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

Halfords Group plc

Annual Report and Accounts for the period ended 2 April 2021

Stock code: HFD

halfords

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

Evolving into a consumer and B2B services-led business, positioned for long-term success.

Our unique market position means we can offer customers products and services for all their motoring and cycling needs under the **Halfords** brand. We have proven that our strategic direction is right and with our highly skilled colleagues and strong culture, we are well-positioned to deliver for all our stakeholders.

We offer a unique proposition

We are the market-leader in motoring and cycling products and services, providing our customers with the convenience of over 900 fixed and mobile locations and with unparalleled specialist expertise.

Read more on pages 08 and 09.

We have a proven strategy

Our strategy is more relevant than ever. We have made progress against our strategic priorities with strong momentum continuing in a challenging operating environment.

We have a strong culture

Our colleagues live our values and demonstrate a 'can do' attitude, making them the foundation of our long-term sustainable success.

Keeping the UK moving during 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. Our Retail stores, despite initially being closed, delivered free checks and discounts to over 480,000 key workers and were a vital way for customers to get access to bikes and cycling services during a period of unprecedented demand. Growth in our Mobile Expert vans proposition meant we were also able to provide services in a safe, contact-free and convenient way.

Read about our response to the COVID-19 pandemic on pages 12 and 13.

Our Integrated Report

This is our seventh 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.annualreport2021.com**

Corporate Website

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

What's in this Report

Positioned for long-term success

We are evolving into a consumer and B2B services-led business, positioned for long-term success.

Our strategy remains unchanged, with motoring and cycling products remaining at the core of our proposition. However, in recognising the market opportunity and our unique advantages, we will continue to evolve into a consumer and B2B services-focused business, with a greater emphasis on motoring, generating higher and more sustainable financial returns.

The last year has proven that this is the correct strategic direction for our business, and we continue to invest in the right areas to meet the expectations of our key stakeholders. Alongside this, we recognise the importance of sustainability and we are therefore committed to minimising our impact on the environment, creating a diverse and inclusive workplace, and ensuring that we give back to the communities in which we operate.

We offer a unique proposition

Delivering value in the short term:

- **Halfords** continues to play an essential role in keeping the UK moving during the pandemic.
- Providing market-leading service specialism – the only business in the UK able to offer Motoring Services in a retail store, a garage, at home or at work, providing our customers with unparalleled choice and convenience.
- Cycling growth remains strong, demand for mobile services is high.

Ensuring success in the long term:

- Our market-leading proposition will continue to differentiate **Halfords** in the UK retail and motoring services sectors. Much of our Services proposition is unique, including, for example, on-demand fitting.
- We will continue to invest in our Services proposition by scaling the number of customer touchpoints and broadening our services offering.

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 our customers with unparalleled choice and convenience.

We have a proven strategy

Delivering value in the short term:

- The accelerated shift to online was enabled by our investments in a new Group web platform and our best-in-class digital operating model in Autocentres.
- We capitalised on the cycling tailwind by leveraging our relationships with suppliers to meet unprecedented demand and significantly improving the profitability of the category.
- We have made good progress against our strategic priorities, with strong momentum continuing in a challenging operating environment.

Ensuring success in the long term:

- Our strategy will see us develop into areas with good long-term growth prospects such as motoring services, B2B and electric mobility.
- The UK's motoring service market is highly-fragmented with no clear market leader, and one in which we have some unique advantages.
- The integration of our physical and digital assets, such as stores, garages, vans and home delivery, will provide even more convenience for customers.

Growth of Group online sales

+110%

Group Service-Related Sales growth of

+23%

We have a strong culture

Delivering value in the short term:

- Our colleagues are at the heart of our business and have passion, dedication and a 'can do' attitude, making them the foundation of our long-term sustainable success.
- We have prioritised colleague safety, supporting them throughout the pandemic in return for their unwavering loyalty and dedication to our customers. Our strong performance can be attributed to the strength and skillset of our colleagues.

Ensuring success in the long term:

- We motivate and incentivise our colleagues to 'inspire' and 'support' our customers with their motoring and cycling needs and deliver best-in-class training via our in-house training programmes such as 'Gears' and E-training.
- We continue to invest in our colleagues' wellbeing and ensure they are fully engaged to drive our long-term sustainable growth ambitions.

Autocentres Net Promoter Score improved by

+3.8 points

Offering free checks and discounts to

480,000

NHS workers, teachers and Armed Forces staff

Group Highlights

Strategic Highlights

Halfords Mobile Expert Growth
A notable highlight this year was the demand for our **Halfords** Mobile Expert proposition, which remained high throughout the period, with record job numbers and sales over the summer as the benefits of convenience and safety resonated with customers. We continued to invest in our Mobile Expert proposition, increasing the scale and geographic reach of this service, and ended the year with 143 vans in our fleet.

Acquisition of The Universal Tyre Company
In March, we announced the acquisition of The Universal Tyre Company. Operating from 20 sites and 89 commercial vans in the South East of the UK, Universal specialises in tyre services, including the supply and fit of tyres for a wide range of vehicles, from cars to commercial and agricultural vehicles, as well as providing general car maintenance and repairs such as brakes, servicing and MOT. This acquisition takes us closer to our medium-term goal of having 550 garages and delivering our consumer services proposition from over 1,000 locations.

Biggest Ever Year of Group Services
It was a record year for our Group Services proposition, and against the backdrop of -25% fewer journeys, it is testament to our focus on this market. We launched several initiatives to boost customer awareness, including our 'Road Ready' campaign, our Group marketing campaign and our free 32-point bike check. We made booking our services easier than ever by enabling customers to book on our single Group website and we are the first national service provider to allow customers to book timed cycle service appointments or collections online. With heightened demand, we continued to increase our scale and capacity, making it easier and more convenient for customers to receive their services.

Refreshing ESG Strategy
Sustainability continues to be high on our agenda and during the year we conducted a refresh of our ESG strategy, recognising the need to fully integrate our commitments and actions with the corporate strategy. We aligned on four key areas of priority - Electrification, Net Zero Commitment, Diversity & Inclusion, and Product, Packaging and Waste Management – and developed a roadmap for delivering against these priorities in the short, medium, and long term. We have also set science-based targets and have engaged with the Science Based Target Initiative ("SBTi"), working towards formal accreditation.

Operational Highlights

Our Response to a Challenging Year
COVID-19 was demonstrably the most significant challenge faced by any retailer over the last year, but we have also faced Brexit, container shortages, port congestion and more recently, the blockage of the Suez Canal. Despite all of these external challenges, our operational agility has meant that our business has been able to perform well, keep our colleagues safe and offer products and services to our customers in order to help keep the UK moving.

Investing in Colleagues
Over the last year, our colleagues have shown their dedication to our business, going the extra mile to provide our customers with the products and services they needed to keep the UK moving. We have invested significantly to ensure the health, safety and wellbeing of our colleagues and continue to prioritise colleague training – recognising the value of multi-skilled colleagues and providing more cross-Group career opportunities. This year, we also implemented a new operating model in our Retail stores, designed to significantly increase our scale and capability in motoring and cycling services.

Strong Growth in Tredz
Tredz, our Performance Cycling business, saw strong growth during the year, driven by the cycling market boom as the UK public took to bikes during lockdown, and capitalising on customer transfer from our closed Cycle Republic business. We identified very early in the pandemic the unprecedented levels of demand for cycling, enabling us to use our scale and relationships to secure stock from new and existing suppliers.

Review of our Physical Estate
Our focus on cost and efficiency has led us to conduct a full review of our physical estate, resulting in the closure of 80 stores and garages, which includes the exit of 22 Cycle Republic stores announced at the end of FY20. We are confident we will retain a large share of the customer base through trade transfer to neighbouring stores based on trials, experience through the pandemic and analysis of catchment areas.

Total Group sales which are service-related

29%

Total Group sales from online channels

44%

Halfords.com online orders click and collected in-store

80%

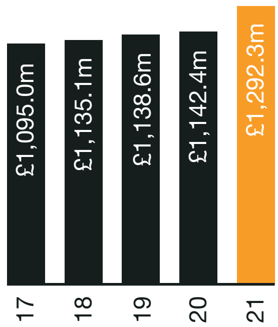
Total Group sales from B2B channels

18%

Financial Highlights

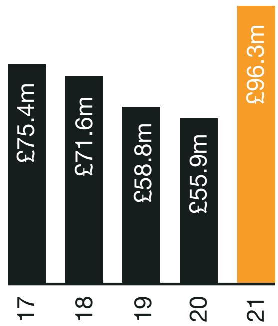
Revenue (£m)[1]

+13.1%



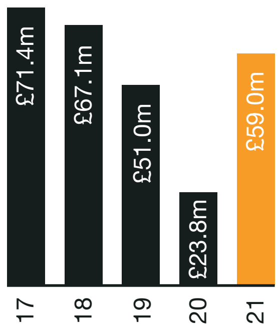
Underlying profit before tax (£m)[1,2]

+72.3%



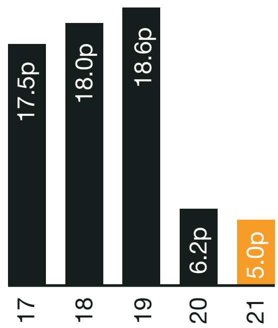
Profit before tax (£m)[1,2]

+184.1%



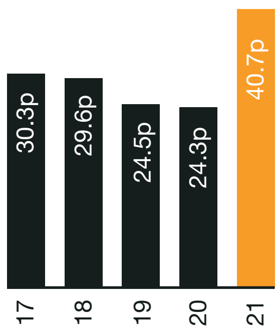
Dividend per ordinary share (p)

-19.0%



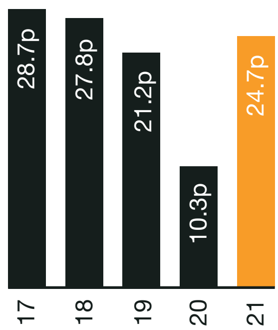
Underlying basic earnings per share (p)[1,2]

+67.5%



Basic earnings per share (p)[1,2]

+139.8%



Read more in the Chief Financial Officer's Review on pages 58 to 64.

1. FY20 numbers are calculated on a 52-week basis.
2. These numbers are calculated on a pre-IFRS 16 basis.

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 culture

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 they come to work.

Our Vision

Our aspirational goal

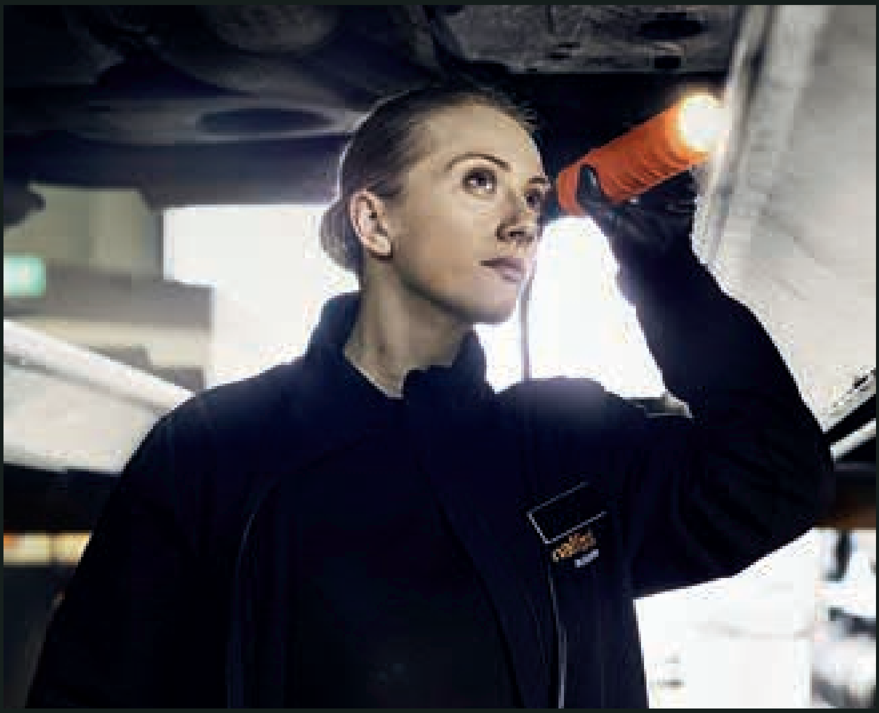
The super-specialist in motoring and cycling, trusted by the nation.

Our Mission

Our achievable goals

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

Read more in our sustainability section on pages 42 to 53.



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.

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. During FY21, we ran listening groups to inform a new set of Group values, relevant for the current strategy. These new values are the fundamental beliefs that underpin everything we do and have been incorporated into Group training, review and reward mechanisms.

Our Culture

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

Read more about how the Board monitors our culture on pages 94 to 97.

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.

The last year has highlighted how important it is for customers to get access to the products and services in the way that is most convenient for them, and our proposition must match this. We recognise that most customer journeys begin online and our Group website gives customers access to a range of options, from delivery-to-home or to-store, booking a service in garages or stores, having a fitting done on their driveway via our **Halfords** Mobile Expert vans, or a phone call or web chat with our contact centre. Longer term, we are planning a new and exciting way to showcase our market-leading proposition with a re-designed physical estate, enabling customers to experience our products and services in a more inspiring, more integrated, and more convenient way.

Our Unique Combination of Assets Create a Market-Leading Customer 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
404 **Halfords** Retail and 3 Performance Cycling stores offering a wide range of motoring and cycling products and on-demand services.

Garages
374 garages offering MOT, service, maintenance and repair services.

Mobile Vans
143 '**Halfords** Mobile Expert' vans and 185 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 all **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.

Read more about how we operate on pages 32 and 33.

Services

Last year, we set out our ambition to evolve into a consumer and B2B services-focused business, meaning that even more of our revenue would come from Services. In the medium term, over half of our business will be in Services, which are essential in their nature, meaning we are a more resilient business with higher customer retention, a lower risk profile and generating a stronger and more sustainable return on capital. Our status as an essential retailer and services provider throughout the COVID-19 pandemic, and our ability to provide services to those in need, highlights how this shift in emphasis benefits both the Group and our customers.

Our Offering

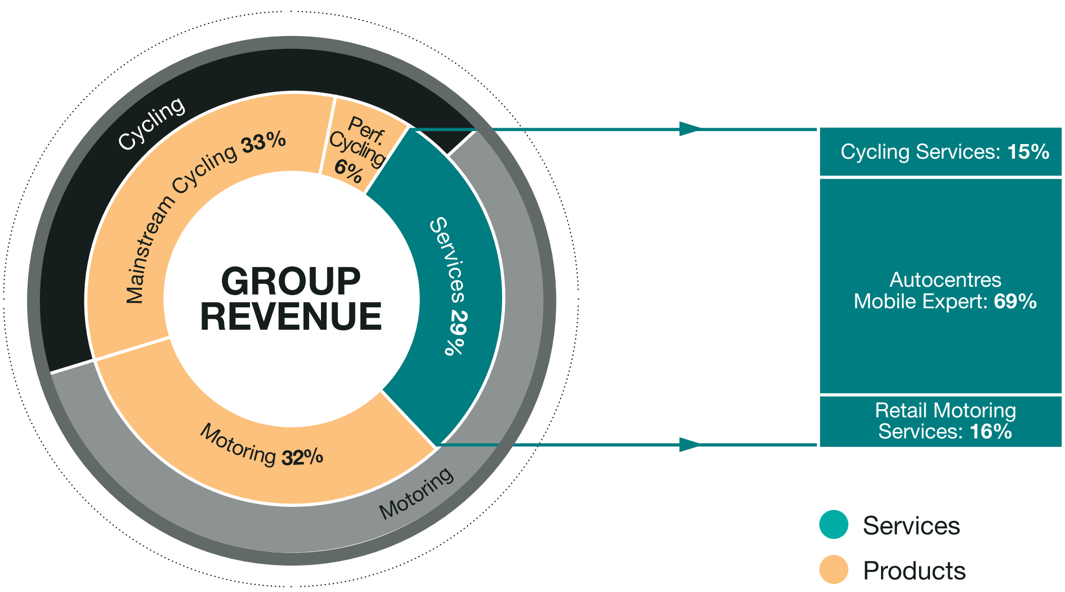
- Retail Cycling Services
- Autocentres/ Mobile Expert
- Retail Motoring Services

Products

Selling products remains at the heart of our proposition and we are always looking to bring new, exciting and innovative products to market to maintain pace with customer expectations and emerging market trends. From the latest E-bike and E-scooter to a child car seat to a motorcycle battery, we work hard to ensure that we can offer a wide range of products and services as part of our customers' motoring and cycling journeys.

Our Offering

- Mainstream Cycling Products
- Performance Cycling
- Motoring Products



> Our colleagues at Halfords provided over 480,000 services to key workers and over a million services during full lockdowns to those needing our support.

Chair's Statement

Keith Williams

Free Cash Flow
£145.3m

Net Cash
£58.1m

Read our Corporate Governance Report on pages 86 to 108.

We recognise the remarkable efforts of our colleagues during the challenges of COVID-19 and look forward to an exciting year ahead.

As I prepared last year's statement, the impacts of COVID-19 were still emerging, but it was already clear it would have a material effect on every aspect of our lives.

One year on, this statement coincides with UK restrictions lifting and our lives beginning to return to normal, albeit with a degree of uncertainty about the future.

Although I am keen to look to the future, we should remember the many admirable efforts across the UK over the last year.

The pandemic

We are proud to be key workers during the pandemic. Our colleagues at **Halfords** provided over 480,000 services to key workers during the year and over a million services during full lockdowns to those needing our support. We managed to keep most of our stores, garages and vans open, providing a safe environment for our staff and for customers to enable them to buy essential items to carry them through lockdown.

Last year, I referenced our colleagues as being the lifeblood of our business.

The response of every colleague throughout the business has been truly remarkable. In FY21 we launched a series of initiatives to help support them including Front Line bonus schemes, hardship funds, free flu vaccinations and support lines. I hope in some way, we have eased the distress of the last 12 months on some of our colleagues.

In order to safeguard the business, we took fast and decisive action to safeguard the immediate future, followed by an ongoing and agile response to the volatile and transforming environment we faced.

At times, traffic levels were more than 90% below pre-pandemic levels, impacting the motoring side of our business as the public stayed in and worked from the safety of their home, MOTs were not required for a period in our Autocentres and cycling needed to adapt to increased demand while many of our suppliers themselves were in lockdown.

We had to take a series of very difficult decisions during the first few months: pausing dividend payments, furloughing 50% of colleagues, and running a reduced investment plan that ultimately limited our ability to transform the business. That said, I am pleased that despite some major investments being curtailed, the Group still made meaningful progress towards creating a more efficient and profitable business for the future.

I am particularly pleased with the resulting Group's performance during FY21 as the UK faced an almost continuous rhythm of restrictions and lockdowns. Group Profit Before Tax was £96.3m (£99.5m post-IFRS 16), over £40m ahead of last year, and we generated a Free Cash Flow of £145.3m, finishing with net cash of £58.1m.

Looking at the Year Ahead

Hoping for the best but preparing for the worst, we will continue to hold a strong balance sheet given the uncertainties ahead. But we are well placed to continue our plans to move the business forward.

I believe our existing strategy, that will see **Halfords** evolve into both a consumer and B2B services-focused business, generating higher and more sustainable financial returns, is still the right one, and we will continue our plans to accelerate the growth of our motoring services business. This requires greater capital expenditure, which we expect to be with the range of £50m–£60m.

We have many exciting plans that were momentarily paused, but I now look forward to seeing them emerge in FY22 and the positive effects they will have on the Group.

Dividend

Given the strength of our performance in the closing stages of FY21, the Board has proposed a final dividend of 5p per share. We also propose a dividend in FY22 of 9p per share with an intention for this 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.

Board of Directors

We have seen three changes to our Board this year. In September, we welcomed Tom Singer to the Board. I know Tom will bring invaluable experience to the Board and will contribute greatly to the ongoing success of **Halfords**. Also, in September David Adams stepped down as Senior Independent Director, and Helen Jones took on this role. In December, David Adams left **Halfords**, following which Tom Singer became Chair of the Audit Committee. We have benefitted greatly from David's considerable efforts since he joined the Board, initially as a Director and more recently in his additional roles as Chair of the Audit Committee and as Senior Independent Director. We are grateful to David for the work he has done in these roles.

Keith Williams
Chair

16 June 2021

Proposed final Dividend for FY21

5.0p

per share

Proposed Dividend in FY22

9.0p

per share

Our Response to COVID-19

Playing an essential role in keeping the UK moving during the pandemic

Our response in numbers

£2.3m

awarded to customer-facing colleagues working through the initial lockdown, as part of a Frontline Colleague Support Scheme.

£1.5m

investment to create the *Halfords Here to Help* fund, supporting colleagues and their families who have been financially impacted by the pandemic.

480,000

free checks and discounts to key workers including NHS workers, teachers and Armed Forces personnel during the year.

The pandemic has highlighted the important role we play in society in helping the UK population to get from A to B in a safe, economical, convenient and environmentally-friendly way. Our market-leading Cycling and Motoring businesses afforded us the critical role to keep the UK moving during the pandemic, from free checks for key workers, to maintaining vehicles in our Autocentres, and to our mobile vans bringing services to people's doorsteps.

Taking care of our colleagues

The safety of our colleagues was our immediate priority throughout the beginning of the pandemic and has remained a top priority ever since. From acquiring sufficient PPE, to supporting our colleagues financially through our 'Here to Help' and 'Frontline Colleague Support' funds, to creating a Wellbeing Hub where colleagues can go to get support and advice, we have worked hard to ensure all colleagues are able to cope during these difficult times.

Supporting our customers

Our role in keeping the UK moving was essential for many key workers – maintaining bikes and vehicles to ensure they were able to perform their jobs throughout the pandemic. We created safe environments so that we could remain open to those in need and provided free checks and discounts to key workers throughout lockdown.

Working with suppliers to manage our supply chain

We worked closely with our suppliers on end-to-end supply chain challenges driven by global supply and demand volatility to ensure we could minimise disruption to our business. We reacted quickly to minimise delays, extending our planning and ordering horizons, redesigning product ranges to overcome shortfalls, and using our strong relationships to ensure both we and our suppliers were in the best place possible.

Ensuring the long-term success of our company: Financial Resources

We acted quickly and decisively at the start of the pandemic to preserve cash, in what was an incredibly uncertain environment. We increased the robustness of our processes and controls, implementing weekly scenario analysis and forecasting, and a daily Cash Committee to approve spending commitments. Later in the year, we refinanced our existing debt facilities with a new three-year commitment, expiring in 2023.

Ensuring the long-term success of our company: Risk Management

As an essential retailer, being able to continue to provide services to customers throughout the pandemic was a key focus. Protecting our customers and colleagues is important to us, therefore we were guided by a risk-led approach during this period. The Board and Executive Team follow a Risk Management framework that ensures the evaluation of emerging risk and the Group's principal risks as well as operational considerations.

Helping to make a difference to our communities

1 **Chris from Bolton**
At the Manchester Road Autocentre, Chris was happy to help when he received a request to provide some PPE for local care workers. He supplied them with a roll of seat covers so that they could continue to visit their patients while remaining safe.

2 **Paul from Washington**
A nurse with a flat tyre called the Washington Autocentre for help. Paul invited her to bring her car down immediately so they could do a complete tyre check. The check revealed that the punctured tyre needed replacing, while two others were low on pressure. The relieved nurse chose to get all four tyres replaced so that she'd be safe on the road.

3 **David from Hermiston Gait**
At the Hermiston Gait store in Edinburgh, David and the team supported an order for a children's autism charity. The team turned the order of 50 bikes with accessories around in just under a week, alongside delivering record bike volumes.

4 **Mark from Coatbridge**
The Autocentre got an urgent call from a company who needed to deliver medications to pharmacies for patients, but 13 tyres on their vans had been slashed and the vehicles stranded. Mark drove straight to the site in Edinburgh and changed all 13 tyres so that the vans could make their essential deliveries.

5 **Kieran from Aberdeen**
After a 12-hour shift, a nurse in Aberdeen found her car wouldn't start. Panicking, she called the Aberdeen Autocentre to see if they could help. Kieran had just finished his shift but didn't hesitate to go to her aid, travelling 15 miles to fit a new battery. The nurse was extremely grateful that she was able to get home for some well-deserved rest.

6 **Kieran from Gateshead**
McConechy's in Gateshead received a visit from a police rapid response vehicle, which urgently needed four new tyres. Kieran took the vehicle in straight away and managed to get it back out on the road in a record 35 minutes!

Investment Case

Five Reasons to Invest

Market-leading business

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

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.

Building a services-focused business

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

Strong balance sheet and cash generative

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

Dividend returns

Until the COVID-19 pandemic we have consistently paid a dividend, supported by strong levels of Free Cash Flow.

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.

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.

Convenient services proposition delivered in over 900 locations

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

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.

Super-specialist expertise that cannot be replicated

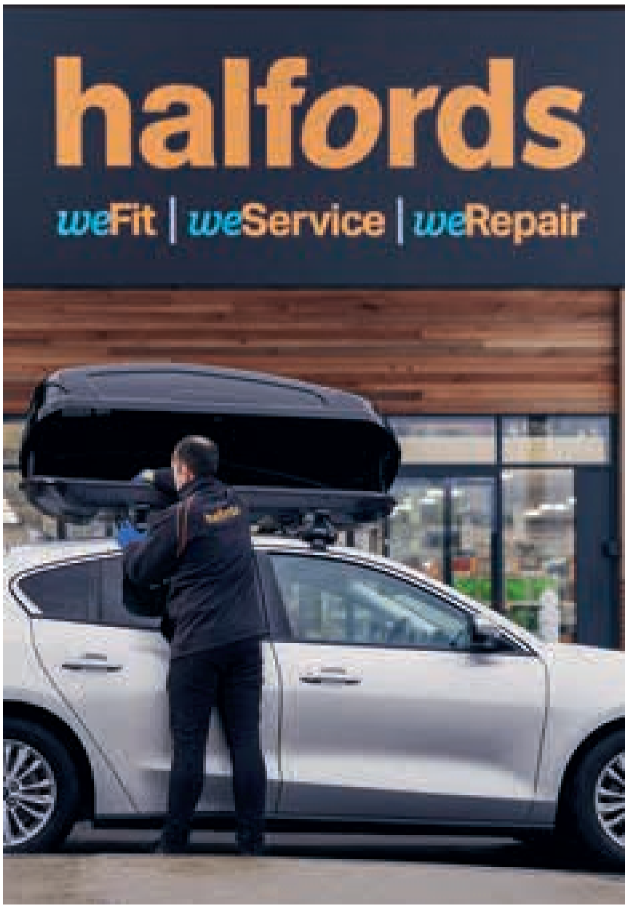
As a super-specialist, we have unmatched product and services expertise across both motoring and cycling, creating a significant barrier to entry for our generalist competitors, both on and offline.

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 .

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.



Strategic Report

Contents

> We are delighted to have delivered a year of very strong financial and operational progress, especially in light of the extraordinary challenges presented by the pandemic. As ever, I would like to thank our outstanding colleagues across the business for their hard work, professionalism, and dedication.

Chief Executive Officer's Statement

Graham Stapleton

Underlying Profit Before Tax

£96.3m[1]

Autocentres Revenue Growth

+31.6%

Read our Corporate Governance Report on pages 86 to 108.

1. Number presented is pre-IFRS 16. Underlying Profit Before Tax, post-IFRS 16 is £99.5m.

Introduction

This year has undoubtedly been one of the most challenging that **Halfords** has faced in its 130-year history. I reflect on the year with immense pride in the commitment and determination of our colleagues to support our customers, suppliers and communities, whom we served throughout the pandemic to keep the UK moving in a time of great difficulty. Despite the challenging operating environment, I am very proud of the resilient and strong performance we delivered in FY21. We have shown agility in adapting our operating models on multiple occasions during the year, whilst at the same time continuing to build the strategic foundations on which we will transform our business in FY22. The Group is in good shape to invest in its strategy and position the business for long-term success.

