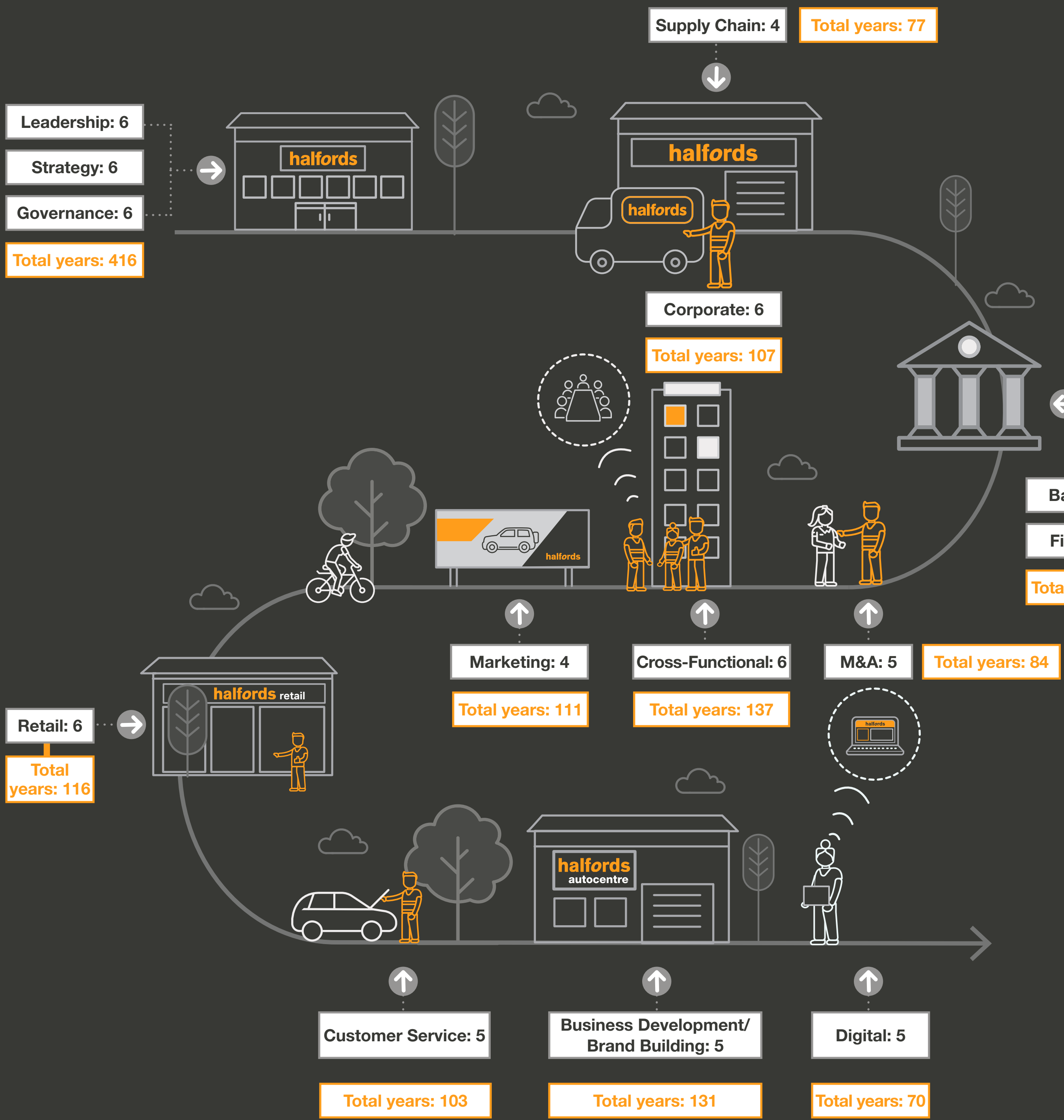
- works closely with the Chair, Group Chief Executive Officer and Board Committee Chairs in setting the rolling calendar of agenda items for the meetings of the Board and its Committees;
- ensures accurate, timely and appropriate information flows within the Board, the Committees and between the Directors and Senior Management; and
- provides advice on Board matters, legal and regulatory issues, corporate governance, Listing Rules compliance and best practice.

Corporate Governance Report

Composition, Succession and Evaluation

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.



Board Training Sessions

Jun 2021	**Diversity and Inclusion** Employee voice updates
Nov 2021	**ESG** ESG horizon scanning update from PwC and climate risk training
Nov 2021	**Governance** Restoring Trust in Audit and Corporate Governance update from BDO Remuneration update from Deloitte **Cyber** Cyber risk update
Mar 2022	**Diversity and Inclusion** Gender Pay
Jan 2022	**Diversity and Inclusion** Employee voice updates

Diversity and Inclusion

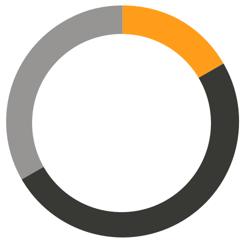
The Group recognises the importance of diversity and inclusion, including gender and ethnicity, at all levels of the organisation. The Group's Diversity Policy (the "Policy") is reviewed annually and sets out our commitment to eliminating unlawful discrimination and promoting equality of opportunity. 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, ethnicity 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, and we are committed to improving ethnic diversity at Board and senior management level with a target of improving ethnicity on the Board by December 2023, more information can be found in the Nomination Committee Report on pages 118 to 121. 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

- Female 50%
- Male 50%

Educational Attainment



- Level 7 – Master's degree = 1
- Level 6 – Bachelor's degree = 3
- Level 5 – Higher National Diploma = 2

Corporate Governance Report

Composition, Succession and Evaluation

Board Evaluation

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

FY21	FY22	FY23
Internal Evaluation	Internal Evaluation	External Evaluation

Evaluation Process

Step One	Step Two	Step Three	Step Four
Issued online surveys and cross-surveys to the Board members.	Received and analysed the feedback with the Chair of the Board. The Chair produced a note of action points to be addressed, which was circulated to the Board members.	The Chair of each Board Committee received the evaluation report in relation to their Committee, and time was arranged to consider the findings and agree an action plan.	Implementation and monitoring of the action plans.

The findings identified by the FY22 internal review are as follows:

Topic	FY22 Outcomes
ESG	The Board is fully committed to the Company's ESG strategy, and during the year under the Board's direction, the business made strong progress on the key priority areas of: electrification; net zero commitment; diversity and inclusion; and product, packaging and waste management. As the regulatory landscape continues to evolve in response to climate change, supply chain transparency and corporate due diligence, the Board will develop its approach to ensure we achieve a sustainable business for all our stakeholders.
Diversity within the Board	The Group is committed to providing equal opportunities to colleagues and candidates, and during the year has worked hard to build a strategy which develops how **Halfords** thinks about diversity, inclusivity and equal opportunities across all areas of the business. We are committed to creating a Board that has an appropriate level of diversity. In 2023, Helen Jones, the Senior Independent Director, will step down from the Board as she will reach her nine-year tenure, this will provide an opportunity to improve ethnic diversity on the Board in line with the Parker Review.
Transformation across the Business	A key part of our transformation is the development of our digital journey which includes the integration of our newly acquired businesses. The Board will continue to support the transformation journey as we develop an omni-channel business that is agile and therefore able to respond fully to the ever-changing needs of our customers.

The findings identified by the FY21 external review were as follows:

Topic	FY21 Outcomes	Progress Made in FY22
Board composition	To ensure the Board has the right mix of skills, diversity and experience going forward.	The Nomination Committee keeps the composition and diversity of the Board constantly under review to ensure the Board is sufficiently diverse in terms of age, gender, ethnicity, experience, and educational and professional background. In 2023, Helen Jones, the Senior Independent Director, will reach the end of her nine-year tenure and so will step down from the Board. This will provide the opportunity to improve Board diversity in line with the Parker Review.

Topic	FY21 Outcomes	Progress Made in FY22
Stakeholder oversight	To have more insight over suppliers and employee voice.	We continue to work closely with our suppliers to foster engagement with them and develop long-standing relationships into the future. We will do this by increasing the integration and use of supplier score cards and working with them to ensure we comply with the Green Claims code which will enable customers to make greener choices.
Succession and talent management	To ensure appropriate succession planning for Board and senior management.	On 13 October 2021, the Board was delighted to announce the appointment of Jo Hartley as Chief Financial Officer. She will replace Loraine Woodhouse when she retires in the summer of 2022. During the year, the Nomination Committee and all the Directors reviewed and updated the succession plans for the Board and the senior management team.

IR Calendar Dates

Date	Event
16 Jun 2022	**FY22 Prelim Results**
7 Sept 2022	**FY23 20-week Trading Update**
7 Sept 2022	**AGM**
16 Nov 2022	**FY23 Interim Results**
12 Jan 2023	**FY23 Q3 Trading Statement**

Risk Management and Internal Control

The Board is responsible for the Group's risk management processes and the system of internal control. The Audit Committee has a delegated responsibility to keep under review the effectiveness of the Group's risk management and internal control framework. Throughout the year, the Committee maintained oversight to ensure a robust process is in place to monitor and evaluate the principal risks of the group. The Group's principal risks and uncertainties, and mitigating actions, are detailed in the Strategic Report on pages 72 to 78.

The Audit Committee considers the principal and emerging risks of the business and reviews the mitigating controls with senior management. The Group Risk Committee reports on the development of the risk management framework and provides insight to the Audit Committee on regulatory and compliance risks.

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 Committee 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 Committee supports the development of risk maturity and a strong control culture.

Annual General Meeting ("AGM")

We aim to encourage our shareholders to receive communications by electronic means, helping to make the Company more environmentally friendly. The 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 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 Chair will advise shareholders on the proxy voting details at the meeting.

We very much hope that we will be able to once again hold our 2022 AGM in person and look forward to seeing shareholders on 7 September 2022.

Tim O'Gorman
Company Secretary

15 June 2022

Nomination Committee Report

"The Committee successfully secured the appointment of Jo Hartley to succeed Loraine Woodhouse as Chief Financial Officer."

Keith Williams
Chair of the Nomination Committee

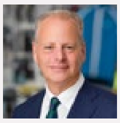
Committee Composition

During the year, the Committee comprised:

Keith Williams (Chair)

Helen Jones

Jill Caseberry



Tom Singer

Nomination Committee meetings held:

3

Chair's Letter

The Nomination Committee's 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. The Committee also ensures that the composition and structure of the Board and its Committees are kept under constant review and nominates candidates for appointment as Directors to the Board. The Committee monitors and develops Board and Executive succession plans.

During the year, the Committee successfully secured the appointment of Jo Hartley to succeed Loraine Woodhouse as Chief Financial Officer. Jo joined the business on 19 April 2022 and will be appointed as Chief Financial Officer on 16 June 2022 when Loraine retires from the role. The Committee also undertook an annual Board evaluation, the details of this internal evaluation can be found on page 116 in the Corporate Governance Report.

Looking ahead, long-term succession planning at Board and Executive level will remain a key priority of the Committee. As announced in last year's annual report, we are committed to creating a Board that has an appropriate level of gender diversity and ethnic diversity. Helen Jones, our Senior Independent Non-Executive Director, will reach her nine-year tenure in 2023 and will consequently step down during 2023, this will provide the opportunity for us to improve ethnic diversity on the Board in line with the Parker review.

By order of the Board

Keith Williams
Chair of the Nomination Committee

15 June 2022

Main Responsibilities of the Committee

- Review the size, structure and composition of the Board and its Committees.
- Ensure plans are in place for orderly succession to the Board and senior management positions.
- Lead the process for appointments by identifying and making recommendations on potential candidates to join the Board.

Activities During the Year

- Successfully completed the recruitment of Jo Hartley as Chief Financial Officer as successor to Loraine Woodhouse.
- Continued with the progression of the succession and talent development plan, taking into account the recommendations of the Parker Review.
- Reviewed the internal FY21 Board evaluation action plan and distributed the internal FY22 Board evaluation action plan.

- Reviewed the composition of the Board and its Committees.
- Carried out an annual review of the Committee's Terms of Reference.
- Recommended the re-election of the Board at the 2021 Annual General Meeting.

FY22 Key Activities

- Appointment of Jo Hartley as Chief Financial Officer as successor to Loraine Woodhouse.
- Progression of succession and talent development plans.
- Approved the appointment of Paul O'Hara as the People and Property Director following the resignation of Wendy Taylor, the Chief People Officer.

Areas of Focus in FY23

- Progression of succession plans for the Board and senior management team.
- Recruit a new Non-Executive Director from a more diverse background.

Board Appointments

On 13 October 2021, we announced that Loraine Woodhouse would be retiring as Chief Financial Officer in the summer of 2022, and that Jo Hartley would be appointed in her place. Jo joined the business on 19 April 2022 and, to ensure a smooth transition, Loraine will remain with the business and in post until 16 June 2022, at which point she will step down from her role and pass her responsibilities to Jo.

Odgers Berndtson was appointed as advisor to the Committee in the search for external candidates for this role and this process was led by Keith Williams as Chair, together with the Committee. Odgers Berndtson does not have any other connection with the Company.

Jo Hartley's Induction

- Introductory meetings with members of the Senior Management Team and Executive Committee.
- Retail store and Autocentre visits, including an introduction to **Halfords** Mobile Expert.
- Visit to Washford and Coventry distribution centres.
- In-depth teach-ins with functional experts across the business, including Strategy, ESG, Customer, Commercial and People Teams.
- Introductory meeting with Corporate Broking teams and advisors.
- Meetings with specialist financial stakeholders, including Auditors, consultants and lending banks.

Prior to joining **Halfords**, Jo was the Group Chief Financial Officer for Virgin Active for over six years. Before that, Jo worked at Tesco plc in a number of finance roles in the UK and internationally, having qualified as a chartered accountant at Deloitte UK. Jo has extensive experience across all finance functions gained within consumer-facing businesses.

Nomination Committee Report

What process did the Committee go through to appoint a new Chief Financial Officer?

1. Appointed an external search consultancy to identify and approach suitable candidates.
2. Developed a detailed candidate spec aligned to the Group's values and culture.
3. Created a long list of suitable and diverse candidates.
4. Commenced the interview process, encompassing Executive and Non-Executive Directors.
5. Made an offer to the successful candidate and the relevant announcement made to the London Stock Exchange.
6. A suitable induction programme put in place and tailored to the successful candidate's requirements.

Director 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 Chair to identify any training and development needs.
- Access to the Company Secretary for advice on governance, regulatory and legislative changes affecting the business or their duties as Director.
- Access to independent professional advice at the Company's expense.
- Membership of the Deloitte Academy, a training and guidance resource for Boards and Directors.

Diversity and Inclusion

The Group's Diversity Policy ("Diversity Policy") sets out **Halfords**' commitment to eliminate discrimination and to encourage diversity and inclusion across the Board of Directors and amongst all colleagues. **Halfords**' Diversity Policy applies to all activities, including its 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, it has created a more balanced and diverse Board and Senior Management Team. Half of the Board comprises of women; 44% of the Senior Management Team is female and 28% of their direct reports are women. The Board is committed to improving diversity at Board and senior management level. In 2021 we announced in our annual report that we had a target of improving ethnic diversity on the Board by 2023. In this regard, the Board has recently appointed a well-known firm of head hunters to progress this appointment, which will need to be considered in the context of Helen Jones retiring as a Director and Senior Independent Director in 2023. The Board is reviewing all the options and expects to make an appropriate appointment in 2023.

Board Succession

The **Halfords**' Board considers succession planning each year in respect of both Director roles and the Senior Management Team. Senior Executives have well developed skills and experience to fulfil their roles, and their skills are constantly updated as new challenges arise. A key factor in making better decisions is that the business has a diverse range of Directors, Executives and colleagues. Diversity and gender positions are monitored each year to ensure **Halfords** is able to identify any improvements and benefits and, as detailed above, we have an action plan to ensure compliance with the Parker review by 2023.

Looking Ahead

Looking ahead, long-term succession planning at Board and Executive level will remain a key priority of the Committee, together with creating a Board that has an appropriate level of gender diversity and ethnic diversity.

Keith Williams
Chair of the Nomination Committee

15 June 2022

Board

Female 50%

Male 50%

Senior Management Team

Female 44%

Male 56%

Senior Management Team direct reports

Female 28%

Male 72%

ESG Committee Report

Building on the strategy work that we undertook last year, we are pleased with the strong progress that we've made this year.

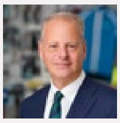
Helen Jones
Chair of the ESG Committee

Committee Composition

During the year, the Committee comprised:

Helen Jones (Chair)

Jill Caseberry



Tom Singer

ESG Committee meetings held:

2

FY22 Key Achievements: We delivered strong performance against ESG priority issues. To highlight our commitment, we recruited a new Head of ESG and dedicated ESG expertise within packaging to ensure the successful ongoing delivery of our ESG strategy.

Areas of focus in FY23: Maintain momentum against priority ESG issues. As well as strengthen stakeholder engagement with colleagues, suppliers and customers to ensure our strategy remains effective in delivering long-term sustainable growth.

Chair's Letter

During the year, the Committee's focus has been to ensure the ongoing delivery against objectives and targets for the four priority areas: Electrification; Net Zero; Diversity and Inclusion; and Product, Packaging and Waste Management. We are pleased with the strong progress made across all four areas, particularly meeting our electric servicing target, which formed part of our first ESG Executive bonus target.

Recognising the importance of managing and mitigating our impact on the environment, as well as the risks and opportunities we are faced with from a changing climate, the November 2021 ESG Committee meeting was extended to all Board and Executive members to undergo a climate training session. Facilitated by PwC, the session focused on climate risks and opportunities and the requirements set out by the Task Force on Climate-related Financial Disclosure ("TCFD"). We are pleased with our first disclosure against the TCFD framework and see this as an important step forward on our journey to net zero. See pages 68 to 71 for more information.

In addition to the two meetings held this year, we also met as a Board to review and approve the revised Global Sourcing Code. Along with investment in systems, the revised Code will support strengthening due diligence processes, ensuring we remain compliant with increasing supply chain transparency requirements. This is a notable improvement, ensuring we continue to drive the right behaviours and culture to deliver long-term sustainable growth.

The Company's Chair, Keith Williams, whilst not a member of the Committee, attends the meetings upon the invitation of the Committee Chair.

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 regularly throughout the year.

Building on the strategy work that we undertook last year, we are pleased with the strong progress that we've made this year.

As the regulatory landscape continues to evolve in response to climate change, supply chain transparency and corporate due diligence, we remain committed to evolving our approach and ensuring we have a sustainable business that delivers for all stakeholders.

The Board remains committed to improving diversity at Board and senior management level. In line with the recommendations set out in the Parker Review, the Board is reviewing all the options and expects to make an appropriate appointment in 2023, please see page 121 for further information.

Main Responsibilities of the Committee

- Oversight and continued development of our ESG strategy.
- Setting KPIs and targets and monitoring progress.
- Ensuring the Group continues to meet stakeholder expectations.
- Maintaining the highest possible standards of ethical trading in our supply chain.

Activities Undertaken

During the year, the Committee:

- Created the ESG Board, comprising members of the Senior Leadership Team, with the responsibility of leading ongoing ESG strategic direction.
- Participated in climate risk and opportunity training.
- Challenged ESG performance throughout the year.
- Reviewed and approved the Global Sourcing Code.
- Reviewed and agreed our science-based targets to strengthen short-term carbon reduction commitments.
- Inputted into and approved the TCFD statement.
- Supported with the recruitment of the newly appointed Head of ESG.

Further information on the Group's approach to managing ESG, performance against the priority areas and performance data can be found on pages 40 to 55 of the Strategic Report.

Looking Ahead

In FY23, our focus will be to maintain the momentum from this year and continue to deliver positively towards our ESG targets. We will continue to engage with stakeholders, to ensure our strategy and governance systems and approach remain effective. This will include engagement with customers to ensure we continue to respond to their needs; engagement with our suppliers as we roll out the revised Global Sourcing Code and begin scope 3 data collection; and importantly, further colleague engagement to ensure we continue to drive the right culture to deliver our ESG ambitions.

Helen Jones
Chair of the ESG Committee

15 June 2022

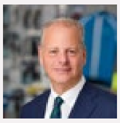
Audit Committee Report

The Committee has continued to play an important role in engaging with the management team to ensure the integrity of financial reporting, internal controls and risk management processes.

Tom Singer
Chair of the Audit Committee

Committee Composition

During the year, the Committee comprised:



Tom Singer (Chair)

Helen Jones

Jill Caseberry

Audit Committee meetings held:

4

Chair's Letter

I am pleased to present the report of the Audit Committee for the 52 weeks ended 1 April 2022.

This report describes how the Committee has carried out its responsibilities during the year. The Committee reviews financial reporting judgements and monitors risk and the effectiveness of the system of internal control through engagement with executive management, internal audit and the external Auditor.

During the year, the Committee considered several key issues, most notably:

- the impact of COVID-19 and the war in Ukraine, and specifically whether the business remained a Going Concern;
- the extension of the Group's revolving credit facility;
- judgements in respect of M&A activity in the year;
- the carrying value of investments, tangible and intangible assets;
- the BEIS proposals for Audit and Corporate Governance reform, considering the impact on our reporting and control environment;
- the application of the new IFRIC in regards to IAS 38;
- the acceleration of our business and financial controls programme; and
- the concluded review of the legal entity restructure across the Group.

We announced in October that Jo Hartley would be joining the **Halfords** Board as Chief Financial Officer, succeeding Loraine Woodhouse. I would like to express my thanks to Loraine for her dedication and commitment to **Halfords** and I wish her well with her non-executive career.

Tom Singer
Chair of the Audit Committee

15 June 2022

FY22 Key Activities

- Reviewed and approved the Committee's updated Terms of Reference.
- 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 treatment associated with the acquisitions 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. This assessment was inclusive of stress testing to ascertain the level of headroom in the plans against possible covenant breach.
- Review preparations for inaugural TCFD reporting
- Reviewed and challenged the external Auditor's year-end and half-year reports.
- Reviewed the statement of external Auditor's independence.
- Reviewed and approved the external Auditor's audit strategy and fees.
- 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.
- Review and approve Information Security Management Policy
- Review Cyber risk and associated strategy
- 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 challenged the effectiveness of the Group's whistleblowing procedures and approved the Group Whistleblowing Policy.
- Reviewed and approved the Anti-Money Laundering Policy.
- Reviewed and approved the Anti-Bribery and Corruption Policy.
- Received regular updates on the Gifts and Hospitality register.
- Reviewed and approved the Group's tax strategy and arrangements.
- Reviewed plan for **Halfords** response to BEIS proposals.
- Ensured the finance function is appropriately resourced and has qualified executives in key positions, and that a well-managed succession planning process is in place.

Areas of Focus

- Continue to monitor the impact of macroeconomic issues upon the Group's Viability and Going Concern.
- Continue 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, focus on complying with the outcome of the BEIS recommendations on audit and governance.

The effects of COVID-19 continued into FY22, which, together with the war in Ukraine, has led to a challenging macroeconomic environment for UK consumer-facing businesses. This further underlines the importance of a robust risk management process and strong financial controls, key topics that have been high on the agenda for the Audit Committee in FY22.

Halfords Group completed three acquisitions during the year, including that of Axle Group Holdings, the owner of the National Tyres brand. The Audit Committee reviewed the accounting treatment of each transaction, ensuring that the judgements were appropriate.

The Group's legal entity reduction exercise was completed during the year, which simplified the corporate structure and ensured that distributable reserves were sufficient to support future dividend payments.

After the Department for Business, Energy and Industrial Strategy (BEIS) published their consultation paper on proposals for significant reform to UK audit and corporate governance in March 2021, the Audit Committee has stayed abreast of updates and reviewed **Halfords**' preparedness for the most likely final proposals. The most significant impact of the BEIS proposals on **Halfords** is the likely requirement for an enhanced financial control environment, for which the Committee has overseen an investment in people and processes that will enable **Halfords** to meet the requirements within the timeframe.

Finally, the Committee reviewed the company's principal risks, ensuring that robust risk mitigation was in effect during the year and that emerging risks were identified and flagged appropriately.

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.

Member	Role	Attendance
Tom Singer	Chair	4/4
Helen Jones	Member	4/4
Jill Caseberry	Member	4/4

Four scheduled Committee meetings were held during the year and attended by all members. After each Committee meeting, the Audit Committee Chair reported to the Board on the key issues discussed.

Although the Company Chair, CEO and CFO are not members of the Committee, they do attend meetings regularly and so contribute to the work of the Committee, assisting with the fulfilment of its oversight functions.

Audit Committee Report

Membership and Remit of the Audit Committee

During the year, the members of the Audit Committee were considered to be independent Non-Executive Directors.

Tom Singer is a Non-Executive Director of Mediclinic International plc and was, until recently, the Senior Independent Director and Chair of the Audit and Remuneration Committees at DP Eurasia NV. Previously, Tom served as CFO of InterContinental Hotels Group plc and Group Finance Director of British United Provident Association ("BUPA"), and, as such, is considered by the Board to have recent and relevant financial experience to chair the Committee. 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 and through a formal Board survey.

The Company's Chair, 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 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 internal audit team and external Auditor. There have been four such meetings in the period ended 1 April 2022 and nothing of note was reported.

Principal Responsibilities

Financial Reporting

- Review the interim and final 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, including the investigation of fraudulent activity.

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 control is maintained on an ongoing basis.

External Audit

- Make recommendations to the Board on the reappointment 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 remain 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.**Halfords**company.com/environment-social-and-governance/governance/committees-terms-of-reference/.

Matters Considered 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 167 to 167.

The Committee has considered the following key accounting judgements during the year:

Impairment of Goodwill Associated with the Group's Retail and Car Servicing Cash Generating Units (CGU):

- Following several 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 CGUs (see Note 11 on page 187 of the Financial Statements);
- The Audit Committee has received detailed reports from **Halfords**' finance team 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. The Committee concluded that it is satisfied with the impairment assessment of goodwill.

Valuation of Inventory Within the Retail Division:

- With the business holding a wide range of stock and changing consumer demands, some lines will not be sold or will be sold at below the carrying value. Provisions are made to reflect this. Given the inherent difficulties of forecasting market trends, there is a risk that inventory provisions made will be inappropriate or incomplete (see Note 15 on page 190 of the Financial Statements). Management has fully reviewed the inventory provision in the current year, and believe the level of provisioning is appropriate. Range reviews are regularly undertaken to ensure that all discontinued inventory is identified; and
- The Audit Committee has received detailed reports from **Halfords**' finance team 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.

Impact of new IFRIC agenda decision regarding IAS38 Intangible Assets

During the year, the IFRS Interpretations Committee (IFRIC) issued a clarification on 'Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS38 Intangible Assets)'. Management undertook a review of their capitalisation policy and associated processes to ensure that the new guidelines have been applied correctly. The Audit Committee has received the detailed reports from **Halfords**' finance team addressing this issue and are satisfied with the resulting accounting treatment.

Audit Committee Report

Non-Underlying items and Alternative Performance Measures
The Group recorded a net credit of £6.8m in Non-Underlying items in FY22, having recorded larger debits in the two years prior. This credit was driven by the release of a provision relating to an HMRC audit of National Minimum Wage practices, and the utilisation of provisions relating to the closure of stores and garages in FY21. The Audit Committee has reviewed management's assessment of Non-Underlying items and are satisfied that the correct accounting treatment has been applied.

Management has continued to use Alternative Performance Measures ("APM") to provide the reader with a more insightful analysis of the Group's performance. In particular, management has chosen to place greater emphasis on comparing FY22 performance to FY20, alongside the prior year FY21. This was considered to be appropriate given that FY21 was significantly disrupted by COVID-19 and the Government's response to it through, for example, providing business rates relief. The Audit Committee has reviewed the use of APM and are satisfied this strikes an appropriate balance for the benefit of the reader of the accounts.

Halfords' preparedness for BEIS' proposed reforms to audit and corporate governance
The proposed reforms are wide-ranging and, if introduced, are likely to impact **Halfords** in several material ways. The Committee continues to stay abreast of updates from the Government and reviews **Halfords** preparedness for the reforms at each meeting. The most significant piece of reform is the likely requirement for enhanced internal controls and the associated reporting of their effectiveness. The Group's response to this is well underway, having invested in a team of controls specialists to put in place Risk and Controls matrices and testing programmes.

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, 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 2022, the Committee reviewed the External Audit Planning document prepared by BDO. 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 re-tender for external audit work this year. The Audit Committee has recommended to the Board, for approval by shareholders at the Annual General Meeting on 7 September 2022, 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 180 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 audits are financial and non-financial and during the year included Cyber Security, Data Governance, Supplier Management, Financial Controls and Health & Safety Framework.

The Head of Internal Audit reports to the Chief Financial Officer but maintains direct and regular communication with 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.

Alongside the Internal Audit programme, the team also continued to drive the Group's risk management framework, with key areas of progress outlined below. 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 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 a Gifts and Hospitality Register. 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. A newly formed Executive Risk Committee reports to the Audit Committee on the risk management framework, providing insight on principal and emerging risks, risk appetite and ongoing updates on regulatory and compliance risk.

At each meeting during the year, the Committee received a presentation on the Group's control framework in preparation for changes in the UK's governance and reporting.

Further details of the Group's internal control and risk management framework are set out on pages 72 to 77.

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 1 April 2022.

Tom Singer
Chair of the Audit Committee

15 June 2022

Remuneration Committee Report

Chair's Letter

Another strong performance for the Group, against a challenging backdrop.

Jill Caseberry
Chair of the Remuneration Committee

Committee Composition

During the year, the Committee comprised:

Jill Caseberry (Chair)

Helen Jones

Tom Singer

Remuneration Committee meetings held:

5

Chair's Letter

Dear Shareholder

On behalf of the Remuneration Committee, I am pleased to present the Remuneration Report for the financial period ended 1 April 2022.

The Report consists of three sections:

- A summary of the pay outcomes for FY22, and our approach for FY23;
- A summary of our Directors' Remuneration Policy – The Company's Directors' Remuneration Policy (the "Policy") was approved at the 2020 Annual General Meeting. A copy of our full Policy is available on our website; and
- The annual Directors' Remuneration Report – this summarises the remuneration outcomes for FY22 and explains how we intend to apply the Remuneration Policy in FY23.

FY22 Key Achievements

During FY22 we reverted to a more normalised approach to setting performance measures following changes in FY21 in light of the impact of COVID-19.

A pay review was undertaken of our hourly paid colleagues in retail, the new adult rate increased to £10 per hour, which is 50p over the National Minimum Wage rate.

Areas of focus in FY23

During FY23 we will continue to monitor the approach to remuneration to ensure that it remains aligned with our strategy and operational focus.

We will continue to monitor the impact of rising inflation on our colleagues.

2020 Directors' Remuneration Policy

At the 2020 AGM we put forward our Directors' Remuneration Policy (the "Policy") to shareholders. The Policy was largely based on the same principles as the 2017 Directors' Remuneration Policy; however, the Committee made a number of changes to reflect the introduction of the 2018 UK Corporate Governance Code (the "Code") and to align with best practice.

We were pleased that over 97% of shareholders voted in support of the policy and the Committee believes it remains appropriate in supporting the Company's execution of the strategy and long-term shareholder value creation. As a result, no changes have been made to the Policy and, accordingly, we are not seeking approval for a new Policy this year.

Performance in the Year

Our Group results in FY22 were very strong, with underlying profit before tax of £89.8m, representing growth of £36.2m versus FY20 (pre-pandemic). This is particularly impressive given the macro-headwinds that were present throughout the year.

In the UK, we started the year attempting to return to some form of "post-pandemic" normality, but the reality was that COVID-19 still very much disrupted FY22. Not only did illness and self-isolation impact many of our colleagues, but we also saw significant supply chain disruption, particularly from products and componentry shipped from countries still feeling the impact of peak COVID-19.

I'd like to extend my sincere thanks to all of our amazing colleagues who worked tirelessly throughout the year to keep each other and our customers safe, whilst continuing to provide record customer service levels.

As we enter FY23, we see new challenges emerging – this time, in the way of unprecedented inflation and the worst cost of living crisis for a generation. We will inevitably see some impact in our more discretionary, high value product areas. That said, these conditions only serve to underline the importance of our strategic direction towards becoming an increasingly consumer and B2B focused motoring services business, with a greater proportion of needs-based revenue, generating more predictable returns.

The performance measures in FY23 reflect our desire to continue this strategic journey, as we remain convinced it is the right one.

Remuneration in the Year

For FY22, we were pleased to be able to revert back to our more normalised approach to performance measures which are considered to be more reflective of our ongoing strategy and our Group's key strategic KPIs. Further detail is set out below and on pages 56 to 58.

The annual bonus was assessed against underlying Group profit before tax – 50%, Group revenue – 15%, Operating Cash Flow – 15% and strategic metrics (NPS, Employee Engagement, Group Services-Related Sales and ESG – all equally weighted) – 20%.

During the year, Group profit before tax was £89.8m, Group revenue was £1,369.6m and Operating cash flow was £101.0m.

Taking into account the strong financial and non-financial performance delivered during the year, the Remuneration Committee determined that the Executive Directors would receive annual bonuses of 79.37% of maximum. Consistent financial metrics were applicable across all central bonus schemes.

The 2019 Performance Share Plan ("PSP") also performed very strongly with vesting at 100% reflecting our excellent progress in delivering the strategy and value for shareholders over the past three years. All our measures vested in full - EPS (50% of award), Revenue (25% of award) and Free Cash Flow (25% of award).

The Committee remains mindful of the increasing shareholder expectation that incentive outturns should be carefully considered to ensure that they reflect the underlying financial and non-financial performance of the Group, as well as the experience of our stakeholders and colleagues. Therefore, as is the case in prior years, the Committee evaluated performance in the round against a range of factors to assess whether the level of annual bonus and PSP payout was appropriate.

Given the strong performance of the Group and the individual performance of our Executive Directors, the Committee felt comfortable that the outturns were appropriate. The Committee, therefore, determined that no changes needed to be made for the formulaic outcome nor adjustments were required based on the share price, and the pay-outs were approved.

Remuneration for FY23

Having reviewed the structure of our incentive awards, it was agreed that the overall approach to the annual bonus and PSP will remain largely unchanged for FY23. The maximum incentive opportunities will remain at 150% of base salary for the annual bonus and 200% of base salary for the PSP.

The annual bonus will continue to be based 80% on financial measures (Group profit before tax – 50%, Group revenue – 15%, Operating Cash Flow – 15%) and 20% on strategic metrics (NPS, Employee Engagement, Group Services-Related Sales and ESG, all equally weighted). Last year we introduced an Environmental, Social and Governance (ESG) measure to our annual bonus scheme which was well received by our stakeholders and this will continue to be included this year.

In light of the macroeconomic uncertainty, the Committee is currently reviewing the performance measures and targets for the 2022 PSP awards. Performance measures and targets will be disclosed in the RNS announcement at the time of award. It is the Committee's intention that TSR and EPS will continue to be included as key measures of profit progress and shareholder value creation.

Further details of the performance measures for the FY23 annual bonus are set out on page 146.

Remuneration Committee Report

Chair's Letter

Changes to Executive Directors

As announced in October 2021, Loraine Woodhouse will retire from the Board during the summer, having served as our Chief Financial Officer (CFO) for the past four years. I would like to take this opportunity to thank Loraine for her integral support over the last few years, particularly during the COVID-19 pandemic where she demonstrated exceptional leadership.

Loraine's departure terms will be consistent with the shareholder-approved Remuneration Policy. In respect of her outstanding share awards, she will be treated as a good leaver with all awards being subject to performance and time pro-rating, vesting at the normal time in line with plan rules. She will also be expected to comply with the post-employment shareholding requirement for two years after her departure.

In April 2022, we were delighted to welcome Jo Hartley to the business. Jo will be assuming the role of CFO on 16 June 2022 when Loraine retires from the role. Jo was appointed on a salary of £395,000 and her pension contribution has been set in line with the wider workforce at 3% of salary. For the first year of her appointment, her incentive opportunities have been set at a lower level to her predecessor at 125% of salary and 150% of salary for the annual bonus and PSP respectively. Subject to her personal performance, the current intention is that her maximum opportunities will be increased in line with the Remuneration Policy and her predecessor. Upon appointment, she also received a like-for-like cash payment of £112,000 to replace a bonus she was required to repay on cessation of previous employment. The Committee recognises that Jo's base salary is set at a level above the previous CFO's salary but the Committee considers this appropriate taking into account the level of Jo's fixed pay in her previous role which was at a similar level to that which she will receive at **Halfords**.

Further details of Loraine's and Jo's remuneration terms can be found on page 144.

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 the FY22 annual Directors' Remuneration Report at the Annual General Meeting.

Jill Caseberry
Chair of the Remuneration Committee

15 June 2022


halfords
autocentre

Remuneration Committee Report

Remuneration at a Glance

At Halfords, the reward framework is consistent across all colleague populations – although benefit levels vary to reflect market salary and benefits benchmarks across all roles.

Element	Colleagues	Managers	Senior Managers	Executive Team
Salary	✔	✔	✔	✔
Pension	✔	✔	✔	✔
Paid holiday	✔	✔	✔	✔
Share plans	✔	✔	✔	✔
Bonus/incentives	✔	✔	✔	✔
Death in service	✔	✔	✔	✔
Car allowance	Job need	✔	✔	✔
Private medical	✗	✔	✔	✔

Reward at Halfords underpinned by our values

Why is Reward Structured Differently at Senior Levels?

The Corporate Governance Code protects the interests of shareholders by ensuring that reward is structured in a way that ensures executives make the right long-term decisions for the business. As a consequence, a high proportion of executive reward is directly linked to long-term performance, resulting in 'variable pay' which only pays out when the Company does well. The Executive Directors participate in two variable reward plans as follows (further details can be found on pages 137 to 149):

Annual Bonus	Targets are assessed over the financial year (a proportion of any payment is deferred for three years after payment).
Performance Share Plan	Targets are assessed over three financial years. Vested awards are subject to a two-year holding period.

Typical Fixed versus Variable Pay

Colleagues

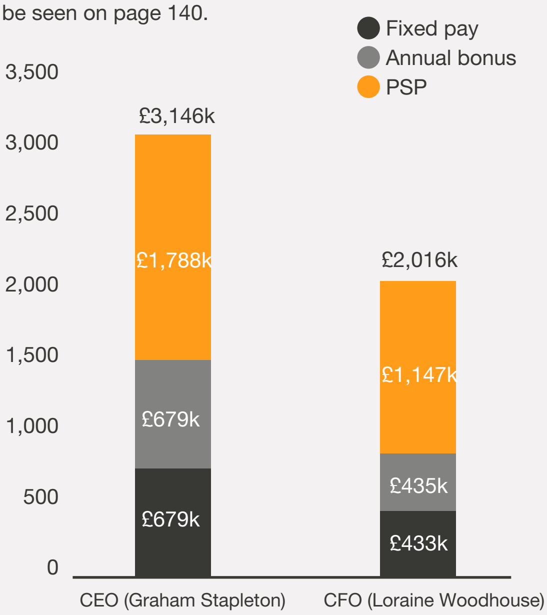
Executive

Executive Directors' Remuneration

Single Total Figure of Remuneration for Executive Directors

for the year ended 1 April 2022

Fixed pay comprises base salary, benefits and pension. Variable pay comprises of the annual bonus and PSP award. Further information on the single figure of remuneration can be seen on page 140.



Aligning Pay with Performance

Key Performance Indicator	Result
2021/22 Annual Bonus*	
Underlying Group PBT	£79.6m
Group revenue	£1,314.0m
Operating cash flow	£101.0m
Group NPS	68.4%
Group services-related sales (£m)	£476.2m
Group Colleague Engagement	81%
ESG metric	86.6%
2019 PSP	
EPS growth	35.5p
Group revenue growth	£1,369.6m
Free cash flow	£185.1m

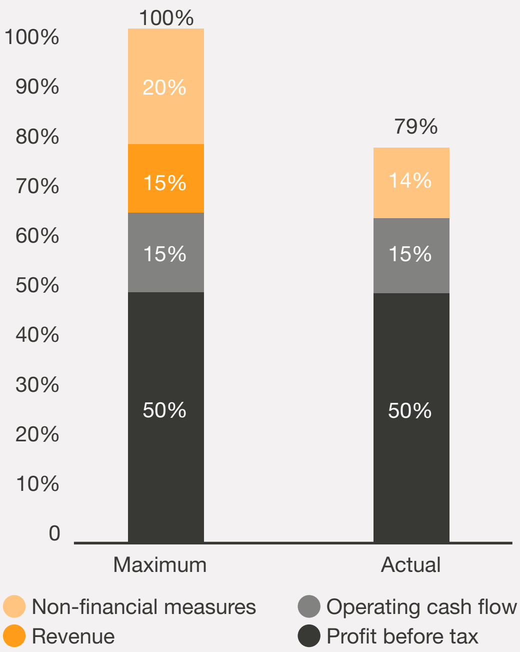
* Excluding government support and acquisition profit.

- Below threshold target
- Between threshold and stretch target
- At or above stretch target

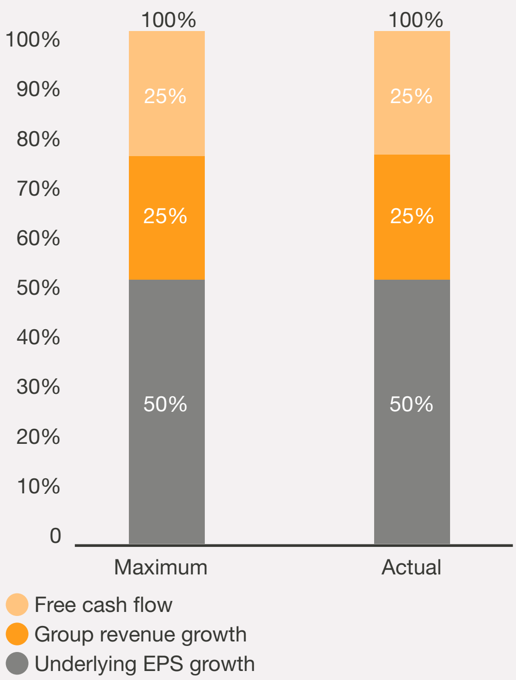
Annual Bonus and Long-Term Plan Incentives Outcomes

The charts below show the results of the performance targets for the annual bonus and PSP. Further information about the annual bonus is shown on page 140 and about the PSP on page 141.

2021/22 Annual Bonus



2019 PSP



Remuneration Committee Report

Remuneration at a Glance

Aligning Our Performance Measures to Our Strategy

Over the past few years, our strategy has remained unchanged with motoring and cycling products remaining at the core of our proposition. However, as we continue to evolve into a consumer and B2B services-focused business, we placed greater emphasis on motoring, generating higher and more sustainable financial returns.

As such, we have sought to ensure that the performance measures for our incentive awards reflect our strategic ambitions. The table below provides a summary of our alignment.

	Alignment to Strategy	Alignment to Our Stakeholders' Interests
Annual Bonus		
Underlying Group PBT	• PBT is one of our main KPIs assessing the profitability of our business.	
Customer NPS	• As our business evolves to be more consumer and B2B services-focused, this measure focuses on our commitment to customer service both in Retail and Autocentres.	
ESG	• We are committed to an ambitious ESG agenda and strategy that works towards promoting electrification, reducing plastics from packaging and promoting diversity and inclusion across the Group.	
Performance Share Plan		
Relative TSR	• Aligns management with the wider shareholder experience.	
EPS	• EPS is a measure of our investment thesis and indicates whether we are achieving our aim to manage revenues, margins and invest in long-term growth.	
Group-services related sales	• Sales are a key indicator of a retailer's trading and performance.	

Key to stakeholders:

ESG Financial Customers Shareholder

For details of how our Remuneration Policy aligns with the UK Corporate Governance Code, please see page 122 of the 2020 Annual Report and Accounts.