Operational review

I am very pleased with our performance in FY21, shown not only in the financial results but also in the operational agility demonstrated throughout the business to overcome the many challenges presented last year. COVID-19 was clearly the most significant challenge faced by any retailer, but we have also faced Brexit, container shortages, port congestion and, more recently, the blockage of the Suez Canal. Our performance not only showcases the resilience of our core business and the relevance of our strategy, but also the importance of our progress in creating a more efficient and profitable business to provide strong foundations for future growth.

Retail revenue of £1,039.8m was +9.4% above last year and +14.6% on a LFL basis. We saw a volatile and unpredictable year of trading, with large swings in LFL performances from week to week, and across our categories. Overall, we saw strong demand for our Cycling products, +54.1% above last year, with our performance cycling business Tredz performing even better at +66.3%. Motoring was -12.1% LFL, better than traffic levels but inevitably impacted by the lockdowns.

Autocentre revenue was £252.5m, growing 31.6% year-on-year and +9.7% on a LFL basis. The overall growth in Autocentres benefited from the annualisation of our FY20 acquisitions and the continued expansion of our **Halfords** Mobile Expert business, launching new vans and hubs to serve this growing and in-demand service.

It has been a particularly strong year for our areas of strategic focus – Group Services, B2B and Online - demonstrating the resilience and relevance of our strategy in the face of a tough operating environment. Group Services revenue grew +23% on last year and accounted for 29% of the Group; B2B sales were up +40% on the prior year and accounted for 18% of Group revenue; and finally, online revenue was up +110% on last year and accounted for 44% of the Group.

Progress on strategy in FY21

‘To Inspire and Support a Lifetime of motoring and cycling.’

At our preliminary results in July 2020, reflecting the unprecedented impact and extreme uncertainty of the COVID-19 pandemic, we highlighted that we would moderate our near-term plan. We adjusted our short-term focus to cost efficiency and cash preservation, ensuring our colleagues are safeguarded and engaged in the success of the business and, of particular importance, adapting quickly to new customer trends. Our aim was to strengthen the core of our business during FY21, in the hope that we could return to more transformative investment in FY22 as the pandemic situation stabilised. Our progress on the key building blocks was as follows:

Continue to transform and build a unique and market-leading Motoring Services offer

- Increased the scale of our **Halfords** Mobile Expert offer to 143 vans, 14 hubs and over 250 technicians to serve a wider geographic reach.
- Acquired Universal Tyres, adding 20 garages to our fixed estate, as well as 89 vans, enabling us to expand our coverage of the commercial market in FY22.
- Continued to invest in our technology:
  - PACE into McConechy’s
  - Tyres on The Drive (“ToTD”) integrated into our Group website
  - WeCheck app launched in Retail stores
- Launched our first Group motoring services campaign, contributing to increased awareness and a +28% uplift in consideration scores for our Services offer.
- Implemented a new labour operating model in our Retail stores, designed to significantly increase our scale and capability in motoring and cycling services. We completed consultations with over 5,500 colleagues, with 88% ultimately retained in the business.

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

- Launched over 160 new customer enhancements to our group website, including ‘email me when in stock’, guided selling, local store stock availability, and personalisation.
- Transferred inbound phone and digital customer-contact from all 404 retail stores to a centralised, specialist team. With the pandemic driving contact volumes to at least four times higher than normal, caused by accelerated online adoption and a buoyant cycling market, this initiative enabled a significant improvement in call answer rates, to over 95%, improved service speed and query resolution, and the liberation of store-based colleagues to focus on those customers in front of them.
- With an ongoing focus on improving the customer experience, Retail NPS improved by +1.8 YoY and Autocentres NPS by +3.8 YoY, a proud achievement in such a challenging year.

Group Services Revenue
£370.0m

Growth in B2B revenue
40%

Chief Executive Officer's Statement

A focus on cost and efficiency, creating a leaner and more profitable business

- Cycling profitability improvements of +680bps, far exceeding the targeted +300bps.
- Sustainable working capital improvement of £20m
- In line with our plans announced in November 2019, we closed 80 low-returning stores and garages where we were confident of trade transfer to neighbouring locations. This includes the exit of 22 Cycle Republic stores, announced in FY20.
- Negotiated 19 lease renewals in Retail, achieving an average rent reduction of -30%.
- Secured GNFR annualised cost savings of £7m.

Invest in our Colleagues' welfare, engagement and development

- Colleague safety and wellbeing was our number one priority throughout FY21:
  - We invested £11m in PPE and COVID-19 protocols across the Group.
  - We invested a further £4m in direct financial support, including a Frontline Colleague Support Scheme and the **Halfords** Here to Help fund.
  - We launched a Wellbeing hub to support colleagues on a range of issues affecting their mental and physical health.
- We commenced our Services skills intervention, significantly increasing our colleagues' ability to provide a broad range of motoring and cycling services to customers and providing them with development opportunities to help further their careers.

FY22 strategy focus

The last 12 months have proven the resilience of our business and the ongoing relevance of our strategy to focus on the growth of motoring services and B2B. Although we expect the volatile and uncertain trading patterns to continue, the period of optimisation we have undertaken has strengthened the core business and it is now well-placed to withstand future challenges. Although we will continue to optimise the business, we will now accelerate the process of transformation that was paused during the pandemic.

By the end of FY22 we expect to see a different business beginning to emerge, with our areas of focus next year as follows:

Inspire

- Project Fusion remains an exciting opportunity and we will trial between two and three towns in FY22. We think of Fusion as '*a customer experience seamlessly, consistently, & conveniently executed across all of our assets in a town*'. It will encompass a destination retail store, an updated Autocentre garage, and a **Halfords** Mobile Expert offer, all operating together in conjunction with centralised customer support channels and an online and home delivery proposition across a major town or city. Focused primarily on improving the customer experience and understanding the potential of combining all **Halfords** services in the most compelling way, the trial will also test whether a reinvigorated in-store & garage design, focused more heavily on the delivery of services, can further stimulate sales across the Group.
- We will continue to invest heavily in our digital proposition, whether online through the Group web platform, or enabling the wider transformation agenda.
- Through Project 'Peloton 2', we will significantly improve our PACs ("parts, accessories and clothing") offering in Cycling, through better ranging, improved merchandising, and most importantly enabling our colleagues to provide customers with complete solutions to their needs.

Support

- We will increase our **Halfords** Mobile Expert van network to at least 200, bringing this popular service to more parts of the UK and giving us over 80% national coverage.
- We will increase the number of Autocentres garages, bringing us closer to our medium-term goal of 550 in the UK and ROI.
- We will continue to expand our B2B channel, in particular building on the commercial business we established through our acquisitions of McConechy's and Universal Tyres.
- We will lead the transition to an electric future by investing in training, technology and introducing new products and services, positioning **Halfords** as the leading voice of E-mobility. This will include a commitment to train over 2,000 Retail and Autocentres colleagues in Electric servicing in FY22.

Lifetime

- We will launch a unique and market-leading motoring services club, rewarding loyal customers with preferential terms and offers.
- The additional value of customers that shop across our Group remains an exciting and valuable opportunity. Although the pandemic caused normal shopping behaviours to be interrupted, we will continue to focus on this and our digital customer experience.
- Our focus on ESG matters will accelerate, centred on four priority areas in which **Halfords** can make a real difference: Electrification, our Net Zero commitment, Diversity & Inclusion, and Product, Packaging and Waste Management.

Underpinned by:

- Cost and efficiency will remain a focus and although we do not foresee any further large-scale property closures in the near-term, we will retain flexibility in our estate and seek to negotiate further rental savings.
- Our frontline colleagues will benefit from the biggest investment in skills to-date, further enhancing our super-specialist expertise. By the close of H2 we will have completed our skills intervention, resulting in our skills base increasing from 16,000 to over 40,000, with every colleague trained in all core services.
- We will transition to a new Group operating and reward model, better aligned to our Group strategy and our One **Halfords** Family values.

In addition to these strategic priorities, we will continue to optimise the business to further strengthen our foundations. As mentioned in our Outlook statement above, one key initiative in FY22 will be an investment in core pricing in our motoring products business. The dramatic acceleration in online shopping and a more challenging economic picture have brought value into sharp focus and so we believe this is the right time to make this investment, providing customers with greater value and providing a strong foundation for our services business.

Outlook

In the longer term, we are confident in the outlook for the motoring and cycling markets and our ability to compete strongly in both. We have demonstrated the resilience and growth opportunity in our Services and B2B businesses by gaining market share through increasing scale and convenience alongside enhancing the overall customer experience. We also believe that the increased adoption of Cycling will continue, supported by Government investment and a societal need to tackle climate change. As a business, we will continue to drive our markets by launching more new and exclusive products, becoming the market leader in electric mobility as the UK switches to a sustainable future, and continuing to engage our customers by creating a seamless digital and physical experience. Building on the strong foundations we have created in FY21, **Halfords** is well-positioned to accelerate its transformation journey.

Graham Stapleton
Chief Executive Officer

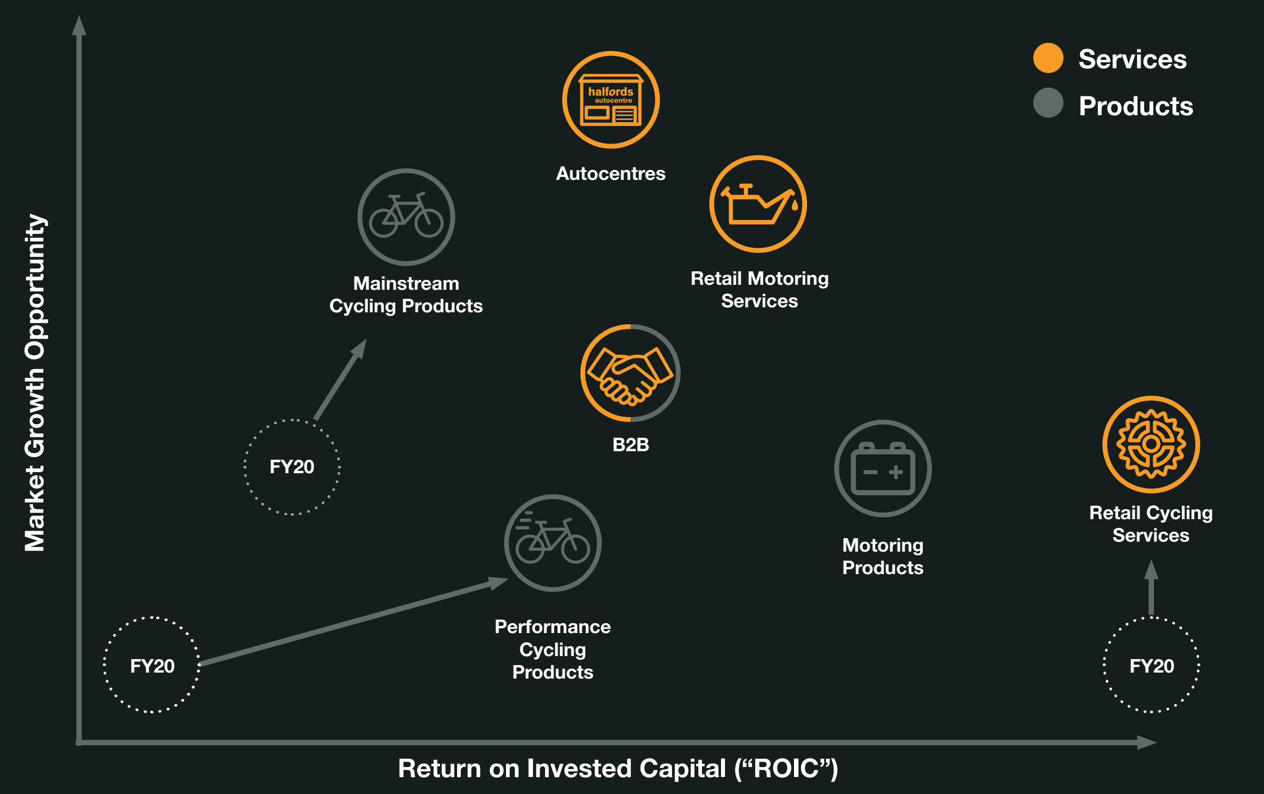
16 June 2021

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 Opportunity

FY21 has seen progress in improving cycling profitability and financial returns:



COVID-19 affected our markets in the short term however the resilient services markets remain the best growth opportunity for our business, particularly motoring services which are delivered through Retail stores, Autocentres or via our Mobile Expert vans. The past year has shown that, whatever the circumstances, these services are an essential part of life in the UK and our status as an essential provider highlights our role in keeping the UK moving. Even during the pandemic, the opportunity for us to take further share in this market remains significant, with no clear market-leader and no single equivalent competitor.

The cycling market saw strong growth over the last 12 months and also gave us the opportunity to take share. Cycling services has seen a boost as customers dusted-off their old bikes rather than buying new ones when stock was limited and buying big-ticket items was financially more challenging. We are leading the market in electric mobility and are excited about the future of E-bikes and E-scooters which, when coupled with the booming mechanical bike market, shows how exciting the cycling market is for us. Along with the increased market opportunity, we have had significant success improving the returns of our cycling business, by rationalising our ranges, negotiating better buying terms and promoting more effectively.

Despite growth prospects being relatively lower in Motoring Products, this segment still contributes a high return and represents a significant part of the **Halfords** Group. We are excited about the new market opportunities, particularly those surrounding the UK shift to electric vehicles, and look forward to invigorating the markets in which we operate.

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 at home 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 on climate change, clean air, reduction of plastic waste and ethical recycling, and wanting to shop with a clean conscience. 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.

Link to Strategy 3

Moving 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

New Post-COVID-19 Trends

Healthy Living and Exercise
Maintaining a healthy lifestyle – both physically and mentally – has been brought to the forefront of consumers' minds over the last year with self-care, healthy eating and exercise being key ways in which people have coped during the pandemic. Outdoor exercise such as walking and cycling has been encouraged by the Government and health experts alike. We expect this trend to continue as we move out of the pandemic and into the new norm.

Link to Strategy 1

Human Encounters
Customers are becoming more familiar with digital customer service interactions but want them to feel like in-person interactions. While customers understand many experiences will be digital, the in-person service with a smile will be essential to help brands stand out and be memorable.

Link to Strategy 1

Key

1 *Inspire*
2 *Support*
3 *Lifetime*

Our Marketplace

Key:
Motoring products
Motoring services
Autocentres

Motoring Market

Halfords Group addresses two distinct areas of the UK's highly-fragmented motoring market: Car Parts, Accessories, Consumables and Technology, and Car Servicing and Aftercare. From the perspective of the former, there is no single equivalent competitor selling all of our product ranges in physical locations, with many specialists and generalists now online only. In respect of the latter, there are over 30,000 garages in the UK, an estimated two-thirds of which are small independents.

Car Parts, Accessories, Consumables and Technology

>£3.5bn	20–25%	↓
Market size	Our share	Forecasted Market Growth

Our Approach

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

Competitor 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.
- Independent garages offering car parts and associated fitting.

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.

Car Servicing and Aftercare

>£9bn	2%	↑
Market size	Our share	Forecasted Market Growth

Our Approach

The automotive servicing market is large and highly fragmented with no clear leader, and with only 2% share, there is significant opportunity for **Halfords** to grow. Increasing car complexity, accelerated by the transition to electric, is expected to drive growth in this market. Our goal is, by 2025, to operate from over 1,000 service locations in the UK and ROI, whether a Retail store, a garage or a mobile van. This will enable us to deliver customers the services they want at a location convenient to them. We will continue to invest in equipment and colleague training in order to remain at the forefront of technological changes. This will give us a competitive advantage in this fragmented market dominated by independent operators. Specifically, we have made significant progress in providing industry-accredited training to Autocentres colleagues in the servicing and maintenance of hybrid and electric vehicles, with most of our centres now capable of servicing these vehicles.

Competitor Landscape

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

How We Differentiate Ourselves

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

Market Trends Affecting the Motoring Market

COVID-19

Time horizon:

Short term — Medium term

The number of cars on the road dropped to record levels as the first lockdown began with large swathes of the nation ordered to stay at home, impacting demand for motoring products and services. Conversely, the restriction of international travel has led to significant demand for Staycation products and services, such as roof racks, boxes and camping equipment.

Increasing Complexity

Time horizon:

Medium term

Comparing a vehicle from even the turn of the century to now would show just how quickly technology has evolved in the automotive world. In the next 10 years, we see this trend accelerating to a point where maintaining vehicles is something that only those with access to specialist knowledge and equipment are able to do. Adding to this, the generation of DIY'ers is in decline and therefore the motoring market will shift even further away from selling car parts to selling services and solutions.

Electric Vehicles

Time horizon:

Short term — Medium term

The shift to electric has accelerated in the last 12 months and we believe this will continue at pace, driven by Government policy, investment in charging infrastructure, and vehicle manufacturers' pledges to reduce their indirect emissions. Manufacturers have been investing in this technology for several years and will continue to do so as countries around the globe shift away from fossil fuels to a cleaner method of transport. New products and services will come to the aftermarket following the rise in Electric Vehicles ("EVs") on the roads.

Autonomous Vehicles

Time horizon:

Long term

Thinking further ahead, vehicles are likely to become autonomous with many trials already taking place around the globe. Companies such as Tesla are investing significant sums into autonomous vehicles and believe this to be the future of transportation. When technology advances sufficiently, and trials make it feasible to change Government legislation, these vehicles will change the motoring market and who the customer is, with subscription schemes replacing ownership as vehicles become too expensive for individual ownership.

Our Marketplace

Key:

Cycling products

Performance cycling

Retail cycling services

Cycling Market

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

Mainstream Cycling

>£2bn	22-27%	
Market size	Our share	Forcasted Market Growth

Our Approach

As the market-leading retailer in mainstream cycling, we are well positioned to serve the needs of the consumer. We do this by continuing to monitor market trends to keep up with customer demand, whilst also providing great value and convenience to customers. As an example, **Halfords** was the first major stockist of E-scooters and is leading the market with product range and nationwide service capabilities, this year having expanded our ranges to include own-brand E-scooters.

Competitor Landscape

- Predominantly generalist competitors with own-label bikes (e.g. Decathlon, Argos).
- Online penetration in mainstream bikes boosted significantly by COVID-19.
- Physical service locations are important.
- Cycle-to-Work continues to be an important driver.
- Major sports retailers have diversified into cycling in recent years (e.g. JD Sports, Go Outdoors).

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. Our bike build proposition is leading the market with free 6-week checks and bike care plans to make sure our customers continue to stay safe whilst enjoying the great outdoors. Many customers take advantage of our Click & Collect offer, placing orders online via our website and picking up from a designated store at a time which is convenient to them. This also drives positive store footfall. Additionally, we are the market leader in the UK's Cycle-to-Work scheme, supporting sales and introducing new customers to our brand.

Performance Cycling

£1.1bn	6-7%	
Market size	Our share	Forcasted Market Growth

Our Approach

From our top-end Boardman bikes to brands such as Specialized and Giant, we offer customers higher specification products via **Halfords** Retail and Tredz brands. Demand has been exceptionally high in the last year, boosted by COVID-19 impacts, and we worked hard to serve our customers with the products and services they needed. Tredz complements **Halfords** Retail well, giving access to a wider customer base and bringing even more brands into the Group proposition, with our passionate colleagues, across both retail brands, offering expert knowledge and advice to customers.

We are one of the UK's leading retailers in the E-bike market and our colleagues, both in-store and our customer support functions, are highly trained to help customers with advice, support and in-store servicing. Cycle-to-Work schemes continue to be important and **Halfords**, as the market leader, can help consumers get to work in a healthy and sustainable way, whether that's on a mechanical bike, E-bike or E-scooter – with the Tredz brand position complementing the strong own-brand offering within **Halfords** Retail.

Competitor Landscape

- Predominantly branded bikes.
- Traditional specialists and independents struggling but supported more recently with the increase in cycling awareness and participation.
- Big brands selling directly to customers.
- Online pure-play continuing to grow.
- Physical service locations are important.
- Cycle-to-Work is an important driver.

How We Differentiate Ourselves

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

Market Trends Affecting the Cycling Market

COVID-19

Time horizon:

Short term → Medium term

The cycling market boom over the last 12 months has been driven primarily by COVID-19 and the increase in people taking up cycling as a way of exercise, days out with the family or as an alternative means of commuting. As we look to the future and move out of the pandemic, we anticipate a proportion of those who have taken up cycling will continue, leading to sustained demand for replacement bikes, accessories and servicing.

E-mobility

Time horizon:

Short term → Medium term

Electric mobility was an area of the cycling market already seeing significant growth before the pandemic. Over the last year, E-bikes have continued to be in demand, either as a new and exciting way of travelling, an alternative to public transport or car, or a way for those who are unable to cycle a mechanical bike to access the benefits of cycling. We firmly believe that E-scooters will revolutionise urban mobility and we continue to lobby the Government to change the laws around this mode of transport.

Sustainability

Time horizon:

Medium term → Long term

From second-hand bikes and bikes made using recycled parts, to 'Green' living and clean air zones, we know the importance of cycling to people who are conscious about their environmental impact. As even greater focus is placed on reducing our environmental footprint, we expect consumers to look to cycling and eco-friendly solutions even more.

Government Investment

Time horizon:

Long term

The Government's £2bn Cycling and Walking Plan for England announced in the summer of 2020 is a bold vision that, if implemented, will have a material impact on the cycling market. Examples of initiatives include investment in infrastructure to improve safety and the convenience of cycling, the Cycle-to-Work scheme expanding to accommodate E-bikes, and the creation of clean air zones in many cities across the UK. Over time, this investment will be critical in creating sustainable growth in the cycling market.

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 is it 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 Across the Company

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

Stakeholder Key Interests

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

Link to Our Risks

- Stakeholder Support
- Regulatory & Compliance
- Service Quality
- Colleague engagement / Culture
- Skills shortage

Suppliers

Why is it 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 Across the Company

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

Stakeholder Key Interests

- A trusted distributor in the UK and ROI
- Fair payment terms and pricing

Link to Our Risks

- Stakeholder Support
- Sustainable Business Model
- Critical physical infrastructure failure (including supply chain disruption)

Communities

Why is it Important to Engage

Ensures continued viability of the business in the long term and it is the right thing to do. We aim to contribute positively to the communities in which we operate.

How We Engage Across the Company

- Charity & Community initiatives
- Media channels
- Recycling initiatives
- Net Zero commitment

Stakeholder Key Interests

- Environmentally friendly practices
- Charitable giving

Link to Our Risks

- Stakeholder Support
- Brand Appeal and Market Share
- Cyber Security

Read more about our Risks and Uncertainties on pages 66 to 72.

Investors

Why is it Important to Engage
As a publicly listed company, we need to provide fair, balanced and understandable information to instil trust and confidence and allow informed investment decisions to be made.

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

Stakeholder Key Interests
- Create value and deliver long-term sustainable growth
- Appropriate sustainability practices

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

Customers

Why is it 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 Across the Company
- Satisfaction surveys
- Rewards
- Commercial website
- Social media engagement

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

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

Stakeholders That Influence What We Do

Government

Why is it Important to Engage
Policies and regulatory changes may provide opportunities and pose risk to our operations. Working closely with the Government ensures that our products and services evolve appropriately.

Link to Our Risks:
- Regulatory & Compliance

Media

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

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

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 84 to 108.

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 84 to 108.

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 84 to 108.

Our Approach

As is referenced in the Corporate Governance Report on page 96, this section describes how the Directors have had regard to the matters set out in section 172(1)(a) to (f) Companies Act 2016 (the "Act"), in exercising their duty to promote the success of the Company for the benefit of its members as a whole.

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

- 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
- Impact of operations on the community
- High standards of business conduct
- The need to act fairly between members of the Company

COVID-19 Pandemic

Description

The impacts of the COVID-19 pandemic have been fast-moving and uncertain, but the Board consider that the decisions made were in the best long-term interests of all stakeholders.

s172 Consideration

Colleagues

Our frontline colleagues in stores, garages and vans supported our customers throughout the pandemic, as we remained open as an essential business. The provision of PPE and the robust implementation of policies and procedures helped colleagues to feel safe in their working environment. In addition, we launched over £4m of initiatives to support our colleagues, including a £2.3m Frontline Colleague Support Fund and a £1.5m Here to Help Fund for colleagues and their families to use if they are struggling financially due to COVID-19.

Customers

As an essential retailer we have remained open throughout the pandemic, supporting our customers to help keep the UK moving. Like our colleagues, it has been important to keep our customers safe through strong COVID-19 protocols.

Shareholders and debtholders

In a fast-paced and uncertain environment, we took immediate action to preserve cash to protect the long-term interests of both our shareholders and debtholders. This included reductions in expenses, working capital and capital expenditure, as well as the suspension of the dividend.

Government and UK taxpayer

Once the future trading environment became clearer, we took the decision to repay all funds we had received through government furlough schemes.

Link to Section 172 Considerations

Dividend Policy

Description

The Board carefully considered the impact of the dividend policy on all key stakeholders.

s172 Consideration

Shareholders

Having cancelled the dividend at the start of the pandemic as a cash preservation measure, we knew that an eventual reinstatement would be important to investors. The Board feels that the proposed dividend policy offered an attractive return to shareholders whilst allowing sufficient funds to reinvest in the business for its long-term success.

Debtholders

Maintaining a strong balance sheet is a key element of our capital structure considerations and the dividend level was therefore determined with this in mind.

Customers

The Board considers it critical that we continue to invest in the customer experience, positioning the business for long-term success. The proposed dividend policy allows sufficient investment in the business to do this.

Colleagues

Many of our colleagues are shareholders, either directly through our share plans, or indirectly through their pensions or other investments.

Link to Section 172 Considerations

Net Zero Commitment

Description

The fight against climate change requires all businesses to play their part in reducing GHG emissions. Our commitment to Net Zero is a key priority of our ESG agenda.

s172 Consideration

Environmental responsibility

During the period, we set a 1.5°C aligned science-based target by 2030, and an aim to achieve net zero emissions across our entire value chain by 2050. In the shorter term, this will include initiatives such as LED lighting installation and renewable energy sourcing.

Shareholders

Our long-term success is reliant on building a sustainable business. In addition, many of the initiatives needed to reduce our GHG emissions also provide good returns, such as LED installation.

Colleagues

Our colleagues are increasingly conscious of climate change and the environmental impact of our business. A robust commitment to net-zero is an important element in driving colleague engagement.

Link to Section 172 Considerations

How We Create Value

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

Motoring Products

Mainstream Cycling Products

Performance Cycling

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

Operating from over 900 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.

Autocentres

Mobile Expert

Retail Motoring Services

Retail Cycling Services

Our Unique Strengths

Unique and differentiated products and services

Omnichannel customer proposition

Convenient services proposition delivered in over 900 locations

Focused on value-creating opportunities . . .

“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.

Integrated service proposition across stores, garages and mobile.

Link to Strategy:

2

Lead and differentiate our markets and with innovation.

Link to Strategy:

1

Increase awareness of Halfords services by leveraging our brand.

Link to Strategy:

2

Focused and targeted approach to loyalty at a Group value.

Link to Strategy:

3

Our strategic priorities:

1 *Inspire* 2 *Support* 3 *Lifestyle*

Expertly trained colleagues

Super-specialist expertise that cannot be replicated

Strong sustainability credentials

Unique, technology-driven proposition in our physical estate

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 58 to 64.

Community

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

Read more in the Charity and Communities section on pages 52 and 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 42 to 53.

Our Strategy

> The strategy we set out in 2018 remains just as relevant today – the last 12 months have proven this – delivering for all of our stakeholders, and building relationships and trust with our customers.

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 customer 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.

1. ***Inspire*** our customers with a differentiated and super-specialist offer.
2. ***Support*** our customers through an integrated, unique and more convenient services offer.
3. Enable a ***Lifetime*** of motoring and cycling.