Directors' Remuneration Policy Summary Report

Our Directors' Remuneration Policy was approved by shareholders at the 2020 AGM. The full Policy is available on the Company's website, but as context for the rest of this report, the main elements of the Policy, as well as how the Policy was implemented during the year and how it will be implemented for FY23, are summarised below:

Elements	Objective	Key features	Implementation in FY22	Implementation in FY23
Base salary	To attract and retain management of a high calibre.	Reviewed annually with increases effective from 1 October. Salary increases generally in line with wider employees.	Graham Stapleton: £575,710 Loraine Woodhouse: £369,250 Increased by 1.8% in line with the increases awarded across the wider workforce with effect from 1 October 2021.	Salaries will next be reviewed with effect from 1 October 2022 and it is expected that any increase will be in line with the increase received for the wider workforce. Jo Hartley's salary was set at £395,000 upon appointment.
Benefits	Provide market competitive benefits consistent with the role.	Set at an appropriate level taking into account the individual's circumstances, market practice and other employees in the Group.	Executive Directors received benefits in relation to a car plus fuel or a cash allowance, private health insurance, life assurance.	No changes proposed.
Pension	To provide individuals with retirement arrangements.	Directors eligible for defined employer contribution, payments into a personal fund and/or a cash allowance in lieu of pension. Total contribution capped at 15% of salary for Graham Stapleton and Loraine Woodhouse. Contributions for Graham Stapleton will be aligned with the maximum employer pension contribution available to the majority of the workforce from 1 April 2023. New Executive Director's pension contribution is to be aligned with the wider workforce.	Executive Directors received cash allowances of 15% of salary.	Graham Stapleton: 15% of salary. Loraine Woodhouse: 15% of salary. Jo Hartley: 3% of salary (in line with workforce).
Annual bonus	Incentivise the achievement of annual financial targets and key strategic objectives.	Maximum opportunity of 150% of salary with one-year performance period. One-third of any award is deferred into shares for three years. Malus and clawback provisions apply.	Based on 80% financial measures and 20% delivery of strategic measures (full details on page 140). Both financial and non-financial performance was strong in the year and the bonus paid out at 79.37%.	Graham Stapleton: 150% of salary. Loraine Woodhouse: 150% of salary. Jo Hartley: 125% of salary (first year of appointment). For 2022/23 measures will be 80% financial: • Underlying Group PBT (50%), • Group revenue (15%) • Operating cash flow (15%) 20% non-financial measures • Group NPS (5%) • Group services-related sales (£m) (5%) • Group Colleague Engagement (5%) • ESG metric (5%)

Remuneration Committee Report

Remuneration at a Glance

Elements	Objective	Key features	Implementation in FY22	Implementation in FY23
Performance Share Plan	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 opportunity of 200% of salary. Three-year performance period. Two-year holding period after vesting. Malus and clawback provisions apply.	Graham Stapleton and Loraine Woodhouse were granted awards of 200% of salary in the year. Awards granted in October 2021 were based on: • EPS growth 50% • Group service-related revenue 20% • Relative TSR vs the FTSE All Share General Retailers Index 30% Targets are disclosed on page 141.	Graham Stapleton: 200% of salary. Jo Hartley: 150% of salary (first year of appointment). FY23 awards will be based on: • EPS growth 50% • Group services-related revenue 20% • Relative TSR vs the FTSE All Share General Retailers Index 30%
Shareholding guidelines	Align individuals with shareholders.	Executive Directors are expected to build and retain a shareholding with a value equal to at least 200% of their annual base salary. Expectation that 75% of any post-tax shares that vest from incentive plans are retained until the guideline is met. 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.	Executive Directors were subject to a 200% of salary shareholding guideline.	No change.

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 154 to 161, as specified by the UK Listing Authority and the Regulations.

Committee Composition

During the year, the Committee consisted of:

Jill Caseberry (Chair)
Helen Jones
Tom Singer

Five scheduled Committee meetings were held during the year and were attended by all relevant members at the time of the meeting. 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 Policy operated as intended. The Committee undertook the following activities:

- reviewed and approved the Directors' Remuneration Report published in the FY21 Annual Report and Accounts;
- discussed and approved incentive outcomes for FY22;
- approved grants under the Company's share schemes;
- considered the approach to implementing remuneration policy for FY22, including setting Executive Director and Non-Executive Director salaries from 1 October 2021;
- reviewing considering and setting the approach to performance measures for the FY22 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 and approved the Company's share plan rules to ensure compliance with UK GDPR;
- reviewed remuneration arrangements for the wider workforce and took these into account when considering Executive pay; and
- reviewed and approved the appointment of remuneration advisors and set the appropriate fee.

Advisors and Other Attendees

During the year, the Committee has been supported by Wendy Taylor, Chief People Officer, 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 remuneration reporting, share option evaluations and other remuneration matters. Deloitte also provided unrelated advice on debt advisory work, tax services and legal support during the year. Total fees paid to Deloitte in respect of remuneration advice were £43,500 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 that advises the Remuneration Committee 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.

WTW (previously known as Willis Towers Watson) also provided the Committee with executive salary market data. WTW is also a signatory of the Remuneration Consultants Group Code of Conduct. Fees paid to WTW for this advice were £4,125 charged on a time and materials basis. WTW also provide insurance broking services and employee benefits services to the Group.

Shareholder Dialogue

The voting outcome from the 2020 AGM reflected very strong individual and institutional shareholders' support for the revised Directors' Remuneration Policy ("Policy"). We consulted extensively with shareholders prior to introducing the revised Policy. Furthermore, the voting outcome from the 2021 AGM showed strong support for our FY21 Directors' Remuneration Report.

The following table sets out the votes cast at the 2020 AGM in respect of the Directors' Remuneration Policy, and the votes cast at the 2021 AGM in respect of the FY21 Directors' Remuneration Report.

	% of votes For	**% of votes Against**
FY21 Directors' Remuneration Report*	96.86%	3.14%
FY20 Directors' Remuneration Policy†	97.58%	2.42%

* 63,020 votes (0.04% of votes) were withheld in relation to this resolution.

† 40,378 votes (0.03% of votes) were withheld in relation to this resolution.

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.

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.

Remuneration Committee Report

Annual Report on Remuneration

How the Remuneration Policy was Implemented in FY22 – Executive Directors

Single Remuneration Figure (Audited)

2021/22	Base Salary (£)	Benefits (£)	Pension (£)	Other[1] (£)	Total Fixed (£)	Bonus (£)	PSP (£)	Total Variable (£)	Total "Single Figure" (£)
Graham Stapleton	**570,619**	**22,767**	**85,593**	**–**	**678,979**	**679,352**	**1,787,713**[2]	**2,467,065**	**3,146,045**
Loraine Woodhouse	**365,985**	**12,510**	**54,898**	**–**	**433,393**	**435,723**	**1,146,601**[2]	**1,582,324**	**2,015,716**
2020/21									
Graham Stapleton	560,526	20,816	84,079	377	665,798	777,730	1,255,191[3]	2,032,921	2,698,719
Loraine Woodhouse	359,512	12,517	53,927	377	426,333	498,820	852,624[3]	1,351,444	1,777,777

1. In December 2020, Graham Stapleton and Loraine Woodhouse each received a working from home payment of £377, in line with all Support Centre Colleagues.
2. For 2021/22, the 2019/20 PSP has been valued based on the average share price during the three-month period to 1 April 2022 of £2.978 and a vesting outcome of 100% as referenced on page 141. The share price used to determine the level of award was £1.696; therefore, of the vested amount £1.2824 relates to share price appreciation over the performance period. No discretion has been exercised in relation to share price changes.
3. For 2021/22, the 2018/19 PSP value has been restated to reflect the share price at the date of vesting of £3.88 and a vesting outcome of 84.9%. No discretion has been exercised in relation to share price changes.

FY22 Annual Bonus

The annual bonuses for FY22 for the Executive Directors were based as follows:

Chief Executive Officer	Graham Stapleton	80% financial measures and 20% delivery of strategic measures
Chief Financial Officer	Loraine Woodhouse	

The targets and performance against these are set out below:

Performance measures for FY22 annual bonus*		Threshold (15% payable)	Target (50% payable)	Maximum (100% payable)	FY22 outturn	% maximum bonus achieved
Financial Measures	80%					
Profit before tax (50%)		£65.7m	£69.2m	£77.4m	£78.6m	100%
Operating cash flow (15%)[1]		£57.2m	£59.2m	£71.0m	£101.0m	100%
Revenue (15%)		£1,397.6m	£1,440.8m	£1,484.0m	£1,326.5m	0%
Strategic Measures	20%					
NPS (5%)[2]		–	67.2%	67.7%	68.4%	100%
Services-related sales (5%)		–	£500.9m	£515.9m	£476.2m	0%
Employee engagement (5%)			76%	78%	81%	100%
ESG (5%)			See targets and summary of performance below			86.6%

1. Operating cash flow here is defined as EBITDA plus the movement in average working capital in FY22 compared to the prior year.
2. In order for the NPS target to be met, both the Retail and Autocentres scores must be achieved. NPS achievement is based on P12 exit numbers.

* Excluding government support and acquisition profit.

ESG Measure (5% of award)

The ESG portion of the annual bonus was based on an assessment of progress against key objectives in this area. For target performance, electrification targets were set for both Retail (30%) and Autocentres (50%). Maximum performance was assessed against the first-year delivery of our multi-year programmes, including our Group inclusion policy and recommendations from the packaging review.

The Committee reflected on the Group's performance against the above targets. It also took into consideration our wider diversity and inclusion ("D&I") ambitions such as the development of our overall D&I strategy, the launch of our colleague network groups and the delivery of a masterclass to our senior leaders in D&I (50 senior leaders).

Overall Performance

The performance in the year is summarised on page 130.

Performance Outcomes for 2019 PSP Awards

Metric	Weighting	Threshold targets (25% vesting)*	Maximum targets (100% vesting)*	Performance	Estimated % total award vesting
Underlying EPS growth – CAGR	50%	5.0%	10.0%	13.2%	100%
Group revenue growth – CAGR	25%	3.5%	6.0%	6.4%	100%
Free Cash Flow (aggregate FY20 to FY22)	25%	£125m	£165m	£185.1m	100%
Total	100%				100%

* Straight-line vesting between threshold and maximum.

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.

The Committee considered the outcome in the context of the business and determined that no changes to the formulaic outcomes were required.

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. Graham Stapleton and Loraine Woodhouse both received a contribution of 15% of base salary. 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.

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	7 October 2021	Nil cost option (0p exercise price)	387,216	£1,131,060	25%	3 April 2021 to 29 March 2024
Loraine Woodhouse	7 October 2021	Nil cost option (0p exercise price)	248,353	£725,440	25%	3 April 2021 to 29 March 2024

1. These awards were based on 200% of salary.
2. Based on the average mid-market price on three preceding days of the awards of £2.921 on 7 October 2021.

Performance Conditions
The performance conditions and targets for PSP awards granted during FY22 are as follows:

		Underlying EPS growth – CAGR (50% of the award)	Relative TSR (30% of the award)	Group services -related sales (total of sales for FY22 to FY24) (20% of the award)
Award (200% of salary)	100% vesting	12%	Upper quartile	£617.0m
	Straight-line vesting	Between 5% and 12%	Between market median and upper quartile	Between £586.2m and £617.0m
	25% vesting	5%	Market median	£586.2m
	0% vesting	Below 5%	Below market median	Below £586.2m

The award shares that vest will become exercisable in 2024. The shares that vest will be subject to a two-year holding period.

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Deferred Bonus Plan

During the period, the following awards were granted to the Executive Directors under the Deferred Bonus Plan ("DBP") as follows:

	Date of award	Number of shares[1]	Maximum face value of award[2]	Vesting
Graham Stapleton	30 June 2021	60,121	£259,242	30 June 2024–30 June 2025
Loraine Woodhouse	30 June 2021	38,560	£166,271	30 June 2024–30 June 2025

1. One third of the FY21 bonus was deferred into shares for a period of three years. These awards are not subject to further performance conditions.
2. Based on the average mid-market price on the date of the award of £4.312 on 30 June 2021.

Outstanding Share Awards (Audited)

Performance Share Plan ("PSP")

The following summarises outstanding awards under the PSP:

	Award date	Grant price[5] (£)	Awards held 3 April 2021	Awarded during the period	Dividend reinvest-ment[6]	Forfeited during the period	Lapsed during the period	Exercised during the period	Awards held 1 April 2022	Perform-ance period years to	Holding period to
Graham Stapleton	5 Oct 2018[1]	3.1970	381,040	–	8,073	57,538	–	–	331,575	2 Apr 2021	2 Apr 2023
	20 Sept 2019[2]	1.696	585,611	–	14,615	–	–	–	600,226	1 Apr 2022	1 Apr 2024
	16 Oct 2020[3]	2.425	458,162	–	11,434	–	–	–	469,596	31 Mar 2023	31 Mar 2025
	7 Oct 2021[4]	2.921	–	387,216	3,376	–	–	–	390,592	29 Mar 2024	29 Mar 2026
Loraine Woodhouse	9 Nov 2018[1]	3.079	258,832	–	5,484	39,084	–	–	225,232	2 Apr 2021	2 Apr 2023
	20 Sept 2019[2]	1.696	375,598	–	9,374	–	–	–	384,972	1 Apr 2022	1 Apr 2024
	16 Oct 2020[3]	2.425	293,855	–	7,333	–	–	–	301,188	31 Mar 2023	31 Mar 2025
	7 Oct 2021[4]	2.921	–	248,353	2,165	–	–	–	250,518	29 Mar 2024	29 Mar 2026

1. 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. The performance targets for this award were met based on performance for FY21 and 84.9% of the award vested in FY21 and 15.1% was forfeited. A two-year deferral period was applied and the award will remain in the EBT until June 2023 when it will become exercisable.
2. 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.
3. FY21 awards are subject 40% to Relative TSR (25% vesting achieving below market median, 100% vesting achieving upper quartile), 30% to Free Cash Flow (25% vesting for £117m, 100% vesting for £128m), 20% to underlying EPS growth (25% vesting for 2.5% p.a. growth, 100% vesting for 8% p.a. growth), and 10% to Group Services Related Sales (25% vesting for 30% p.a. growth, 100% vesting for 35% p.a. growth). 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.
4. FY22 awards are subject to 50% underlying EPS growth (25% vesting for 5.0% p.a. growth, 100% vesting for 12% p.a. growth), 30% to Relative TSR targets (25% vesting for lower quartile and 100% for upper quartile) and 20% to Group Revenue Growth targets (25% vesting for £586.2m of sales, 100% for £617m of sales).
5. The grant price is calculated by taking the mid-market average across the three preceding days prior to the grant date.
6. The interim and final dividends have been reinvested in shares at prices between £3.11 and £3.44.

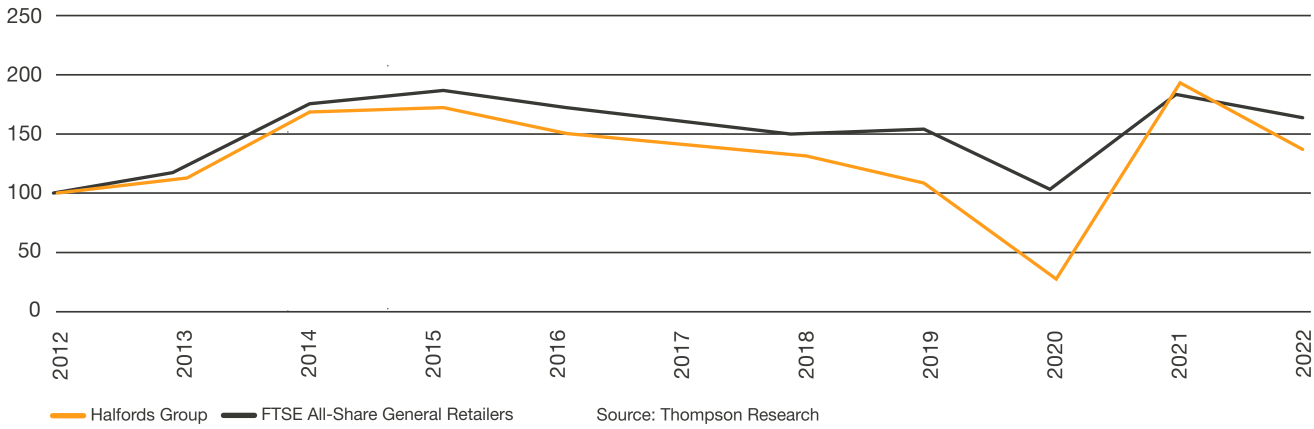
Deferred Bonus Plan ("DPB")

	Award date	Grant price[1] (£)	Awards held 3 Apr 2021	Awarded during the period	Dividend reinvest-ment[2]	Forfeited during the period	Lapsed during the period	Exercised during the period	Awards held 1 Apr 2022	Vesting
Graham Stapleton	31 May 2018	3.3760	13,499	–	336	–	–	–	13,835[3]	31/05/21–31/05/22
	30 June 2021	4.312	–	60,121	1,499	–	–	–	61,620	30/06/24–30/06/25
Loraine Woodhouse	30 June 2021	4.312	–	38,560	961	–	–	–	39,521	30/06/24–30/06/25

1. The grant price is calculated by using the mid-market quotation on the date of grant.
2. The interim and final dividends have been reinvested in shares at prices between £3.11 and £3.44.
3. Graham exercised his 2018 DBP award on 13 April 2022 achieving a share price of £2.50, after the payment of tax liabilities, Graham retained the balance of 7,145 shares.

CEO Pay Compared to Performance

The following graph shows the TSR performance of the Company since April 2012, 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).



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.

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	**FY22**
CEO Single Figure (£000)										
Graham Stapleton[1]	–	–	–	–	–	1,818	670	678	2,699	**3,146**
Jonny Mason[2]	–	–	–	–	–	236	–	–	–	–
Jill McDonald[3]	–	–	–	851	741	295	–	–	–	–
Matt Davies[4]	499	1,372	645	54	–	–	–	–	–	–
David Wild[5]	198	–	–	–	–	–	–	–	–	–
Annual Bonus (% of maximum)										
Graham Stapleton[1]	–	–	–	–	–	70%	–	–	92.5%	**79.37%**
Jonny Mason[2]	–	–	–	–	–	42.3%	–	–	–	–
Jill McDonald[3]	–	–	–	23.5%	–	–	–	–	–	–
Matt Davies[4]	50%	97.5%	–	–	–	–	–	–	–	–
David Wild[5]	–	–	–	–	–	–	–	–	–	–
PSP Vesting (% of maximum)										
Graham Stapleton[1]	–	–	–	–	–	–	–	–	84.9%	**100%**
Jonny Mason[2]	–	–	–	–	–	–	–	–	–	–
Jill McDonald[3]	–	–	–	–	–	–	–	–	–	–
Matt Davies[4]	–	–	–	–	–	–	–	–	–	–
David Wild[5]	–	–	–	–	–	–	–	–	–	–

1. Graham Stapleton was appointed in January 2018. An incorrect benefits figure was reported for FY19 in error, this was corrected and reflected in the total for FY19. The single figure for FY21 has been restated to reflect the share price of the PSP at the date of vesting on 9 June 2021 of £3.88.
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 pro-rated 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.

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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. For FY22, neither Executive Director met their shareholding guidelines but made good progress towards the requirement.

	Graham Stapleton	Loraine Woodhouse
Shareholding guideline	200%	200%
Shareholding as at 1 April 2022	235,726[1]	167,216[1]
Current value (based on share price on 1 April 2022)	£611,003	£433,424
Current % of salary	106.13%	117.38%

1 The shareholding figure include the vested shares from the 2018 Performance Share Plan award (on a net of tax basis) which are currently being held in a two-year deferral period in the EBT. The figure also includes the shares held in the EBT in relation to the Deferred Bonus Plan grants made in 2021 (on a net of tax basis). Historically, shares granted under the Deferred Bonus Plan had not been included in the Directors' shareholdings but have now been included in line with recent guidance from the Investment Association.

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. On 13 April 2022, Graham exercised the Deferred Bonus Plan award granted to him on 31 May 2018; this resulted in Graham receiving 7,145 shares, bringing his total shareholding to 242,871 shares. There was no change in the beneficial interest of Loraine Woodhouse between 1 April 2022 and 15 June 2022.

In light of the Code and evolving market practice, in FY20, the Committee 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 are 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 applies to any performance incentive shares that vest from 1 April 2020.

Executive Directors' Appointments

Director	Date of Service Agreement	Notice Period
Graham Stapleton	8 September 2017	6 months
Loraine Woodhouse	12 July 2018	6 months

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 Director appointments and retain the fees received, provided that these appointments are not likely to lead to conflicts of interest. Graham Stapleton is a Non-Executive Director of The Magic Bean Co. Limited (appointed on 21 January 2021) and Loraine Woodhouse is a Non-Executive Director of The British Land Company plc (appointed on 1 March 2021). Both Graham and Loraine retain their earnings for these roles.

Appointment Terms for Jo Hartley

Jo Hartley joined **Halfords** on 19 April 2022 and will assume the role of Chief Financial Officer upon Loraine Woodhouse's departure in the summer.

She was appointed on a base salary of £395,000 per annum. Her benefits package is in line with our Remuneration Policy, with a pension contribution of 3% of base salary in line with the wider workforce. The Committee recognises that Jo's base salary is set at a level above the previous CFO's salary but the Committee considers this appropriate, taking into account the level of Jo's fixed pay in her previous role which was at a similar level to that which she will receive at **Halfords**.

For the first year of appointment, her annual bonus and PSP awards has been set at 125% and 150% of base salary respectively. This is below the maximum opportunities under our Policy and below the incentive opportunities of her predecessor. From FY24, the Committee intends, subject to satisfactory individual performance, to increase her annual bonus and PSP award opportunities to 150% and 200% of base salary respectively in line with the incentive opportunities for the previous CFO.

On joining, she received a gross payment of £112,000 to replace a cash bonus she was required to repay on cessation of employment from her previous employer. The value of this payment directly mirrored the amount repaid to the previous employer. The award is to be subject to malus and clawback provisions for a period of six months.

Leaving Arrangements for Loraine Woodhouse (Audited)

As announced in October 2021, Loraine Woodhouse will be retiring from the Board in the summer of 2022 following four years as Chief Financial Officer.

In line with the Remuneration Policy, the Remuneration Committee has approved good leaver status for Loraine in relation to her outstanding share awards. The awards will be pro-rated for the portion of the performance period elapsed on departure and will vest on the 'normal' date subject to the assessment of performance conditions. In line with plan rules, the deferred bonus awards will vest on cessation of employment.

Loraine will be required to hold her actual shareholding for two years post-cessation. Shareholding during this period will be monitored by the Company, and shares may only be sold with the prior consent of the Chair or by compulsory purchase.

Loraine was eligible to receive an annual bonus for FY22 as outlined above. The Committee has also determined that Loraine will be eligible to participate in the FY23 annual bonus on a pro-rated basis given that she will be employed for part of the year. Any payment will be made after the end of the financial year, be pro-rated for the period up until her departure from the Company and be paid fully in cash given deferred bonus awards will vest on cessation. She will not receive a PSP award in 2022.

Her salary, benefits and pension will be paid up until her departure date and there will be no payment in lieu of notice.

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 FY22 – Non-Executive Directors

Non-Executive Director single figure comparison (Audited)

Director	Role	Board fees (£)	Senior Independent Director fee (£)	Committee Chair/ Employee Voice Director fees (£)	Taxable benefits[1] (£)	Total "Single Figure"[2] 2022 (£)	Total "Single Figure" 2021 (£)
Keith Williams[3]	Company Chair	194,135	–	–	–	**194,135**	192,400
Helen Jones	Senior Independent Director, ESG Committee Chair and Employee Voice Director	52,470	10,000	10,000	93	**72,563**	67,548
Jill Caseberry	Remuneration Committee Chair	52,470	–	10,000	133	**62,603**	62,000
Tom Singer[4]	Audit Committee Chair	52,470	–	10,000	–	**62,470**	30,667

1. Includes hotel and travel costs incurred when attending **Halfords**' meetings and Board visits.
2. The Chair and Non-Executive Directors are not entitled to participate in any of the Group's incentive plans or pension plans so all pay is fixed.
3. Keith Williams did not claim any taxable benefits during the year.
4. Tom Singer was appointed as a Non-Executive Director on 16 September 2020, and as Audit Committee Chair on 1 January 2021. Tom did not claim any taxable benefits during the year.

Non-Executive Director Shareholding

Director	2022	2021
Keith Williams	**150,000**	130,000
Helen Jones	**8,000**	3,000
Jill Caseberry	**3,125**	–
Tom Singer	**30,000**	30,000

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 1 April 2022 and 15 June 2022.

Non-Executive Directors do not have a shareholding guideline but they are encouraged to buy shares in the Company.

Non-Executive Directors' Appointments

None of the Non-Executive Directors has an employment contract with the Company. However, each had 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.

Director	Appointed	Date of current appointment	Expiry date	Unexpired term at the date of this report
Jill Caseberry	01-Mar-19	01-Mar-22	28-Feb-25	32 months
Helen Jones	01-Mar-14	01-Mar-20	28-Feb-23	8 months
Tom Singer	16-Sep-20	16-Sep-20	15-Sep-23	15 months
Keith Williams	24-Jul-18	24-Jul-21	23-Jul-24	25 months

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Their appointments are subject to the provisions of the Companies Act 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. The Non-Executive Directors' letters of appointment are available for inspection by shareholders at the Company's registered office.

How the Remuneration Policy will be Implemented for FY23 – Executive Directors

Salary

Salaries for Executive Directors were increased by 1.8% with effect from 1 October 2021 in line with the increase received across the wider workforce. The salaries for the current Executive Directors are as follows:

CEO - Graham Stapleton	£575,710
CFO (incoming) – Jo Hartley[1]	£395,000
CFO (departing) – Loraine Woodhouse[2]	£369,250

1. Jo Hartley joined **Halfords** 19 April 2022 and will assume the role of Chief Financial Officer upon Loraine Woodhouse's departure.
2. As announced in October 2021, Loraine Woodhouse will retire from the Board on 16 June 2022. In order to ensure a smooth transition, she will remain in post until this date, stepping down after the FY22 Preliminary Results.

Salaries will next be reviewed with effect from 1 October 2022.

Pension

Graham Stapleton and Loraine Woodhouse will continue to receive a pension allowance of 15% of base salary. The Committee acknowledges that this level of pension is above the rate that is available to the wider workforce in the UK; however, given the existing contractual entitlements and limited tenure in role it was deemed appropriate that the pension level remained unchanged at this stage. However, mindful of shareholder guidance that pensions for Executives should be aligned with the pension provision available for the wider workforce, Graham Stapleton has agreed to reduce his pension to be in line with the rate available for the wider workforce from 1 April 2023.

In line with the Remuneration Policy, the newly appointed CFO (Jo Hartley) will receive a pension opportunity of 3% of salary. This rate is in line with the policy for the majority of the workforce.

Annual Bonus

The normal maximum annual bonus for Executive Directors is 150% of base salary with 2/3 paid in cash and 1/3 paid in **Halfords**' shares deferred for three years.

For the incoming CFO, it was agreed that her annual bonus opportunity would be 125% of base salary for the first year of her appointment. From FY24, the Committee intends, subject to satisfactory individual performance, to increase the bonus opportunity to 150% of base salary in line with the Remuneration Policy and the opportunity level of her predecessor.

For FY23, following a review of the performance measures, the Committee agreed that there would be no changes to the annual bonus performance measures from prior year. The performance measures and their weightings have been summarised below.

Performance measures for FY23 annual bonus

Financial Measures	80%
• Underlying Group PBT (post exceptions) – 50%	
• Group revenue – 15%	
• Operating cash flow – 15%	
Strategic Measures	20%
• Group NPS – 5%	
• Group services-related sales – 5%	
• Group colleague engagement – 5%	
• ESG Metric – 5%	

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.

For the incoming CFO, Jo Hartley, it was agreed that her PSP opportunity would be 150% of base salary for the first year of her appointment. Similarly to the annual bonus, the current intention is that for FY24 onwards her maximum opportunity will increase to 200% of base salary, subject to individual performance during the year. The departing CFO will not be entitled to a PSP award in 2022.

The Committee is mindful of shareholder guidance that award levels should be adjusted where the share price has fallen significantly compared to prior years. Based on the current share price, no adjustment is required; however, the Committee will take this into account when determining award levels in September.

In light of the macroeconomic uncertainty, the Committee is currently reviewing the performance measures and targets for the 2022 PSP awards. Performance measures and targets will be disclosed in the RNS announcement at the time of award. It is the Committee's intention that TSR and EPS will continue to be included as key measures of profit progress and shareholder value creation.

Our normal practice is to grant awards in September.

The Committee believes that these performance measures provide an appropriate balance between incentivising management to drive shareholder value creation, deliver improved financial performance and to execute our strategy to focus the business more on service-related offerings.

How the Remuneration Policy will be Implemented for FY23 – 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.

The fees of the Non-Executive Directors were reviewed in October 2021, where a 1.8% fee increase was applied to the Chair's fee and the base Non-Executive Director fee; however, no increase was applied to the Committee Chair fees. The next fee review will be in October 2022.

Current fees for Non-Executive Directors are as follows:

	FY22	FY21
Chair	**£195,870**	£192,400
Base fee	**£52,940**	£52,000
Additional fees		
Senior Independent Director	**£10,000**	£10,000
Committee Chair (Audit and Remuneration)	**£10,000**	£10,000
Employee Voice Director	**£5,000**	£5,000
Committee Chair (ESG)	**£5,000**	£5,000

Change in Remuneration of Directors compared to Group Colleagues
The table below sets out the increase in total remuneration of the Director and that of all colleagues in FY22 compared with the prior year.

	FY21 to FY22			FY20 to FY21		
	Base salary/ fees % change	**Annual bonus % change**	**Benefits % change**	Base salary/ fees % change	Annual bonus % change	Benefits % change
Executive Directors						
Graham Stapleton	**1.8%**	**100%**[4]	–[5]	1.8%	–[6]	–[5]
Loraine Woodhouse	**1.8%**	**100%**[4]	–[5]	1.8%	–[6]	–[5]
Non-Executive Directors						
Keith Williams	**1.8%**	–[7]	–[8]	0.0%	–[7]	–[8]
Helen Jones[1]	**1.8%**	–[7]	–[8]	9.5%	–[7]	–[8]
Jill Caseberry	**1.8%**	–[7]	–[8]	0.0%	–[7]	–[8]
Tom Singer[2]	**1.8%**	–[7]	–[8]	N/A	–[7]	–[8]
David Adams[3]	**N/A**	**N/A**	**N/A**	N/A	–[7]	–[8]
Average pay of all colleagues in the Group	**2.8%**	**76.3%**[9]	–[5]	4.02%	45.42%[10]	–[5]

1. Helen Jones was appointed as Senior Independent Director on 15 September 2020.
2. Tom Singer was appointed as a Non-Executive Director on 16 September 2020, and as Audit Committee Chair on 1 January 2021.
3. David Adams stepped down as Senior Independent Director on 15 September 2020, and as Audit Committee Chair and Non-Executive Director on 31 December 2020.
4. Bonus payable for FY21.
5. No change to the benefits available for both Directors and colleagues.
6. No bonus payable for FY20.
7. Not eligible for a bonus.
8. Not eligible for benefits.
9. Increase due to more bonus and incentive potential available in operational roles.
10. Based on all colleagues who were paid a bonus during FY20 and FY21. Includes the Frontline Fund bonus paid to all eligible colleagues in August 2020.

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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
2021/22	Option B	167:1	147:1	90:1
2020/21	Option B	143:1	126:1	99:1

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 as of 5 April 2021. To ensure the identified colleagues were representative, the total remuneration for a group of individuals above and below the identified colleague at each quartile was also reviewed.

The Board has confirmed that the ratio is consistent with the Company's wider policies on employee pay, reward and progression.

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.

There is an increase in the CEO pay ratio in 2022 compared to 2021. As is appropriate, the remuneration arrangements for the Executive Directors are more closely linked to performance. Given the strong performance for FY22, remuneration for the CEO has risen more than for the wider workforce.

Component	P25	P50	P75
Base Salary	£18,860.40	£20,714.20	£30,819.36
Total Remuneration	£18,860.40	£21,456.72	£34,819.93

Workforce Engagement in Remuneration

As referenced on pages 51 and 104, **Halfords** has long established practices of engaging with colleagues across all areas of the business, including holding regular listening groups, appointing and meeting with local colleague engagement ("people") champions, and conducting regular colleague surveys.

During the course of the year, People Champions were invited to input to a number of broader business initiatives, including ESG and reward practice, so gaining an understanding of corporate governance and Executive remuneration. The content of the remuneration session specifically talked to how executive pay aligns with wider Company pay policy, including benefits provision, and invited feedback from People Champions in respect of the reward framework. Detailed remuneration briefing sessions were also held with senior leaders on the launch of the FY22 bonus and PSP plans.

Gender Pay Gap Report

Details of the Group's Gender Pay Gap Report for 5 April 2021 are available at www.**Halfords**company.com/environmental-social-and-governance/our-colleagues/gender-pay-gap/.

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.

	2022	2021
EBITDA (underlying)	**£207.1m**	£233.0m
PBT (underlying)	**£89.8m**	£99.5m
Payments to employees:		
Wages and salaries	**£283.4m**	£262.3m
Executive Directors[1]	**£5.2m**	£4.5m[2]
Dividend paid to shareholders and share buybacks	**£16.5m**	£nil

1. Based on the single figure calculation, not all of which is included within wages and salary costs.
2. The FY21 figure has been restated to reflect the share price of the PSP award at the date of vesting, further information is available in the Single Remuneration Figure table on page 140**.**

Directors' Responsibilities

Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with UK adopted international accounting standards and 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 UK adopted international accounting standards and have elected to prepare the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). 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;
- state whether they have been prepared in accordance with UK adopted international accounting standards, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business;
- prepare a directors' report, a strategic report and directors' 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.

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. The Directors are responsible for ensuring that the annual report and accounts, taken as a whole, are fair, balanced, and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy.

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 financial statements have been prepared in accordance with the applicable set of accounting standards, 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 company, together with a description of the principal risks and uncertainties that they face.

Approved by order of the Board.

Keith Williams
Chair

15 June 2022

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Our Financials

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RATED LOAD
2.8 TONNES

Independent Auditor's Report to the Members of Halfords Group plc

Opinion on the Financial Statements

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 1 April 2022 and of the Group's profit for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- 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.

We have audited the financial statements of **Halfords** Group Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the 52 weeks ended 1 April 2022 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Shareholders' Equity, the Consolidated Statement of Cash Flows, the Notes to the Consolidated Statement of Cash Flows, the Company Balance Sheet, the Company Statement of Changes in Shareholders' Equity, the Accounting policies 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 UK adopted international accounting standards. 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).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

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 ended 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 including reappointments is three years, covering the years ended 3 April 2020 to 1 April 2022. We remain 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. The non-audit services prohibited by that standard were not provided to the Group or the Parent Company.

Conclusions Relating to Going Concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Assessment of assumptions within the projected cash flows: we evaluated the reasonableness of the assumptions and future plans modelled within the Board approved going concern forecasts, covering the period to 30 June 2023 and including the impact of strategic initiatives as well as the ongoing and uncertain impact of current macro-economic factors including rising energy prices and interest rates. This involved evaluation of the budgeted figures compared to FY22, consideration of inflationary uplifts and other adjustments applied by the Directors to agreed pricing with certain suppliers and external data supporting assumptions.
- Financing: confirmed the Group had financing facilities in place throughout the period of the going concern review as modelled in its forecasts. We also recomputed the calculations supporting covenant compliance and headroom throughout the going concern period with reference to the facility agreement.
- Sensitivity analysis: evaluation of sensitivities of the Group's cash flow forecasts with reference to the financial covenants in place over the existing financing facilities. The analysis considered reasonably possible adverse effects that could arise as well as a stress test to consider the level of future revenue reduction the Group could support. We recomputed the Directors prepared sensitivities applied to the forecasts and further considered these by applying additional sensitivity testing.
- Post year end trading performance: comparison of the post year end trading results to the forecasts so as to evaluate the accuracy and achievability of the forecasts prepared.
- Disclosures: evaluation of the adequacy of the disclosures in relation to the risks posed and scenarios the Directors have considered in reaching their going concern assessment and the accounting framework.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the Parent Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage[1]	94% (FY21: 93%) of Group profit before tax and non-underlying items 86% (FY21: 91%) of Group revenue 84% (FY21: 94%) of Group total assets
Key audit matters	(see table below)

Key audit matters	FY22	FY21
IFRS16 – leases		✓
Project Paris		✓
Acquistion of Axle Group (trading as National Tyre Services)	✓	
Accounting treatment of capitalised software costs	✓	
Carrying value of the Parent Company's investment in subsidiaries	✓	

During FY21 the Group announced plans to close a number of stores across both the Retail and Car servicing segments so as to right-size their physical estate 'Project Paris'

Material impairments and provisions were therefore recorded in relation to redundancies and costs associated with the store closures which also resulted in property, plant and equipment, right of use assets and inventory having a reduced recoverable amount. This was a one off non-recurring event.

IFRS 16 was previously noted as a key audit matter owing to its magnitude and the management judgement required in the accurate assessment of the balances. However as this is the third financial year of implementation management now have well established policies and procedures in place to record and report these balances. Whilst this remains an audit risk area it is no longer considered a key audit matter.

Materiality	Group financial statements as a whole £4m (FY21: £3.4m) 5% of normalised (3 year average) profit before tax and non-underlying items (FY21: 5% of normalised (3 year average) profit before tax and non-underlying items).

1. These are areas which have been subject to a full scope audit by the group engagement team.

An Overview of the Scope of our Audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

All of the Group's three 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 remaining components were assessed as non significant and subject to specified audit and analytical review procedures by the Group audit team

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

Independent Auditor’s Report to the Members of Halfords Group plc

Key audit matter		How the scope of our audit addressed the key audit matter
Acquistion of Axle Group Holdings Limited and subsidiaries **(The accounting policies and critical judgements and estimates applied are disclosed within the Group’s accounting policies** **The acquisition balances are disclosed in Note 10)**	On 9 December 2021 the Group completed the acquisition of 100% of the share capital of Axle Group Holdings Limited for cash consideration of £61.5m (excluding transaction costs). The accounting for the acquisition balance sheet at 9 December 2021 and the subsequent Purchase Price Allocation (“PPA”) assessment, involved the alignment of material accounting policies, the fair value of consideration, identification and valuation of intangible assets at acquisition date and the subsequent goodwill. Management engaged an external expert to undertake the PPA assessment and assist with the assessment of corporation tax and deferred tax balances associated with the transaction. This was a material, non routine transaction for the group, the accounting considerations and disclosures are complex and include significant management estimates and judgements. We have therefore raised this as a key audit matter.	Our audit procedures included: • Review of the Sale and Purchase Agreement to understand the structure of the transaction and to confirm the consideration paid. • Engaging with our own internal valuation specialists to review and challenge the PPA, including the identification of amounts related to customer relationships, and other intangibles. • Evaluating the capabilities, competence and objectivity of the external valuation experts engaged by management for the PPA assessment. • Evaluating and concluding on the appropriateness of the external valuation expert’s conclusions by comparing them to our knowledge of the industry. • Checking the cashflow forecasts including inputs and assumptions used to assess the fair value of the intangible assets acquired by comparing to actual and historical results and the reasonableness of the underlying information used. • Assessing the suitability of the valuation methods applied against industry norms and considering the appropriateness of the discount rate used to determine the fair values with reference to relevant supporting information. • Performing audit procedures, on a sample basis, to confirm the completeness, accuracy and carrying value of the amounts included on the acquisition balance sheet. • Checking the alignment to group accounting policies with specific reference to IFRS 16 Leases. • Confirming the acquisition accounting entries in the group financial statements and the calculation of goodwill against the requirements of the financial reporting standard. • Reviewing the corporation and deferred tax entries associated with the transaction and the recoverability of the deferred tax asset recognised. The review work was inclusive of input from our tax specialists. • Reviewing the adequacy of the disclosure notes in the financial statements in relation to the acquisition to ensure it complied with the requirements of IFRS 2 Business Combinations. **Key observations:** Based on the procedures performed, the methodology and assumptions used in the Acquistion of Axle Group Holdings Limited and subsidiaries are appropriate.

Key audit matter		How the scope of our audit addressed the key audit matter
Costs capitalised related to software development £21.4m (FY21: £11.8m) **(The accounting policies and critical judgements and estimates applied are disclosed within the Group's accounting policies** **The capitalised balances are disclosed in Note 11)**	The Group capitalises certain internal and external costs in respect of the development of software. In April 2021, the IFRS Interpretations Committee ("IFRIC") published an agenda decision in relation to configuration and customisation expenditure relating to cloud computing arrangements, including Software-as-a-Service ("SaaS"). Following the interpretation being published, the Group has now updated its accounting policy in relation to IAS38 Intangible Assets, which includes accounting for such SaaS arrangements. The risk is that the accounting policy change is not appropriately applied to nor appropriately disclosed in relation to both the current and prior financial years. We have therefore raised this as a key audit matter.	Our procedures included: • Assessing the accounting clarification of the IFRIC April 2021 agenda decision against the Group's updated accounting policy. • Agreeing a sample of internal and external costs related to software to supporting documentation and other relevant project information to understand the nature of the items and considered this against the accounting standards and related interpretations. • Making enquiries with the project owners to corroborate the nature of the work performed and considered this against the accounting standards and related interpretations. • Assessing the adequacy of the Group's related disclosures in respect of the change in accounting policy and the judgements taken by the directors. **Key observations:** We found the accounting treatment of capitalised costs related to software development including expenditure relating to cloud computing arrangements to be acceptable.
Carrying value of the parent Company's investment in subsidiaries £811.4m (FY21: £803.6m) **(The accounting policy applied is disclosed within the parent Company and the Group's accounting policies** **The investment balance is disclosed in Note 4 to the Company Financial statements)**	The parent Company's investment in subsidiaries represents its investment in the underlying trading businesses of the Group. The recoverability of the investment is dependent on the future cashflows of these subsidiaries. The directors have prepared a value-in-use assessment to support the carrying value and have determined that there is no impairment. Due to the materiality of the investment in the context of the parent Company financial statements this was raised as a key audit matter for our parent Company audit.	Our audit procedures included: • Comparing the carrying value of the investment to the market capitalisation as at the period end date and post period end. • Comparing the carrying value of the investment to the net asset value of the subsidiaries. • Obtaining the directors assessment of the carrying value and confirming whether this was in line with the value in use calculations performed for goodwill impairment testing for the Retail and Car Servicing CGUs. • Assessing the forecast models prepared to support the value-in-use calculation by testing the appropriateness of key inputs into the calculations. • Performing sensitivity analysis on the key assumptions and checking whether the directors had identified reasonably possible downside scenarios in their sensitivity analysis. **Key observations:** Based on the procedures performed, we found the Company's conclusion that there is no impairment of its investment in subsidiaries to be acceptable.

Independent Auditor's Report to the Members of Halfords Group plc

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 level, 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.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		**Parent company financial statements**	
	FY22 £m	**FY21 £m**	FY22 £m	FY21 £m
Materiality	4.0	3.4	2.0	1.7
Basis for determining materiality	5% of normalised (3 year average) profit before tax and non-underlying items.	5% of normalised (3 year average) profit before tax and non-underlying items.	Determined with reference to 50% of Group materiality.	Determined with reference to 50% of Group materiality.
Rationale for the benchmark applied	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. For FY22 a normalised (3 year average) has been taken owing to the significant impact of the COVID-19 pandemic on the FY22 and FY21 financial years.	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. For FY21 a normalised (3 year average) has been taken owing to the significant impact of the COVID-19 pandemic on the FY21 financial year.	Considered appropriate in the context of both the Group financial statements and **Halfords** Group Plc Company balance sheet.	Considered appropriate in the context of both the Group financial statements and **Halfords** Group Plc Company balance sheet.
Performance materiality	£2.6m	£2.21m	£1.3m	£1.1m
Basis for determining performance materiality	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.			

Component Materiality

We set materiality for each significant component of the Group, including the parent company, based on a percentage of between 49% and 95% (FY21: 50% and 90%) of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £1.95m to £3.8m (FY21: £1.7m to £3.1m). In the audit of each component, we further applied performance materiality levels of 65% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting Threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £80k (FY21:£70k). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Corporate Governance Statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the parent company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

Going concern and longer-term viability	• The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 78; and • The Directors' explanation as to their assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 79.
Other Code provisions	• Directors' statement on fair, balanced and understandable set out on page 95; • Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 117; • The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 117; and • The section describing the work of the audit committee set out on page 124.