Underpinned by

Focus on Cost and Efficiency

Investment in our Colleagues

1 *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.

2 *Support*

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

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

3 *Lifetime*

Enable a *Lifetime* of motoring and cycling.

- A more focused and targeted approach to loyalty at a Group level in order to optimise 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

1 *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.

Case Study

Carrera impel is-1

This year, we launched our own-brand E-scooter – the Carrera impel is-1 – bringing together the strength and reputation of the Carrera brand and the exciting growth in the E-scooter market. The impel offers customers the same high-quality performance technology commonly found on performance E-scooters but at a much lower price point.

Developing our own product has meant we have been able to talk to our customers, understand the pain points with branded E-scooters, and design a product which our customers love and that our electric service technicians know inside and out.

The impel has received great reviews from customers and critics, and has been in high demand with consumers as pressure mounts for the legalisation of E-scooters as we transition out of COVID-19 lockdowns and prepare for an exciting future of electric mobility within the UK.

Progress Made

- Launched over 160 new customer enhancements to our group website, including 'email me when in stock', guided selling, local store stock availability, and personalisation.
- Expanded our E-scooter range; introducing our first own-brand E-scooter and a greater number of products at a broader range of price points.
- Transferred inbound phone and digital customer-contact from all 404 retail stores to a centralised, specialist team.

Priorities for the Year

- Project 'Fusion' remains an exciting opportunity and we will trial 2-3 towns in FY22. Fusion is 'a customer experience seamlessly, consistently, and conveniently executed across all of our assets in a town'.
- We will continue to invest heavily in our digital proposition, whether online through the Group web platform, or enabling the wider transformation agenda.
- Through Project 'Peloton 2', we will significantly improve our PACs ("parts, accessories and clothing") offering in Cycling, through better ranging, improved merchandising, and most importantly enabling our colleagues to provide customers with complete solutions to their needs.


weFit
Bulbs, batteries & wipers
Maximum Height 2.3m (7', 8")
halfords

Our Strategy

2 *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.

Case Study

The Universal Tyre Company

In March, we announced the acquisition of The Universal Tyre Company. Operating from 20 sites and 89 commercial vans in the South East of the UK, Universal specialises in tyre services, including the supply and fit of tyres for a wide range of vehicles, from cars to commercial and agricultural vehicles, as well as providing general car maintenance and repairs such as brakes, servicing and MOT.

This acquisition takes us closer to our stated ambition of having over 550 garages in the UK and builds our coverage of the Commercial Truck and Van market.

Following on from our acquisitions of McConechy's and Tyres on the Drive in 2019, this is another exciting step in the growth of **Halfords**' motoring servicing business as we continue to inspire and support a lifetime of motoring and cycling, and establish ourselves as a leading motoring service provider in the UK.

Progress Made

- Added 61 new Mobile Expert vans, bringing the total to 143 to serve the exceptional demand for this service.
- Acquired The Universal Tyre Company, adding 20 garages to our fixed estate as well as 89 vans, enabling us to expand our coverage of the commercial market in FY22.
- Launched our first Group motoring services campaign.
- Rebranded 52 of our McConechy's garages to **Halfords** Autocentres.
- Launched new services including mobile towbar fitting and mobile tyre fitting in our Retail stores.

Priorities for the Year

- Increase our Mobile Expert van fleet to at least 200, bringing this popular service to more parts of the UK and giving us over 80% national coverage.
- Increase the number of Autocentres, bringing us closer to our medium-term goal of 550 in the UK and ROI.
- Continue to expand our B2B channel, in particular, building on the commercial business we established through our acquisitions of McConechy's and Universal Tyres.
- Lead the transition to an electric future by investing in training, technology and introducing new products and services, positioning **Halfords** as the leading voice of E-mobility.

Case Study

Halfords Mobile Expert Expansion

Convenience is of vital importance to our customers and, over the last year, our ability to bring services directly to customers has been in high demand. Our Mobile Expert proposition offers customers the ability to have services performed on their driveway by our expert technicians, from having products fitted to top-ups and even car diagnostic checks.

Over the last year, the business saw a record number of jobs and sales with the benefits of convenience and safety resonating well with customers.

We have continued the expansion of the proposition, investing in the scale and geographic reach of the service, growing the number of hubs from 8 to 14 to serve the ever-growing demand and ending the year with 143 vans, bringing us closer to our medium-term target of 200 vans.

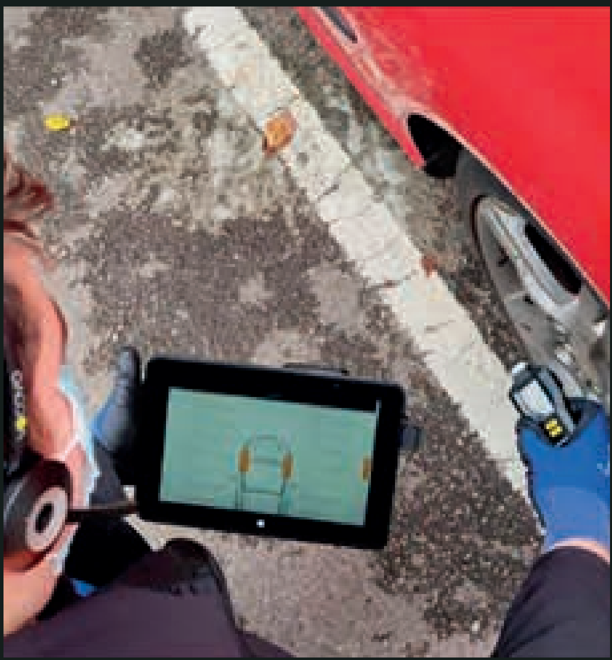
Case Study

WeCheck App

This year, we launched our innovative WeCheck application, specifically created in-house to enhance the customer journey, improve colleague productivity and strengthen the relationship between **Halfords** and its customers. The app is used by colleagues when they are carrying out a check on a vehicle and enables them to clearly record and share what tasks have been carried out with the recommended actions for customers to keep their vehicle safe.

Since launching the app, our data capture rate has increased significantly with over 80% of customers providing an email address and registration number when the app is used.

We have received great feedback from our customers who love the ‘simple to understand’ feedback, demystifying what could previously have been a very complicated report from a colleague.



Our Strategy

3 Enable a *lifetime* of motoring and cycling.

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.

ESG
We have started to make progress with our ESG strategy, focusing on our key priority areas:

- Electrification
- Net Zero Commitment
- Diversity & Inclusion
- Product, Packaging and Waste Management

Case Study

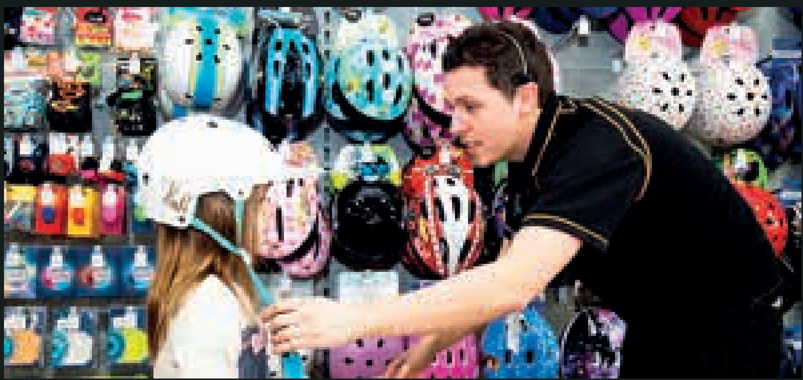
Improving the Customer Experience

This year, we have transformed our Customer Experience strategy, investing in initiatives to improve the customer shopping journey and convenience we offer our customers.

For instance, an end-to-end review of the bike purchase journey – customers can now see bike stock availability in their local store, book a bike collection slot and will receive personalised communications after their purchase to help them get the most of their bikes.

To manage customer contact, we have centralised our customer contact centre.

Our Net Promoter Scores have reached record levels as a consequence of the improvements we have made to the customer experience and we know that our customers are more engaged – with better opt-in rates – meaning we can talk to more customers than ever before.



Progress Made

- Record NPS scores with Retail exit rate of 65.3, and Autocentres 76.1.
- Development of our single Group web platform and other initiatives driving higher cross-shop volumes.
- Refresh of our ESG strategy and commitment to science-based targets.

Priorities for the Year

- Launch a unique and market-leading motoring services club.
- Further develop cross-shop opportunities across the Group.
- Continued investment in our digital capabilities, enhancing the customer experience online.
- Accelerating progress on our ESG programme.

Our ESG Strategy

Overview

We are committed to an ESG agenda which aims to exceed our stakeholders' expectations. Building on our strategy announced last year, we are now starting to make meaningful progress. The COVID-19 pandemic and broader social factors have accelerated expectations for progress, including more robust regulatory requirements, a fairer society, and a greater urgency to tackle climate change. We will continue to review and refresh our ESG strategy in line with this fast-changing environment and ensure we have a sustainable business that delivers for all stakeholders.

In our FY20 Annual Report, we set out our ESG strategy and demonstrated its alignment to the Group's purpose: 'To Inspire and Support a Lifetime of motoring and cycling'. In a fast-moving landscape, we have since refreshed our strategy, including a clear prioritisation on the topics most important to us and our broad stakeholder base, and a clear roadmap for building the capabilities and governance processes to drive further progress against the strategy.

Key:

1 **Inspire**

2 **Support**

3 **Lifetime**

Our Priorities

Electrification

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

Link to Strategy

1 2

Link to UN SDG

Description

- 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.

Priorities for the next 12 months:

- Further develop the means we communicate with our customers to better engage with, support and educate them on the benefits of electric mobility.
- Broaden the range of electric products and services we offer.
- Accelerate investment in colleague training for electric servicing.
- Continue lobbying campaigns for the legalisation of private E-scooters in public areas.

Net Zero Commitment

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

Link to Strategy

3

Link to UN SDG

Description

- Commit to a 1.5°C science-based target across our own operations by 2030, reducing our emissions by at least 42% in this time period (vs. FY20 baseline).
- Engage with 67% of our suppliers by emissions, covering purchased goods and services and capital goods, with the objective of them having science-based targets by the start of 2026.
- 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.

Priorities for the next 12 months:

- Make the switch to 100% renewable energy suppliers.
- Complete roll out of LED lighting and Building Management Systems across our estate, looking to identify and act upon new energy efficiency measures.
- Engage with suppliers to gather more data on their emissions, educate them on the importance of reducing emissions and support them in setting their own science-based targets.
- Develop a set of sustainable procurement criteria for all tenders and decisions.
- Preparation for reporting against the TCFD framework.

Diversity & Inclusion

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

Link to Strategy

2 3

Link to UN SDG

Description

- 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.

Priorities for the next 12 months:

- Further reduce our gender pay gap.
- Collect baseline data on a number of categories, including gender, age and ethnicity.
- Proactive engagement with colleagues to increase knowledge of D&I in the workplace, such as webinars, events and videos from business leaders.
- Launch Business Resource Groups ("BRGs") to provide peer-to-peer support for LGBTQ+, disability, race and ethnicity and women.
- Establish a D&I awareness and compliance programme for all colleagues across the Group.

Product, Packaging & Waste Management

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

Link to Strategy

1 3

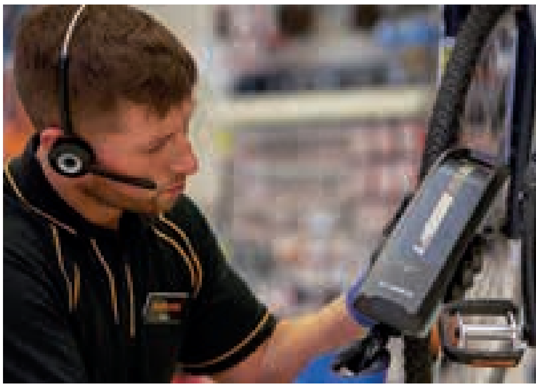
Link to UN SDG

Description

- Increase repair services across products and mitigate environmental impact of returns.
- Increase the recyclability of retail packaging and reduce transit packaging.
- Extend waste management to accommodate new streams including rubber-based products and flexible plastics.

Priorities for the next 12 months:

- Reduce commercial and industrial packaging with increased transparency.
- Increase known recyclability of retail packaging, including the introduction of on-pack recycling labelling to drive customer awareness of recycling options.
- Establish the UK's industry-leading tyre, tubes and car mat recycling processes.
- Extend repair capabilities of faulty returns to E-bikes and E-scooters.
- Develop a UK-wide capacity to safely manage end-of-life E-mobility batteries to combat the growing waste stream.
- Trial reselling of reconditioned products for discounted prices, specifically piloting selling second-hand bikes to explore the opportunity within this market.



ESG Progress in FY21

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 2- and 4-wheeled modes of transport and we are proud to support our customers with everything they need as the UK transitions towards 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.

We are the aftermarket leaders in electric and hybrid vehicle servicing and have the most colleagues trained nationally to service Electric Vehicles ("EVs"). Colleague training remains a top priority and we are investing heavily in electric services training to support customers who have made the switch. We ended the year with 359 colleagues trained to service EVs in our garages, with 317 colleagues accredited to IMI Hybrid Electric Vehicle Level 2 and 42 colleagues accredited to Level 3. In addition, we finished the year with 383 technicians in Retail stores capable of servicing E-bikes and E-scooters, up 10% on the year before. COVID-19 meant training plans were scaled back in FY21, but we plan to significantly increase the number of E-trained colleagues in FY22.

E-scooter legislation

We continue to lobby the Government to legalise the use of E-scooters on public roads, engaging with the Department for Transport through their consultation process, and in the last year we have held E-scooter events to raise awareness of the benefits of E-scooters. We believe strongly that E-scooters should play an important role in the future of sustainable urban transport and as a leading electric retailer and services provider we will lend our voice to this campaign.

Progress in FY21

Knowledge is a key barrier for customers in their journey to electric and recognising that most customer journeys begin online, we launched an 'Electric Hub' on our website that provides advice and support on the benefits of electric vehicles, electric bikes and electric scooters. In addition, consumers can utilise our bespoke calculator to understand the costs of switching to electric and the impact it will have on the planet. We are incredibly proud of our role in helping customers make the switch to electric and we will continue to support them through this transition.

In FY21, customer demand for electric products and services continued to grow strongly and we sold a record number of E-bikes, E-scooters and electric service plans this year. To ensure that electric mobility remains widely accessible, we continued to expand our range of electric solutions, such as E-scooter care plans and electric bikes and scooters at a broader range of prices, including our first own-brand Carrera E-scooter. In addition, through our Cycle2Work proposition and the recent Government changes to increase the maximum purchase price on the scheme, we are making electric mobility more accessible to our customers than ever before.

Case Study

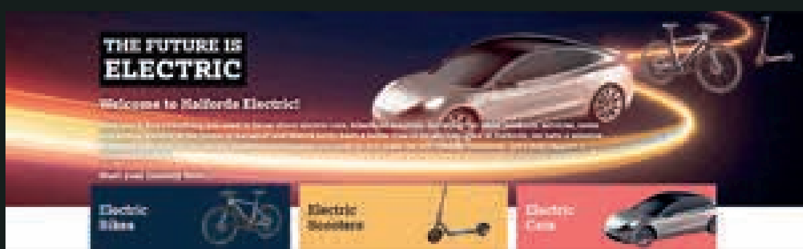
The Electric Hub

This year, we launched a brand new Electric Hub on our website designed by in-house experts to educate customers and provide support and advice for those looking to make the switch to electric.

Covering EVs, E-bikes and E-scooters, consumers can navigate around the site educating themselves on topics such as the advantages of electric mobility, maintenance tips, and the environmental benefits, as well as getting answers to common misconceptions about electric mobility such as charging or reliability.

We have also created bespoke calculators to show customers the associated costs of switching to electric; for instance, comparing the cost of an electric vehicle vs. a traditional combustion engine, over the life of the car, dispelling the myth that electric is always more expensive. We also provide customers with advice and help on purchasing electric bikes and scooters, such as through our Cycle2Work scheme or with finance options to spread the cost of their purchase.

We are uniquely positioned in the UK to help support customers on their electric journey and we are continually investing in our colleagues and capabilities to drive awareness of the benefits of electric mobility and to make electric travel accessible to everyone.



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.

Progress in FY21

Last year, we set out our plan to be carbon neutral by 2050. Over the last 12 months, we have gone a step further, agreeing a set of science-based targets for emissions reduction, and have engaged with the Science Based Target Initiative ("SBTi"), working towards formal accreditation. A target is 'science-based' if it aligns with the goals of the Paris Agreement to keep global warming below 2°C and sets out a clearly-defined pathway for companies to reduce emissions.

Our targets are as follows:

- **Halfords** commits to achieve a 1.5°C aligned science-based target across our own operations by 2030, reducing our greenhouse gas emissions by at least 42% in this decade (vs. FY20 baseline).
- We will also engage with 67% of our suppliers by emissions, covering purchased goods and services and capital goods, with the aim of them having science-based targets by the start of 2026.
- Achieve Net Zero value chain emissions by 2050.

The engagement with our supply chain will see us work with our priority suppliers to help them decarbonise their own operations. In support of this, we will encourage suppliers to measure and report their GHG emissions and have their own reduction plan in place, preferably setting science-aligned and Net Zero targets.

We continued to implement solutions to reduce our emissions, such as a further roll-out of LED lighting and Building Management Solutions ("BMS") in our retail stores, an assessment of our company car fleet to incorporate lower carbon vehicles, and an assessment of renewable energy options, after which we agreed a deal with a renewable energy company which will come into effect during FY22. We will continue to invest in initiatives to reduce our carbon footprint further, whether that's through improving efficiency e.g. LED lighting or heat pump technology, or through switching to greener forms of energy e.g. biomass options for vehicles.

We want to lead by example in electric mobility and so, as the operator of over 300 Mobile Expert and Commercial vans, we will continue to explore the options for making the switch to electric vans as soon as we can. The key challenges are weight and range, and as it stands today, we don't yet believe the technology exists for the journeys our vans make. We will continue to work with manufacturers and collaborate with other fleet operators to switch to electric once it is feasible to do so.

Scope 1 and 2 emissions data

	2020 tCO_2e	**2021 tCO_2e**
Halfords Retail directly purchased electricity	10,576	**7,967**
Autocentres directly purchased electricity	2,897	**2,159**
Total Electricity consumption	13,473	**10,126**
Halfords Retail combustion of gas	7,438	**6,470**
Autocentres combustion of gas	4,311	**3,637**
Total Gas consumption	11,749	**10,107**
Vehicles on Company business	2,547[1]	**2,988**
Overall totals	27,090	**23,221**
Company's chosen intensity measurement: tCO_2e per £1m Group revenue	23.45	**17.97**

SECR Report – 2020/2021

Scope		**2021 (tCO_2e)**	% of total
1	Gas	**10,107**	43.52%
2	Electricity	**10,126**	43.61%
1	Transport	**2,988**	12.87%
	Total	**23,221**	100%

Scope Breakdown (tCO_2e)

Scope 1	13,095
Scope 2	10,126

Electricity

Brand	**Total kWh**	**tCO_2e**
Halfords Retail	34,173,135	7,967
Halfords Autocentres	9,261,221	2,159
Grand total	**43,434,355**	**10,126**

Gas

Brand	**Total kWh**	**tCO_2e**
Halfords Retail	35,185,311	6,470
Halfords Autocentres	19,780,143	3,637
Grand total	**54,965,455**	**10,107**

Transport

Brand	**Miles**	**tCO_2e**
Halfords Retail	1,311,954	362
Halfords Autocentres	1,668,482	460
Mobile vans	7,990,000	2,166
Grand total	**10,970,436**	**2,988**

1. Restating 2020 to include all Group vehicles, including mobile vans.

ESG Progress in FY21

Net Zero Commitment

The overall reduction in Scope 1 and 2 emissions is partly driven by store closures related to COVID-19, but also our own efficiencies within our emissions-reduction programme, e.g. the roll-out of LED lighting and BMS within our Retail estate.

Scope 3 emissions

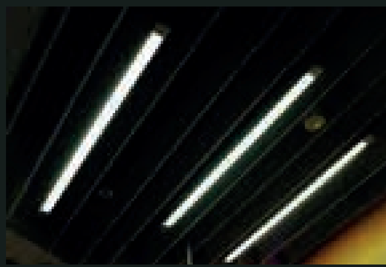
Our Scope 3 emissions data is based on an Input/Output model and is therefore an estimate, calculated by applying supplier spend data to industry-accepted carbon benchmarks for each supplier. We will start working with our suppliers and vendors to gather accurate Scope 3 data, building a robust baseline from which to set targets and measure our progress. As is common with most retailers and distributors in the UK, the majority of our overall emissions are Scope 3, reflecting the impact of manufacturing products in a global supply chain. It is therefore imperative that we engage with our suppliers to reduce their own emissions, thus putting us on pathway to achieving Net Zero by 2050.

Case Study

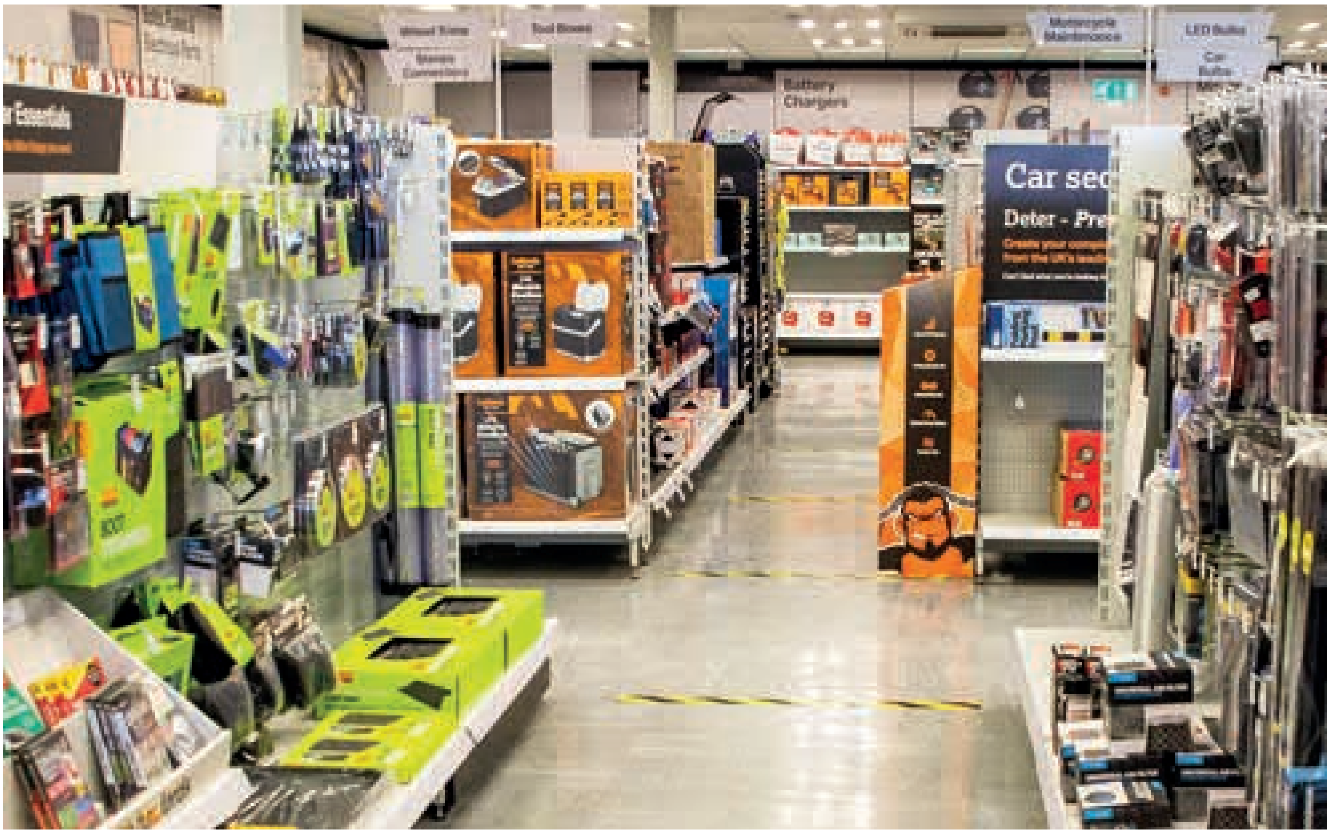
LED Lighting and BMS Roll-Out

Over the past 12 months, we have continued our investment in energy-saving measures across our estate, particularly the roll out of LED lights and Building Management Systems ("BMS") in our retail stores. BMS provides automation of controls in stores for heating, lighting and small power sources, ultimately helping us control energy usage.

By the end of FY21, we had BMS and LED lights installed in 224 sites accounting for well over 50% of our retail estate. This roll-out significantly improves our energy efficiency, reducing our Scope 2 emissions, and will form a core part of our plans to meet our science-based targets.



We will invest further in FY22, rolling out to an additional 124 retail sites. Looking further ahead, we will continue to search for innovative opportunities to reduce the energy requirements of our stores, garages, distribution centres and hubs.



Diversity & 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 (e.g. representation on D&I working groups within the IMI) and work hard to ensure every colleague feels they can be themselves at work and perform to their best. We also recognise there is always more we can do and we are excited to build on our foundations.

Progress in FY21

Today, we have a good understanding of our gender diversity within the Group. We routinely collect gender data and have been publishing our gender pay gap data for a number of years, which we are proud to say has improved even further this year. The Gender Pay Gap Report highlighted that across the **Halfords** Group of companies, our mean and median hourly pay gap is less than the national average, with women's mean hourly rate 1.15% higher than men's and women's median hourly rate 3.98% lower than men's.

Our focus remains on two areas: improving gender diversity across the Group, and building awareness amongst our colleagues of career progression opportunities, such as promoting female technicians in garages. We have a number of initiatives in place to support this, including partnering with schools and colleges to engage with potential candidates, delivering virtual 'Values' sessions to colleagues right across the Group, and promoting our Group career path.

Our annual colleague engagement survey is a key point in the year for us to gather overall sentiment across the Group, with some highlights of the year being:

- 80% of colleagues feel **Halfords** treats them and their colleagues fairly.
- 85% of colleagues feel they can be themselves at work.
- Engagement is consistent across gender, with female indexing slightly higher.
- Colleagues identifying as Asian are 10ppts more engaged.

Whilst we have not historically collected ethnicity data, our field-based colleagues live in their local communities and we therefore have a diverse mix of ethnic backgrounds across the UK. We do, however, recognise the need for a more thorough understanding of diversity across a number of categories, and so we have started to develop methods through which we can collect and record this data, which will eventually form the basis of our Inclusion programme. Data from our initial findings are shown below:

	Gender				Ethnicity						
Role	Male	Female	Other	Prefer not to Say	White / Caucasian / White Other	Black/ Black African/ Black Caribbean/ Black Other	Asian	Middle Eastern	Mixed Ethnic Heritage	Other	Prefer not to say
Leadership Group	75%	20%	1%	4%	86%	2%	3%	0%	1%	1%	7%
Management	83%	13%	0%	3%	88%	1%	3%	0%	1%	2%	5%
Non-Management	75%	20%	1%	4%	83%	3%	5%	0%	2%	1%	6%

The data presented is based on the 94% of colleagues that completed the most recent colleague survey.

The Board is committed to improving ethnic diversity at Board level and, during the year, we will begin the process of ensuring that the composition of the Board is compliant with the Parker review into corporate governance. Importantly, the Board is committed to providing an inclusive workplace so that all colleagues feel that they can be themselves at work and perform to their best.

ESG Progress in FY21

Diversity & Inclusion

Case Study

Halfords BTCC Apprentice 2020

Jackie Hardy, an apprentice mechanic at the **Halfords** Autocentre in Borehamwood, was named **Halfords** BTCC Apprentice 2020, fending off tough competition from eight of her colleagues. The Level 3 apprentice has since been travelling with the touring car team to BTCC race weekends where she plays an integral part of the effort to win races.