Other Companies Act 2006 Reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	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. 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.
Directors' remuneration	In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.
Matters on which we are required to report by exception	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.

Independent Auditor's Report to the Members of Halfords Group plc

Responsibilities of Directors

As explained more fully in the Directors' responsibilities, 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.

Extent to Which the Audit was Capable of Detecting Irregularities, Including Fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the Group, its components 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 Financial Conduct Authority regulations, including the UK Listing Rules, the principles of the UK Corporate Governance Code, IFRSs, UK GAAP for the parent company, and tax legislation covering corporation tax, employee taxes, VAT and duty.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, we considered the following:

- the nature of the industry, control environment and business performance including the design of the group's remuneration policies, key drivers for Directors' remuneration and performance targets;
- the results of our enquiries of management, internal audit and the Audit Committee about their own identification of the risk of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures; and
- the matters discussed among the audit engagement team regarding how and where fraud might occur in the financial statements and any potential indicator of fraud. We also discussed the potential for non-compliance with laws and regulations.

We focused on laws and regulations that could give rise to a material misstatement in the financial statements. We also considered the susceptibility of the Group and Parent company financial statements to misstatement as a result of fraud, and believed that the areas in which fraud might occur were related to revenue recognition and management override of controls.

Our tests included, but were not limited to:

- identifying and testing journal entries, focusing on journal entries containing characteristics of audit interest, year end consolidation journals, journals processed by users with privileged IT access rights and those relating to revenue;
- journal entries posted to revenue, those with unusual account combinations and journals posted by unexpected users;
- enquiries with management, the Audit Committee and enquiries of internal legal counsel to identify any known or suspected non-compliance or fraud;
- review of minutes of Board meetings throughout the year to identify any non-compliance with laws and regulations, and fraud, not already disclosed by management;
- review of tax compliance and involvement of our tax specialists in the audit;
- challenging assumptions and judgements made by management in their significant accounting estimates and judgements, including impairment testing, the measurement of provisions, revenue recognition for a new revenue stream, capitalisation policies for intangible software assets and going concern, and
- the procedures in the key audit matters section above in relation to the acquisition in the year.

We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, who were all deemed to have appropriate competence and capabilities, to remain alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to 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. There are inherent limitations in the audit procedures performed 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 are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

16 June 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Income Statement

For the period	Notes	52 weeks to 1 April 2022 Before Non-underlying Items £m	Non-underlying items (Note 5) £m	Total £m	52 weeks to 2 April 2021 Before Non-underlying Items £m	Non-underlying items (Note 5) £m	Total £m
Revenue	1	**1,369.6**	**–**	**1,369.6**	1,292.3	–	1,292.3
Cost of sales		**(647.9)**	**–**	**(647.9)**	(636.0)	–	(636.0)
Gross profit		**721.7**	**–**	**721.7**	656.3	–	656.3
Operating expenses	2	**(620.6)**	**6.8**	**(613.8)**	(541.8)	(35.0)	(576.8)
Results from operating activities	3	**101.1**	**6.8**	**107.9**	114.5	(35.0)	79.5
Finance costs	6	**(11.3)**	**–**	**(11.3)**	(15.0)	–	(15.0)
Net finance expense		**(11.3)**	**–**	**(11.3)**	(15.0)	–	(15.0)
Profit before income tax		**89.8**	**6.8**	**96.6**	99.5	(35.0)	64.5
Income tax expense	7	**(17.2)**	**(1.7)**	**(18.9)**	(17.4)	6.1	(11.3)
Profit for the financial period attributable to equity shareholders		**72.6**	**5.1**	**77.7**	82.1	(28.9)	53.2
Earnings per share							
Basic	9	**35.5p**		**37.9p**	41.7p		27.1p
Diluted	9	**34.0p**		**36.4p**	40.7p		26.4p

All results relate to continuing operations of the Group.

The notes on pages 168 to 202 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Notes	52 weeks to 1 April 2022 £m	52 weeks to 2 April 2021 £m
Profit for the period		**77.7**	53.2
Other comprehensive income			
Cash flow hedges:			
Fair value changes in the period		**6.5**	(9.6)
Income tax on other comprehensive income	7	**(1.3)**	1.6
Other comprehensive income for the period, net of income tax		**5.2**	(8.0)
Total comprehensive income for the period attributable to equity shareholders		**82.9**	45.2

All items within the Consolidated Statement of Comprehensive Income are classified as items that are or may be recycled to the Income Statement.

The notes on pages 168 to 202 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

	Notes	1 April 2022 £m	2 April 2021 Restated* £m
Assets			
Non-current assets			
Intangible assets	11	**442.4**	398.3
Property, plant and equipment	12	**101.7**	81.3
Right-of-use assets	14	**350.2**	282.8
Derivative financial instruments	22	**–**	0.1
Deferred tax asset	21	**14.7**	12.3
Total non-current assets		**909.0**	774.8
Current assets			
Inventories	15	**222.1**	143.9
Trade and other receivables*	16	**92.6**	74.1
Assets held for sale	13	**–**	6.0
Derivative financial instruments	22	**4.2**	0.5
Current tax assets		**3.9**	3.1
Cash and cash equivalents	17	**46.3**	67.2
Total current assets		**369.1**	294.8
Total assets		**1,278.1**	1,069.6
Liabilities			
Current liabilities			
Borrowings	18	**(0.2)**	(0.2)
Lease liabilities	18	**(74.5)**	(63.4)
Derivative financial instruments	22	**(0.5)**	(5.9)
Trade and other payables*	19	**(299.6)**	(258.2)
Current tax liabilities		**(4.0)**	–
Provisions	20	**(20.5)**	(24.5)
Total current liabilities		**(399.3)**	(352.2)
Net current liabilities		**(30.2)**	(57.4)
Non-current liabilities			
Borrowings	18	**–**	–
Lease liabilities	18	**(316.5)**	(280.9)
Derivative financial instruments	22	**–**	(0.4)
Trade and other payables	19	**(4.9)**	(3.3)
Deferred tax liability	21	**–**	–
Provisions	20	**(6.4)**	(15.0)
Total non-current liabilities		**(327.8)**	(299.6)
Total liabilities		**(727.1)**	(651.8)
Net assets		**551.0**	417.8
Shareholders' equity			
Share capital	23	**2.2**	2.0
Share premium	23	**212.4**	151.0
Investment in own shares	23	**(11.6)**	(10.0)
Other reserves	23	**2.0**	(1.8)
Retained earnings		**346.0**	276.6
Total equity attributable to equity holders of the Company		**551.0**	417.8

* Please refer to Note 30 for further detail.

The notes on pages 168 to 202 are an integral part of these consolidated financial statements.

The financial statements on pages 162 to 202 were approved by the Board of Directors on 15 June 2022 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						
					Other reserves			
	Note	Share capital £m	Share premium account £m	Investment in own shares £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
Closing balance at 3 April 2020		2.0	151.0	(10.0)	0.3	4.6	217.9	**365.8**
Total comprehensive income for the period								
Profit for the period		–	–	–	–	–	53.2	**53.2**
Other comprehensive income								
Cash flow hedges:								
Fair value changes in the period		–	–	–	–	(9.6)	–	**(9.6)**
Income tax on other comprehensive income		–	–	–	–	1.6	–	**1.6**
Total other comprehensive income for the period net of tax		–	–	–	–	(8.0)	–	**(8.0)**
Total comprehensive income for the period		–	–	–	–	(8.0)	53.2	**45.2**
Other		–	–	–	–	–	(1.3)	**(1.3)**
Hedging gains and losses and costs of hedging transferred to the cost of inventory		–	–	–	–	1.3	–	**1.3**
Transactions with owners								
Share-based payment transactions	24	–	–	–	–	–	6.4	**6.4**
Income tax on share-based payment transactions		–	–	–	–	–	0.4	**0.4**
Total transactions with owners		–	–	–	–	–	6.8	**6.8**
Closing balance at 2 April 2021		2.0	151.0	(10.0)	0.3	(2.1)	276.6	**417.8**
Total comprehensive income for the period								
Profit for the period		–	–	–	–	–	77.7	**77.7**
Other comprehensive income								
Cash flow hedges:								
Fair value changes in the period		–	–	–	–	6.4	–	**6.4**
Income tax on other comprehensive income		–	–	–	–	(1.3)	–	**(1.3)**
Total other comprehensive income for the period net of tax		–	–	–	–	5.1	–	**5.1**
Total comprehensive income for the period		–	–	–	–	5.1	77.7	**82.8**
Hedging gains and losses and costs of hedging transferred to the cost of inventory		–	–	–	–	(1.3)	–	**(1.3)**
Transactions with owners								
Issue of Ordinary shares*	23	0.2	61.4	–	–	–	–	**61.6**
Acquisition of Treasury shares	23	–	–	(3.0)	–	–	–	**(3.0)**
Share options exercised*		–	–	1.4	–	–	–	**1.4**
Share-based payment transactions	24	–	–	–	–	–	7.8	**7.8**
Income tax on share-based payment transactions		–	–	–	–	–	0.4	**0.4**
Dividends to equity holders	8	–	–	–	–	–	(16.5)	**(16.5)**
Total transactions with owners		0.2	61.4	(1.6)	–	–	(8.3)	**51.7**
Balance at 1 April 2022		2.2	212.4	(11.6)	0.3	1.7	346.0	**551.0**

* Amounts shown are net of share issue costs.

The notes on pages 168 to 202 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Notes	52 weeks to 1 April 2022 £m	52 weeks to 2 April 2021 Restated* £m
Cash flows from operating activities			
Profit after tax for the period, before non-underlying items		**72.6**	82.1
Non-underlying items		**5.1**	(28.9)
Profit after tax for the period		**77.7**	53.2
Depreciation of property, plant and equipment	12	**20.6**	21.0
(Reversal)/Impairment of property, plant and equipment	12	**(0.3)**	2.8
Amortisation and impairment of right-of-use assets	14	**69.9**	81.8
Amortisation of intangible assets	11	**15.8**	12.9
Net finance costs	6	**11.3**	15.0
Loss on disposal of property, plant and equipment, and intangibles	3	**1.8**	1.7
Gain on sale and leaseback of assets held for sale	13	**(0.4)**	–
Gain on disposal of leases		**(6.6)**	–
Equity-settled share-based payment transactions		**7.8**	6.4
Exchange movement		**0.9**	2.1
Income tax expense	7	**18.9**	11.3
(Increase)/Decrease in inventories		**(66.7)**	35.0
(Increase)/Decrease in trade and other receivables*		**1.3**	(22.4)
(Decrease)/Increase in trade and other payables*		**(4.6)**	36.4
(Decrease)/increase in provisions		**(14.7)**	25.7
Income tax paid		**(12.2)**	(10.8)
Net cash from operating activities		**120.5**	272.1
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	10	**(58.5)**	(11.5)
Proceeds from sale of assets held for sale		**7.5**	–
Purchase of intangible assets		**(22.0)**	(11.8)
Purchase of property, plant and equipment		**(25.3)**	(15.7)
Net cash used in investing activities		**(98.3)**	(39.0)
Cash flows from financing activities			
Proceeds from issue of share capital (Net of transaction costs)		**61.6**	–
Repurchase of treasury shares		**(3.0)**	–
Proceeds from share options exercised		**1.4**	–
Finance costs paid		**(1.6)**	(5.5)
Repayment of borrowings		**–**	(180.0)
Interest paid on lease liabilities		**(9.0)**	(10.0)
Payment of capital element of leases		**(76.0)**	(85.9)
Dividends paid	8	**(16.5)**	–
Net cash used in financing activities		**(43.1)**	(281.4)
Net decrease in cash and bank overdrafts		**(20.9)**	(48.3)
Cash and cash equivalents at the beginning of the period		**67.0**	115.3
Cash and cash equivalents at the end of the period	17	**46.1**	67.0

* Please refer to Note 30 for further detail.

The notes on pages 168 to 202 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 2 April 2021 £m	Cash flow £m	Other non-cash changes £m	**At 1 April 2022 £m**
Cash and cash equivalents at bank and in hand	67.0	(20.9)	–	**46.1**
Debt due after one year	–	–	–	**–**
Total net debt excluding lease liabilities	67.0	(20.9)	–	**46.1**
Current lease liabilities	(63.4)	85.0	(96.1)	**(74.5)**
Non-current lease liabilities	(280.9)	–	(35.6)	**(316.5)**
Total lease liabilities	(344.3)	85.0	(131.7)	**(391.0)**
Total net debt	(277.3)	64.1	(131.7)	**(344.9)**

	At 3 April 2020 £m	Cash flow £m	Other non-cash changes £m	**At 2 April 2021 £m**
Cash and cash equivalents at bank and in hand	115.3	(48.3)	–	**67.0**
Debt due after one year	(179.1)	180.0	(0.9)	**–**
Total net debt excluding lease liabilities	(63.8)	131.7	(0.9)	**67.0**
Current lease liabilities	(83.2)	95.9	(76.1)	**(63.4)**
Non-current lease liabilities	(332.8)	–	51.9	**(280.9)**
Total lease liabilities	(416.0)	95.9	(24.2)	**(344.3)**
Total net debt	(479.8)	227.6	(25.1)	**(277.3)**

Non-cash changes include additions of new leases from acquisitions, modifications to leases, foreign exchange movements, and changes in classifications between amounts due within and after one year.

Cash and cash equivalents at the period end consist of £46.1m (2021: £67.2m) of liquid assets and £0.2m (2021: £0.2m) of bank overdrafts.

£4.5m (1 April: £6.4m) of the Group's cash and cash equivalents is held by the trustee of the Group's employee benefit trust in relation to the share scheme for employees (£3.5m) and in relation to the 'Here to Help' fund (£1.0m). Therefore, these funds are restricted and are not available to circulate within the Group on demand.

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 1 April 2022 comprise the Company and its subsidiary undertakings.

Statement of Compliance
The consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with UK adopted international financial reporting standards.

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"), acquisition of business combinations (IFRS 3 "Business Combinations"), share-based payments (IFRS 2 "Share-based payment") and leases (IFRS 16 "Leases").

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 52 weeks to 1 April 2022, whilst the comparative period covered the 52 weeks to 2 April 2021.

Going Concern
In determining the appropriate basis of preparation of the financial statements for the year ended 1 April 2022, the Directors are required to consider whether the Group and Company can continue in operational existence for the foreseeable future. The Directors have assessed going concern over the 12-month period to 30 June 2023. The Board has concluded that it is appropriate to adopt the Going Concern basis, having undertaken a rigorous assessment of financial forecasts, which included consideration of the effects of the Ukrainian war, and with specific consideration to the trading position of the Group. In regards to the Ukraine war there has been limited effect on the Group as it has no direct connections with either Russia or Ukraine. The financial forecasts have been stress tested and management believe the level at which sales would need to drop to trigger any concern with cash flow or banking covenants is unlikely to happen.

The Group has a revolving credit facility of £180.0m at the date of approval of these financial statements, expiring on 4 December 2024. The Group has no other debt or facilities. Significant headroom exists on both financial covenants contained within the banking agreement. The Group's financial covenants are calculated on a pre-IFRS 16 basis.

Covenant	**FY22**	FY21
Interest payable to EBITDAR>1.5	**2.7**	2.5
Net Borrowings to EBITDA<3.0	**(0.3)**	(0.4)

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 can 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 appropriate adjustment would be made.

The financial statements of all subsidiary undertakings are prepared to the same reporting date as the Company. All subsidiary undertakings have been consolidated. Subsidiary undertakings acquired during the year are consolidated from the date of acquisition.

The subsidiary undertakings of the Company at 1 April 2022 are detailed in Note 4 to the Company Balance Sheet on page 207.

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 acquired, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition costs are recognised as expenses in the period in which the costs are incurred as non-underlying items.

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 most 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	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 majority of the time the customer pays in full at the same point in time. In the case of Cycle to Work, a letter of collection ("LOC") is issued when payment is received 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. Breakages are recognised for unredeemed vouchers based on historic redemption rates. An LOC can also be redeemed by customers through a network of independent bike dealers, who invoice the Group for the value of the LOC, at which point the revenue is recognised.
Service and repair plans	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 is held within accruals and deferred income.
Product warranties	Certain products, principally motoring and cycling, have a warranty period attached, which is built into 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. 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 deferred income is held within trade and other payables.
Software-as-a-Service ("SaaS)	The Group operates a Software-as-a-Service business, which provides customers access to a bespoke version of our mobile scheduling and operations software. This is currently operating within North America. The model employed consists of an up front development fee, with on-going license fees depending on usage of the software by the customer, with minimum license fee levels agreed over the term of the contract. The upfront development services cannot be unbundled from the ongoing hosting and service obligations under the contract and therefore the upfront development fee and minimum license fee payable is recognised evenly over the life of the contract, with any license fees receivable above the minimum level recognised in the period to which they relate.

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 based on historic 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. The 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.

Accounting Policies

The supplier income arrangements are often not co-terminus with the 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 most of the supplier income is confirmed before the year end, the level of estimation and judgement required is limited.

Supplier income is recognised on an accrual 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, or relate to significant strategic projects. 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.

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 hundred thousand. 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 that 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.

Under IFRIC23, the Group holds no provisions against uncertain tax positions.

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 (2008)'. 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 contingent 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.

Accounting Policies

Where the Group controls software relating to Software as a Service ("SaaS") arrangements, configuration and customisation costs are capitalised as part of bringing the identified intangible asset into use. Where the Group does not have control of the costs are expensed over the SaaS contract term if the related configuration and customisation costs are not distinct from access to the software. In all other circumstances, configuration and customisation costs are recognised as an expense as incurred except in the limited instances where these costs result in a separately identifiable intangible asset. Under the new IFRIC guidance given in the current year for the recognition of SAAS arrangements, where software is deemed to fall under the IAS 38 definition of a SAAS arrangement, the costs will be expensed to the profit or loss account.

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 –10 years;
- 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:

- Freehold properties are depreciated over 50 years;
- 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 inflows (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.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets or deferred tax assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held for sale or held for distribution and subsequent gains and losses on remeasurement are recognised in profit or loss. Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

Leases

The Group 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.

As lessee

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 stand-alone 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. Leases are regularly reviewed on an individual basis and will be revalued if it becomes likely that a break clause or option to extend the lease is exercised.

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 or 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 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.

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 re-assesses 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 14.

Accounting Policies

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 (<£5,000) 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.

As lessor
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.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

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, cash flow hedges, 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. When material 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 under the lease contracts. 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. Cash in transit is recognised within Other receivables.

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; Fair Value through Other Comprehensive Income ("FVOCI") – equity instrument; or Fair Value through Profit or Loss ("FVTPL"). A financial liability is measured at either amortised costs 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 Other Comprehensive Income ("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 assesses the objective of the business model in which financial assets are held at a Cash-Generating Unit ("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 the 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; and
- 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 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: 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 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. The Group uses the derivatives to hedge highly probable forecast transactions and, therefore, the instruments are largely 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 hedging instrument expires or is sold, or 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. 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.

Estimates

The key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are detailed below:

Impairment of Assets within Retail and Car Servicing

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 187 to 188. 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. For further information see Note 11.

Judgements

The key judgements 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 regarding future demand 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.

A sensitivity analysis has been carried out on the carrying value of inventory. This showed a 10% change in provisions applied to clearance stock would impact the net realisable value of inventories by £0.2m. A 10% change in the current selling price of products would impact the net realisable value of inventories by £0.2m.

Acquisition of National

On acquisition of National, the Group have used judgement in assessing the fair value of assets and liabilities acquired as a business combination. The Group have also used judgement in assessing the value of intangibles held within the opening balance sheet.
On assessment, the below categories of intangible asset were identified:

- Customer relationships with the B2B customers in contract with the business; and
- The value of the brands acquired.

On application of IFRS 16 Leases, a number of leases which were favourable to market rates were identified, which created a right of use asset value in excess of the right of use liability.

An exercise was also completed to assess the value and useful lives of property, plant and equipment, with a fair value adjustment applied as a result of this exercise.

An adjustment to the deferred tax asset was made related to the total value of the intangible assets, favourable leases and fixed asset valuation changes.

In assessing the forecasted future cash flows, synergies which were expected to impact the acquired business have been included, where other market participants would also be in the position to benefit from these synergies. This forecast, when compared with the purchase consideration, generated a discount rate which was in turn used to value the intangible assets recognised.

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. The weighted average incremental borrowing rate in FY22 was 2.34%. **Halfords** review the incremental borrowing rate against the property yields to ensure the rates move appropriately against the weighted average reference rate for UK properties and concluded the rates appear reasonable.

Accounting Policies

In determining lease terms, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of warehouses, retail stores, autocentres and equipment, the following factors are normally the most relevant:

- Review of profitability of each store and garage;
- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate); and
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).

Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset. Most extension options in vehicle leases have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

Capitalisation of internal costs

Where a project is deemed to meet the requirements of IAS 38, the Group capitalises material internal costs using a blended rate on the basis of time recorded against projects. This is calculated using actual salaries of relevant colleagues during the current year.

Adoption of New and Revised Standards

The following standards and interpretations are applicable to the Group and were adopted in the current period as they were mandatory for the year ended 1 April 2022 but either had no material impact on the result or net assets of the Group or were not applicable.

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018–2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3).

The Group has also considered the two final agenda decisions of the IFRS Interpretations Committee (“IFRIC”) relating to cloud computing arrangements in March 2019 and April 2021, which have not had a material impact on the result or net assets of the Group. See accounting policy for further details.

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 2 April 2022:

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. The amendments also clarify that “settlement” includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022. However, in May 2020, the effective date was deferred to annual reporting periods beginning on or after 1 January 2023.

In response to feedback and enquiries from stakeholders, in December 2020, the IFRS Interpretations Committee (“IFRIC”) issued a Tentative Agenda Decision, analysing the applicability of the amendments to three scenarios. However, given the comments received and concerns raised on some aspects of the amendments, in April 2021, IFRIC decided not to finalise the agenda decision and referred the matter to the IASB. In its June 2021 meeting, the IASB tentatively decided to amend the requirements of IAS 1 with respect to the classification of liabilities subject to conditions and disclosure of information about such conditions and to defer the effective date of the 2020 amendment by at least one year.

The Group is currently assessing the impact of these new accounting standards and amendments. The Group will assess the impact of the final amendments to IAS 1 on classification of its liabilities once those are issued by the IASB. The Group does not believe that the amendments to IAS 1, in their present form, will have a significant impact on the classification of its liabilities.

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 repairs performed from garages and vans to both retail and commercial customers, as well as the Group's Software as a Service business.

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 believe 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 IFRS 16 accounting entries applied at a Group level.

All material operations of the reportable segments are carried out in the UK and Ireland, and all material non-current assets are located in the UK and Ireland. 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.

Income Statement	Retail £m	Car Servicing £m	52 weeks to 1 April 2022 Total £m
Revenue	**1,001.6**	**368.0**	**1,369.6**
Segment operating profit before non-underlying items	**89.8**	**14.4**	**104.2**
Non-underlying items	**8.9**	**(2.1)**	**6.8**
Segment operating profit	**98.7**	**12.3**	**111.0**
Unallocated expenses[1]			**(3.1)**
Operating profit			**107.9**
Finance costs			**(11.3)**
Profit before tax			**96.6**
Taxation			**(18.9)**
Profit for the year			**77.7**
Products and services transferred at a point in time	**948.9**	**339.2**	**1,288.1**
Products and services transferred over time	**52.7**	**28.8**	**81.5**
Revenue	**1,001.6**	**368.0**	**1,369.6**

Income Statement	Retail £m	Car Servicing £m	52 weeks to 2 April 2021 Total £m
Revenue	1,039.8	252.5	1,292.3
Segment operating profit before non-underlying items	103.7	13.1	116.8
Non-underlying items	(31.7)	(3.3)	(35.0)
Segment operating profit	72.0	9.8	81.8
Unallocated expenses[1]			(2.3)
Operating profit			79.5
Finance costs			(15.0)
Profit before tax			64.5
Taxation			(11.3)
Profit for the year			53.2
Products and services transferred at a point in time	983.9	226.5	1,210.4
Products and services transferred over time	55.9	26.0	81.9
Revenue	1,039.8	252.5	1,292.3

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 £3.1m in respect of assets acquired through business combinations (2021: £2.3m).

Notes to the Financial Statements

1. Operating Segments continued

Other segment items:	Retail £m	Car Servicing £m	52 weeks to 1 April 2022 Total £m
Capital expenditure	**31.1**	**18.1**	**49.2**
Depreciation and impairment expense	**13.1**	**7.2**	**20.3**
Amortisation of right-of-use asset	**54.1**	**15.8**	**69.9**
Amortisation expense	**14.2**	**1.6**	**15.8**

Other segment items:	Retail £m	Car Servicing £m	52 weeks to 2 April 2021 Total £m
Capital expenditure	23.3	22.0	45.3
Depreciation and impairment expense	19.1	4.7	23.8
Impairment of right-of-use asset	11.6	0.6	12.2
Amortisation of right-of-use asset	58.2	11.4	69.6
Amortisation expense	9.6	1.2	10.8

There have been no significant transactions between segments in the 52 weeks ended 1 April 2022 (2021: £nil).

2. Operating Expenses

For the period	52 weeks to 1 April 2022 £m	52 weeks to 2 April 2021 £m
Selling and distribution costs	**472.6**	422.9
Selling and distribution costs	**472.6**	422.9
Administrative income/expenses, before non-underlying items	**148.0**	118.9
Non-underlying administrative income/expenses	**(6.8)**	35.0
Administrative income/expenses	**141.2**	153.9
Operating expenses	**613.8**	576.8

3. Operating Profit

For the period	52 weeks to 1 April 2022 £m	52 weeks to 2 April 2021 £m
Operating profit is arrived at after charging/(crediting) the following expenses/(incomes) as categorised by nature:		
Expenses relating to leases of low-value assets, excluding short-term lease of low-value assets	**1.6**	0.7
Expenses relating to short-term leases	**8.8**	5.6
Rentals receivable under operating leases	**(2.6)**	(2.7)
Landlord surrender premiums	**(0.8)**	0.1
Loss on disposal of property, plant and equipment, and intangibles	**1.8**	1.7
Amortisation of intangible assets	**15.8**	12.9
Amortisation of right-of-use assets	**69.9**	69.6
Depreciation of owned property, plant and equipment	**20.6**	21.0
Impairment of:		
– owned property, plant and equipment	**(0.3)**	2.8
– right-of-use assets	**–**	12.2
Trade receivables impairment	**0.1**	0.1
Staff costs (see Note 4)	**319.5**	299.6
Cost of inventories consumed in cost of sales	**655.0**	629.1

3. Operating Profit continued

The total fees payable by the Group to BDO LLP and their associates during the period was £0.9m (2021: £0.6m), in respect of the services detailed below:

For the period	52 weeks to 1 April 2022 £'000	52 weeks to 2 April 2021 £'000
Fees payable to for the audit of the Company's accounts	55	43
Fees payable to BDO LLP and their associates for other services:		
The audit of the Company's subsidiary undertakings, pursuant to legislation	849	447
Audit-related assurance services	115	78
Other	–	11
	1,019	579

4. Staff Costs

For the period	52 weeks to 1 April 2022 £m	52 weeks to 2 April 2021 £m
The aggregated remuneration of all employees including Directors comprised:		
Wages and salaries	288.2	262.3
Redundancies included in non-underlying items	0.3	5.9
Social security costs	23.1	19.2
Equity settled share-based payment transactions (Note 24)	7.8	6.4
Contributions to defined contribution plans (Note 26)	6.7	5.8
	326.1	299.6

Staff costs recognised within Intangible asset additions in the period totalled £6.6m (2021: £3.6m).

	Number	Number
Average number of persons employed by the Group, including Directors, during the period:		
Stores/Garages/Vans	9,959	9,635
Central warehousing	633	642
Support Centre	920	1,009
	11,512	11,286

Key Management Compensation

For the period	52 weeks to 1 April 2022 £m	52 weeks to 2 April 2021 £m
Salaries and short-term benefits	6.6	6.4
Compensation for loss of office	–	0.3
Social security costs	0.9	0.6
Pensions	0.3	0.3
Share-based payment charge	3.8	3.5
	11.6	11.1

Key management compensation includes the emoluments of the Board of 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 130 to 149, which form part of these financial statements.

Notes to the Financial Statements

5. Non-underlying Items

For the period	**52 weeks to 1 April 2022 £m**	52 weeks to 2 April 2021 £m
Non-underlying operating expenses:		
Organisational restructure costs (a)	**0.3**	5.9
Acquisition and investment-related fee (b)	**2.8**	0.6
Provision for expected settlement of an ongoing legal case (c)	**(2.2)**	2.9
Closure costs (d)	**(8.5)**	26.0
Impairment of right-of-use asset (e)	**–**	(0.4)
Replacement of warehouse management system (f)	**0.8**	–
Non-underlying items before tax	**(6.8)**	35.0
Tax on non-underlying items	**1.7**	(6.1)
Non-underlying items after tax	**(5.1)**	28.9

a. In the current and prior period, a strategic redesign of the in-store operating model was undertaken to better meet our customers' expectations and deliver a consistent shopping experience across our estate. Redundancy costs of £0.3m (2021: £5.9m) were incurred during the transition to the new operating model.

b. In the current and prior periods, costs were incurred in relation to the investments in National Tyres, Iverson, havebike and Universal.

- In FY22, £2.5m relating to professional fees in respect of the acquisition of National Tyres;
- £0.2m related to the acquisition of trade and assets of both Iverson and havebike;
- £0.1m (2021: £0.6m) related to the acquisition of Universal.

c. During the prior period, a provision of £2.9m was held in the accounts in relation to the HMRC audit relating to the national minimum wage. This was management's best estimate based on information available at the time. During the current period, this has been fully settled and paid, which has led to a release of the provision of £2.2m.

d. During FY20 and FY21 the group completed a strategic review of the profitability of the physical estate and subsequently closed a number of stores and garages. Assets were impaired and costs associated with the ongoing onerous commitments under the lease agreements and other costs associated with the property exits were provided for accordingly. In the current period £8.5m (costs of £26m during FY21) of provisions and lease liabilities have been released as the group continues to negotiate lease disposals and review provisions held in place. At the year end property provisions carried forward included an amount of £10.2m in relation to these store and garage closures. These will continue to unwind as property exits are negotiated with landlords or tenants, and could result in further amounts being released to the income statement due to the significant estimation uncertainty over the timing of exits and the final negotiated settlements.

e. In light of the COVID-19 pandemic, the Group had revised future cash flow projections for stores and garages in FY20, which led to the recognition of an impairment in relation to garages where the current and anticipated future performance did not support the carrying value of the right-of-use asset and associated tangible assets. During the prior year, £0.4m of this impairment was reversed as the stores and garages had returned to a profitable position.

f. An additional balance of £0.8m was incurred during the current period as a result of the replacement of the Warehouse Management System. Under the new IFRIC guidance in regards to IAS 38 this can not be capitalised and therefore, owing to the nature of this cost (non-trading cost), this is disclosed as a non-underlying expense.

6. Finance Costs

Recognised in profit or loss for the period	**52 weeks to 1 April 2022 £m**	52 weeks to 2 April 2021 £m
Finance costs:		
Bank borrowings	**(0.1)**	(2.5)
Amortisation of issue costs on loans	**(0.7)**	(1.1)
Commitment and guarantee fees	**(1.5)**	(1.1)
Other interest payable	**–**	(0.3)
Interest payable on lease liabilities	**(9.0)**	(10.0)
Finance costs	**(11.3)**	(15.0)

7. Taxation

Amounts recognised through Income Statement

For the period	52 weeks to 1 April 2022 £m	52 weeks to 2 April 2021 £m
Current taxation		
UK corporation tax charge for the period	**15.9**	16.9
Adjustment in respect of prior periods	**(0.4)**	(1.0)
	15.5	15.9
Deferred taxation		
Origination and reversal of temporary differences	**3.4**	(4.7)
Effect of changes in tax rates	**(1.7)**	–
Adjustment in respect of prior periods	**1.7**	0.1
	3.4	(4.6)
Total tax charge for the period	**18.9**	11.3

Amounts recognised through Other Comprehensive Income

For the period	52 weeks to 1 April 2022 £m	52 weeks to 2 April 2021 £m
Deferred taxation		
Origination and reversal of temporary differences	**1.2**	(1.6)
Adjustment in respect of prior periods	**0.1**	–
Total tax charge to OCI for the period	**1.3**	(1.6)

Amounts recognised directly in Equity

A credit of £0.4m (2021:£0.4m credit) has been recognised directly in Equity in relation to the origination and reversal of temporary differences on share based payment transactions.

Reconciliation of effective tax rate

The tax charge is reconciled with the standard rate of UK corporation tax as follows:

For the period	52 weeks to 1 April 2022 £m	52 weeks to 2 April 2021 £m
Profit before tax	**96.6**	64.5
UK corporation tax at standard rate of 19% (2021: 19%)	**18.4**	12.3
Factors affecting the charge for the period:		
Depreciation on expenditure not eligible for tax relief	**0.3**	0.9
Impact of super deduction capital allowances uplift	**(1.3)**	–
Employee share options	**1.5**	(1.3)
Other disallowable expenses	**0.8**	0.6
Adjustment in respect of prior periods	**1.3**	(0.9)
Impact of overseas tax rates	**(0.3)**	(0.3)
Impact of change in tax rate on deferred tax balance	**(1.8)**	–
Total tax charge for the period	**18.9**	11.3

An increase to the main rate of corporation tax to 25% from 1 April 2023 was substantively enacted on 24 May 2021. This will increase the Company's future current tax charge accordingly. The closing deferred tax asset at 1 April 2022 has been calculated at the rates expected to apply when the temporary differences unwind.

The effective tax rate of 19.5% (2021: 17.5%) is higher than the UK corporation tax rate principally due to increased disallowable expenditure this year (in part relating to the share issue and National acquisition) and adjustments in respect of prior periods.

The tax charge for the period was £18.9m (2021: £11.3m), including a £1.7m charge (2021: £6.1m credit) in respect of tax on non-recurring items.

The Group engages openly and pro-actively with tax authorities both in the UK and internationally, where it trades and sources products, and is considered low risk by HM Revenue and Customs ("HMRC").The Company is fully committed to complying with all of its tax payment and reporting obligations.

Notes to the Financial Statements

7. Taxation continued

In this period, the Group's contribution to the UK Exchequer from both taxes paid and collected exceeded £232m (2021: £170m) with the main taxes including corporation tax £12.2m (2021: £10.8m), net VAT £116.9m (2021: £97.4m), employment taxes of £69.5m (2021: £61.2m) and business rates £25.3m (2021: £0.9m).

At 1 April 2022, the Group has unused tax losses of £62.6m (2021: £nil) and fixed asset temporary differences of £21.9m (2021: £nil) available for offset against future profits. A deferred tax asset has been recognised in respect of £28.9m (2021: £nil) of the losses and £21.9m of the fixed asset temporary difference where management considers it probable there will be future taxable profits available for offset. The net impact of this recognition is a deferred tax asset of £6.9m in relation to losses and £5.5m in relation to fixed asset temporary differences.

No deferred tax asset has been recognised in respect of the remaining £33.7m (2021: £nil) relating to tax losses as it is not considered probable that there will be future taxable profits available for offset. The net impact of this balance is an unrecognised deferred tax asset of £8.4m. These losses may be carried forward indefinitely.

8. Dividends

For the period	**52 weeks to 1 April 2022 £m**	52 weeks to 2 April 2021 £m
Equity – ordinary shares		
Final for the 52 weeks to 2 April 2021 – paid 5.0p per share (53 weeks to 3 April 2020: nil)	**9.9**	–
Interim for the 52 weeks to 1 April 2022 – paid 3.0p per share (52 weeks to 2 April 2021: nil)	**6.6**	–
	16.5	–

In addition, the Directors are proposing a final dividend in respect of the financial period ended 1 April 2022 of 6.0p per share (2021: 5.0p per share), which will absorb an estimated £13m (2021: £9.9m) of shareholders' funds. It will be paid on 16 September 2022 to shareholders who are on the register of members.

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 22) 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 52 weeks to 1 April 2022.

The Group has also chosen to present an alternative earnings per share measure, with profit adjusted for non-underlying items because it better reflects the Group's underlying performance.

For the period	**52 weeks to 1 April 2022 Number of shares m**	52 weeks to 2 April 2021 Number of shares m
Weighted average number of shares in issue	**205.7**	199.1
Less: shares held by the Employee Benefit Trust (weighted average)	**(1.0)**	(2.0)
Weighted average number of shares for calculating basic earnings per share	**204.7**	197.1
Weighted average number of dilutive shares	**9.0**	4.9
Total number of shares for calculating diluted earnings per share	**213.7**	202.0

For the period	**52 weeks to 1 April 2022 £m**	52 weeks to 2 April 2021 £m
Basic earnings attributable to equity shareholders	**77.7**	53.2
Non-underlying items (see Note 5):		
Operating income/expenses	**(6.8)**	35.0
Tax on non-underlying items	**1.7**	(6.1)
Underlying earnings before non-underlying items	**72.6**	82.1

9. Earnings Per Share continued

For the period	52 weeks to 1 April 2022	52 weeks to 2 April 2021
Basic earnings per ordinary share	**37.9p**	27.1p
Diluted earnings per ordinary share	**36.4p**	26.4p
Basic earnings per ordinary share before non-underlying items	**35.5p**	41.7p
Diluted earnings per ordinary share before non-underlying items	**34.0p**	40.7p

10. Acquisition of Subsidiaries

a) National

On 9 December 2021, the Group acquired 100% of the issued share capital of Axle Group Holdings Limited and its subsidiary companies (see page 207) for a cash consideration of £61.5m (excluding transaction costs). The acquired businesses comprise over 200 garages and a fleet of vans, which provide support for retail and B2B customers, with centres across Great Britain and the Isle of Man.

The principal reason for the acquisition was to build on the already successful **Halfords** Autocentres and **Halfords** Mobile Expert businesses and expand the availability for customers across the whole of Britain, as well as acquiring a tyre wholesale business to better manage our tyre supply chain.

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
The Axle Group net assets at the acquisition date				
Intangible assets	–	7.0	–	**7.0**
Tangible assets	11.9	3.4	–	**15.3**
Right-of-use asset	–	–	82.0	**82.0**
Inventories	15.1	–	–	**15.1**
Trade and other receivables	20.5	–	–	**20.5**
Cash	3.0	–	–	**3.0**
Trade and other payables	(38.5)	–	–	**(38.5)**
Lease liability	–	–	(73.2)	**(73.2)**
Other taxation and social security	(5.3)	–	–	**(5.3)**
Current tax liabilities	–	–	–	**–**
Provisions	(2.1)	–	–	**(2.1)**
Deferred tax asset/ (liability)	10.6	(1.7)	(2.2)	**6.7**
Total	**15.2**	**8.7**	**6.6**	**30.5**

Goodwill

Goodwill was recognised as a result of the acquisition as follows:

	£m
Total consideration (£58.5m net of cash acquired £3.0m)	61.5
Less fair value of identifiable (assets)/liabilities	(30.5)
Goodwill	**31.0**
Intangible assets:	
Customer relationships	6.2
Brand names	0.8
Total	**7.0**

None of the goodwill acquired is expected to be deductible for income tax purposes. The goodwill constitutes the value of locational benefits giving **Halfords** the ability to expand growth across the UK for both retail and B2B customers, as well as the acquisition of a tyre wholesale business, which will allow to us better manage supply chains.

The Axle Group businesses contributed £55.6m of revenue and broke even on a profit before tax basis for the period between the date of acquisition and the balance sheet date.

If the acquisition of the Axle Group business had been completed on the first day of the financial year, Group revenues for the period would have been £127.3m higher and Group profit before tax for the period would have been £0.4m higher (before amortisation of intangible assets arising on consolidation).

Notes to the Financial Statements

10. Acquisition of Subsidiaries continued

Acquisition costs of £2.5m 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) Iverson – acquisition of trade and assets

On 1 December 2021, the Group acquired the trade and assets of Iverson Tyres Limited for an immaterial amount. The acquisition secured four garages within a strategically important location around the M25 and M4 corridor, increasing the availability of the Group's garage services in a popular area for fleet businesses. Goodwill of £0.6m arose on acquisition.

c) Havebike – acquisition of trade and assets

On 15 March 2022, the Group acquired the trade and assets of HaveBike Limited for an immaterial amount. The acquisition secured the outright ownership of mobile cycling services software for **Halfords** Mobile Expert and acts as a significant enabler in the Group's plans to grow that business within cycling, on top of the mobile motoring services business already in place. No goodwill arose on acquisition.

11. Intangible Assets

	Brand names and trademarks £m	Customer relationships £m	Supplier relationships £m	Computer software £m	Goodwill £m	Total £m
Cost						
At 3 April 2020	10.5	16.9	7.8	78.0	372.3	485.5
Additions	–	–	–	11.8	–	11.8
Additions from acquisition of subsidiaries	1.0	–	1.6	–	2.1	4.7
Disposals	–	–	–	(2.1)	–	(2.1)
At 2 April 2021	11.5	16.9	9.4	87.7	374.4	499.9
Additions	–	–	–	21.4	0.6	22.0
Additions from acquisition of subsidiaries	0.8	6.2	–	–	31.0	38.0
Disposals	–	–	–	(0.8)	–	(0.8)
At 1 April 2022	**12.3**	**23.1**	**9.4**	**108.3**	**406.0**	**559.1**
Amortisation and impairment						
At 3 April 2020	4.3	12.0	1.9	49.9	21.7	89.8
Charge for the period	0.8	0.7	0.5	10.9	–	12.9
Disposals	–	–	–	(1.1)	–	(1.1)
At 2 April 2021	5.1	12.7	2.4	59.7	21.7	101.6
Charge for the period	0.8	0.9	0.7	13.4	–	15.8
Disposals	–	–	–	(0.7)	–	(0.7)
At 1 April 2022	**5.9**	**13.6**	**3.1**	**72.4**	**21.7**	**116.7**
Net book value at 1 April 2022	**6.4**	**9.5**	**6.3**	**35.9**	**384.3**	**442.4**
Net book value at 2 April 2021	6.4	4.2	7.0	28.0	352.7	398.3

No intangible assets are held as security for external borrowings.

Goodwill is allocated to two groups of cash-generating units ("CGUs"), being Retail and Car Servicing as follows:

1) Retail

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 CGU.

2) Car Servicing

During the current year, goodwill of £31.0m arose on the acquisition of National, and goodwill of £0.6m arose on the acquisition of Iverson Tyres Limited and is allocated to the Car Servicing segment. The goodwill relates to a portfolio of garages across the UK, which management monitors on an overall basis as part of the Car Servicing CGU.

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 part of the Car Servicing CGU.

11. Intangible Assets continued

Goodwill of £6.9m arose on the acquisition of McConechy's Tyre Service Limited on 5 November 2019 and £0.7m on the acquisition of the trade and assets of Victor Holdings Limited ("Tyres on the Drive") on 14 October 2019. The goodwill relates to a portfolio of garages within Scotland, and a fleet of mobile vans across the UK which management monitors on an overall basis as part of the Car Servicing CGU.

Goodwill of £2.1m arose on the acquisition of The Universal Tyre Company (Deptford) Limited and was allocated to the Car Servicing segment. The goodwill relates to a portfolio of garages and fleet vans within the south of England, which management monitors on an overall basis as part of the Car Servicing CGU.

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 business plans approved by management covering a five-year period, which are reviewed by the Board.

Plans 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.

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 five-year projections approved by the Board for the basis of the impairment reviews. This was based on small like for like growth within retail and car servicing, including the impact of acquisitions made in the current period. 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 plan 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 have 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:

	Retail		Car Servicing	
	2022	2021	**2022**	2021
Discount rate[1]	**10.1%**	9.9%	**10.1%**	9.9%
Growth rate[2]	**1.0%**	1.0%	**1.0%**	1.0%

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. This found that there is a more than adequate amount of headroom before an impairment would be triggered. In the table below we have summarised reasonably possible changes in key assumptions for Retail and Car Servicing, including those relating to future sales performance and future costs. Modelling included looking at the effect of a 1% decrease in terminal growth rate and a 1% increase in weighted average cost of capital ("WACC"), as well as the combined impact of a 0.5% reduction in terminal growth rate and a 0.5% increase in WACC. These showed adequate headroom and due to the maturity of the business it is not deemed reasonable that these would move further. Further stress testing also took place which showed EBIT, and thus sales, would need to move by a significant percentage before an impairment would be triggered (see below). Management did not believe this percentage movement was likely.