To secure the victory, Jackie did a practical timed assessment on a Volkswagen van to find hidden faults and successfully convinced a panel that she has the right attitude and character to become part of the BTCC team.

After it was announced that she won in an otherwise all-male field, Jackie offered the following comment on the victory and her expectations of joining BTCC on the road:

“To be fair I didn’t expect it. I was nervous during the competition but I’m over the moon now, really happy. Now I’m looking forward to joining the BTCC team, which will definitely be different from working in a garage, but I’m excited to get in there and learn and embark on the next stage of my career. Women need to know that it is okay to take that initial step, and that there are other women working in the industry. Once you get your foot in the door it is okay!”

Product, Packaging and Waste Management

Product Solutions

Halfords has a rich heritage as a destination for cycling and motoring service, 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 mitigating the impact of a linear 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.

In the next year, we will explore options for sustainable sourcing and waste-management solutions for rubber-based products, including tyres, tubes and car mats, which represent a high proportion of sales within our business.

Our firm commitments to consumer rights and great customer service mean we receive a significant volume of returned goods that can often be repurposed with minimal repair. This provides us with both a commercial and environmental opportunity to maximise the value of our returns, and so in FY22 we will pilot the reselling of reconditioned products for discounted prices, helping to extend the lifecycle of these products and ultimately reduce the use of virgin materials. Specifically we will trial a pilot of selling second-hand bikes exploring the opportunity within this market.

Packaging Solutions

During the year, we have significantly improved our ability to report on packaging data, responding to heightened consumer awareness and anticipation of more stringent legislation. We are using this improved dataset visibility to establish metrics and targets that will help to evolve our packaging portfolio, with recyclability our primary focus, and longer term, looking to reduce our use of virgin plastic within our supply chain. Currently, 71% of our retail packaging is known to be widely recyclable, meaning we have a further 29% to aim for. We appreciate that recyclability does not always lead to recycling, so we will join other leading retailers and brands by introducing clear instructions via on-pack recycling labels to raise awareness of end-of-life packaging options.

Waste Management

Through our packaging data improvements, we have greater visibility on the amount of packaging we use in our pre-store logistics. Approximately 38% of our packaging is commercial and industrial, and we aim to make significant reductions to this packaging usage. Where the packaging is deemed essential, we aim to improve on the current 75% recycling rate through our waste management processes. We are committed to transparency on the end destination of this packaging within a two-year period, to ensure that our waste has the lowest possible environmental impact and reduces the use of virgin materials.

Halfords remains a popular destination for the end-of-life domestic and car batteries, and we want to expand this service to a more difficult, dangerous and expensive type – Lithium Ion – which is the current go-to for electric mobility products. As the market-leader, **Halfords** has a critical role to play in finding recycling and waste management solutions for a fast-growing consumable item.

Case Study

Packaging Data

Our improvement in data functionality has increased our ability to better manage our packaging portfolio in the future. We have increased data accuracy giving us better confidence in understanding our current packaging usage, which is around 12,700 tonnes of packaging each year; 96.6% of that is split between cardboard, wood and plastics. Of our overall packaging use, 61% is in retail units that go out to customers, and we are using this data to target our coverage of widely-recycled packaging, with clear labelling to support customers in placing waste in the correct bin.

One of the topical areas within the industry is plastic and we know that plastic is visible in a large proportion of the products we sell. We are committed to report in even further granularity to specifically target plastics so that we can increase our overall widely-recycled packaging rate from 71% across all materials towards as close as we can to the 100% figure.

We are in an exciting age of innovation within the plastics industry and want to take a measured approach towards recyclable content, whilst also prioritising reduction and refill approaches.

ESG Progress in FY21

Supply Chain Ethics

We are committed to maintaining the highest ethical standards amongst our suppliers.

We are strongly opposed to the exploitation of workers and we will not tolerate forced labour (including the most recent Modern Slavery Act), or labour which involves physical, verbal or psychological harassment or intimidation. For further information, please see our Modern Slavery Statement on page 82.

We will not accept human trafficking or the exploitation of children and young people in our business and we undertake all possible steps to ensure that these high standards are maintained. We regularly review related policies to ensure that they remain up to date and fit for purpose.

Our Supplier Code of Conduct and its principles are based on international standards, including the International Labour Organisation ("ILO") conventions and recommendations, which in turn are based on the United Nations Universal Declaration of Human Rights and Convention on Rights of the Child.

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

This rolling programme and regular review ensures continued compliance with our Sourcing Code of Conduct across our supply-chain.

A risk-based (or tiered) approach is used to devote most attention to the areas of greatest risk. 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 Suppliers Code of Conduct which they must sign up to.

During FY21, despite fewer visits due to COVID-19 limiting global travel, we have maintained our high standards of compliance and no concerns of unacceptable conduct were raised or reported. As soon as restrictions allow, we will ensure supplier compliance according to our usual governance.

In FY22, we will engage further with our supply chain in the following ways:

- Present, as usual, our Supplier Code of Conduct at the Annual Supplier Conference.
- Review our supplier Terms and Conditions and update them for enhancements to our ESG Strategy.
- Start to work with our suppliers to understand their ESG and Ethical Sourcing commitments in further depth.

Our Colleagues

Over the last year, our colleagues have shown their dedication to our business, going the extra mile to provide our customers with the products and services they needed to keep the UK moving. Have worked hard to prioritise the health, safety and wellbeing of all of our colleagues and have recognised their unwavering commitment with a number of support initiatives.

- We made sure we had robust COVID-19 protocols in place from the start of the first lockdown to keep our colleagues and customers safe, such as sufficient stocks of PPE, additional concierge staff, and adjustments to colleague rotas.
- We launched over £4m of initiatives to support our front-line colleagues, including a Frontline Colleague Support fund and **Halfords** Here to Help Fund.
- We developed and launched a 'Wellbeing Hub', where colleagues can go to receive support and advice on a range of issues. We have also signed up to the Mental Health at Work initiative, demonstrating the importance of mental wellbeing and doing everything we can to support our colleagues through such a challenging period.

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 2021, had a response rate of 94% and an engagement index score of 75%, strong numbers that demonstrate high levels of colleague engagement despite the impact of COVID-19 and retail organisational design changes. In response to the survey results, every team produces an engagement plan for the year ahead, which rolls up into department and Group plans. Once again our Retail business was placed in the 'Best 25 Big Companies to Work For' category in The Sunday Times Best Big Companies survey, for the seventh year running – an achievement we are very proud of.

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. Over the last year we have delivered a change in our in-store operating model, designed to ensure we have significantly more services-trained colleagues across the retail estate, providing a foundation for electric servicing, as well as product-fitting, WeChecks and Cycle care.

- **Halfords** Values delivered virtually to c.2,700 leaders across the business, who cascaded to all colleagues across the Group.
- Over 2,500 colleagues completed training courses, from PDI to 'Silver Service' to WeFit services such as Dashcams fitting.
- 77 colleagues completed an Apprenticeship – 39 with a distinction.
- 79 colleagues achieved the IMI's DVSA MOT tester accreditation.
- 43 colleagues achieved IMI Level 3 accreditation, with a further 10 gaining IMI's Hybrid Electric Vehicle accreditation, which was lower than previous years due to limited training resource as a result of COVID-19 and the need to prioritise MOT tester training.

ESG Progress in FY21

Charity and Communities

Halfords is proud to support charities and communities across the UK. The COVID-19 pandemic meant that much of our focus was centred on supporting the UK's key front-line workers, to help keep them moving so they can focus on keeping the country safe in a national emergency.

Supporting our key workers

Throughout the pandemic, we carried out over half a million services and repair jobs on cars and bikes each month, playing an essential role in keeping the UK moving.

We were privileged to offer free checks and discounts to 480,000 key workers, including NHS staff, teachers and Armed Forces, to keep their vehicles safe and roadworthy. **Halfords** Autocentres and McConechy's garages provided servicing, repair and tyre services for ambulances, police cars and border control vehicles, contracting with 49 emergency service agencies across the UK.

We were particularly proud to donate E-scooters to the NHS Nightingale hospital in Birmingham to help construction workers complete the fit-out, and we donated numerous bikes to individual doctors and nurses whose bicycles had been stolen or vandalised.

Case Study

Trussell Trust

We are active within many communities across the UK and actively help and support local communities in which we operate. One great example of this during FY21 was supporting our local foodbank via the Trussell Trust. Despite the pandemic making fundraising more challenging, we ran a variety of events to raise money for the Redditch foodbank and were delighted to donate this money in the period leading up to Christmas.

Case Study

Re-Cycle

Halfords has worked with the Re-Cycle charity since 2013 – an amazing charity which repurposes bikes by sending them to those in desperate need of basic transport in African countries, training mechanics in-country to recondition the bikes and ultimately giving the bike a second life. For the people in these communities, a reliable bike is essential for their livelihoods and it is extremely important to us that we can support them as much as we can.

We encourage our customers to donate their old bikes at our stores, which are then transported to our central distribution centre before being shipped to the main Re-Cycle hub. When the bikes are received at Re-Cycle, they are assessed for quality and suitability to send to Africa. They are then sent to Re-Cycle's Africa Partners and 'prepped' by an amazing team of volunteers, before being taken to communities in desperate need. Re-Cycle has a zero-waste policy and any parts or components that cannot be repurposed or reused are recycled. This is very much aligned with our own ambitions to reduce products and packaging ending up in landfill and is a great example of how a circular economy can help benefit the planet in various ways.

Since we began our partnership, we have donated more than 60,000 bikes, and despite COVID-19 meaning the partnership had to be put on hold until the start of 2021, we still managed to send 1,780 bikes to Re-Cycle between April 2020 and April 2021.

Case Study

Mind

As part of our pledge to support both our colleagues and charities, we embarked on a Group-wide initiative to walk, run, swim and cycle the distance around the globe – an incredible 33,327 mile journey matching the route you would most likely take if you cycled around the world. Many colleagues were feeling the impact of COVID-19 lockdown and the dark evenings of winter, and this challenge provided a great opportunity to use exercising as a means to improve health and wellbeing. We were delighted with a total mileage of 141,733 miles and in doing so we donated £33,327 to the Mind charity. An incredible amount of money raised for Mind and great for colleague engagement – a great example of the **Halfords** 'One Team' value.

mind
for better mental health

Case Study

HMP Drake Hall

The **Halfords** Academy at HMP Drake Hall was launched a number of years ago and it is a scheme which we remain firmly committed to. 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 twelve female offenders. Twenty graduates have joined the business in a variety of roles following their release. Fully supported by **Halfords** colleagues, participants are subject to the same high standards of training as other 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.

Case Study

Armed Forces Covenant

We continue to offer guaranteed interviews to service leavers and reservists for all roles where candidates meet the minimum requirements. We also support service leavers and reservists by recruiting through the Career Transition Partnership, offering ten days additional unpaid leave for reservists and a range of discounts for those serving in the Armed Forces. As a result, we are now a Silver Level employer in the MOD's Employer Recognition Scheme, and were also nominated for The Sun's Military Awards, which are known as the 'Millies'.

Since signing up to the Armed Forces Covenant, **Halfords** is proud to have recruited 78 ex-services personnel into a variety of stores and garages roles.

Our Key Performance Indicators

Shareholder KPIs

Underlying Profit Before Tax[1]

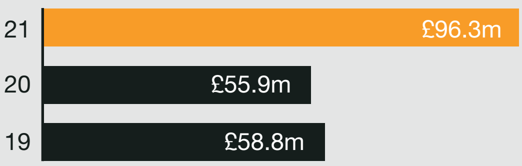
Definition
Profit before income tax and non-underlying items as shown in the Group Income Statement.

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

Performance
PBT finished £40.4m above FY20 driven by share gains in Motoring services, profitability improvements across the Group, and share gains and strong demand in Cycling.

Link to Remuneration:
Bonus

Historic Performance



Underlying Earnings Per Share[1]

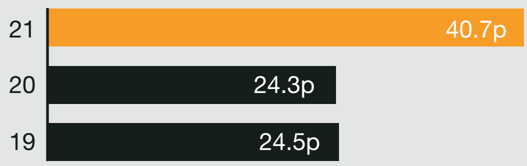
Definition
Profit after income tax and before non-underlying items as shown in the Group Income Statement, divided by the number of shares in issue

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

Performance
Underlying EPS grew 67.5% reflecting the strong profit performance.

Link to Remuneration:
Performance Share Plan

Historic Performance



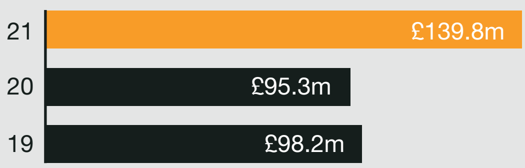
Underlying EBIT and Underlying EBITDA[1]

Definition
Underlying EBIT results from operating activities before non-underlying items. Underlying EBITDA further removes Depreciation and Amortisation.

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

Performance
Underlying EBITDA grew 47% reflecting the strong profit performance with depreciation 10% above last year as capital expenditure was moderated due to COVID-19.

Historic Performance
The numbers below represent Underlying EBITDA



Dividend Per Share[1]

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

Commitment
Our existing dividend policy was suspended last year in light of the considerable uncertainty that we faced during the pandemic. We will reinstate the ordinary dividend from FY22, intending this 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.

Performance
With the strong close to FY21, the Board proposed a final dividend of 5p.

Historic Performance

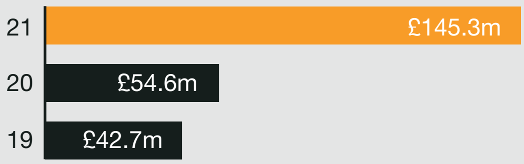
Free Cash Flow[2]

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

Commitment
Our medium-term target is to grow Free Cash Flow over the current three year period (FY19–FY21) compared with the previous three years (FY16– FY18).

Performance
Free Cash Flow was strong, £91m above FY21 from the strong profit performance and working capital inflow. We anticipate circa £36m of the working capital inflow to reverse in FY22.

Historic Performance



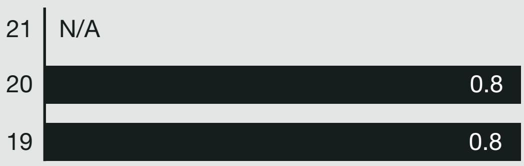
Net Debt to Underlying EBITDA Ratio[2]

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

Commitment
We currently continue to target a ratio of 1.0×, with a range of up to 1.5× to allow for appropriate M&A. We will arrive at the debt target over time. This ratio helps to compare the financial result for the year to debt levels.

Performance
The Group ended FY21 with net positive cash.

Historic Performance



Like-for-Like Sales[1]

Definition
Revenues from stores, Autocentres and websites that have been trading for at least a year (but excluding prior year sales of stores and Autocentres closed during the year) at constant foreign exchange rates.

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.

Performance
Group LFL was strong driven by both growth in our Autocentres business and Cycling. Retail Motoring saw a LFL decline off the back of low traffic levels from COVID-19.

FY21 LFL Sales Movement

Halfords Group	13.9%
Retail	14.6%
Motoring	-12.1%
Cycling	54.1%
Autocentres	9.7%

[1] All numbers presented are pre-IFRS 16 and FY20 numbers are on a 52-week basis.

[2] All numbers presented are pre-IFRS 16 and FY20 numbers are on a 53-week basis.

Read the Remuneration Report on pages 122 to 135.

Our 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
Service-related sales growth was very strong, now accounting for 28.7% of Group sales. The growth was driven by our Autocentres business from both our FY20 acquisitions, the expansion of our HME business and market share gains across the Autocentres.

Link to Remuneration:
Bonus and Performance Share Plan

Historic Performance

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
Engagement fell 2% which although disappointing on face value was a positive result given the unprecedented challenges and disruption felt by every colleague within the business. We launched several initiatives to try and lessen the burden both financially and their mental and physical health.

Link to Remuneration:
Bonus

Historic Performance

Customer Net Promoter Score ('NPS')

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

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

Performance
NPS saw good positive movements across both Retail and Autocentres as we focussed on enhancing the customer experience at multiple touch points. Given the dramatic increase in customer contact during COVID-19, this was a pleasing result reflecting our investments in digital and centralising customer contact.

Link to Remuneration:
Bonus

Historic Performance

	FY21	FY20
Retail	**59.7**	57.9
Autocentres	**72.6**	68.8

> *The FY21 financial results reflect our operational agility in year but also the positive impact of longer-term initiatives to improve the efficiency and profitability of our business.*

Chief Financial Officer's Review

Loraine Woodhouse

2020/21 Highlights

+13.1%
Total Sales Growth

-3.1ppts
Cost as a % of Sales

£20.0m
Sustainable Working Capital Reduction

Reportable Segments

Halfords Group operates through two reportable business segments:

- Retail, operating in both the UK and Republic of Ireland; and
- Autocentres, operating solely in the UK.

All references to Retail represent the consolidation of the **Halfords** ("**Halfords** Retail") and Cycle Republic businesses, Boardman Bikes Limited and Boardman International Limited (together, "Boardman Bikes"), and Performance Cycling Limited (together, "Tredz and Wheelies") trading entities. All references to Group represent the consolidation of the Retail and Autocentres segments.

The "FY21" accounting period represents trading for the 52 weeks to 2 April 2021 ("the financial year"). To ensure a meaningful comparison with the prior year, all commentary unless otherwise stated is for the 52-week period ended 27 March 2020 and is before non-underlying items. Most of our commentary on profit and cost measures is before the impact of IFRS 16, which is stated where relevant. The impact of IFRS 16 is shown in the table below and further details of this impact are provided later within this report. The comparative period "FY20" represents trading for the 53 weeks to 3 April 2020 ("the prior year").

Group Financial Results

	FY21 (52 weeks) £m	FY20 (53 weeks) £m	FY20 (52 weeks) £m	52-week change
Group Revenue	**1,292.3**	1,155.1	1,142.4	+13.1%
Group Gross Profit	**656.3**	589.7	584.0	+12.4%
Underlying EBIT pre-IFRS 16*	**101.8**	55.4	58.7	+73.4%
Underlying EBITDA pre-IFRS 16*	**139.8**	92.6	95.3	+46.7%
Net Finance Costs	**(5.5)**	(2.8)	(2.8)	+96.4%
Underlying Profit Before Tax pre-IFRS 16*	**96.3**	52.6	55.9	+72.3%
Net Non-Underlying Items	**(37.3)**	(32.1)	(32.1)	+16.2%
Impact of IFRS 16	**5.5**	(1.1)	(1.1)	–
Profit Before Tax post-IFRS 16	**64.5**	19.4	22.7	+184.1%
Underlying Basic Earnings per Share pre-IFRS 16*	**40.7p**	22.9p	24.3p	+67.5%

* This report includes Alternative Performance Measures ("APMs") which we believe provide readers with important additional information on the Group. A glossary of terms and reconciliation to IFRS amounts is shown on page 201.

The speed with which COVID-19 hit, and the subsequent implications, have been the most significant test for every business in living memory. Almost overnight, demand and customer shopping behaviour changed, cash flows and supply chains were interrupted, and the resulting operational challenges tested everyone and everything. Although I believe the financial strength of **Halfords**, and our diverse portfolio of essential products and services, positioned us well going into the pandemic, I am pleased that the work in the preceding 12 months was designed for exactly this purpose - to strengthen the resilience and profitability of the business in an ever-changing retail environment. The FY21 financial results therefore reflect our operational agility in year but also the positive impact of longer-term initiatives to improve the efficiency and profitability of our business. We saw revenues and profits grow, gross margins improve in our core categories and businesses, operational costs fall as a proportion of sales, and a closing net cash of £58.1m.

The customary financial metrics undoubtedly demonstrate our strong performance but, over and above this, we also undertook further activity in year to safeguard the Group. This included securing £25m of CLBILS funding and covenant waivers on our existing RCF at the peak of the pandemic and, more notably, the subsequent refinancing of the Group's debt facility for the next 3 years, securing a competitive rate of borrowing on a reduced facility size overall.

Group revenue in FY21, at £1,292.3m, was up 13.1%, comprised of Retail revenues of £1,039.8m and Autocentres revenue of £252.5m. This compared to FY20 Group revenue of £1,142.4m, which saw Retail revenue of £950.6m and Autocentres revenue of £191.8m. Group gross profit at £656.3m (FY20: £584.0m) represented 50.8% of Group revenue (FY20: 51.1%), comprising an increase in the Retail gross margin of 10 basis points ("bps") to 48.3% and a decrease in the Autocentres gross margin of 440bps to 61.1%, reflecting the recent acquisition of lower gross margin businesses. Although the headline Group gross margin rate declined, -34bps, this was a strong result given the dynamics and volatility of the last 12 months and the outcome reflects our focus on creating a more profitable business. To context this result, it is worth highlighting three key components within the final overall Group gross margin %. Within Retail, we saw a significant, and adverse, change in mix, out of higher margin motoring products and into lower margin cycling. Motoring revenues were impacted by the almost continuous rhythm of lockdowns and resultant fewer journeys. On the contrary, our cycling performance was very strong as we worked hard to capitalise on any opportunity within this market and offset the lost motoring revenue. Offsetting the significant mix impact, we saw a particularly strong margin rate improvement, reflecting almost 18 months of work to improve the profitability of our cycling business. The overall improvement in cycling gross margin was particularly pleasing, up almost 680bps on FY20 and, alongside a smaller, but favourable, improvement in motoring this completely mitigated the adverse mix effect within Retail.

The final margin impact was seen within our Autocentre Business. The overall performance was -440bps vs FY20 but was expected as we reported the first full year of Tyres on the Drive and McConechy's Tyre Service Limited ("McConechy's"). As we highlighted last year, these businesses generate a lower gross margin due to a higher participation of tyre sales. The operating model is different, but we see an opportunity in the medium term as we increase the participation of higher-margin services, maintenance, and repair within the product mix. Encouragingly, all three Autocentre businesses saw their gross margins improve vs FY20 as we continue to optimise and take the first steps on this journey.

Total underlying costs, pre-IFRS 16, increased to £554.5m (FY20: £525.3m) of which Retail comprised £410.6m (FY20: £404.3m), Autocentres £141.6m (FY20: £118.9m) and unallocated costs £2.3m (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 and The Universal Tyre Company (Deptford) Limited ("Universal") in March 2021, which arise on consolidation of the Group. Group Underlying EBITDA pre-IFRS 16 increased 46.7% to £139.8m (FY20: £95.3m), whilst net finance costs pre-IFRS 16 were £5.5m (FY20: £2.8m).

Group operating costs before non-underlying items and pre-IFRS 16 saw an increase of 5.6% but decreased as a proportion of sales by -3.1ppts to 42.9%, demonstrating our increased efficiency. As with revenue and gross margin, there are several movements within this result that give context to the performance. The Group saw over £33m of costs as a result of operating under COVID-19 restrictions, driven by additional payroll to manage colleague and customer safety, personal protective equipment ('PPE') and safety equipment, and higher fulfilment cost as customers temporarily changed shopping behaviour. During Q1, whilst the Groups stores and centres were partially closed, over 50% of colleagues were furloughed.

Chief Financial Officer's Review

At this point we utilised government furlough schemes, receiving £10.5m of support, which was later paid back in full during Q4. We also recognised the difficult environment through which our colleagues have worked and, as a result, invested in supporting them financially through initiatives including the Front-Line Bonus Scheme and a Hardship Fund totalling £4m, whilst also adjusting holiday rules to allow colleagues to take more time off during FY22. These costs were offset by the business rates relief of £39m across the Group, of which the majority arose within the Retail business.

We continued to drive our ongoing efficiency programmes, delivering £7m of Goods Not For Resale ("GNFR") cost savings, alongside those associated with the closure of Cycle Republic, worth a further £9m. We also achieved rental savings within our Retail estate on 19 lease renewals of circa -30% worth £0.6m in FY21 and continued to convert most of stores and garages to LED lighting saving a further £0.4m. These underlying savings were offset by the inevitable cost increases associated with the growth of our business. The annualisation of our acquisitions - Tyres on the Drive and McConechy's - added £18m, strategic investments totalled £8m and the significantly skewed mix into bikes, and their increased volumes during FY21, added a further £22m of additional cost.

Underlying Profit Before Tax pre-IFRS 16 for the year increased 72.3% at £96.3m (FY20: £55.9m). Non-underlying items of £37.3m in the year (FY20: £32.1m) related predominantly to the closure of a number of stores and garages following a strategic review, as well as costs relating to a significant organisational restructure. After non-underlying items, Group Profit Before Tax was £59.0m (FY20: £23.8m).

After non-underlying items and including IFRS 16, Group Profit Before Tax was £64.5m (FY20: £22.7m). The impact on the Group of IFRS 16 in the period was a £5.5m net increase to Group Profit Before Tax.

Retail

	FY21 (52 weeks) £m	FY20 (53 weeks) £m	FY20 (52 weeks) £m	52-week change
Revenue	**1,039.8**	961.0	950.6	+9.4%
Gross Profit	**502.0**	462.8	458.4	+9.4%
Gross Margin	**48.3%**	48.2%	48.2%	+10bps
Operating Costs	**(410.6)**	(410.8)	(404.3)	+1.6%
Underlying EBIT pre-IFRS 16*	**91.4**	52.0	54.1	+68.9%
Non-underlying items	**(33.6)**	(29.5)	(29.5)	+13.9%
Impact of IFRS 16	**14.2**	(1.2)	(1.2)	–
EBIT post-IFRS 16	**72.0**	21.3	23.4	+207.7%
Underlying EBITDA pre-IFRS 16*	**120.5**	81.1	82.7	+45.7%

* This report includes Alternative Performance Measures ("APMs") which we believe provide readers with important additional information on the Group. A glossary of terms and reconciliation to IFRS amounts is shown on page 201.

Revenue for the Retail business of £1,039.8m reflected, on a constant-currency basis, a like-for-like ("LFL") sales increase of +14.6%. Total revenue in the year increased 9.4% after adjusting for the impact of closed stores. The volatility of the trading environment discussed earlier was most evident in our Retail business, which made forecasting particularly difficult. Demand for our motoring products suffered from a suppressed market throughout FY21 as lockdowns markedly reduced the number of journeys, with customers opting to work from the safety of their homes. Motoring like-for-like declined 12.1%, better than transport data would suggest, but still saw weekly LFLs ranging from -75% to +20%. There were a number of positive performances within motoring, such as our touring products and car cleaning, but many product areas saw LFL declines through much of the year.

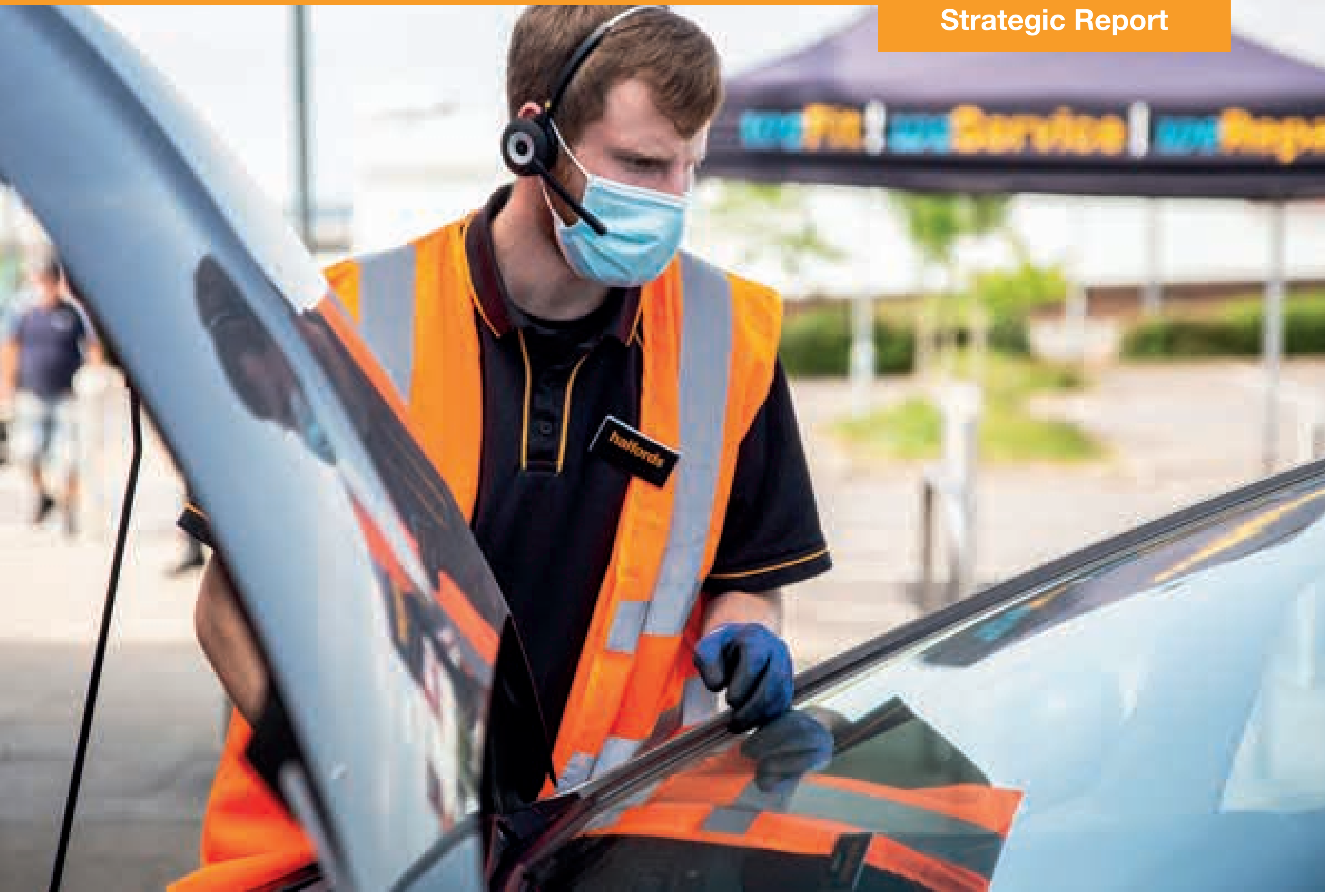
Our cycling performance was much stronger, with like-for-like growth of 54.1%, as we worked hard to source stock from new and existing suppliers and serve the increased demand within the market. Cycling was equally hard to predict, and although performed very well across H1, with LFL peaks of over +100%, H2 saw more volatility from week-to-week with LFL declines late in Q3 and early Q4.

The differing category fortunes resulted in the mix of motoring within Retail decline by almost -12ppts vs. Cycling against last year. The Retail Operational Review in the Chief Executive's Statement contains further commentary on the trading performance in the year.

Like-for-like revenues and total sales revenue mix for the Retail business are split by category below:

	FY21 LFL (%)	**FY21 Total sales mix (%)**	FY20 Total sales mix (%)
Motoring	**-12.1**	**46.1**	58.4
Cycling	**+54.1**	**53.9**	41.6
Total	**+14.6**	**100.0**	100.0

Gross profit for the Retail business, at £502.0m (FY20: £458.4m) represented 48.3% of sales, an increase of +10bps on the prior year (FY20: 48.2%). Underlying gross margins of Cycling and Motoring improved more significantly than the headline number, which was diluted by product mix into lower margin cycling and a currency impact within the broader gross margin due to fluctuations on the year end spot rate. The gross margin improvement within the categories reflected the significant work carried out over the last 18 months on our sourcing strategy for both bikes and motoring products, as well as our work to optimise promotional activity throughout the year. Over the year, Cycling gross margins improved by +680bps and Motoring by +40bps vs. FY20.



Retail operating costs before non-underlying items and IFRS 16 were £410.6m (FY20: £404.3m), an increase of 1.6% on FY20. The focus on operational efficiency and procurement continued in FY21, offsetting the impact of volume and mix, whilst simultaneously allowing the business to invest, albeit at a reduced level, in our strategic initiatives. Some of the highlights included centralising all customer contact and further development of our digital platform to enhance our customer experience including bookable bike slots and our WeCheck app. We saw almost £7m of GNFR costs removed from the Retail business through continued review of services and tendering processes. We saw 19 lease renewals, saving on average -30% on annual rents, and we continued to convert more stores to LED lighting and building management systems, saving over 40% on annual converted stores utilities consumption.

Naturally, due to the size of the Retail business, a greater proportion of the costs associated with COVID-19 were within its costs. Of the £33m mentioned above, £25m arose in Retail, offset by £33m of business rates relief.

Autocentres

	FY21 (52 weeks) £m	FY20 (53 weeks) £m	FY20 (52 weeks) £m	52-week change
Revenue	**252.5**	194.1	191.8	+31.6%
Gross Profit	**154.3**	126.9	125.6	+22.9%
Gross Margin	**61.1%**	65.4%	65.5%	-440bps
Operating Costs	**(141.6)**	(121.4)	(118.9)	+19.1%
Underlying EBIT pre-IFRS 16*	**12.7**	5.5	6.7	+89.6%
Non-underlying items	**(3.7)**	(2.6)	(2.6)	+42.3%
Impact of IFRS 16	**0.8**	0.1	0.1	–
EBIT post-IFRS 16	**9.8**	3.0	4.2	+133.3%
Underlying EBITDA pre-IFRS 16*	**19.3**	11.5	12.6	+53.2%

* This report includes Alternative Performance Measures ("APMs") which we believe provide readers with important additional information on the Group. A glossary of terms and reconciliation to IFRS amounts is shown on page 201.

Autocentres generated total revenues of £252.5m (FY20: £191.8m), an increase of 31.6% on the prior year, with a LFL increase of 9.8%. Non-LFL revenue in the year included benefits from the acquisitions of both Tyres on the Drive and McConechy's in November 2020, alongside existing Autocentres that have been open less than 12 months.

Gross profit, at £154.3m (FY20: £125.6m), represented a gross margin of 61.1%, a decrease of 440bps on the prior year. As stated earlier, the decrease in gross margin % was solely a result of annualisation of the FY20 acquisitions, which have a dilutive effect as the operating model is quite different. These businesses tend to be lower gross margin but also lower cost. There is an opportunity for us to grow margin, over time, through a greater mix into service and repair, but the gross margin will remain lower than that of a core garage.

Chief Financial Officer's Review

All businesses saw their respective gross margins improve during FY21, with the continued development of our PACE Digital Operating Platform supporting buying efficiency across garages, boosted further by a slightly lower mix into tyres, which tend to be lower margin.

Operating costs were £141.6m, +£22.7m above last year, of which £18m was a result of the annualisation and growth of our acquisitions from FY20. COVID-19 costs within Autocentres totalled £5.3m, offset by £6.0m of relief through the Retail, Hospitality and Leisure Grant Fund. The remaining cost increase was the result of growth in the underlying business.

Autocentres' Underlying EBIT was £12.7m before IFRS 16 (FY20: £6.7m), a strong performance, reflecting the continued growth and optimisation of our LFL business alongside the annualisation and expansion of FY20 acquisitions. Underlying EBITDA before IFRS 16 of £19.3m (FY20: £12.6m) was 53.2% higher than FY20.

Portfolio Management

The last 12-18 months have seen some of the most significant changes in the Group's portfolio since the acquisition of Autocentres over a decade ago. Within Q3 FY20, we saw the acquisition of McConechy's Garages and Tyres on the Drive, followed shortly by the closure of our Cycle Republic business, including 22 stores, at the close FY20. Within FY21, we have continued to grow our services business, increasing the number of HME vans and acquiring Universal Tyres at the end of the financial year. We also, however, took steps to further improve the profitability and efficiency of our business through the closure of 59 lower return stores and garages.

The total number of fixed stores or centres within the Group stood at 781, with a further 143 HME vans and a further 192 commercial vans supporting mobile tyre fitting within McConechys and Universal as at 2 April 2021. The portfolio comprised 404 stores (end of FY20: 472) and 374 Autocentres (end of FY20: 371). Mobile locations grew by 156 vans, increasing coverage of the most in-demand regions within the UK.

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

	Retail	Centres	Vans
Relocations	–	–	–
Leases renegotiated	19	7	–
Refreshed	–	–	–
Openings/ Acquisitions	–	20	159
Closed	42	17	–

Within Retail, 42 low-return stores closed during the year, largely in Q4. It was considered more profitable to the Group, on analysing the anticipated sales transfer to other channels and neighbouring stores, to close these stores and reduce the overall cost base. Where there was term remaining on any leases at the point of closure, provision has been made in the balance sheet to cover occupancy costs to the point of lease expiry. A further 22 Cycle Republic stores, along with the Boardman Performance Centre, are also no longer part of the trading portfolio.

The number of lease expiries, or breaks under option, increases significantly within the next five years. Retail will see two-thirds of stores experience optionality within five years, allowing for a high degree of flexibility within the estate.

Within Autocentres, no new centres were opened, but 20 locations were acquired in the year. Seventeen were closed, taking the total number of Autocentre locations to 374 as at 2 April 2021 (end of FY20: 371). No Autocentres were refreshed in the year (FY20:14).

With the exception of eight long leasehold, and two freehold properties within Autocentres, the Group's operating sites are occupied under operating leases, the majority of which are on standard lease terms, typically with a 5- 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 6 freehold properties but all have been sold and leased back within the first two periods of FY22.

Net Non-Underlying Items

The following table outlines the components of the non-underlying items recognised in the 52 weeks ended 2 April 2021:

	FY21 £m	FY20 £m
Organisational restructure costs (a)	**5.9**	2.8
Group-wide strategic review (b)	**–**	1.0
Acquisition and investment-related fees (c)	**0.6**	1.9
One-off claims (d)	**2.9**	0.8
Closure costs (e)	**27.9**	25.6
Net non-underlying items pre-IFRS 16	**37.3**	32.1
Closure costs (e)	**(1.9)**	1.2
Impairment of right-of-use assets (f)	**(0.4)**	0.9
Net non-underlying items post-IFRS 16	**35.0**	34.2

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

Current period costs comprised:

- During the year, a strategic redesign of the in-store operating model undertaken to better meet our customers' expectations and deliver a consistent shopping experience across our estate. Redundancy costs of £5.9m were incurred to transition to the new operating model. These costs have materially been spent during the year.

Prior period costs comprised:

- Redundancy and transition costs relating to roles which have been outsourced or otherwise will not be replaced (FY20: £1.4m); and
- Asset write-offs, principally resulting from the strategic decision to re-platform the Retail and Autocentres websites (FY20: £1.4m).

b. In the prior period, costs were incurred in preparing and implementing the new Group strategy. This included £0.4m of external consultant cost and £0.6m of store labour costs, point-of-sale equipment and other associated costs in completing the cycling space re-lay across the store estate.

c. In the current and prior periods, costs were incurred in relation to the investments in Universal, McConechy's and Tyres on the Drive.

- £0.6m (FY21) relating to professional fees in respect of the acquisition of Universal;
- Tyres on the Drive acquisition costs comprised £1.0m (FY20) principally relating to the costs of dual running **Halfords** Mobile Expert and Tyres on the Drive, as well as the write-off of the receivables balance due from Tyres on the Drive related to **Halfords** Mobile Expert prior to acquisition; and
- £0.9m (FY20) relating to professional fees in respect of the acquisition of McConechy's.

d. During the prior year, the Group incurred £0.2m in settling a court case. In addition, a provision of £0.6m was recognised in relation to the HMRC audit relating to the national minimum wage. The Group has continued to work with HMRC and external advisors during FY21 and a full data validation exercise is underway to determine the required Notice of Underpayment. The exercise is in progress and based on information available to date and the Group's assessment of a range of potential outcomes, management has increased the provision to £3.4m which represents management's best estimate of the value of underpayments and the associated penalty charge.

e. Of the closure costs £28.5m represents costs associated with the closure of a number of stores and garages following a strategic review of the profitability of the physical estate. The costs mostly relate to the impairment of right-of-use assets (£12.2m) and tangible assets and ongoing onerous commitments under the lease agreements and other costs associated with the property exits.

In the prior period, they related to costs associated with the closure of the operations of Cycle Republic and the Boardman Performance Centre ("Cycle Republic") following a strategic review of the Group's cycling businesses. The costs mostly relate to the impairment of right-of-use assets, as well as the impairment of intangible and tangible assets and inventories. £2.5m of these costs have been reversed during the year as the Group continues to negotiate lease disposals and was able to release stock provisions previously in place (£1.8m).

f. In light of the ongoing COVID-19 pandemic, the Group has revised future cash flow projections for stores and garages. As a result, in the prior period, £0.9m incremental impairment was recognised 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. This charge is directly attributable to impairment due to COVID-19 and relates primarily to the right-of-use asset value. During the year, £0.4m of this impairment has been reversed as the stores and garages have returned to a profitable position.

Finance Expense

The net finance expense (before non-underlying items and IFRS 16) for the 52 weeks ended 2 April 2021 was £5.5m (FY20: £2.8m), reflecting the drawdown of the Revolving Credit Facility ("RCF") early in the pandemic, alongside increased amortisation and commitment fees relating to the new RCF, which was renegotiated in the period.

Taxation

The taxation charge on profit for the 52 weeks ended 2 April 2021 (before IFRS 16) was £10.3m (FY20: £2.8m), including a £5.8m credit (FY20: £4.7m credit) in respect of non-underlying items. The effective tax rate of 17.5% (FY20: 13.9%) differs from the UK corporation tax rate (19%) principally due to the impact of deferred tax on accounting for share options and adjustments in respect of provisions held in respect of prior periods.

Earnings Per Share ("EPS")

Underlying Basic EPS before IFRS 16 was 40.7 pence and after non-underlying items 24.7 pence (FY20: 22.9 pence and 8.9 pence after non-underlying items), a 77.7% and 177.5% increase on the prior year. Basic weighted-average shares in issue during the year were 197.1m (FY20: 197.0m).

Dividend ("DPS")

In light of the COVID-19 pandemic and the impact on short-term profitability, the Board has taken a series of measures to preserve cash, one of which was a suspension of the dividend. After the strong close in the final quarter of FY21, the Board has recommended to shareholders that a final dividend of 5.0p per share (FY20: nil) should be paid.

Chief Financial Officer’s Review

IFRS 16

	FY21 (52 weeks) Pre-IFRS 16 £m	FY21 (52 weeks) Post-IFRS 16 £m	Movement £m
Underlying EBIT	101.8	114.5	12.7
Net finance costs	(5.5)	(15.0)	(9.5)
Underlying profit before tax	96.3	99.5	3.2
Net underlying items	(37.3)	(35.0)	2.3
Profit before tax	59.0	64.5	5.5
Underlying basic earnings per share	40.7p	41.7p	

IFRS 16 has had the effect of increasing profit by £5.5m. 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 aging 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 2 April 2021 totalled £32.5m (FY20: £35.8m) comprising £23.2m in Retail and £9.3m in Autocentres. Within Retail, £6.0m (FY20: £15.9m) was invested in stores. Additional investments in Retail infrastructure included a £13.1m investment in IT systems, including the continued development of the Group website.

The £9.3m (FY20: £4.8m) capital expenditure in Autocentres principally related to the replacement of garage equipment and replacement of fixtures and fittings, rebranding of McConechy’s garages and further development of PACE, our Garage Workflow System.

Inventories

Group inventory held as at the year-end was £143.9m (FY20: £173.0m). Retail inventory decreased to £134.3m (FY20: £168.0m), reflecting reduced stock levels and working capital efficiencies. The stock levels within our cycling business were, however, sub-optimal for much of the year and, as such, the inventory reduction is flattered. Inventory levels are likely to revert to more normal levels in FY22.

Autocentres’ inventory was £9.6m (FY20: £5.0m). The existing Autocentres business model is such that only modest levels of inventory are held, with most parts acquired on an as-needed basis. The increase in inventory related to the acquisition of tyre stock within Universal.

Cash Flow and Borrowings

Adjusted Operating Cash Flow was £186.6m (FY20: £109.9m). After acquisitions, taxation, capital expenditure and net finance costs, Free Cash Flow of £145.3m (FY20: £54.6m) was generated in the year. Group Net Cash/(Debt) was £58.1m (FY20: (£73.2m)). All these numbers are pre-IFRS 16.

Within the cash flow is a working capital inflow of approximately £42m. Within this was approximately £20m of planned and sustainable inventory reductions in Retail and £36m which we anticipate will reverse in FY22. The £36m is a result of Retail inventories at year end which were £14m lower than optimal due to the high cycling demand, and year end creditors worth £22m which saw our normal timing differences alongside a VAT creditor that was deferred from earlier in the year and paid early in FY22.

Group net debt after IFRS 16 was £277.3m (FY20: £479.8m).

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 2021 Annual Report and Accounts. These include:

- Business Strategy
  - Capability and capacity to effect change
  - Stakeholder support
  - Value proposition
  - Brand appeal and market share
- Financial
  - Sustainable business model
- Compliance
  - Regulatory and compliance
  - Service quality
  - Cyber security
- Operational
  - Colleague engagement/culture
  - Skills shortage
  - IT infrastructure failure
  - Critical physical infrastructure failure (including supply chain disruption)

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

16 June 2021

Our Principal Risks and Uncertainties

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 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.

Whilst ultimate responsibility for the oversight of risk management rests with the Board, the effective day-to-day management or risk is embedded within the business through a layered assurance approach.

During the year, additional rigour was added into the overall management of risk through the creation of a Risk Committee. This Committee, comprising members of the Executive Team, systematically reviews existing risks, focuses on mitigating actions and identifies emerging risks. 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 117 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:

- COVID-19 is a present threat but is no longer regarded as a principal risk having crystallised during the year. Residual risk remains but we have elected to treat this as an elevation of our existing principal risks, many of which continue to be impacted by the pandemic.
- Brexit is no longer a principal risk having been concluded during the year. Any residual impact of the agreement is monitored through the day-to-day risk management process.

COVID-19

COVID-19 had a significant impact across all sectors throughout 2020 with the imposition of lockdowns and travel restrictions disrupting global supply chains and changing consumer behaviour. **Halfords** responded immediately to the pandemic, with the fast set up of daily COVID-19 'war rooms' at senior management and Executive level. All risks, whether health and safety related, financial, commercial or operational, were quickly identified, managed and ultimately mitigated.

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.

The advancement of the vaccine programme and the easing of lockdown restrictions has enabled operations at stores and centres to prepare for a return to pre COVID-19 levels of customer traffic. The risk of another rise in COVID-19 infections posed by virus variants and a return to pandemic restrictions is under constant review, and if necessary, our proven response plan can be rapidly redeployed.

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 newly formed Risk Committee now manages the identification and progression of emerging risk with further evaluation and discussion by the Audit Committee. Climate change and the electrification of vehicles continues to be a developing area, representing both an emerging risk and an opportunity. We conduct horizon scanning with subject matter experts, who contribute to the risk management process with insight on key risk themes such as economic, environmental, technological, societal, and geopolitical.

Risk Appetite

The Board 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 is able to distinguish the risk appetite for each of the principal risks and whether mitigations are adequate.

Our Principal Risks and Uncertainties

Capability and Capacity to Effect Change

If we do not have sufficient capacity and capability (in terms of our people, processes, and systems) to successfully implement the changes necessary across the business, we will not realise the expected benefits of our strategy and the business will not be sustainable.

Current Mitigation

- The appointment of a Transformation Director and a strengthened team with emphasis on project management enabled progress to be maintained during a challenging period for capital investment. The successful acquisition of the The Universal Tyre Company (Deptford) Limited ("Universal") in March 2021 demonstrated our intent and ability to grow our services business.
- 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. 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 2022

- Continue to align our Transformation Plan with the key objectives of our corporate strategy.
- Closely monitor progress on individual programmes, realigning resources where necessary.
- Specifically, within the technology and digital teams, address operating model shortcomings to enable faster execution.
- Complete organisational design changes to align with the strategic focus of the business.

Stakeholder Support

If we fail to maintain stakeholder confidence in our strategy, they may withdraw their support.

Current Mitigation

- Throughout the year, we demonstrated progress in the execution of our strategy, building confidence in external and internal stakeholders. Our share price responded positively, Customer NPS improved, and our internal engagement scores remained high despite the disruption caused by COVID-19.
- Engagement continued throughout the year with customers, investors and colleagues, keeping them informed of progress against our strategic plans, changing customer propositions as well as the challenges presented by the pandemic.

Focus in 2022

- 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.

Value Proposition

Customers are not persuaded by our value proposition and we lose market share to online retailers and discounters. Purely competing on price leads to a diminution of financial returns.

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 the development of new services and greater accessibility through the growth of our Cycle-to-Work programme, financial products, and **Halfords** Mobile Expert business.
- Optimisation of our Group website with payment online functionality was further enhanced by investment in our fulfilment proposition and enablement of cross-shop opportunities, aligned with more targeted promotions, designed to appeal to customers.

Focus in 2022

- Launch of a **Halfords** Motoring loyalty programme, designed to reward loyal customers and inspire a greater proportion to shop across the Group.
- Further investment in pricing of motoring products to deliver greater value for customers.

Brand Appeal and Market Share

If we continue to lose brand relevance, we will be unable to maintain and grow our customer base and build market share.

Current Mitigation	Focus in 2022
• Building on a positive response to our status as an essential retailer, we have grown awareness of our HME and garage services. Customer loyalty 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 voucher scheme, has strengthened market share.	• Continued investment in a Group services marketing campaign. • A greater focus on E-bike and E-scooter product sales, alongside a more general electric vehicle servicing strategy. • Investment in fair pricing for motoring products. • Improve climate change credentials with ESG targets defined.

Sustainable Business Model

Changes in the UK economy (including COVID-19, consumer confidence, tax and duty rates and the value of the Pound) could materially impact our revenue and/or costs, and therefore the profitability of the business. Unless we can reduce our exposure to these economic variables (e.g. our foreign exchange exposure), and improve our ability to take action quickly on our margins and operating costs, we will not create a sustainable business model.

Current Mitigation	Focus in 2022
• Significant actions on cost and margin taken in FY21 have collectively built financial resilience, including a successful project to reduce our fixed cost base. A refinancing secured our funding for a three-year period. • A strategic focus on the growth of services will build more stable revenue streams going forward, lessening the Group's exposure to product lifecycles and trends. • The business has a hedging programme in place and is following a working capital reduction programme, targeted at reducing stock holding and aligning trade creditor terms.	• Maintain focus on reducing underlying costs, e.g. rental costs through property renegotiations. • 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 or financial cost on the business.

Current Mitigation	Focus in 2022
• The senior leadership team communicates tone from the top to provide guidance to colleagues on all policy commitments. • A new health and safety structure was implemented with strong application of COVID-19 secure controls applied across all function of the business. • An external review of financial services compliance was undertaken in the year, allowing a targeted strategy of improvement. • Regular horizon scanning is undertaken to capture new regulations and requirements.	• Review and improvement of policies supported by training programmes for colleagues. • Regular training and information provided through user-friendly channels. • Deep-dive analysis into specific risk areas carried out on behalf of the Executive Risk Committee.

Key:

Risk increasing

Risk decreasing

No risk movement

Our Principal Risks and Uncertainties

Service Quality

The service we provide to customers may fail to meet regulatory/safety requirements resulting in harm to customer and/or legal/financial penalty.

Current Mitigation	Focus in 2022
• 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, we have introduced PACE, our digital operating platform, enabling increased workflow, productivity, and quality assurance. A new store operating model is also now in place with multi-skilled retail colleagues operating across all departments. • Store calls are now managed through a centralised contact centre, improving response times and convenience to customers.	• Full roll-out of new store operating model, with additional skills training completed for all retail colleagues. • Introduction of in-store specialists, focused on delivering excellence in our different service offerings. • Ongoing programme of proactive store maintenance and safety checks.

Cyber Security

If we fail to sufficiently detect, monitor, or respond to cyber-attacks against our systems they may result in disruption of service, compromise of sensitive data, financial loss and reputational damage.

Current Mitigation	Focus in 2022
• Our information security team working with our security partner, TCS, provide valuable support by managing vulnerability scans and email and website security. • 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 IT management on the business' IT security framework.	• Launch of a fully managed security operations centre, increasing visibility and decreasing response time to incidents.

Colleague Engagement/Culture

Our employment model may not be sufficiently attractive to recruit and retain the talent that we need.

Current Mitigation	Focus in 2022
• Our status as an essential retailer during the pandemic provided a strong sense of purpose and enhanced the culture and identity of **Halfords** as a services business. • Early in the year, we launched our new colleague values and behaviours framework and appointed a colleague experience manager to focus on engagement. An annual engagement survey provides us with reports at team level. We have an environment that encourages colleagues to feed back to us about how we can make **Halfords** an even better place to work. • During the year, a hardship fund was founded for the benefit of our colleagues to provide support and assistance where needed. Equally, a bonus scheme was established for those colleagues working in a front line role during the early period of the pandemic.	• Regular survey activity to identify areas important to colleagues in driving continued engagement. • Ongoing wellbeing programme, providing ideas, support and tips for a better work/life balance. • Identification and development of top talent, allowing us to develop colleagues to fulfil their potential and, in turn, strengthen our succession pipeline.

Key:

Risk increasing

Risk decreasing

No risk movement

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	Focus in 2022
• We have a strategy that relies on attracting and retaining colleagues who can inspire and support our customers and encourage them to build a lifetime relationship with the brand. • Our recruitment website highlights the importance of the **Halfords** behaviours and details the skills and experience required of our colleagues. New starters are given a full induction and all colleagues receive a performance development review. We develop colleagues via the application of a talent matrix, which supports them in fulfilling their potential and enabling succession management. • 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.	• Material investment programme in skills training to enhance colleague capability and, in turn, improve the customer experience across our touch points. • As the restrictions associated with COVID-19 ease, develop a revised working model for our Support Centre colleagues, balancing a desire for greater flexibility with the connection and creativity that comes from being in the right office environment. • Extend our eLearning programme for the benefit of all colleagues.

IT Infrastructure Failure

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

Current Mitigation	Focus in 2022
• 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.	• 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. • Deep-dive analysis into targeted areas of infrastructure, managed through the Risk Committee.

Our Principal Risks and Uncertainties

Critical Physical Infrastructure Failure (including supply chain disruption)	
Severe damage or failure of physical infrastructure may disrupt our supply chain and/or business as usual activities and prevent the fulfilment of customer orders.	
Current Mitigation	**Focus in 2022**
• 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. • We maintain security and protection measures at our distribution centres and have business continuity plans to manage any incidents that may occur. Our logistics operations are overseen by a dedicated warehouse and logistics team with extensive experience. • Extensive research is conducted into quality and ethics before the Group procures products from any new country or supplier. A strong management team in the Far East, with an understanding of local culture, market regulations and risks, maintains close relationships with both our suppliers and logistics partners to ensure that disruption to production and supply are managed appropriately.	• Programme of development for warehouse and duty management systems. • Enhanced flexibility across the supplier base, using a wider range of suppliers, where possible, and additional providers of freight and transport solutions. • Revised programme of supplier management for all key suppliers. • Ongoing dialogue with existing and new suppliers to build a joint programme of environmental sustainability.

Key:

Risk increasing

Risk decreasing

No risk movement

Going Concern

In determining the appropriate basis of preparation of the financial statements for the year ended 2 April 2021, 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.

The Group has significantly outperformed the scenarios reviewed as part of the going concern assessment in the Annual Report and Accounts to 3 April 2020.

Management has updated the assessment of going concern, which included reviewing financial forecasts and projections to 30 June 2022. 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 (24.0%) before the first covenant condition is broken. Management believe that this is a significant material event which is highly unlikely to occur in the next 15 months.