Results of this sensitivity analysis are shown below:

	Retail 2022 £m	Car Servicing 2022 £m
Original headroom	135.4	151.7
Headroom using a discount rate increased by 1%	51.6	97.0
Headroom using a 1% reduction in terminal growth rate	16.7	88.2
Headroom using a combined -0.5% terminal growth rate and +0.5% discount rate	36.1	93.3

Notes to the Financial Statements

11. Intangible Assets continued

Further modelling was also undertaken to review the point at which headroom would be reduced to £nil. For the carrying amount and recoverable amount to be equal within Retail cash-generating unit, EBIT would need to decrease by 18%, post-tax discount rate would need to increase by 1.8% and long-term growth rate would need to decrease by 1.2%. For the carrying amount and recoverable amount to be equal within Car Servicing cash-generating unit, EBIT would need to decrease by 30%, post-tax discount rate would need to increase by 3.7% and long-term growth rate would need to decrease by 3.0% (each sensitivity applied individually).

Based on the analysis summarised above, the Directors were satisfied that reasonably possible changes in key assumptions would not lead to an impairment and therefore, 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	Total £m
Cost			
At 3 April 2020	69.6	255.3	324.9
Additions	3.2	17.7	20.9
Additions from acquisitions	6.7	1.1	7.8
Transfer to assets held for sale	(6.0)	–	(6.0)
Disposals	(0.9)	(2.5)	(3.4)
At 2 April 2021	72.6	271.6	344.2
Additions	5.8	21.4	27.2
Additions from acquisitions	5.8	9.5	15.3
Disposals	(0.5)	(3.8)	(4.3)
At 1 April 2022	**83.7**	**298.7**	**382.4**
Depreciation			
At 3 April 2020	47.8	194.0	241.8
Depreciation for the period	4.2	16.8	21.0
Impairment charge	0.4	2.4	2.8
Disposals	(0.6)	(2.1)	(2.7)
At 2 April 2021	51.8	211.1	262.9
Depreciation for the period	4.0	16.6	20.6
Impairment reversal	–	(0.3)	(0.3)
Disposals	–	(2.5)	(2.5)
At 1 April 2022	**55.8**	**224.9**	**280.7**
Net book value at 1 April 2022	**27.9**	**73.8**	**101.7**
Net book value at 2 April 2021	20.8	60.5	81.3

No fixed assets are held as security for external borrowings.

13. Assets Held For Sale

	1 April 2022 £m	2 April 2021 £m
Freehold land and buildings	**–**	6.0
Total	**–**	6.0

Freehold land and buildings are stated at their carrying value. Assets held for sale in the prior period related to seven buildings acquired as part of the acquisition of The Universal Tyre Services (Deptford) Limited. Of the properties classified as held for sale, all were sold and leased back by the Group in the current period on lease terms of 15 years with a 10 year break for total consideration of £7.5m.

14. 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.

i) Amounts recognised in Consolidated Statement of Financial Position

Right-of-Use Assets

	Land and buildings £m	Equipment £m	Total £m
At 3 April 2020	344.0	5.9	349.9
Additions on acquisition of subsidiary	2.7	–	2.7
Additions to right-of-use assets	12.5	0.6	13.1
Amortisation charge for the year	(66.1)	(3.5)	(69.6)
Effect of modification of lease	5.8	–	5.8
Derecognition of right-of-use assets	(6.8)	(0.1)	(6.9)
Impairment	(12.2)	–	(12.2)
At 2 April 2021	**279.9**	**2.9**	**282.8**
Additions on acquisition of subsidiary	82.0	–	82.0
Additions to right-of-use assets	44.6	5.0	49.6
Amortisation charge for the year	(66.4)	(3.5)	(69.9)
Effect of modification of lease	6.8	0.4	7.2
Derecognition of right-of-use assets	(1.3)	(0.2)	(1.5)
Impairment	–	–	–
At 1 April 2022	**345.6**	**4.6**	**350.2**

The impairment charge for the prior period of £12.2m relates to the impairment of right-of-use assets in relation to a strategic project to close low-returning stores where a lease obligation still exists.

Lease Liabilities	Land and buildings £m	Equipment £m	Total £m
At 3 April 2020	409.8	6.2	416.0
Additions on acquisition of subsidiary	2.7	–	2.7
Additions to lease liabilities	12.6	0.5	13.1
Interest expense	9.8	0.2	10.0
Effect of modification to lease	5.9	–	5.9
Lease payments	(92.7)	(3.2)	(95.9)
Disposals to Lease Liabilities	(6.8)	–	(6.8)
Foreign exchange movements	(0.7)	–	(0.7)
At 2 April 2021	**340.6**	**3.7**	**344.3**
Additions on acquisition of subsidiary	73.2	–	73.2
Additions to lease liabilities	44.6	4.9	49.5
Interest expense	8.8	0.2	9.0
Effect of modification to lease	6.8	0.4	7.2
Lease payments	(81.7)	(3.3)	(85.0)
Disposals to Lease Liabilities	(7.0)	–	(7.0)
Foreign exchange movements	(0.2)	–	(0.2)
At 1 April 2022	**385.1**	**5.9**	**391.0**

Carrying value of lease liabilities included in the statement of financial position	**1 April 2022 £m**	2 April 2021 £m
Current liabilities	**74.5**	63.4
Non-current liabilities	**316.5**	280.9

Notes to the Financial Statements

14. Leases continued

Lease liabilities	1 April 2022 £m	2 April 2021 £m
Maturity analysis – contractual undiscounted cash flows		
Less than one year	**81.2**	71.2
Between one and two years	**80.5**	68.8
Between two and three years	**72.7**	64.4
Between three and four years	**59.4**	55.1
Between four and five years	**39.0**	43.2
Between five and six years	**26.9**	28.4
Between six and seven years	**18.7**	19.3
Between seven and eight years	**12.7**	12.1
Between eight and nine years	**10.7**	5.3
Between nine and ten years	**8.2**	3.5
After ten years	**9.0**	3.5
Total contractual cash flows	**419.0**	374.8

ii) Amounts recognised in Consolidated Income Statement

	Land and buildings £m	Equipment £m	Total £m
52 weeks ended 1 April 2022			
Amortisation charge on right-of-use assets	**66.4**	**3.5**	**69.9**
Interest on lease liabilities	**8.8**	**0.2**	**9.0**
Expenses relating to short-term leases	**6.8**	**–**	**6.8**
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	**–**	**1.6**	**1.6**
52 weeks ended 2 April 2021			
Amortisation charge on right-of-use assets	66.1	3.5	69.6
Interest on lease liabilities	9.8	0.2	10.0
Expenses relating to short-term leases	5.6	–	5.6
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	–	0.7	0.7

iii) Amounts recognised in Consolidated Statement of Cash Flows

The total cash outflow for leases in the period ended 1 April 2022 was £85.0m (2021: £95.9m).

15. Inventories

	2022 £m	2021 £m
Finished goods for resale	**222.1**	143.9

Finished goods inventories include £17.2m (2021: £14.9m) of provisions to carry inventories at fair value less costs to sell where such value is lower than cost. During the period, £1.4m of inventory provisions were released (2021: £1.8m).

During the period, £7.5m was recognised as an expense in respect of the write down of inventories (2021: £3.0m) to net realisable value. No inventories are held as security for external borrowings.

Goods bought for resale recognised as a cost of sale amounted to £655.0m (2021: £629.1m).

Inventories at 1 April 2022 include a right to recover returned goods amounting to £2.0m (2021: £2.1m). These are measured by reference to the former carrying amount of the sold inventories.

16. Trade and Other Receivables

	2022 £m	2021 Restated* £m
Falling due within one year:		
Trade receivables	**35.4**	30.2
Less: provision for impairment of receivables	**(0.8)**	(0.7)
Trade receivables-net	**34.6**	29.5
Other receivables	**32.9**	27.9
Prepayments and accrued income*	**25.1**	16.7
	92.6	74.1

* Please refer to Note 30 for further detail.

Information about the Group's exposure to credit and market risks and impairment losses for trade and other receivables is included in Note 22.

Trade and other receivables at 1 April 2022 includes £31.3m (2021: £17.0m) (amended from the £7.5m reported in the FY21 annual report) relating to supplier income.

Other receivables at 1 April 2022 includes £1.5m (2021:£1.6m) relating to unamortised issue costs on the Group's borrowing facilities .

17. Cash and Cash Equivalents

	2022 £m	2021 £m
Cash at bank and in hand	**46.3**	67.2

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. £4.5m (2021: £6.4m) of the Group's cash and cash equivalents included in the balance sheet and the cash flow statement and is held by the trustee of the Group's employee benefit trust, in relation to the share scheme for employees (£3.5m) and 'Here to Help' fund (£1.0m). Therefore, these funds are restricted and are not available to circulate within the Group on demand.

18. Borrowings

	2022 £m	2021 £m
Current		
Unsecured bank overdraft	**0.2**	0.2
Lease liabilities	**74.5**	63.4
	74.7	63.6
Non-current		
Unsecured bank loan and other borrowings	**–**	–
Lease liabilities	**316.5**	280.9
	316.5	280.9

The Group's borrowing facility is a three-year £160m revolving credit facility, which began on 4 December 2020, with two options to extend by a further year. During the current period, the facility was extended with the expiry date now 4 December 2024. The facility carries an interest rate of SONIA plus a margin, which is variable based on the gearing measures as set out in the facility covenant certificate and which is currently 200 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's financial covenants are calculated on a pre-IFRS 16 basis.

Significant headroom exists on both financial covenants contained within the banking arrangement

	2022	2021
Interest payable to EBITDAR >1.5	**2.7**	2.5
Net borrowings to EBITDA <3.0	**(0.3)**	(0.4)

Notes to the Financial Statements

18. Borrowings continued

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:

	2022 £m	2021 £m
Expiring within one year	**20.0**	20.0
Expiring between one and two years	**–**	–
Expiring between two and five years	**160.0**	160.0
	180.0	180.0

The overdraft facility expiring within one year is an annual facility subject to review at various dates during the period. The facility of £160.0m (2021: £160.0m) relates to the Group's revolving credit facility. All these facilities incurred commitment fees at market rates.

19. Trade and Other Payables

	2022 £m	2021 Restated* £m
Current liabilities		
Trade payables	**177.6**	131.7
Other taxation and social security payable	**33.3**	34.5
Other payables	**21.3**	21.6
Accruals and other deferred income*	**67.4**	70.4
	299.6	258.2
Non-current liabilities		
Accruals and other deferred income	**4.9**	3.3

* Please refer to Note 30 for further detail.

Trade and other payables at 1 April 2022 includes £7.2m (2021: £7.9m) of deferred income in relation to product warranties and service and repair plans, of which £3.6m (2021: £4.6m) is in current liabilities and £3.6m (2021: £3.3m) is in non-current liabilities.

In the current period Trade payables have increased due to the acquisition of the National (Note 10).

20. Provisions

	Property related £m	Other trading £m	Non-trading £m	Total £m
At 2 April 2021	27.1	9.0	3.4	39.5
Additions from acquisitions	2.1	–	–	2.1
Charged during the period	1.0	0.7	–	1.7
Utilised during the period	(5.1)	(2.2)	(1.0)	(3.5)
Released during the period	(4.6)	(1.1)	(2.4)	(12.9)
At 1 April 2022	**20.5**	**6.4**	**–**	**26.9**
Analysed as:				
Current liabilities	**15.1**	**5.4**	**–**	**20.5**
Non-current liabilities	**5.4**	**1.0**	**–**	**6.4**

Property-related provisions consist of costs of associated wear and tear incurred on leasehold properties, other ongoing onerous commitments associated with property leases (excluding rent), and costs related to the exit of closed stores. The property-related provisions will be utilised over the average remaining lease term of 3.1 years.

Other trading provisions comprise a sales returns provision and an employer/product liability provision (of which £1m is expected to be realised in >12 months).

Non-trading provisions comprised an amount payable to HMRC in relation to the national minimum wage investigation, this has been fully settled in the current period, which has led to a release of £2.4m.

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 temporary differences £m	Share-based payments £m	Intangible assets £m	Tax Losses £m	Total £m
At 3 April 2020	11.4	(0.6)	0.2	(3.7)	–	7.3
Credit to the Income Statement	–	0.7	2.6	0.4	–	3.7
Credit to Other Comprehensive Income	–	1.6	–	–	–	1.6
Acquisition of subsidiary	(0.2)	–	–	(0.5)	–	(0.7)
Credit to Equity	–	–	0.4	–	–	0.4
At 2 April 2021	**11.2**	**1.7**	**3.2**	**(3.8)**	**–**	**12.3**
Credit/(charge) to the Income Statement	(3.6)	0.5	0.5	(0.8)	–	(3.4)
Charge to Other Comprehensive Income	–	(1.3)	–	–	–	(1.3)
Acquisition of subsidiary	1.8	(0.4)	–	(1.6)	6.9	6.7
Credit to Equity	–	–	0.4	–	–	0.4
At 1 April 2022	**9.4**	**0.5**	**4.1**	**(6.2)**	**6.9**	**14.7**

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:

	1 April 2022 £m	2 April 2021 £m
Deferred tax assets	**26.8**	16.1
Deferred tax liabilities	**(12.1)**	(3.8)
	14.7	12.3

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.

Notes to the Financial Statements

22. Financial Instruments and Related Disclosures continued

b. Accounting Classifications and Fair Value

		Carrying amount					
1 April 2022	**Notes**	**Fair value – hedging instruments £m**	**Mandatorily at FVTPL – others £m**	**FVOCI – equity instruments £m**	**Amortised cost £m**	**Other financial liabilities £m**	**Total carrying amount £m**
Financial assets measured at fair value							
Forward exchange contracts used for hedging		**4.2**	**–**	**–**	**–**	**–**	**4.2**
		4.2	**–**	**–**	**–**	**–**	**4.2**
Financial assets not measured at fair value							
Trade and other receivables[1]	**16**	**–**	**–**	**–**	**67.5**	**–**	**67.5**
Cash and cash equivalents	**17**	**–**	**–**	**–**	**46.3**	**–**	**46.3**
		–	**–**	**–**	**113.8**	**–**	**113.8**
Financial liabilities measured at fair value							
Forward exchange contracts used for hedging		**(0.5)**	**–**	**–**	**–**	**–**	**(0.5)**
		(0.5)	**–**	**–**	**–**	**–**	**(0.5)**
Financial liabilities not measured at fair value							
Borrowings	**18**	**–**	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Lease liabilities	**14**	**–**	**–**	**–**	**–**	**(391.0)**	**(391.0)**
Trade and other payables[2]	**19**	**–**	**–**	**–**	**–**	**(242.7)**	**(242.7)**
		–	**–**	**–**	**–**	**(633.9)**	**(633.9)**

1. Prepayments and accrued income of £25.1m are not included as a financial asset
2. Other taxation and social security payables of £33.3m, deferred income and of £7.2m and other payables of £21.3m are not included as a financial liability

		Carrying amount					
2 April 2021	Note	Fair value – hedging instruments £m	Mandatorily at FVTPL – others £m	FVOCI – equity instruments £m	Amortised cost £m	Other financial liabilities Restated[3] £m	Total carrying amount £m
Financial assets measured at fair value							
Forward exchange contracts used for hedging		0.6	–	–	–	–	0.6
		0.6	–	–	–	–	0.6
Financial assets not measured at fair value							
Trade and other receivables[1]	16	–	–	–	57.4	–	57.4
Cash and cash equivalents	17	–	–	–	67.2	–	67.2
		–	–	–	124.6	–	124.6
Financial liabilities measured at fair value							
Forward exchange contracts used for hedging		(6.3)	–	–	–	–	(6.3)
		(6.3)	–	–	–	–	(6.3)
Financial liabilities not measured at fair value							
Borrowings	18	–	–	–	–	(0.2)	(0.2)
Lease liabilities	18	–	–	–	–	(344.3)	(344.3)
Trade and other payables[2, 3]	19	–	–	–	–	(197.5)	(197.5)
		–	–	–	–	(542.0)	(542.0)

1. Prepayments and accrued income of £16.7m are not included as a financial asset
2. Other taxation and social security payables of £34.5m, deferred income of £7.9m and other payables of £21.6m are not included as a financial liability
3. Refer to Note 30 for further details.

22. Financial Instruments and Related Disclosures continued

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 predominantly because of the short maturity of these instruments.
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.

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 the 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 £118.0m (2021: £125.2m).

Impairment losses on financial assets recognised in profit or loss were as follows:

£m	**52 weeks to 1 April 2022**	52 weeks to 2 April 2021
Impairment loss on trade and other receivables	**0.1**	0.1
	0.1	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. The majority of trade receivables are based in the United Kingdom.

Notes to the Financial Statements

22. Financial Instruments and Related Disclosures continued

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 £0.1m.

Cash and cash equivalents

The Group held cash and cash equivalents of £46.3m at 1 April 2022 (2021: £67.2m). The cash and cash equivalents are held with bank and financial institution counterparties, which are designated "A-" by Standard & Poor and Fitch and A2 or better by Moody's. The Group does not consider there to be any impairment loss in respect of these balances (2021: £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 and Europe, with most of the trade being in US dollars ("USD"). 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.

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 52 weeks to 1 April 2022, 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 1 April 2022, the Group held the following instruments to hedge exposures to changes in foreign currency:

	Maturity		
Forward exchange contracts	**1–6 months**	**6–12 months**	**More than one year**
Net exposure (in £m)	**76.8**	**31.4**	**4.5**
Average GBP:USD forward contract rate	**1.3578**	**1.3423**	**1.3389**

At 2 April 2021, the Group held the following instruments to hedge exposures to changes in foreign currency:

	Maturity		
Forward exchange contracts	1–6 months	6–12 months	More than one year
Net exposure (in £m)	101.6	55.7	26.3
Average GBP:USD forward contract rate	1.3336	1.3622	1.3677

22. Financial Instruments and Related Disclosures continued

The amounts at the reporting date relating to items designated as hedged items were as follows:

Forward currency risk	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 1 April 2022		
Inventory purchases	**2.2**	**–**
At 2 April 2021		
Inventory purchases	3.1	–

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	1 April 2022		2 April 2021	
	USD £m	**Other £m**	USD £m	Other £m
Cash and cash equivalents	**1.1**	**5.2**	–	14.1
Trade and other payables	**(24.3)**	**(0.7)**	(35.1)	(1.6)
	(23.2)	**4.5**	(35.1)	12.5

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.

	2022 Increase/ (decrease) in equity £m	2021 Increase/ (decrease) in equity £m
10% appreciation of the US dollar	**12.9**	22.0
10% depreciation of the US dollar	**(10.6)**	(18.0)

A strengthening/weakening of Sterling, as indicated, against the USD at 2 April 2022 would have (decreased)/ increased 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.

The movements in equity relate 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 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 £nil (2021: £0.8m).

Interest rate movements on deposits, lease liabilities, 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. The Group was in a net cash position as at 1 April 2022 (2021: net cash).

Notes to the Financial Statements

22. Financial Instruments and Related Disclosures continued

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 the Treasury Policy the maximum drawings would be £150m of the £180m available facility, to include the Overdraft Facility of £20m.

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 investment grade credit rating at the time of the refinancing (December 2020). The Group may, subject to Board approval in any and every such incidence, allow a counterparty to have a credit rating of 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 banks within the banking group maintained a credit rating of BBB- or above, in line with Treasury policy. The counterparty credit risk is reviewed by the Chief Financial Officer regularly as part of the Treasury Committee process. In addition, the Head of Treasury reviews credit exposure on a daily basis.

The risk is measured through review of forecast liquidity each month by the Head of 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 leases liabilities are disclosed in Note 14. All trade and other payables are due within one year.

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 1 April 2022 (Prior year: 2 April 2021).

	2022		2021	
	Receivables £m	**Payables £m**	Receivables £m	Payables £m
Due less than one year	**130.6**	**13.0**	33.3	(151.7)
Due between one and two years	**12.2**	**3.8**	7.2	(18.8)
Contractual cash flows	**142.8**	**16.8**	40.5	(170.5)
Fair value of derivatives	**4.2**	**(0.5)**	0.6	(6.3)

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:	**2022 Number of shares**	**2022 £'000**	2021 Number of shares	2021 £'000
Allotted, called up and fully paid	**218,928,736**	**2,189**	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.

The parent company issued 19,812,104 new ordinary shares with a par value of 1p per share on 2 December 2021.

Proceeds from the share issue recognised within Share Premium totalled £61.4m (2021: £nil), net of transaction costs of £1.8m (2021: £nil). Total Share Premium at 1 April 2022 was £212.4m (2021: £151.0m).

In total the Company received proceeds of £1.4m (2021: £nil) from the exercise of share options. During the year, the Company purchased £3.0m (2021: £nil) of its own shares through the employee benefit trust.

Investment in Own Shares

At 1 April 2022, the Company held in Trust 1,460,702 (2021: 1,637,101) of its own shares with a nominal value of £14,607 (2021: £16,371). 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 1 April 2022 was £3.8m (2021: £6.1m). In the current period, 1,036,147 (2021: nil) were repurchased and transferred into the Trust, with 1,208,087 (2021: nil) reissued on exercise of share options.

23. Capital and Reserves continued

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 six 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 £7.8m (2021: £6.4m).

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 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.

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 ("PSP")

The introduction of a 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 2018, 2019 and 2020 earned a final dividend of 5p per share and were reinvested at a cost of £3.11 per share. Shares awarded in 2018, 2019, 2020 and 2021 earned an interim dividend of 3p per share and were reinvested at a cost of £3.44 per share.

For schemes prior to 2018, the PSP performance criteria was weighted 25% towards Group revenue growth targets and 75% towards Group EPS growth targets. For the 2018 and 2019 schemes the PSP performance criteria is weighted 50% towards Group EPS growth, 25% towards Group revenue growth and 25% towards Group Free Cash Flow.