If sales were to reduce by (24%), then further actions could be taken by management to prevent the breach. The key mitigating action would be to halt strategic investment in FY22, which would provide further headroom of c.5% of sales decline.

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 in a positive net debt position pre-IFRS 16 of £58.1m 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 3 December 2023, 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 29 March 2024. 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 66 to 72. 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 2 April 2021 and is expected to continue. Actions taken during the year have further strengthened the cash position of the business, resulting in a positive net debt position pre-IFRS 16 of £58.1m vs. net debt of £(73.2)m as at 3 April 2020. The business has materially outperformed the scenarios developed as part of the COVID-19 modelling during the year end close process last year. As an essential retailer and services provider, the Group was able to remain open throughout the lockdown periods starting in March 2020. The Group was, and will continue to be, uniquely positioned to keep the UK's cars and bikes on the road.

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 the continued focus on reducing underlying costs (e.g. rental costs through property renegotiations) and margin improvement, eliminating unnecessary cost 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%), amounting to an average of £350m 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 £54m per annum, are removed. The downside scenario also incorporates a further £55m 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. The Group's revolving credit facility was re-negotiated during the year, the new facility was set up from 4 December 2020 for three years, with two options to extend by a further year.

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.

Our Governance

Contents

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 (now Intu plc) and Finance Director of Costa Coffee Limited. Loraine's early career included finance and investor relations roles at Kingfisher plc.

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

Committee 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 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 also a member of the Supervisory Board of Directors of Ben and Jerry's and 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. 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 Remuneration Committee member of C&C Group plc and Bakkavor Group plc, and a Non-Executive Director and member of the Remuneration, 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.

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 2 April 2021.

Halfords Group plc

Registered Number	04457314
Registered Office Address	Icknield Street Drive, Washford West, Redditch, Worcestershire, B98 0DE
Country of Incorporation	England and Wales
Type	Public Limited Company

Additional Disclosure

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

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.

At the outset of the COVID-19 pandemic in 2020, it was agreed that David Adams, the then Senior Independent Director, would stay in office until the end of 2020, to ensure an orderly handover to the newly appointed Non-Executive Director. The full reasoning for this decision is detailed on page 100. In the previous, period the Board recognised that it had assessed that David had ceased to be regarded as independent for the purposes of the Code, and that his extended tenure until December 2020 had created a technical breach of the Code's recommendation. However, the Board agreed that this short-term situation was justified in the unprecedented and challenging circumstances which had been brought about by the pandemic.

Principal Activities

The principal activities of the Group are: the retailing and provision of motoring and cycling products and services; and auto servicing, maintenance and repairs through garages and mobile vans. The principal activity of the Company is that of a holding company. The Company's registrar is Link 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 148. The profit before tax was £64.5m (2020: £19.4m) and the profit after tax amounted to £53.2m (2020: £17.5m). The Board proposed that a final dividend of 5.0 pence per ordinary share to be paid on Friday 17 September 2021 to shareholders whose names are on the register of members at the close of business on Friday 13 August 2021. As announced on 18 November 2020, the Board did not propose an interim dividend in respect of the period to 2 October 2020.

Computershare Trustees (Jersey) Limited, trustee of the **Halfords** Employees' Share Trust, has waived its entitlement to dividends.

Performance Monitoring

The delivery of the Group's strategic objectives is monitored by the Board through Key Performance Indicators ("KPIs") and periodic review of various aspects of the Group's operations. The Group considers that the KPIs listed on pages 54 to 56 are appropriate measures to assess the delivery of the Group's Strategy.

Directors

The following were Directors of the Company during the period ended 2 April 2021 and at the date of this report:

- Keith Williams
- Graham Stapleton
- Loraine Woodhouse
- Helen Jones
- Jill Caseberry
- Tom Singer (appointed on 16 September 2020)
- David Adams was also a Director during the period and resigned on 31 December 2020

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 2 April 2021 will retire and offer themselves for re-election at the 2021 Annual General Meeting, with the exception of Tom Singer who was appointed on 16 September 2020. Tom will, instead, stand for election for the first time at the 2021 AGM.

The Service Agreements of the Executive Directors and the Letters of Appointment of the Non-Executive Directors are available for inspection at the registered office of the Company. A summary of these documents is also included in the annual Directors' Remuneration Report on pages 131 and 132.

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 2020 Annual General Meeting ("AGM"), held on 15 September 2020, will expire on the date of the 2021 AGM. Since the date of the 2020 AGM, the Directors have not exercised any of their powers to issue, or purchase, ordinary shares in the share capital of the Company.

Directors' Interests

The Directors' interests in, and options over, ordinary shares in the Company are shown in the Directors' Remuneration Report on pages 125 to 135.

Since the end of the financial year and the date of this report, there have been no changes to such interests.

In line with the requirements of the Companies Act, Directors have a statutory duty to avoid situations in which they have, or may have, interests that conflict with those of the Company unless that conflict is first authorised by the Board.

The Company has in place procedures for managing conflicts of interest. The Company's Articles of Association contain provisions to allow the Directors to authorise potential conflicts of interest, so that if approved, a Director will not be in breach of his or her duty under company law. In line with the requirements of the Companies Act 2006, each Director has notified the Company of any situation in which he or she has, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company (a situational conflict). Directors have a continuing duty to update any changes to their conflicts of interest and the register is updated accordingly.

The Directors are also aware of their duties under Section 172 of the Companies Act 2006 and so in making their decisions they consider the long-term impact on the business as well as taking into consideration the interests of stakeholders such as colleagues, suppliers, customers and the wider communities in which we operate. More information on this can be found on pages 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 pages 42 to 53.

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 113.

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

Colleague Training and Development

The Group strives to meet its business objectives by motivating and encouraging all colleagues to be responsive to the needs of its customers and to continually improve operational performance. To achieve this we deliver a range of blended training and development programmes, across the Group, in our Retail, Autocentres (including McConechy's and Universal) and Performance Cycling businesses. We regard the training and development of our people 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 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. Revised Group Values, trained through FY22 will also further enhance our culture to underpin our strategy. 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") ensures that arrangements are in place to enable colleagues to raise concerns about possible improprieties on a confidential basis without fear of recrimination. The Group is committed to conducting its business with honesty and integrity, and it expects all colleagues to maintain high standards in accordance with its corporate culture. An understanding of openness and accountability is essential in order to prevent illegal or unethical conduct or malpractice and to enable any such situations to be addressed should they ever occur. The Whistleblowing Policy is reviewed annually and communicated to all colleagues around the Group.

Share Capital and Shareholder Voting Rights

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

All members who hold ordinary shares are entitled to attend, vote and speak at the general meetings of the Company, appoint proxies, receive any dividends, exercise voting rights and transfer shares without restriction. On a show of hands at a general meeting every member present in person, and every duly appointed proxy, shall have one vote for every share held, and on a poll, every member present in person or by proxy shall have one vote for every ordinary share held. The Company is not aware of any arrangements that may restrict the transfer of shares or voting rights.

Significant Shareholders

As at 2 April 2021, 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	19,757,740	9.92
JP Morgan Asset Management	10,763,925	5.41
Dimensional Fund Advisors	9,318,862	4.68
BlackRock	8,353,149	4.20
Vanguard Group	6,596,052	3.31
Janus Henderson Investors	6,529,812	3.28
Rathbones	6,557,923	3.29

Directors' Report

Authority to Purchase Shares

At the 2020 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 7 July 2020, such authority expiring at the conclusion of the Annual General Meeting to be held in 2021 or, if earlier, on 30 September 2021.

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 (FY20: 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 186 to 189.

Modern Slavery Statement

In order to support its estate of Retail stores, garages, moblie 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. These include, for example, the Group's Suppliers' Code of Conduct Policy which states that:

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

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

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

As a result of the above activity, during FY21, no concerns were raised regarding any of the Group's suppliers, and therefore **Halfords** continues to be assured that no organisation within its supply chain has breached its legal or contractual obligations.

The Group's Board of Directors reviews its Modern Slavery Statement on an annual basis. It was last approved on 15 September 2020.

Creditor Payment Policy

The Group does not follow any formal Code of Practice on payment. Instead, it agrees terms and conditions for transactions when orders for goods or services are placed, and includes relevant terms in contracts, as appropriate. These arrangements are adhered to when making payments, subject to the terms and conditions being met by suppliers. The number of trade creditor days outstanding as at 2 April 2021 for the Group was 73 days (2020: 69 days). The Company is a holding company and has no trade creditors.

Branches

The Company and its subsidiaries have established branches in the different countries in which they operate.

Auditor

The Company's current Auditor is BDO LLP. A resolution proposing the reappointment of BDO LLP will be set out in the Notice of the 2021 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

There have been no significant events since the year end.

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 8 September 2021. 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
16 June 2021

> *The Board continues to oversee and support the transformation and development of the strategic vision for the Group.*

Chair's Letter

Keith Williams

Read our Corporate Governance Report on pages 84 to 108

Keeping the UK Moving During COVID-19

The COVID-19 pandemic required a very agile response from all decision-makers in the business and you can read more about what we have done in the overview section of this Annual Report. The Board demonstrated flexibility and commitment to engage with the management team throughout the year but particularly in the first few months of the crisis when uncertainty was at its highest. The key priorities for the Board were to protect the health and safety of our colleagues and customers and to ensure the sustainability of the business in the long-term.

Strategy

The Board continues to oversee and support the transformation and development of the strategic vision for the Group. Necessitated by the emergence of the COVID-19 pandemic, the Board engaged with the management team to adapt our strategic execution for FY21, shifting the emphasis to cost efficiencies, cash management and supporting our colleagues. The Board was further engaged in refreshing the existing strategy, taking into account post-pandemic trends and the interests of different stakeholders.

Purpose and Culture

In FY21, **Halfords** has made strong progress on the cultural journey. We saw the successful roll-out of our new colleague values and behaviours which follows on from the culture review undertaken in FY20. The Board continues to recognise the importance of ensuring that **Halfords** has a strong culture and continues to support the work being done towards becoming One **Halfords** Family.

As part of the roll-out we have seen colleagues take part in leader-led workshops to introduce them to the refreshed values. This has been followed up by a number of initiatives to fully embed the values in the organisation. The Board is proud to note that in the Company's most recent Colleague Engagement Survey, 91% of colleagues confirmed that they "know what **Halfords** values are".

Engaging with the Workforce

The disruption caused by the COVID-19 pandemic, which saw the temporary closure of a number of our stores, resulted in a different approach to engagement, where we focused on remote engagement and colleague wellbeing.

Read more on pages 12 and 13

2020 Annual General Meeting ("AGM")

In 2020, to ensure the appropriate AGM arrangements were put in place, the Board closely monitored the evolving COVID-19 pandemic together with the UK Government's guidance on social distancing and public gatherings. In light of this, in September 2020, we made an announcement to the London Stock Exchange to update shareholders on changes required to the 2020 AGM arrangements which highlighted the importance we place on the health and wellbeing of our colleagues, shareholders and the wider community.

Keith Williams
Chair

16 June 2021

Corporate Governance Report

Governance at a Glance

Corporate Governance Statement
The Board confirms that during the year ended 2 April 2021, 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. As outlined in last year's Annual Report, it was agreed that David Adams, the then Senior Independent Director, would stay in office until the end of 2020, given the exceptional circumstances caused by the pandemic. The Board recognised that it had assessed that David had ceased to be regarded as independent for the purposes of the Code, and that his extended tenure until December 2020, had created a technical breach of the Code's recommendation that the majority of the Board be independent Non-Executive Directors. In the previous period, the Nomination Committee had agreed to extend David's term of appointment to December 2020, to ensure an orderly handover to the newly appointed Non-Executive Director.

This report, together with the other statutory disclosures and reports from the Audit, Nomination and Remuneration Committees, provide 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. During the year, the Company has formalised its ESG Committee to put it on a similar footing to the other Board Committees. For more information please see the ESG Committee Report on pages 114 to 115.

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 stakeholder engagement on pages 28 and 29.
- Read more on culture on pages 94 to 96.
- Read more on principal risks and uncertainties on pages 66 to 72.

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 page 100.
- Read more on Board responsibilities on page 100.
- Read more on key Board and Committee responsibilities on pages 101 to 103.

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 Directors' induction, training and development on pages 112 and 113.

Read more on diversity and inclusion in Our ESG Strategy on pages 47 and 48.

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 in the Audit Committee Report on pages 116 to 121.

Read more on risk in the Our Principal Risks and Uncertainties Report on pages 66 to 72.

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 in the Remuneration Committee Report on pages 122 to 135.

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 and 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 08 to 09.

How the Board Contributes to the Delivery of Halfords' Strategy

During the period, the Board approved a new set of Company values, further details of which are provided on pages 06 to 08. 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	2 Support	3 Lifetime
Inspire our customers through a differentiated, super-specialist shopping experience	Support our customers through an integrated, unique and more convenient services offer	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.

Halfords Our Values

one halfords family	wow our customers	be better every day	pride in expertise
With togetherness and teamwork we have strength and compassion	We put customers first and are obsessed with meeting their needs	We act and behave as market leaders	We continually develop our skills to deliver market leading services

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
- 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 the shareholder consultation in relation to our Remuneration Policy.

Board members

- Helen Jones
- Jill Caseberry

Commitment to Delivering Financial Value

Commitment to delivering financial value to shareholders.

Skills our Board has

Experience in setting and delivering financial KPIs in challenging retail 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

- Helen Jones
- Jill Caseberry
- Tom Singer

Read more about the skills of the Board on page 104

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, meeting particularly regularly through the initial stages of the COVID-19 pandemic. Two additional Board calls were held during the period to discuss the release of the hedging strategy approval and a trading update. The Board had regular dialogue with management during the early phase of the COVID-19 pandemic and held additional Board calls at this time. The additional Board meetings and Board calls were all quorate, and all Directors received the relevant papers and provided the required approval. 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: 10	Audit Committee scheduled: 3	Remuneration Committee scheduled: 7	Nomination Committee scheduled: 2	ESG Committee scheduled: 3
Executive Directors					
Graham Stapleton	10 / 10	N/A	N/A	N/A	3 / 3
Loraine Woodhouse	10 / 10	N/A	N/A	N/A	N/A
Non-Executive Directors					
Keith Williams	10 / 10	N/A	7 / 7*	2 / 2	N/A
Helen Jones	10 / 10	3 / 3	7 / 7	2 / 2	3 / 3
Jill Caseberry	10 / 10	3 / 3	7 / 7	2 / 2	3 / 3
Tom Singer (appointed 16/09/20)	6 / 6	2 / 2	4 / 4	2 / 2	1 / 1
David Adams (resigned 31/12/20)	7 / 7	2 / 2	5 / 5	1 / 1	N/A

Meetings attended / Possible meetings

* Upon the recommendation of the Nomination Committee that the Remuneration Committee should only comprise of Non-Executive Directors and not the Chair of the Company, Keith Williams stepped down as a member on 22 March 2021.

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

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

Board in Action

Case Study

Improvements to the Customer Experience through FY21 during the COVID-19 pandemic

As FY21 began and the UK went into lockdown, like many businesses we faced some serious operational challenges. A swift and significant shift in customer behaviour to online shopping exposed shortfalls in our end-to-end customer journeys. Over H1, almost 50% of customer journeys began online, with customers wanting to shop our products and services from the safety of their home. A surge in demand for cycling through lockdown, combined with very high levels of customer contact, made it clear that we needed to adapt at pace and transform our customer experience. With the support of the Board, we made the decision to accelerate elements of our strategic plan, including end-to-end customer journey improvements, improvements to the digital Bike journey, and the integration of **Halfords** Mobile Expert services into our Group website. Alongside this, the Board approved accelerated investment to improve our contact answer rate by centralising the Group Customer Contact Experience, reducing weekly customer contact by 288,000 contacts a month across the Group.

Combined, the changes to the digital customer journey and improved levels of contact have resulted in the best Net Promoter Scores (NPS) we have seen across the Group since the programme was launched in 2017.

Corporate Governance Report

Board Leadership and Company Purpose

Board Activities in FY21

Main Areas:

Strategy

Key activities and discussions:

- Reviewed the progress and delivery of the Group Strategy, the Transformation Plan and the Annual Budget.
- Approved the refreshed and relaunched Company Investment Case.
- Reviewed and approved repayment of government support, including furlough.
- Reviewed updates on the acquisition strategy and M&A activities.
- Reviewed updates on the ESG Strategy.

Link to Stakeholder

Governance

Key activities and discussions:

- Received regular updates from the Chairs of the Remuneration, Audit, Nomination and ESG Committees.
- Reviewed and approved the FY20 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.

Link to Stakeholder

Board Matters

Key activities and discussions:

- 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 Non-Executive Director, and new Chief People Officer.
- Reviewed the post appointment induction for the new Non-Executive Director, Tom Singer.
- Discussed and agreed the scope of the internal FY21 Board evaluation and reviewed its outcome.

Link to Stakeholder

Financial Risk and Management

Key activities and discussions:

- 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 FY20 Group Viability Statement.
- Received an update on the Group refinancing project.
- Reviewed and approved the FY21 budget and forecast.
- Reviewed and approved the appointment of a new joint broker.

Link to Stakeholder

Commercial Matters

Key activities and discussions:

- Reviewed and discussed plans to re-open stores, garages and Support Centre in line with COVID-19 guidance.
- Received and approved the permanent closure of 58 stores and garages.
- Received and reviewed updates on the impact of COVID-19 lockdowns and restrictions on trading and customer contact rates.
- 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.
- Reviewed the impact of Brexit on trading.
- Discussed, managed and mitigated the risks presented by the COVID-19 pandemic.

Link to Stakeholder

Shareholder and Stakeholder Relations

Key activities and discussions:

- Reviewed results of colleague engagement surveys and the launch of the new Company Values.
- Discussed the work undertaken on the Group's colleague engagement initiatives (e.g. One Team Strategy, Huddles, Listening Groups and SLT meetings).
- 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 2020 Notice of the Annual General Meeting and the arrangements for the 2020 Annual General Meeting in a COVID-19 secure environment.
- Received an update on the development of the new ESG Strategy.

Link to Stakeholder

Key:

Colleagues · Investors · Communities · Media

Customers · Suppliers · Environment · Government

Board Priorities for the Following Year

Main Areas:

Strategy

Key activities:

- Review the progress and delivery of the Group Strategy, particularly any changes required in response to COVID-19.
- Review any potential M&A opportunities.

Link to Stakeholder

Governance

Key activities:

- Receive regular updates from the Chairs of the Remuneration, Audit, Nomination and ESG Committees.
- Review and approve the FY21 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.
- Commence the process of ensuring that the composition of the Board is compliant with the Parker Review.

Link to Stakeholder

Board Matters

Key activities:

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

Link to Stakeholder

Financial Risk and Management

Key activities:

- 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 FY22 updated forecast, the FY23 budget, banking arrangements and the debt /hedging strategy.

Link to Stakeholder

Commercial Matters

Key activities:

- Review commercial matters brought to the Board for attention and potential approval.

Link to Stakeholder

Shareholder and Stakeholder Relations

Key activities:

- Review colleague engagement survey results and the progress on the health and wellbeing programme.
- 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 2021 Notice of the Annual General Meeting.

Link to Stakeholder

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 FY20. This review resulted in the refresh of colleague values and behavioural frameworks which built on the strength of prior leadership and 'Hands On' colleague behaviours. The aim was to create a One **Halfords** team approach and unite all parts of the business, old and new. The launch of the new colleague values and behaviours which underpin our strategy took place in the first quarter of FY21.

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.

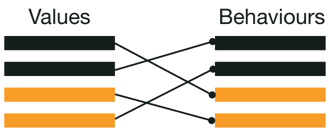
Our values roll-out followed the activity undertaken in FY20 in which 1,300 colleagues from across the group, were involved in developing the framework. The roll-out saw all colleagues across the group attend leader-led workshops. These workshops were followed by the launch of a series of initiatives 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.

Culture and Values

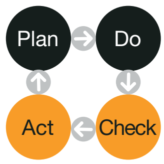
Goals

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.

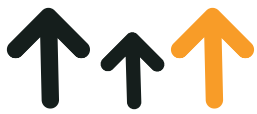
Key Achievements



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

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, 243 nominations were received in Q4 of FY21 alone. The success of the roll-out can be measured through data collected in our most recent engagement survey, in which 91% 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.

Workforce Engagement

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

This year the disruption arising from the COVID-19 pandemic, which saw the temporary closure of a number of our stores, resulted in a different approach to engagement in the first half of the year, in which we focused on remote engagement and colleague wellbeing. "Supporting colleagues to feel safe and engaged, putting One **Halfords** Family at the heart of everything we do" was positioned as one of our top three business priorities and discussed weekly in colleague huddles across all areas of the business. Additional two-way communication channels were also established, alongside newsletters and videos to facilitate remote engagement. Two full colleague surveys were conducted to invite colleague feedback – with one of these specifically focused on the impact of the pandemic. In H2 a total of 36 listening groups were held across the Group as a whole.

The role of the People Champions, which represent the views of colleagues across the business, has never been more important than during the first half of the year, with meetings used to gauge how colleagues were feeling; inform the programme of engagement and wellbeing activities; and to shape ways of working for colleagues required to work remotely. During the course of the year People Champions were invited to input to broader business initiatives including ESG and reward practice, so gaining an understanding of corporate governance and Executive remuneration.

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 120. 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 below outlines the key culture, values and engagement activities undertaken this year:

FY20

Q4

1,300 colleagues were engaged in defining the new colleague values and behaviour framework. The values and behaviour framework was agreed with the Board and training was rolled out to Senior Leaders.

FY21

Q1

- Roll-out of the values and behaviour framework to all colleagues across the Group commenced.
- "Supporting colleagues to feel safe and engaged, putting One **Halfords** Family at the heart of everything we do" positioned as one of our top three business priorities and discussed weekly in colleague huddles.
- Interim colleague survey conducted (focus on COVID-19 response).
- **Halfords** Here for the Heroes recognition scheme established.

Q2

- Values and behaviour roll-out completed.
- Colleague recruitment and internal performance management frameworks aligned to new values and behaviours.
- Full annual colleague engagement survey conducted (deferred from Q1 due to the pandemic).
- Engagement action planning undertaken.
- Bonusable engagement targets set for Executive Directors and the Executive Committee and approved by the Board.

Q3

- Performance related pay introduced aligned to values.
- Additional investment in colleague engagement, including the introduction of a new colleague experience manager to lead the engagement and diversity and inclusion agenda.
- Here to Help wellbeing scheme launched.
- Listening groups recommenced across all areas of the business (following some COVID-19 disruption in H1).

Q4

- Group values champions selected from all areas of the business.
- Values recognition scheme launched to recognise and reward colleagues that role model our values and behaviours; 243 nominations were received in Q4 from which 12 colleagues of the quarter selected and rewarded.
- Thank you cards introduced to provide immediate recognition for values in action.
- Listening groups remained ongoing with a total of 36 held across the year.

Corporate Governance Report

Board Leadership and Company Purpose

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.

Changes were made to our most recent colleague survey to support us in measuring the success of our values roll-out programme, as referenced earlier, as well as to enable us to collate and analyse engagement scheme outputs through a more detailed and diversity inclusion lens, so informing our broader ESG action plan. Further changes will be made to the survey from FY21 to ensure greater alignment with our new values, beyond the initial launch. We look forward to sharing these changes with you following implementation.

Our more holistic review of the culture of the business in FY20 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. Whilst, unsurprisingly, our colleague engagement index dipped slightly to 75% against the backdrop of our implementation of significant in-store changes that enabled us to both safely and successfully trade through the pandemic, our engagement index remains in the upper quartile when compared with external benchmarks.

This review also identified opportunities for us to improve our rituals and routines, control systems and structures to improve our customer centricity through a One **Halfords** team approach. The development and roll-out of the colleague values and behaviour framework in FY21 provided the foundation on which to build broader structural changes in support of this aim.

Q4 of the year saw the implementation of changes to our store structures to better support our strategy, with further alignment across the broader organisation planned for Q1 of FY22. We look forward to sharing a further update with you in our next report.

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 28 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.

Case Study

Consultation with Shareholders on Remuneration Policy

The views of our shareholders are very important to the Remuneration Committee and it is our policy to consult with our largest shareholders in advance of making any changes to the Executive remuneration arrangements. The Committee consulted in detail regarding changes made to remuneration in 2020 during FY20 and into the early part of FY21. The final proposals were shaped by the feedback provided.

This process began when we wrote to shareholders in 2020 ahead of our implementation of the 2020 Directors' Remuneration Policy. This policy was largely the same as the previous, but amendments were made to reflect the introduction of the 2018 UK Corporate Governance Code and to align with best practice and shareholder expectations.

This consultation with shareholders also included a proposed change to incentive performance measures to better reflect our key aims at the time, namely our intention to accelerate the growth of the motoring services business by including more focused services-related revenue metrics. We took feedback on board from shareholders who were generally supportive and after some minor changes, settled on our final proposals.

However, soon after we had undertaken this process the impact of the outbreak of COVID-19 on the business became more apparent and the Remuneration Committee took measures to ensure that the remuneration structures best reflected the circumstances of the business. We therefore again wrote to shareholders in early FY21, setting out our plans to change the performance measures under the annual bonus and PSP to ensure that it focused management on the key financial and strategic KPIs which were critical for the business. These amended metrics were subsequently implemented after discussion with shareholders.

Moving forward from the initial impact of the pandemic, we feel we are now able to revert to a more normalised approach to performance measures which are more reflective of our ongoing strategy. Full details are disclosed elsewhere in the report, but we remain committed to ongoing dialogue with shareholders and stakeholders and will continue to consult on any future changes.

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**.

The full Section 172(1) Statement can be found on pages 30 to 31.

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. Further, 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 126 to 135.

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.

Shareholder Engagement

Key Themes Discussed with Shareholders in FY21

- Resilience of the business and mitigating actions in response to the challenges of the COVID-19 pandemic.
- 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 and relative financial returns from each segment.
- Capital allocation priorities, specifically the balance of maintaining a prudent balance sheet, maintaining the dividend and enabling investment for growth.
- 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.

Q&A with Helen Jones

Workforce Engagement at a Glance

36
Listening groups held across the Group

25
Local colleague engagement champions appointed

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

A. Reporting to the Board on behalf of colleagues, is a responsibility I take seriously. The Board is committed to ensuring colleagues have a forum where their views, suggestions or concerns will be heard, so I provide that link. In addition to the annual Colleague Engagement Survey, the Company holds listening groups each year. I typically attend around six sessions each quarter, as well as making some informal store visits. In each case, colleagues are actively encouraged to be open and honest in their feedback and I do my best to put them all at ease. I now report quarterly to the Board on the main themes, to include what is working well for colleagues and what the Company should pay particular attention to. In addition we recently started to work with our Colleague Engagement Champions on pay reporting to ensure they have a good understanding of our approach to reward at **Halfords**. We're also inviting them to comment on what we might consider when developing future pay policies for Executives and colleagues across the Group. I attended the initial session and captured some of the early feedback for the Board.

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

A. The main highlights for me were the overwhelmingly positive response to the Company's handling of colleague and customer safety, as a result of the COVID-19 pandemic, and the care taken to ensure everyone felt supported. Being an essential services provider meant that **Halfords** remained open throughout the lockdown period. There were times when this was really challenging for colleagues, but the team spirit fostered as a result, ensuring we were able to keep customers safe and on the move. It was great to see. Listening groups continued, and despite being prevented from meeting in person, we managed surprisingly well using conference calls for **Halfords** Autocentres and Microsoft Teams for Retail.

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 now being 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 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 Company has committed to an ambitious ESG agenda, to include promoting diversity and inclusion across the Group. In addition, we are working to strengthen our succession plans and our talent pipeline. As we continue to emphasise our services credentials, ensuring we provide the appropriate training to colleagues to deliver expertise across motoring and cycling, remains an absolute 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 80, and the biographies of each Director, including any other business commitments, are available on pages 76 to 77. 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 08 to 09.