Notes to the Financial Statements

24. Share based payments continued

The 2020 PSP scheme performance criteria is weighted 20% towards Group EPS growth, 30% towards Group Free Cash Flow, 10% towards Group service-related sales and 40% towards total shareholder return. 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. The 2021 PSP scheme performance criteria was weighted 50% towards Group EPS growth, 20% towards Group services-related sales and 30% towards total shareholder return.

For other senior participants, conditions are based on the performance of the individual business units. The awards are weighted 37.5% towards Group EPS growth targets, 12.5% weighted towards Group revenue growth targets and 50% weighted toward EBIT of the individual business unit.

Options were valued using the Black–Scholes option-pricing models. For the 2020 and 2021 scheme options relating to the total shareholder return tranche were valued using the Monte Carlo option-pricing model.

5. Deferred Bonus Plan ("DBP")

Under the Deferred Bonus Plan ("DBP") a portion of the executive's annual bonus is deferred as shares for three years.

6. 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 had two different performance period end dates: 29 March 2019 and 3 April 2020.

Nil cost options were granted, which were exerciseable and exercised on the first anniversary and second anniversary of the grant date for the 2018 and 2020 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.

The following tables reconcile the number of share options outstanding and the weighted average exercise price (WAEP) for all share award plans.

	CSOS		**MSP**		**SAYE**		**PSP**		**RSP–SMP**	
For the period ended 1 April 2022	**Number ('000)**	**WAEP (£)**	**Number ('000)**	**WAEP (£)**	**Number ('000)**	**WAEP (£)**	**Number ('000)**	**WAEP (£)**	**Number ('000)**	**WAEP (£)**
Outstanding at start of year	**690**	**3.71**	**1,677**	**1.95**	**7,247**	**1.45**	**5,248**	**–**	**–**	**–**
Granted	**–**	**–**	**596**	**2.92**	**630**	**1.79**	**1,644**	**–**	**–**	**–**
Shares representing dividends reinvested	**–**	**–**	**–**	**–**	**–**	**–**	**112**	**–**	**–**	**–**
Forfeited	**–**	**–**	**–**	**–**	**(288)**	**1.51**	**(193)**	**–**	**–**	**–**
Exercised	**(156)**	**3.71**	**(227)**	**2.66**	**(320)**	**2.10**	**(505)**	**–**	**–**	**–**
Lapsed	**(152)**	**3.71**	**(299)**	**1.96**	**(790)**	**1.50**	**–**	**–**	**–**	**–**
Outstanding at end of year	**382**	**3.71**	**1,747**	**2.28**	**6,479**	**1.44**	**6,306**	**–**	**–**	**–**
Exercisable at end of year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Exercise price range (£)	**–**	**3.71**	**–**	**–**	**–**	**1.77–2.78**	**–**	**–**		**–**
Weighted average remaining contractual life (years)	**–**	**1.3**	**–**	**8.3**	**–**	**1.8**	**–**	**8.2**	**–**	**–**

	CSOS		MSP		SAYE		PSP		RSP–SMP	
For the period ended 2 April 2021	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)
Outstanding at start of year	728	3.71	1,398	1.94	2,958	2.00	4,237	–	57	–
Granted			567	2.25	6,378	1.55	1,879	–		
Shares representing dividends reinvested								–		
Forfeited					(96)	1.63	(806)	–		
Exercised			(149)	2.78	(51)	2.48	(62)	–	(57)	
Lapsed	(38)	3.71	(139)	2.25	(1,942)	1.89		–		
Outstanding at end of year	690	3.71	1,677	1.95	7,247	1.45	5,248	–	–	–
Exercisable at end of year	–		–		–		–		–	
Exercise price range (£)		3.07–5.43		–		1.77–2.78		–		–
Weighted average remaining contractual life (years)		2.3		8.5		2.6		1.8		–

24. Share based payments continued

The following table gives the assumptions applied to the options granted in the respective periods shown:

	52 weeks to 1 April 2022			52 weeks to 2 April 2021		
Grant date	**MSP**	**SAYE**	**PSP**	MSP	SAYE	PSP
Share price at grant date (£)	**2.92**	**2.99**	**2.92**	2.43	1.55	2.43
Exercise price (£)	**–**	**2.99**	**–**	–	1.07	–
Expected volatility	**61.84%**	**61.19%**	**65.12%**	59.14%	53.02%	64.22%
Option life (years)	**10**	**3**	**3**	10	3	3
Expected life (years)	**2.75**	**3**	**3**	3.0	3.5	2.47
Risk free rate	**–**	**0.20%**	**–**	–	–	–
Expected dividend yield	**–**	**–**	**–**	2.63%	3.99%	0%
Probability of forfeiture	**33%**	**44%**	**–**	33%	38%	21%
Weighted average fair value of options granted	**2.92**	**1.79**	**1.72**	2.25	0.60	2.43

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

	2022 £m	2021 £m
Capital expenditure: Contracted but not provided	**0.5**	0.2

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 £6.7m (2021: £5.8m).

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 1 April 2022 amounted to £1.5m (2021: £1.5m).

The Group's banking arrangements are subject to a netting facility whereby credit balances may be offset against the indebtedness of other Group companies.

Notes to the Financial Statements

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 203 to 209.

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 of **Halfords** Group plc are included in the Directors' Remuneration Report on pages 130 to 149. Key management compensation is disclosed in Note 4.

Directors of the Company control 0.27% 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.

30. Prior Period Adjustment

During the preparation of the financial statements, a mapping error was identified relating to the reduction in the Cycle to Work contract liability in respect of expected breakage. This reduction in the liability had in previous years been mapped to Prepayments and Accrued Income in the financial statements rather than being mapped to the Cycle to Work liability in Accruals and Deferred Income.

£12.0m was incorrectly included in Prepayments and Accrued Income as at the prior period end of 2 April 2021. The error at the period end of 3 April 2020 is £8.2m.

To correct for this error, in the Consolidated Statement of Financial Position, Trade and other receivables at 2 April 2021 have been reduced by £12.0m with a corresponding adjustment to Trade and other payables. Within net cash from operating activities in the Consolidated Statement of Cash Flows, Increase in trade and other receivables has increased by £3.8m with a corresponding adjustment to Increase in trade and other payables.

In correcting this error, there is no impact on the Consolidated Income Statement or Net Assets.

31. Post Balance Sheet Events

Post the balance sheet year end **Halfords** Group have acquired APT Tyre Distributors Limited on 6 April 2022 this was not a material transaction.

Company Balance Sheet

	Notes	1 April 2022 £m	2 April 2021 £m
Fixed assets			
Investments	4	**811.4**	803.6
Current assets			
Debtors falling due within one year	5	**68.5**	2.1
Cash and cash equivalents	6	**3.6**	5.1
		72.1	7.2
Creditors: amounts falling due within one year	7	**(354.9)**	(606.7)
Net current liabilities		**(282.8)**	(599.5)
Creditors: amounts falling due after more than one year	7	**–**	–
Net assets		**528.6**	204.1
Capital and reserves			
Called up share capital	9	**2.2**	2.0
Share premium account	9	**212.4**	151.0
Investment in own shares	9	**(11.6)**	(10.0)
Capital redemption reserve	9	**0.3**	0.3
Profit and loss account	9	**325.3**	60.8
Total shareholders' funds		**528.6**	204.1

The notes on pages 205 to 209 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 205.

The Company made a profit before dividends paid for the period of £273.2m (52-week period to 2 April 2021: £0.6m). The profit for the period reflected the receipt of a dividend on the liquidation of **Halfords** Holdings (2006) Limited.

The financial statements on pages 203 to 209 were approved by the Board of Directors on 15 June 2022 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 3 April 2020	2.0	151.0	(10.0)	0.3	53.8	**197.1**
Profit for the period	–	–	–	–	0.6	**0.6**
Share options exercised	–	–	–	–	–	**–**
Share based payments	–	–	–	–	6.4	**6.4**
Dividends paid	–	–	–	–	–	**–**
At 2 April 2021	2.0	151.0	(10.0)	0.3	60.8	**204.1**
Profit for the period	–	–	–	–	273.2	**273.2**
Issue of new shares (net of share issue costs)	0.2	61.4	–	–	–	**61.6**
Acquisition of Treasury Shares	–	–	(3.0)	–	–	**(3.0)**
Share options exercised	–	–	1.4	–	–	**1.4**
Share based payments	–	–	–	–	7.8	**7.8**
Dividends paid	–	–	–	–	(16.5)	**(16.5)**
At 1 April 2022	2.2	212.4	(11.6)	0.3	325.3	**528.6**

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 52 weeks to 1 April 2022, whilst the comparative period covered the 52 weeks to 2 April 2021. 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 in the Directors' Report 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 the UK adopted international financial reporting standards have been applied, with amendments where necessary in order to comply with Companies Act 2006.

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 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 52 week period to 1 April 2022 of £273.2m (52 week period to 2 April 2021: £0.6m profit). The profit for the period reflected the receipt of a dividend on the liquidation of **Halfords** Holdings (2006) Limited of £273.0m. 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 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 130 to 149, which forms part of the audited information.

4. Investments

	£m
Shares in Group undertaking	
Cost	
As at 2 April 2021	803.6
Additions – share-based payments	7.8
At 1 April 2022	**811.4**

The investments represent shares in the following subsidiary undertaking as at 1 April 2022 and the fair value of share-based compensation plans that are awarded to employees of the Company's subsidiary undertakings.

Management have conducted an impairment review which has been undertaken on the Group's Retail and Car servicing cash-generating units of which the Company's investment form part. The results of this review are disclosed in note 11, including a sensitivity analysis. In this review, the combined value in use as at 1 April 2022 exceeds the investments held in subsidiary undertakings of £811.4m (FY21: £803.6m), and therefore management have concluded that under IAS36, no impairment has been identified with regard to the Company's investments in subsidiaries.

	Incorporated in	Ordinary shares percentage owned %	Principal activities
Halfords Group Holdings Limited	Great Britain[1]	100	Intermediate holding company

1. Registered in England and Wales. Registered office: Icknield St Dr, Washford Ln, Redditch B98 0DE

In the opinion of the Directors, the recoverable amount of the investments in the subsidiary undertaking is not less than the amount shown above.

4. Investments continued

The related undertakings of the Company at 1 April 2022 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 Group Holdings Limited	Intermediate holding company	100
Halfords Holdings (2006) Limited*	In Liquidation	100
Halfords Holdings Limited	In Liquidation	100
Halfords Finance Limited*	In Liquidation	100
Halfords Limited*	Retailing of auto parts, accessories, cycles and cycle accessories	100
Halfords Payment Services Limited*	In Liquidation	100
Halfords Autocentres Holdings Limited*	In Liquidation	100
Halfords Autocentres Funding Limited*	In Liquidation	100
Halfords Autocentres Limited*	Car servicing	100
Halfords Autocentres Acquisitions Limited*	In Liquidation	100
NW Autocentres Limited*	Dormant	100
Halfords Autocentres Developments Limited*	Dormant	100
Stop N' Steer Limited*	Dormant	100
Halfords Vehicle Management Limited*	Dormant	100
The Universal Tyre Company (Deptford) Limited*	Car servicing	100
G W Autoserve (Ipswich) Limited*	In Liquidation	100
G W Commercial Tyres Limited*	In Liquidation	100
Boardman Bikes Limited*	Non-trading	100
Boardman International Limited*	Non-trading	100
Cycle Republic Limited*	Dormant	100
Performance Cycling Holdings Limited*	Intermediate holding company	100
Performance Cycling Limited*	Retailing of cycles and cycle accessories	100
Wheelies Direct Limited*	Dormant	100
Tredz Limited*	Non-trading	100
Giant (Wales) Limited*	Non-trading	100
National Tyre and Autofit Limited*	Dormant	100
Tyre and Autofit Limited*	Dormant	100
National Tyre Service Limited*	Car servicing	100
The Marsham Tyre Company Limited*	Dormant	100
W. Briggs & Co Limited*	Dormant	100
Halfords Software Services Division Limited*	Software as a Service Provider	100
Subsidiaries registered in Scotland, with a registered address of: The Ca'D'Oro, 45 Gordon Street, Glasgow, Scotland, G1 3PE		
McConechy's Tyres Services Holdings Limited*	Intermediate holding company	100
McConechy's Tyres Services Limited*	Car servicing	100
Strathclyde Tyre Services Limited*	Dormant	100
Axle Group Holdings Limited*	Intermediate holding company	100
Axle Group Limited*	Intermediate holding company	100
Viking International Limited*	Dormant	100
Step Grades Motor Accessories Limited*	Car servicing	100
Birkenshaw Tyre Company Limited*	Dormant	100
Constant Price Monitor Limited*	Car servicing	100
Birkenshaw Distributors Limited*	Car servicing	100
Acorn (Paisley) Limited*	Dormant	100
Subsidiary registered in the Republic of Ireland, with a registered address of: c/o DWF Dublin, Unit 2, The Park, Dublin D18 KP73		
Halfords (Ireland) Limited*	Dormant	100
Subsidiary registered in Delaware USA, with a registered address of: c/o Corporation Service Company, 251 Little Falls Drive, Wilmington, DE 19808		
Halfords Software Services Division LLC*	Software as a Service Provider	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	0.03

* Shares held indirectly through subsidiary undertakings

The only subsidiaries to trade during the year were **Halfords** Limited, **Halfords** Autocentres Limited, Performance Cycling Limited, McConechy's Tyre Services Limited, The Universal Tyre Company (Deptford) Limited, National Tyre Service Limited, Stepgrade Motor Accessories Limited, **Halfords** Software Services Division Limited, **Halfords** Software Services Division LLC, Constant Price Monitor Limited, Birkenshaw Distributors Limited, and ULM Services Limited.

Notes to the Financial Statements

5. Debtors

	2022 £m	2021 £m
Falling due within one year:		
Prepayments	1.5	–
Amounts owed by Group undertakings	67.0	2.1
	68.5	2.1

Amounts owed by Group undertakings are subject to interest. At 1 April 2022, the amounts bear interest at a rate of 2.48% (2021: 1.31%).

The increase in Amounts owed by Group undertakings in the period relates to a loan of amounts raised through the share issue in the period (Note 9), to **Halfords** Autocentres Limited to fund the acquisition of the Axle Group.

6. Cash and Cash Equivalents

	2022 £m	2021 £m
Falling due within one year:		
Cash at bank and in hand	3.6	5.1
	3.6	5.1

£3.5m (2021: £5.1m) of the Company's cash and cash equivalents included in the Balance Sheet is held by the trustee of the Company's employee benefit trust in relation to the share scheme for employees. Therefore, these funds are restricted and are not available to be circulated on demand.

7. Creditors

	2022 £m	2021 £m
Falling due within one year:		
Bank borrowings (Note 8)	–	16.5
Amounts owed to Group undertakings	354.9	589.9
Accruals and deferred income	–	0.3
	354.9	606.7
Falling due after more than one year:		
Bank borrowings (Note 8)	–	–
	–	–

Amounts owed to Group undertakings are repayable on demand and have, therefore, been classified as due within one year, although it is expected that not all of this amount will be repaid within 12 months of the balance sheet date.

8. Borrowings

	2022 £m	2021 £m
Current		
Unsecured bank overdraft	–	16.5
Non-current		
Expiring between two and five years	–	–
	–	16.5

The above borrowings are stated net of unamortised issue costs of £1.5m (2021: £1.6m), which is included within prepayments.

Details of the Company's borrowing facilities are in Note 18 of the Group's financial statements.

9. Equity Share Capital

Ordinary shares of 1p each:	2022 Number of shares	2022 £000	2021 Number of shares	2021 £000
Allotted, called up and fully paid	**218,928,736**	**2,189**	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.

The Company issued 19,812,104 new ordinary shares with a par value of 1p per share on 2 December 2021.

Proceeds from the share issue recognised within Share Premium totalled £61.4m (2021: £nil), net of transaction costs of £1.8m (2021: £nil). Total Share Premium at 1 April 2022 was £212.4m (2021: £151.0m).

In total the Company received proceeds of £1.4m (2021: £nil) from the exercise of share options. During the year, the Company purchased £3.0m (2021: £nil) of its own shares through the employee benefit trust.

Potential Issue of Ordinary Shares
The Company has a number of employee share option schemes. Further information regarding these schemes can be found in Note 24 of the Group's financial statements.

Investment in Own Shares
At 1 April 2022, the Company held in Trust 1,460,702 (2021: 1,637,101) of its own shares with a nominal value of £14,607 (2021: £16,371). 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 1 April 2022 was £3.8m (2021: £6.1m). In the current period 1,036,147 (2021: nil) were repurchased and transferred into the Trust, with 1,208,087 (2021: nil) reissued on exercise of share options.

10. Share-based Payments
Share-based payments during the period were £7.8m (2021: £6.4m), bringing the balance at 1 April 2022 to £36.5m (2021: £28.5m).

11. Profits Available For Distribution
Distributable reserves in the Company Balance Sheet total £289.0m at 1 April 2022.

12. Reserves
The Company settled dividends of £16.5m (2021: £nil) in the period, as detailed in Note 8 to the Group's financial statements.

13. Related Party Disclosures
Under FRS 101 "Related party disclosures" the Company is exempt from disclosing related party transactions with entities which it wholly owns.

14. 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 1 April 2022 amounted to £1.5m (2021: £1.5m).

The Company's banking arrangements are subject to a netting facility whereby credit balances may be offset against the indebtedness of other Group companies.

15. Off Balance Sheet Arrangements
The Company has no off Balance Sheet arrangements to disclose as required by S410A of the Companies Act 2006.

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Shareholder Information

Contents


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Five-Year Record

	52 weeks to 30 March 2018[1] (audited) £m	52 weeks to 29 March 2019[1] (audited) £m	52 weeks to 27 March 2020[2] £m	52 weeks to 2 April 2021 (audited) £m	**52 weeks to 1 April 2022 (audited) £m**
Revenue	1,135.1	1,138.6	1,142.4	1,292.3	**1,369.6**
Cost of sales	(564.9)	(559.6)	(558.4)	(636.0)	**(647.9)**
Gross profit	570.2	579.0	584.0	656.3	**721.7**
Operating expenses	(495.6)	(516.8)	(513.5)	(541.8)	**(620.6)**
Operating profit before non-underlying items	74.6	62.2	70.5	114.5	**101.1**
Non-underlying operating expenses	(4.8)	(7.8)	(34.2)	(35.0)	**6.8**
Operating profit	69.8	54.4	36.3	79.5	**107.9**
Net finance costs	(2.7)	(3.4)	(13.6)	(15.0)	**(11.3)**
Underlying Profit Before Tax[2]	71.6	58.8	56.9	99.5	**89.8**
Non-recurring operating expenses	(4.8)	(7.8)	(34.2)	(35.0)	**6.8**
Non-recurring finance costs	0.3	–	–	–	**–**
Profit before tax	67.1	51.0	22.7	64.5	**96.6**
Taxation	(13.2)	(10.5)	(6.9)	(17.4)	**(17.2)**
Taxation on non-underlying items	0.8	1.4	5.0	6.1	**(1.7)**
Profit attributable to equity shareholders	54.7	41.9	20.8	53.2	**77.7**
Basic earnings per share	27.8p	21.2p	10.6p	27.1p	**37.9p**
Basic earnings per share before non-underlying items	29.6p	24.5p	25.4p	41.7p	**35.5p**
Weighted average number of shares	197.0m	197.1m	197.0m	197.1m	**204.7m**

1. All FY18 and FY19 financials are stated on a pre-IFRS-16 basis
2. The statutory 53-week period to 3 April 2020 comprises results that are non-comparable to the 52 weeks periods reported in other years. To provide a more meaningful comparison, the above table includes the unaudited pro forma 52 weeks to 27 March 2020

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 164. 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:

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.

	FY22 £m	FY21 £m	FY20 £m
Cash & cash equivalents	**46.3**	67.2	115.5
Borrowings – current	**(74.7)**	(63.6)	(83.4)
Borrowings – non-current	**(316.5)**	(280.9)	(511.9)
Net Cash/(Debt)*	**(344.9)**	(277.3)	(479.8)

* The statutory 53-week period to 3 April 2020 comprises reported results that are non-comparable to the 52-week period reported in the current and prior 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.

	FY22 £m	FY21 £m	FY20 (53 weeks) £m
Underlying EBIT	**101.1**	114.5	67.2
Depreciation, amortisation & impairment	**106.0**	118.5	118.7
Underlying EBITDA	**207.1**	233.0	185.9
Non-underlying operating expenses	**6.8**	(35.0)	(34.2)
EBITDA	**213.9**	198.0	151.7
Share-based payment transactions	**7.8**	6.4	1.0
Loss on disposal of property, plant & equipment	**(5.2)**	1.7	2.8
Working capital movements	**(70.0)**	49.0	52.0
Provisions movement and other	**(14.7)**	25.7	(3.1)
Adjusted Operating Cash Flow*	**131.8**	280.8	204.4

* The statutory 53-week period to 3 April 2020 comprises reported results that are non-comparable to the 52-week period reported in the current and prior period.

8. Free Cash Flow is defined as Adjusted Operating Cash Flow (as defined above) less capital expenditure, net finance costs, taxation, exchange movements, lease payments, and arrangement fees on loans; as reconciled below.

	FY22 £m	FY21 £m	FY20 (53 weeks) £m
Adjusted Operating Cash Flow	**131.8**	280.8	193.1
Capital expenditure	**(47.3)**	(27.5)	(33.6)
Net finance costs	**(10.6)**	(15.5)	(13.2)
Taxation	**(12.2)**	(10.8)	(16.3)
Sales and Leaseback	**7.5**	–	–
Exchange movement	**0.9**	2.1	(2.0)
Lease Payments	**(85.0)**	(95.9)	(87.7)
Adjusted Operating Cash Flow*	**(14.9)**	133.2	40.3

9. Group Services revenue was £531m during the period, the remainder £838.6m relates to Product only revenue.

Company Information

Financial Calendar

Friday 12 August 2022	Final Dividend Record Date
Wednesday 7 September 2022	Annual General Meeting
Wednesday 7 September 2022	20 Week Trading Update
Friday 16 September 2022	Final Dividend Payment Date
Wednesday 16 November 2022	Interim Results
Thursday 12 January 2023	FY22 Q3 Trading Statement

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