Chair 1
Executive Directors 2
Non-Executive Directors 3

Board Changes

In 2020 David Adams reached nine years tenure, and in accordance with the 2018 UK Corporate Governance Code (the "Code") and best practice, David was due to step down from the Board. Whilst a search for a new Non-Executive Director to replace David commenced at the start of 2020, the search was delayed due to the COVID-19 global pandemic. Given the difficulties created by this, it was announced in the 2020 Annual Report that the Nomination Committee had agreed to extend David's term of appointment until December 2020 and that a new Non-Executive Director would be appointed later in 2020. On 13 August 2020 it was announced that Tom Singer had been appointed as a Non-Executive Director with effect from 16 September 2020 to replace David as Chair of the Audit Committee, allowing for an orderly handover before David left at the end of 2020.

David stepped down as Senior Independent Director at the conclusion of the AGM on Tuesday 15 September 2020 and Helen Jones was appointed in his place.

Board Independence

The Non-Executive Directors bring wide and varied experience to the Board and its Committees. The Code recommends that at least half of the Board of Directors, excluding the 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 16 June 2021, the following Directors will seek re-election at the 2021 Annual General Meeting ("AGM"): Keith Williams, Helen Jones, Jill Caseberry, Graham Stapleton and Loraine Woodhouse.

Tom Singer will, for the first time at the 2021 AGM, seek election having been appointed on 16 September 2020.

Board Key Responsibilities

The Board is responsible for the long-term success of the Company and is committed to ensuring that it provides leadership to the business as a whole, having regard to the interests and views of its shareholders and other stakeholders. It is also responsible for setting the Group's strategy, values and standards. Details of the Group's business model and strategy can be found on pages 08 to 09.

The Board – Key Responsibilities

The Board is collectively responsible for the long-term success of the Company, with due regard to the views of shareholders and other stakeholders. It provides leadership and direction on the Company's culture, values and purpose; sets the strategic direction; agrees the risk framework and ensures these are managed effectively. The Board is accountable to shareholders for the financial and operational performance of the Group.

A complete list of Matters Reserved for the Board is available on the Company's website www.halfordscompany.com/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 pages 106 and 107. 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 FY21 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.

The final wording of market announcements is approved prior to release by a Disclosure Committee which is made up of a minimum of two Directors.

There were two Board Committee meetings and eleven Disclosure Committee meetings during the period.

At Executive level, the day-to-day investment decisions of the Group are approved by an Investment Committee, chaired by the Chief Financial Officer. Similarly, the treasury needs of the Group are managed by the Treasury Committee, chaired by the Chief Financial Officer; the other members of these Executive committees are senior members of the Finance and Treasury teams.

The Board may establish other ad hoc committees of the Board to consider specific issues from time to time. No such committees were formed during the year.

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 Senior Management succession plans; 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;
- attends meetings with a range of major shareholders and financial analysts to listen to and understand their views and concerns; 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

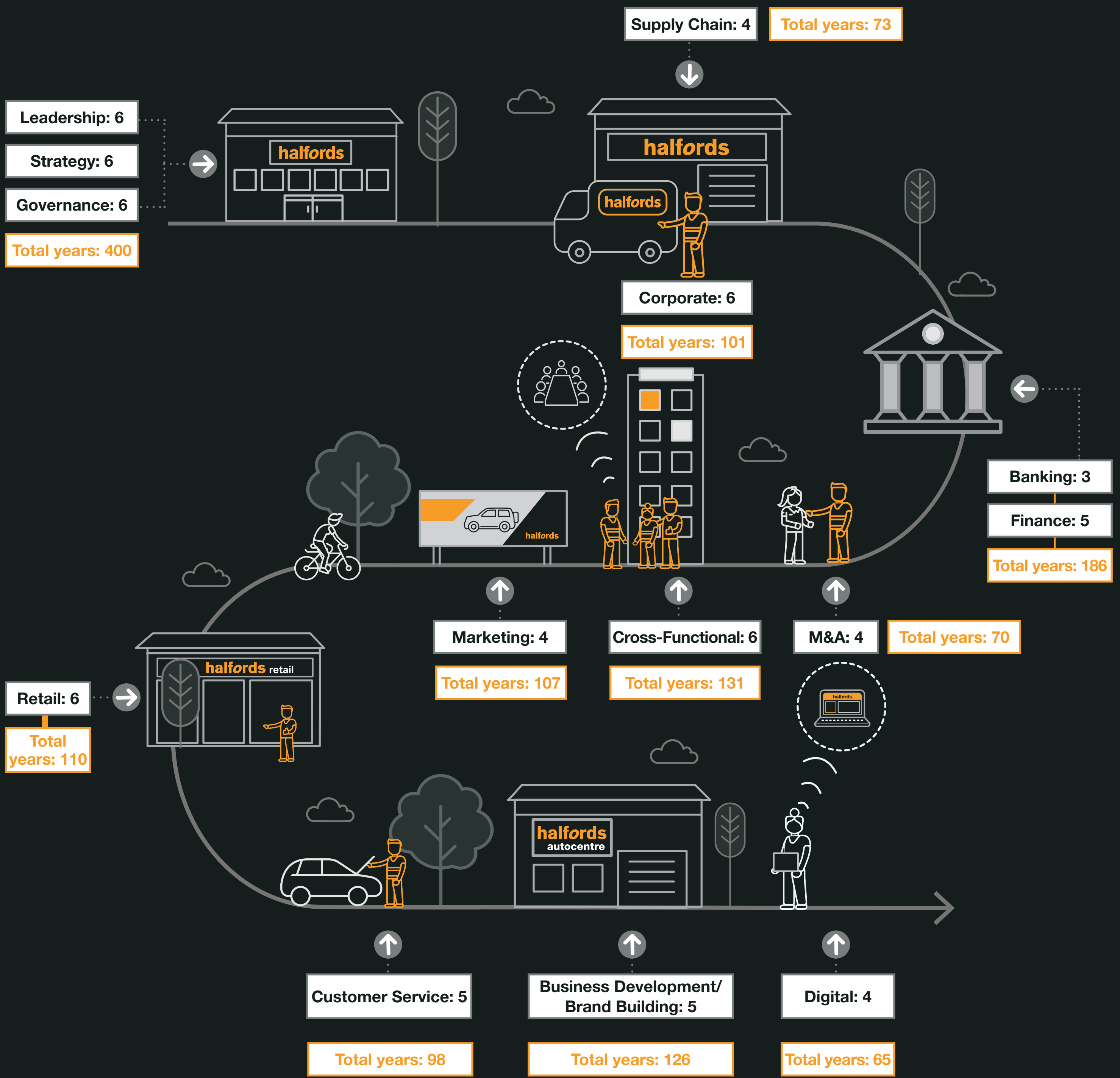
- works closely with the Chair, Group Chief Executive Officer and Board Committee Chairs in setting the rolling calendar of agenda items for the meetings of the Board and its Committees;
- ensures accurate, timely and appropriate information flows within the Board, the Committees and between the Directors 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.



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 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 having at least one person of colour on the Board by December 2023. 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.

FY20	FY21	FY22
External Evaluation by Lintstock	Internal Evaluation	Internal 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 then 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 FY21 internal review are as follows:

Topic	FY21 Outcomes
Board composition	To ensure the Board has the right mix of skills, diversity and experience going forward.
Stakeholder oversight	To have more insight over suppliers and employee voice.
Succession and talent management	To ensure appropriate succession planning for Board and senior management.

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

Topic	FY20 Outcomes	Progress Made in FY21
Strategic plan	The Board mentioned that continued delivery and clear reporting of the progress against the delivery plan is essential throughout the year.	The Board was pleased to note that the strategy outlined previously is regarded as correct and appropriate for the Company both in terms of longer-term aspiration and dealing with the COVID-19 pandemic. The Company has focused particularly on One **Halfords** Family (keeping colleagues and customers safe), and costs and efficiency and Organisational Design to ensure optimum performance of the business.
NED programme	The introduction of a NED programme to ensure the best contribution from the NEDs.	The regularity with which the NEDs visit the business (stores, garages, DCs and to attend listening groups). These activities help to ensure the NEDs fully understand the needs of the business.
Quality and structure of Board meetings	The Board highlighted the importance of getting out and about to the different locations around the Group and to split some of the Board and Committee meetings over two days. This would allow more time for location visits and ensure time is available to receive the required number of management presentations.	Despite some changes to the Board schedule due to the impact of COVID-19 which required meetings to be held remotely, the plan to conduct meetings over two days has been progressed. During the period, additional time was made available for committee activity and a separate session was held on strategy.
Quality of Board packs	The Board felt that more focus is required in Board papers to ensure the Board is able to effectively monitor the progress on delivery.	The Board packs (particularly the financial information) have been improved to allow and ensure greater focus on the metrics which are of key importance to the business.
Culture and talent	Being a people-driven, service-based business, the Board felt that a renewed review of our culture was necessary to ensure that it evolves and remains fit for purpose. The Board will also monitor the talent within the business and the implication of appropriate succession planning.	The new Company Values have been agreed and rolled out during the period. These have been well received and engagement has benefited as a result. This has been of particular importance during the COVID-19 crisis which has been challenging from an operational perspective.
Board training	All Board members to update on training they have received.	During the year, Directors have received updates on changes in corporate governance requirements and regular reports on the progress of the Company's Digital Transformation.

Corporate Governance Report

Composition, Succession and Evaluation

Risk Management and Internal Control

The Board is responsible for the Group's risk management processes and the system of internal control. The Board considers its appetite in relation to the Group's risks, determining whether the risks and mitigating actions are appropriate. During the year, the Board conducted a review of significant risks. The Group's principal risks and uncertainties, and mitigating actions, are detailed in the Strategic Report on pages 66 to 72.

The Board has established a continuous process for identifying, evaluating and managing risks faced by the Group and assessing the effectiveness of related controls to ensure an acceptable risk/reward profile. The Audit Committee considers the principal and emerging risks of the business and reviews the mitigating controls with senior management. During the year, a Risk Committee was formed with Executive Team support. The Committee provides oversight of the development of the risk management framework and also reports to the Audit Committee on regulatory and compliance risk. The Audit Committee uses all forums to discuss the management of risk and adequacy of the control environment with senior management.

The Internal Controls function was also strengthened during 2021, with a number of new colleagues focusing on ensuring the business is ready for prospective changes in the audit environment.

Our process for identifying, evaluating and managing the significant risks faced by the Group and assessing the effectiveness of related controls routinely identifies areas for improvement. The Board has neither identified nor been advised of any failings or weaknesses that it has determined to be material or significant.

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

IR Calendar Dates for FY20–21

17 June 2021	**FY21 Prelim Results**
8 Sept 2021	**FY22 20-week Trading Update**
8 Sept 2021	**AGM**
10 Nov 2021	**FY22 Interim Results**
13 Jan 2022	**FY22 Q3 Trading Statement**

Annual General Meeting ("AGM")

We aim to encourage our shareholders to receive communications by electronic means, helping to make the Company more environmentally friendly. Information available on the Company's website includes current and historic copies of the Annual Report and Accounts, full and half-year financial statements, market announcements, corporate governance information, the Terms of Reference for the Audit, Nomination, Remuneration and ESG Committees and the Matters Reserved for the Board.

The 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 hold our 2021 AGM in person as we did in 2020, but we will continue to monitor the COVID-19 situation and will have regard to developments over the coming weeks ahead of the meeting.

By order of the Board

Tim O'Gorman
Company Secretary
16 June 2021


halfords

> The Committee's key objective is to ensure that the Board comprises of individuals with the necessary skills, knowledge, experience and diversity to ensure it is effective.

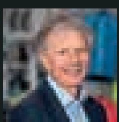
Nomination Committee Report

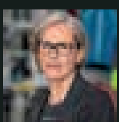
Keith Williams

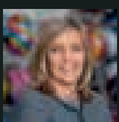
2
Nomination Committee meetings held

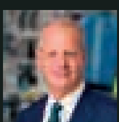
Committee Composition

During the year, the Committee comprised:


Keith Williams


Helen Jones


Jill Caseberry

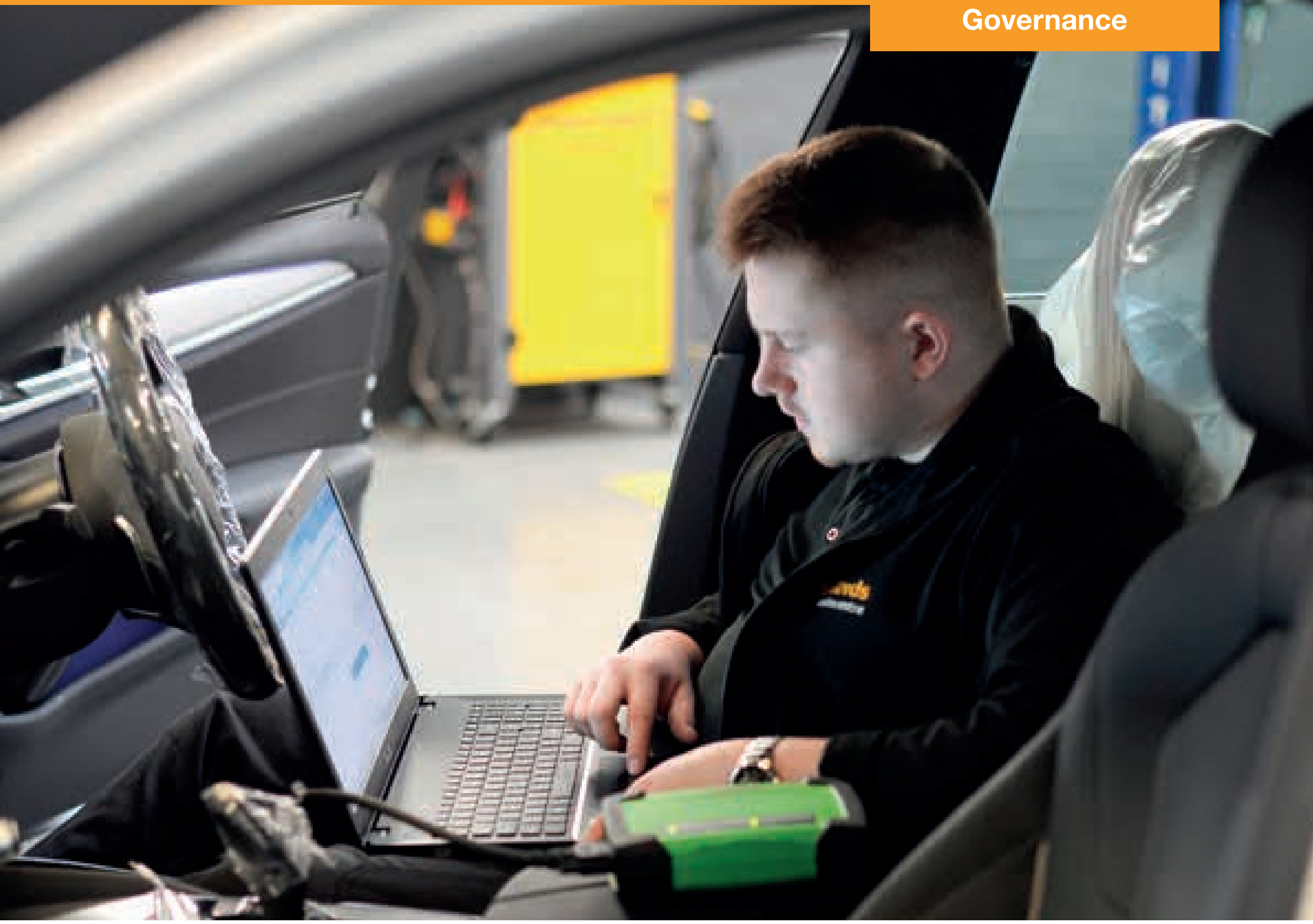

Tom Singer
(appointed 16 September 2020)

David Adams resigned
31 December 2020

Chair's Letter

The Committee's key objective is to ensure that the Board comprises of individuals with the necessary skills, knowledge, experience and diversity to ensure that the Board is effective in discharging its responsibilities. During the year, the Committee successfully secured the appointment of Tom Singer to succeed David Adams as a Non-Executive Director and Chair of the Audit Committee. Tom was appointed on 16 September 2020, is a Chartered Accountant and has recent and relevant financial experience. The Committee also considered the succession arrangements for the Board and its Senior Management Team.

Keith Williams
Chair of the Nomination Committee
16 June 2021



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 Tom Singer as David Adams' successor.
- 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 and subsequent 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 2020 Annual General Meeting.

FY21 Key Activities

- Appointment of Tom Singer as Non-Executive Director and Audit Committee Chair and Helen Jones as Senior Independent Director as David Adams' successor.
- Progression of succession and talent development plans.
- Approved the appointment of a permanent Chief People Officer.

Areas of Focus in FY22

- Progression of succession plans for the Board and senior management team.

Nomination Committee Report

The Appointment of Tom Singer

Tom Singer was appointed as Non-Executive Director on 16 September 2020. Tom became a member of the Remuneration, Audit and Nomination Committees upon joining the Board. After a handover period, on 31 December 2020 Tom succeeded David Adams as Chair of the Audit Committee.

I am delighted to have joined the Halfords' Board and am excited about the business' prospects as it takes advantage of the many opportunities to accelerate future growth.

Tom Singer
Non-Executive Director
Appointed 16 September 2020

Tom Singer's Induction

- Meetings with members of the Senior Management Team and Executive Committee conducted remotely.
- In person Autocentre visits made at the Weybridge and Slough garages, this included HME vans.
- In person Retail store visits made at Slough and Farnborough.
- Tom was due to visit the Washford DC and Tredz DC in Swansea, but these were postponed due to COVID-19 restrictions in the autumn and subsequent winter lockdowns. It is expected that these can be resumed when the COVID-19 restrictions have been lifted.

Q&A

Q. What process did the Committee go through to appoint a new Non-Executive Director?

A. The first step is to appoint an external search consultancy who can identify and approach suitable candidates. Suitable candidates are then interviewed, an offer is made to the successful candidate and the relevant announcement made to the Stock Exchange. A suitable induction programme is then put in place which is tailored to the successful candidate's requirements.

Q. What key attributes were fundamental to the Committee when looking for this role?

A. This appointment was for a Non-Executive Director and Chair of the Audit Committee, and so the successful candidate needed to have recent and relevant financial experience, to ensure compliance with the 2018 UK Corporate Governance Code.

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.

Board Appointments

During the year, David Adams stepped down as Senior Independent Director. As detailed in last year's Annual Report, although David's term of appointment was due to expire in Spring 2020, under Corporate Governance guidelines, David agreed to stay until the end of 2020 to ensure continuity for the Board through the COVID-19 pandemic. In August 2020, it was announced that Tom Singer had been appointed as a Non-Executive Director with effect from 16 September 2020. Odgers Berndtson was appointed as advisor to the Committee in the search for external candidates for this role and this process was led by myself as Chair, together with the Committee. Odgers Berndtson does not have any other connection with the Company.

At the AGM, on 15 September 2020, David stepped down as Senior Independent Director, with Helen Jones appointed to cover this position. David continued to act as a Non-Executive Director until 31 December 2020, when he stepped down fully from the Board, and Tom Singer was appointed to cover the position of Chair of the Audit Committee.

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; 37.5% of the Senior Management Team is female and 34% of their direct reports are women. With regard to ethnic diversity, the Board is committed to improving ethnic diversity at Board and senior management level with a target of having at least one person of colour on the Board by December 2023.

Further information regarding diversity and inclusion can be found on pages 47 and 48.

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.

Looking Ahead

The Strategy of the Company remains on track and the performance during the period has been strong. We will continue to monitor the Digital Transformation and the growth of our garage services business and ensure that the Board has the right mix of skills, diversity and experience to enable this growth to continue.

Keith Williams
Chair of the Nomination Committee
16 June 2021

Board

Female 50%

Male 50%

Senior Management Team

Female 37.5%

Male 62.5%

Senior Management Team direct reports

Female 34%

Male 66%

A significant achievement this year has been the setting of science-based targets for the Group and I am delighted that we are able to share these in this report.

ESG Committee Report

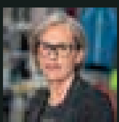
Helen Jones

3

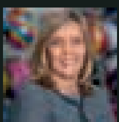
ESG Committee meetings held

Committee Composition

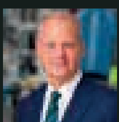
During the year, the Committee comprised:



Helen Jones



Jill Caseberry



Tom Singer
(appointed on 31 March 2021)

Graham Stapleton
(stepped down on 31 March 2021)

Karen Bellairs
(stepped down on 31 March 2021)

Michelle Burton
(stepped down on 31 March 2021)

Andy Randall
(stepped down on 31 March 2021)

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 three Committee meetings held during the year and after each one, I reported to the Board on the key issues that we covered. I held informal discussions between Committee members and business leaders throughout the year as the need arose.

We are committed to an ESG agenda which aims to exceed our stakeholders' expectations. Building on our strategy announced last year, we are now starting to make meaningful progress.

Chair's Letter

During the year, the Committee conducted a refresh of our ESG strategy recognising the need to fully integrate our ESG commitments into how we do business and aligning with our corporate strategy. We agreed upon the four key areas of priority – Electrification, Net Zero Commitment, Diversity & Inclusion, and Product, Packaging and Waste Management – and developed a roadmap for delivering against these priorities in the short-, medium-, and long-term.

A significant achievement this year has been the setting of science-based targets for the Group and I am delighted that we are able to share these in this report. Setting these targets shows our commitment to reducing our emissions and our determination to achieve our goal of net zero emissions by 2050.

Recognising the significance of ESG within our business, this year we have formalised ESG as an official Committee of the Board, with membership limited exclusively to NEDs.

The Board is committed to improving ethnic diversity at Board and senior management level and during the year we will begin the process of ensuring that the composition of the Board is compliant with the Parker Review into corporate governance.

Main Responsibilities of the Committee

- Oversight and continued development of our ESG strategy.
- Setting KPIs and targets and monitoring progress against them.
- 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 a Steering Group comprising of key ESG stakeholders around the business, with the responsibility of monitoring and ultimately delivering the ESG strategy.
- Evaluated ESG strategies of peer group companies to help inform our thinking.
- Reviewed and agreed upon a set of science-based targets:
  - **Halfords** will commit to achieve a 1.5ºC science-based target across Scopes 1 and 2 by 2030, reducing our emissions by 42% vs. a FY20 baseline.
  - We also commit that 67% of our suppliers by emissions covering purchased goods and services and capital goods will have science-based targets by 2025.
- Approved a Group-wide goal of achieving net zero emissions by 2050.
- Agreed upon a set of key priorities for FY22 and future years:
  - Electrification remains our North Star and we will focus our efforts in this space to meet all our stakeholder expectations.
  - Net Zero Commitment
  - Diversity & Inclusion
  - Product, Packaging and Waste Management
- Reviewed and agreed upon a set of ESG targets and KPIs which were taken to the Remuneration Committee for approval.
- Signed off end-to-end packaging audit.

Further information on ESG around the Group, including environmental details on emissions, can be found on pages 42 to 53 of the Strategic Report.

Looking Ahead

In FY22, our focus will be on making strong progress against our key priorities and maintaining pace with our ESG roadmap. We will ensure we are prepared to report against the TCFD framework no later than the end of this financial year. We will continue to keep in close contact with our stakeholders and review the latest industry expectations to ensure that our ESG strategy remains up-to-date, relevant and fit-for-purpose.

Helen Jones
Chair of the ESG Committee
16 June 2021

Read more about our ESG Strategy on pages 42 to 53.

FY21 Key Activities

- Agreement to set intermediate science-based targets – to achieve a 1.5ºC target across our own operations by 2030, reducing our emissions by 42% vs. a FY20 baseline, and that 67% of our suppliers by emissions will set science-based targets by 2025.
- Approved a Group-wide goal of achieving net zero emissions by 2050.
- Completed a refresh of our ESG strategy including agreement of our four areas of priority: Electrification, Net Zero Commitment, Diversity & Inclusion, and Product, Packaging and Waste Management.
- Development of a roadmap for delivering our ESG strategy over the next 12–18 months.
- Reviewed and agreed upon a set of ESG targets and KPIs which were taken to the Remuneration Committee for approval.

Areas of Focus in FY22

- Continuing to support our customers as they switch to electric, with increased investment in the training of colleagues to service electric modes of transport.
- Implementing measures to make progress against our science-based targets, such as switching to 100% renewable energy.
- Establish D&I baseline data and begin to implement a refreshed Group inclusion policy.
- Pilot the selling of reconditioned products, reducing the use of virgin materials.
- Engaging with suppliers to begin their net zero journey.
- Reporting against the TCFD framework.

The advent of COVID-19 has highlighted the importance of a robust control environment and, accordingly, during the year, the Audit Committee has engaged across a wide number of themes to satisfy itself that the system of risk management and control continued to operate within the challenging external environment.

Audit Committee Report

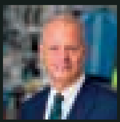
Tom Singer

3

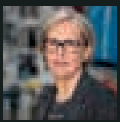
Audit Committee meetings held

Committee Composition

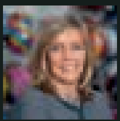
During the year, the Committee comprised:



Tom Singer (Chair)
(appointed 1 January 2021 and as a member 16 September 2020)



Helen Jones



Jill Caseberry

David Adams
(resigned 31 December 2020)

Chair's Letter

I am pleased to present the report of the Audit Committee for the 52 weeks ended 2 April 2021. I was appointed as a Non-Executive Director on 16 September 2020 and became Chair of the Committee on 1 January 2021 on the retirement of David Adams. I would like to thank David for his work as a member and Chair of the Committee and, specifically, for his help and guidance as I was inducted into the business.

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 a number of key issues, most significantly:

- the impact of COVID-19 on the Group, and specifically whether the business remained a Going Concern;
- the refinancing of the Group's revolving credit facility;
- judgements in respect of M&A and disposal activity in the year;
- the carrying value of investments, tangible and intangible assets;
- the recent BEIS proposals for Audit and Corporate Governance reform, considering the impact on our reporting and control environment;
- the acceleration of our business and financial controls programme;
- the ongoing review of the legal entity restructure across the Group;
- review of the Financial Reporting Council's correspondence in respect of the Annual Report and Accounts for the period ended 3 April 2020; and
- updates to the Group's Tax and Treasury policy in relation to foreign exchange and hedging requirements in light of the evolving Brexit position

Tom Singer
Chair of the Audit Committee
16 June 2021

The advent of COVID-19 has highlighted the importance of a robust control environment and, accordingly, during the year, the Audit Committee has engaged across a wide number of themes to satisfy itself that the system of risk management and control continued to operate within the challenging external environment.

The Committee focused heavily on the impact of COVID-19, specifically ensuring that the application of the Going Concern principle was appropriate. This included a detailed review of the refinancing of the Group's Revolving Credit facility, recommending the proposed structure to the Board.

The Group undertook a number of transactions during the year, including the purchase of The Universal Tyre Company (Deptford) Limited ("Universal") and the closure of a number of stores and garages. The Committee reviewed the accounting treatment of each transaction, ensuring that the necessary accounting judgements made were appropriate.

Prior to and post the financial year-end, the Group started to undertake a legal entity reduction exercise, to simplify the corporate structure. The Committee reviewed the outcome of the restructure, ensuring that distributable reserves were adequate to support future dividend payments.

In March 2021, the Department for Business, Energy and Industrial Strategy (BEIS) published a consultation paper on its proposals for significant reform to UK audit and corporate governance. The Committee discussed the early proposals and, as the consultation develops, will review the implications for the Group and the way in which the Committee operates. Ahead of the consultation, the Group had recognised the likely requirement for an enhanced control environment and an internal team has been set up dedicated to the enhanced documentation and implementation of robust processes and controls. The Committee will continue to monitor progress in this regard.

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

FY20/21 Key Activities

- Carried out our responsibilities as set out in the Terms of Reference, including reviewing the external reporting to ensure it is fair, balanced and understandable.
- Reviewed the accounting policies and judgements made in applying IFRS16 on leases.
- Reviewed the accounting treatment associated with the acquisitions and disposals made during the year.
- Reviewed and challenged the Longer-Term Viability Statement and Going Concern basis of preparation in advance of approval by the Board, including a review of the carrying value of goodwill in response to the ongoing COVID-19 pandemic. This assessment was inclusive of stress testing to ascertain the level of headroom in the plans against possible covenant breach.
- Reviewed and approved a legal entity restructure designed to simplify the Group structure.
- Reviewed and challenged the external Auditor's year-end and half-year reports.
- Reviewed the statement of external Auditor's independence.
- Approved the non-audit fee policy.
- Reviewed key and emerging risks and the effectiveness of the Group's risk management framework.
- Reviewed and challenged progress of the Internal Audit plan and received regular updates on internal control systems.
- Reviewed and approved the Internal Audit Charter.
- Received an update on the Group's GDPR and compliance, and on health and safety matters.
- Reviewed and approved the Group's tax strategy and arrangements.
- Reviewed and approved the Committee's updated Terms of Reference.
- Reviewed and approved the external Auditor's audit strategy and fees.
- Reviewed and challenged the effectiveness of the Group's whistleblowing procedures and approved the Group Whistleblowing Policy.
- Reviewed and approved the Anti-Money Laundering Policy.
- Received regular updates on the Gifts and Hospitality register.
- The Group received a letter on 8 January 2021 from the Financial Reporting Council (FRC) noting it had carried out a review of the Annual Report and Accounts for the year ended 3 April 2020. The letter raised some specific queries in regards to cash flow reporting relating to leases and classification of provisions for closure costs. This was followed up by a letter received on 26 February 2021 raising further queries on the classification of provisions for closure costs and impairment testing and related estimation uncertainty. As a result, the Group has added additional disclosures within the accounts with regards to the classification of provisions for closure costs in the prior year and sought to improve its goodwill impairment disclosures and description of certain critical accounting estimates. The Group recognises that the FRC's review was solely based on a review of its Annual Report and Accounts for the year ended 3 April 2020 and did not benefit from detailed knowledge of the Company's business or an understanding of the underlying transactions. As a result, the review did not provide any assurance that the Company's Annual Report and Accounts are correct in all material respects.

Audit Committee Report

Area of Focus

- Continue to monitor the impact upon the Group's Viability and Going Concern in response to the ongoing impact of the COVID-19 pandemic.
- Continued emphasis on the quality of financial reporting, including the application of accounting judgements.
- Maintain focus on the adequacy of the control environment and further development of the risk management framework, focused on complying with the outcome of the BEIS recommendations on audit and governance.

contribution and support during the year.

Member	Role	Attendance
Tom Singer	Chair	2/2
Helen Jones	Member	3/3
Jill Caseberry	Member	3/3
David Adams	Chair	2/2

Three 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.

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 was appointed as Chair of the Audit Committee on 1 January 2021, taking over from David Adams. Tom 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 three such meetings in the period ended 2 April 2021 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.halfordscompany.com/investors/governance

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 148 to 153.

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 a number of business combinations across both CGUs, the Group holds significant goodwill. There are a number of factors that could impact on the future profitability of the business (e.g. loss of key customers, change in market behaviour) and, therefore, there is a risk that the business may not meet the growth projections necessary to support the carrying value of the intangible asset (see Note 11 on page 173 to 174 of the Financial Statements); and
- The Audit Committee has received detailed reports from **Halfords**' finance team and reports from the external Auditor addressing this issue. The finance team has undertaken detailed work to consider the impairment of goodwill associated with the CGUs. Consideration has been given to ensuring that cash flow models, discount rates, sensitivity analysis and store and centre profitability are all reasonable. It was concluded that no impairment is required. The Committee concluded that it is satisfied with the accounting treatment of impairment of goodwill.

Valuation of Inventory Within the Retail Division:

- With the business holding a wide range of stock 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 difficulties in forecasting market trends, there is a risk that inventory provisions made will be inappropriate or incomplete (see Note 15 on page 177 of the Financial Statements). Management has fully reviewed the inventory provision in the current year, with particular regard to the impact of COVID-19 and the effect this has had on differing stock categories, 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.

IFRS 16 'Leases'

The Group initially applied IFRS 16 Leases as at 30 March 2019. The work to collect the relevant data, implement a new accounting system and agree the appropriate adoption method, accounting policies and disclosures has been significant. During both the previous and current period, the Committee and external Auditor received regular updates to ensure that the Committee reviewed all aspects of IFRS 16 adoption and application and is satisfied that the methodology used, and the judgements and assumptions applied, are fair and reasonable. A number of adjustments have been required this year, these have been reviewed by the Audit Committee.

Group Reorganisation

The Group has undergone a review of its legal entity structure, with the primary objective of eradicating a dividend block arising in some of the intermediate holding legal entities across **Halfords** Group. This has resulted in streamlining the Companies across the Group and the first stage of the reorganisation has been accounted for in the plc accounts as at 2 April 2021.

Non-underlying Costs Related to the Closure of Non-Profit Making Stores and Centres

Following the strategic review of the Group's stores and centres, the decision was made to close 40 stores across the Retail business and 15 centres across the Autocentres business. The Committee reviewed the treatment of the costs related to these closures and is satisfied with the estimation of all associated costs and their relevant inclusion as a non-underlying item for the period.

External Auditor

BDO UK LLP present their audit plan, risk assessment, and audit findings to the Committee, identifying their consideration of the key audit risks for the year, and the scope of their work. These reports are discussed throughout the audit cycle.

Audit Committee Report

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.

During the year, the FRC conducted an Audit Quality Review of BDO's audit of the Group financial statements for the year ended 3 April 2020. The resulting assessment was "Limited improvements required", with no key findings. The Audit Committee has reviewed the FRC report and supports the actions proposed by BDO.

In addition, at its meeting in March 2021, 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 8 September 2021, 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 167 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. During the year, internal audits were carried out on AEO compliance (Authorised Economic Operator), Goods For Resale expenditure controls, **Halfords** for Business, Cycle to Work, Insurance and IT General Controls.

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 66 to 72.

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 2 April 2021.

Tom Singer
Chair of the Audit Committee
16 June 2021

“We are pleased to have achieved such strong performance.”

Remuneration Committee Report

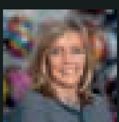
Jill Caseberry

7

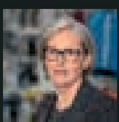
Remuneration Committee meetings held

Committee Composition

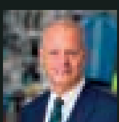
During the year, the Committee comprised:



Jill Caseberry



Helen Jones



Tom Singer
(appointed 16 September 2020)

Keith Williams
(stepped down as a member on 22 March 2021)

David Adams
(Resigned 31 December 2020)

Chair’s Letter

Dear Shareholder

On behalf of the Remuneration Committee, I am pleased to present the Remuneration Report for the financial period ended 2 April 2021.

The Report consists of three sections:

- A summary of the pay outcomes for FY21, and our approach for FY22;
- 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 FY21 and explains how we intend to apply the Remuneration Policy in FY22.

2020 Directors’ Remuneration Policy

At the 2020 AGM we put forward our Directors’ Remuneration Policy (the “Policy”) to shareholders. The policy was largely the same 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

Against the backdrop of one of the most disrupted trading environments in recent history, we are pleased to have achieved such strong performance. Although we have continued to experience challenges across the year, overall performance has been stronger than was initially anticipated across the business, and full year underlying profit before tax at £99.5m (post-IFRS 16) is higher than expected at the start of the year and represents an increase of 85.6% on the prior year. As a result, the Board took the decision to repay in full £10.5m of support received under government furlough schemes, and reported profit is after this repayment.

Furthermore, despite journeys being 25% below pre-pandemic levels, our Autocentre business has continued to demonstrate signs of growing market share, with strong demand for both our garage business and **Halfords** Mobile Expert vans. Cycling has also seen exceptional growth over the year and is up 54% LFL.

This performance has not been without its challenges. Although designated a key retailer, at points through the year we were significantly impacted by lockdown changes with our stores often only able to open on a collection only basis. Furthermore, there was considerable supply disruption which remains at sub-optimal levels.

The safety of our colleagues and customers has remained our number one priority throughout and whilst we were subject to greater costs and challenges in keeping our stores safe, we were pleased to maintain high NPS and colleague engagement scores.

I would like to take this opportunity to thank all our colleagues for their work, and due to their efforts, not only have we achieved great results against this backdrop but throughout the crisis, we were privileged to have been able to offer free checks and discounts to 480,000 NHS workers, teachers and Armed Forces staff to help them keep their vehicles safe and roadworthy.

As restrictions continue to ease, we look forward to continuing our progression in our key areas of strategic focus with a renewed emphasis on increasing services related revenue, whilst continuing to deliver value for shareholders. This approach has been reflected in our performance measures for FY22 as I outline below.

Remuneration in the Year

For FY21, to ensure that management focused on the key financial and strategic KPIs that were critical for the business during a period of great uncertainty, the bonus was based on underlying Group profit before tax – 15%, Net debt – 30%, Cost reduction – 25%, Operating Cash Flow – 7.5% and 22.5% based on strategic metrics (NPS, Employee Engagement and Digital Sales). Full details are available on page 127.

As a result of the strong performance in the year, the annual bonus paid out at 92.5%of maximum. Consistent financial metrics were applicable across all central bonus schemes.

The 2018 Performance Share Plan ("PSP") also performed strongly with vesting at 84.9%. Both our EPS and Free Cash Flow vested in full whilst revenue was at 39.8% of maximum.

The Committee supports shareholder sentiment that outcomes should reflect the experience of the company, stakeholders and colleagues. Therefore, as is the case every year the Committee also evaluated performance in the round against a range of factors to assess whether the level of annual bonus and PSP payout was appropriate.

In addition to the results discussed above, the Committee considered that the Company had made the decision to repay in full £10.5m of furlough support received, the strong performance of the share price in the year (+260% based on a one month average to the start and the end of the financial year), that PBT was up by 85.6% from FY20 and the continued support of colleagues, with engagement remaining upper quartile when compared externally and £2.3m invested in-year in rewarding front line colleagues for their support during the pandemic.

Therefore, given the key role that the CEO and CFO played in implementing the strategy and managing the operation of the business amid such challenging circumstance to produce these results the Committee felt that the pay out of incentives was appropriate. As a result, the Committee determined that no changes needed to be made for the formulaic outcome and the pay-outs were approved.

Remuneration for FY22

In light of the impact of the COVID-19 pandemic on the business and the wider economy, the Committee re-assessed our approach to assessing performance for the annual bonus and PSP 2020/21 and sought to ensure that pay reflected the current circumstances of the business and the experience of our shareholders.

In the annual bonus the Committee broadened the range of financial measures targeted to reflect our critical priorities of cost reduction as well as debt and cash management. Under the PSP we increased the weighting on relative TSR in light of the uncertainty around financial target setting and to ensure that outcomes aligned with the shareholders' experience. We also increased the weighting on Free Cash Flow to ensure focus on the management of our cash position during this critical period.

In 2019 we set out our intention to accelerate growth of the motoring services business and to generate higher and more sustainable financial returns for shareholders.

As we progress from the initial impact of the pandemic, we feel we are now able to revert to a more normalised approach to performance measures which are more reflective of our ongoing strategy. Further detail is set out below.

Annual Bonus

For FY22 the performance measures for the annual bonus will be as follows: 50% underlying Group PBT; 15% Group revenue; 15% operating cash flow; 5% Group NPS; 5% Group services-related sales; 5% colleague engagement and 5% ESG.

This represents an increase in the weighting of PBT, and the cash flow metric and includes a new Group revenue metric. Both net debt and cost reduction have now been removed. To assist in implementing the new strategic priorities of the business we have replaced digital sales with Group services-related sales and to reflect best practice, we will also incorporate a new ESG metric.

PSP

Similarly, under the PSP, although uncertainties in the market outlook remain, we have reviewed the measures and weightings and now feel we can revert to measures and weightings that are best positioned to support our ongoing strategy as we move away from the initial impact of the pandemic. We have therefore reduced TSR to 30% (from 40%) and increased EPS growth to 50%. Group services-related sales will increase to a 20% weighting reflecting our ongoing focus on accelerating the growth of the motor services business. Free Cash Flow has been removed as a performance measure as the Committee considered that this was no longer appropriate in the context of our enhanced investment plans.

The PSP will be weighted towards EPS growth which the Committee considers incentivises management to both grow revenue and manage cost in a balanced way.

Additionally, given our continued focus on increasing services related revenue the Committee considered that it was appropriate to increase the weighting of this metric whilst relative total shareholder return is included to ensure that PSP outcomes are aligned with the value we have returned to our shareholders relative to our key retail peers.

The Committee sees these metrics as a good balance of reflecting the shareholder/ stakeholder experience, ensuring a renewed focus on profit performance whilst helping to drive forward the success of our current strategy.

There will be no changes in incentive opportunities for FY22 with the maximum annual bonus remaining at 150% of base salary and the PSP remaining at 200% of base salary.

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 2020/21 annual Directors' Remuneration Report at the Annual General Meeting.

Jill Caseberry
Chair of the Remuneration Committee
16 June 2021

Remuneration Committee Report

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 FY22, are summarised below:

Elements	Objective	Key features	Implementation in FY21	Implementation in FY22
Base salary	To attract and retain management of a high calibre.	Reviewed annually with increases effective from 1 October. Maximum salary increases generally in line with wider employees.	Graham Stapleton: £565,530 Loraine Woodhouse: £362,720 Increased by 1.8% in line with the increases awarded across the wider workforce with effect from 1 October 2020.	Salaries will next be reviewed with effect from 1 October 2021 and it is expected that any increase will be in line with the increase received for the wider workforce.
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 each of the Executive Directors in role on 31 March 2019. Contributions for Executive Directors in role will be aligned with the maximum employer pension contribution available to the majority of the workforce from 1 April 2023.	Executive Directors received cash allowances of 15% of salary.	Current Executive Directors: 15% of salary. For any new Executive Director appointed to the Board, the pension opportunity will be in line with the policy for the majority of the workforce.
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 77.5% financial measures and 22.5% delivery of strategic measures (full details on page 127). Both financial and non-financial performance was strong in the year and the bonus paid out at 92.5%.	Maximum: 150% of salary. For 2021/22 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%)

Elements	Objective	Key features	Implementation in FY21	Implementation in FY22
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 2020 were based on: • EPS growth 20% • Group service-related revenue 10% • Free Cash Flow 30% • Relative TSR vs the FTSE All Share General Retailers Index 40% Targets are disclosed on page 128.	Executive Directors will have a maximum opportunity of 200% of salary for FY22. FY22 awards will be based on: • EPS growth 50% • Group services-related sales 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 140 to 147, 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 (appointed 16 September 2020)
Keith Williams (stepped down as a member on 22 March 2021*)
David Adams (resigned 31 December 2020)

* On 22 March 2021, Keith Williams stepped down as a formal member of the Remuneration Committee but he continues to attend as part of his role as Chair of the Board.

Seven 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.

Remuneration Committee Report

Activities During the Year

During the year, the Committee has:

- prepared the revised Directors' Remuneration Policy which was submitted to shareholders for approval at the 2020 AGM;
- reviewed and approved the Directors' Remuneration Report published in the FY20 Annual Report and Accounts;
- considered the approach to reward in light of COVID-19 including the impact on all employee pay and wider remuneration;
- discussed and approved incentive outcomes for FY20;
- approved grants under the Performance Share Plan ("PSP"), the Restricted Management Share Plan ("MSP") (to senior managers below the Board) and the Sharesave Scheme ("SAYE");
- carefully considered expected pay-outs for FY21 in the context of the impact of COVID-19 on the business, the experience of shareholders and wider stakeholders, in particular employees;
- considered the approach to implementing remuneration policy for FY22, including setting Executive Director salaries from 1 October 2020 and reviewing performance measures, and considering the approach to performance measures and setting for 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 remuneration arrangements for the wider workforce and took these into account when considering Executive pay;
- reviewed developments in shareholder guidance particularly within the context of COVID-19; and
- reviewed and approved the appointment of remuneration advisors.

Advisors and Other Attendees

During the year, the Committee has been supported by Michelle Burton, Interim Group People Director, 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 £39,025 charged on a time and materials basis.

Deloitte is a founding member of the Remuneration Consultants Group and adheres to the Remuneration Consultants Group Code of Conduct when providing services. The Committee considers Deloitte's advice independent and impartial and, is also satisfied that the Deloitte engagement team does not have connections with the Company or its Directors that might impair their independence. The Committee considered the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

Willis Towers Watson also provided the Committee with Executive salary market data. Willis Towers Watson is also a signatory of the Remuneration Consultants Group Code of Conduct. Fees paid to Willis Towers Watson for this advice were £4,200 charged on a time and materials basis. Willis Towers Watson 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 2020 AGM showed strong support for our FY20 Directors' Remuneration Report.

The following table sets out the votes cast at the 2020 AGM in respect of the Directors' Remuneration Policy, and the FY20 Directors' Remuneration Report.

	% of votes For	% of votes Against
FY20 Directors' Remuneration Report *	99.66%	0.34%
FY20 Directors' Remuneration Policy †	97.58%	2.42%

* 28,958 votes (0.02% 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.

How the Remuneration Policy was Implemented in FY21 – Executive Directors

Single remuneration figure (Audited)

2020/21	Base Salary (£)	Benefits (£)	Pension (£)	Other[1] (£)	Total Fixed (£)	Bonus (£)	PSP (£)	Total Variable (£)	Total "Single Figure" (£)
Graham Stapleton	**560,526**	**20,816**	**84,079**	**377**	**665,798**	**777,730**	**986,358**[2]	**1,764,088**	**2,429,886**
Loraine Woodhouse	**359,512**	**12,517**	**53,927**	**377**	**426,333**	**498,820**	**670,009**[3]	**1,168,829**	**1,595,161**
2019/20									
Graham Stapleton	550,611	44,862	82,592	—	678,065	–	–	–	678,065
Loraine Woodhouse	353,150	12,479	52,973	—	418,602	–	–	–	418,602

1. In December 2020, Graham Stapleton and Loraine Woodhouse each received a working from home payment, in line with all Support Centre Colleagues.
2. The share price used to value the awards for the purpose of the single figure was £3.049 compared to a share price of £3.197 on the date of the award. Therefore, no portion of the value disclosed is attributable to share price appreciation. No discretion was exercised.
3. The share price used to value the awards for the purpose of the single figure was £3.049 compared to a share price of £3.079 on the date of the award. Therefore, no portion of the value disclosed is attributable to share price appreciation. No discretion was exercised.

FY21 Annual Bonus

The annual bonuses for FY21 for the Executive Directors were based as follows:

Chief Executive Officer	Graham Stapleton	77.5% financial measures and 22.5% delivery of strategic measures
Chief Financial Officer	Loraine Woodhouse	

The targets and performance against these are set out below:

Performance measures for FY21 annual bonus		Threshold (15% payable)	Target (50% payable)	Maximum (100% payable)	FY21 outturn	% maximum bonus achieved
Financial Measures	77.5%					
Net debt (30%)		(£36.5m)	(£33.2m)	(£29.8m)	£73.1m[1]	100%
Cost reduction (25%)[2]		44.7%	44.3%	43.9%	42.9%	100%
Underlying profit before tax (15%)		£11.2m	£14.1m	£21.1m	£96.3m	100%
Operating cash flow (7.5%)		£58.1m	£64.5m	£71.0m	£217.9m[3]	100%
Strategic Measures	22.5%					
NPS (7.5%)[4]		– –	Retail 64.0 Autocentres 70.5	Retail 64.5 Autocentres 71.5	Retail 65.3 Autocentres 76.1	100%
Employee engagement (7.5%)		–	79%	80%	75%	0%
Digital sales (7.5%)		–	39.1%	43.1%	44.8%	100%

1. Excludes the Universal acquisition price.
2. Cost reduction is expressed as cost as a percentage of revenue.
3. Operating cash flow here is defined as EBITDA plus the movement in average working capital in FY21 compared to the prior year.
4. 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.

In the year, although the Company continued to experience a disrupted trading environment, overall performance was exceptional far exceeding our expectations at the start of the year. Underlying profit before tax was considerably higher than previous years at £99.5m (post-IFRS 16 but pre non-underlying) and the Company's share price increased by around 260% during the year (based on a one month average to the start and the end of the financial year). Furthermore, we were pleased to increase our market share in key areas of the business whilst maintaining a high level in NPS scores and colleague engagement.

We originally received support from government furlough schemes but on 1 March 2021 we announced our decision to repay in full £10.5m of furlough income received. We were also pleased to deliver nearly £490m of shareholder value, delivering a shareholder return on investment of c.250% in the twelve months to 31 March 2021 whilst outperforming our peer group (which delivered 49% return) and the FTSE SmallCap Index (51% return).

Our strong performance through FY21 has also allowed us to share our successes across our colleagues, through our annual bonus schemes and Frontline Colleague Support Scheme.

Throughout the year, the safety of our colleagues and customers has remained our number one priority and whilst we were subject to greater costs and challenges in keeping our stores safe, we were pleased to maintain high NPS and colleague engagement scores. We were privileged to have been able to offer free checks and discounts to 480,000 NHS workers, teachers and Armed Forces staff to help keep their vehicles safe and roadworthy.

The Committee carefully considered bonus outcomes in the context of the business, the performance of the Directors in the year and the remuneration arrangements for the wider workforce population and the experience of shareholders and other stakeholders to assess whether the outcome was aligned.

Remuneration Committee Report

Given the key role that the CEO and CFO played in implementing the strategy and managing the operation of the business amid such challenging circumstances to produce these results the Committee felt that the bonus paying out at 92.5% of maximum was appropriate.

Performance outcomes for 2018 PSP awards

Metric	Weighting	Threshold targets (25% vesting)*	Maximum targets (100% vesting)*	Performance	Estimated % total award vesting
Underlying EPS growth – CAGR	50%	1.5%	6.0%	11.2%	100%
Group revenue growth – CAGR	25%	3.5%	8.0%	4.4%	39.8%
Free Cash Flow (aggregate FY19 to FY21)	25%	£125m	£165m	£242.6m	100%
Total	100%				84.9%

* 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. The CEO and CFO 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	16 October 2020	Nil cost option (0p exercise price)	458,162	£1,111,042	25%	4 April 2020 to 31 March 2023
Loraine Woodhouse	16 October 2020	Nil cost option (0p exercise price)	293,855	£712,598	25%	4 April 2020 to 31 March 2023

1. These awards were based on 200% of salary. For 2019 awards, given the share price at the time the Remuneration Committee determined that it was appropriate to reduce the PSP awards granted to 175% of salary. After assessing share price performance prior to award, it was deemed appropriate to make 2020 awards at the normal level of 200% of salary.
2. Based on the average mid-market price on three preceding days of the awards of £2.425 on 16 October 2020.

Performance Conditions

The performance conditions and targets for PSP awards granted during FY21 are as follows:

		Group services -related sales (total of sales for FY21 to FY23) (10% of the award)	Underlying EPS growth – CAGR (20% of the award)	Free Cash Flow (aggregate FY21 to FY23) (30% of the award)	Relative TSR (40% of the award)
	100% vesting	35%	8%	£128m	Upper quartile
Award (200% of salary)	Straight-line vesting	Between 30% and 35%	Between 2.5% and 8%	Between £117m and £128m	Between market median and upper quartile
	25% vesting	30%	2.5%	£117m	Market median
	0% vesting	Below 30%	Below 2.5%	Below £117m	Below market median

In addition to achieving these targets, the vesting of awards will be subject to meeting a zero net debt underpin at FY23 year end. The award shares that vest will become exercisable in 2023. The shares that vest will be subject to a two-year holding period.

Outstanding Share Awards (Audited)

Performance Share Plan ("PSP")

The following summarises outstanding awards under the PSP:

	Award date	Grant price[5] (£)	Awards held 4 April 2020	Awarded during the period	Dividend reinvest-ment[6]	Forfeited during the period	Lapsed during the period	Exercised during the period	Awards held 2 April 2021	Perform-ance period years to	Holding period to
Graham Stapleton	24/01/18[1]	3.5173	359,215	–	–	–	359,215	–	–	03/04/20	50% to 03/04/21, 50% to 03/04/22
	05/10/18[2]	3.1970	381,040	–	–	–	–	–	381,040	02/04/21	02/04/23
	20/09/19[3]	1.696	585,611	–	–	–	–	–	585,611	01/04/22	01/04/24
	16/10/20[4]	2.425	–	458,162	–	–	–	–	458,162	31/03/23	31/03/25
Loraine Woodhouse	09/11/18[2]	3.079	258,832	–	–	–	–	–	258,832	02/03/21	02/04/23
	20/09/19[3]	1.696	375,598	–	–	–	–	–	375,598	01/03/22	01/04/24
	16/10/20[4]	2.425	–	293,855	–	–	–	–	293,855	31/03/23	31/03/25

1. FY18 awards were subject 25% to Group revenue growth targets (25% vesting for 3.5% p.a. growth, 100% vesting for 7% p.a. growth) and 75% to underlying EPS growth (25% vesting for 1.5% p.a. growth, 100% vesting for 6% p.a. growth). In addition, any vesting of the PSP was subject to an underpin whereby the net debt to EBITDA ratio remained below 1.5 times on average for the three years of the plan. The performance targets for this award were not met based on performance for FY20 and the award lapsed in April 2020.
2. 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 in part based on performance for FY21 and therefore 84.9% of this award will vest.
3. 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.
4. FY21 awards are subject 40% to Relative TSR vs the FTSE All Share General Retailers Index (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 meeting a zero net debt underpin at FY23 close.
5. The grant price is calculated by taking the mid-market average across the three preceding days prior to the grant date.
6. No interim and final dividends were paid during the period.

Deferred Bonus Plan ("DPB")

	Award date	Grant price[1] (£)	Awards held 4 Apr 2020	Awarded during the period	Dividend reinvest-ment[2]	Forfeited during the period	Lapsed during the period	Exercised during the period	Awards held 2 Apr 2021	Vesting
Graham Stapleton	31/05/18	3.3760	13,499	–	–	–	–	–	13,499	31/05/21–31/05/22

1. The grant price is calculated by using the mid-market quotation on the date of grant.
2. No interim and final dividends were paid during the period.

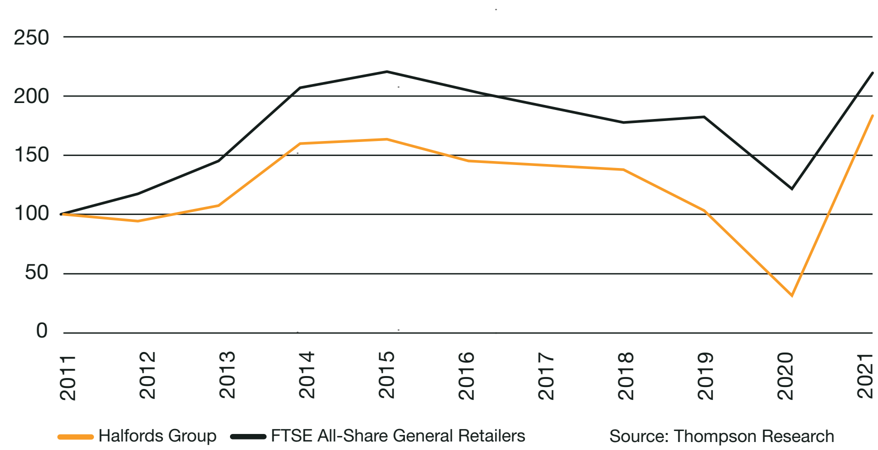
Initial Share Award

To compensate Graham Stapleton for remuneration forfeited when leaving his previous employer, he received an award of 185,872 shares. These shares were released to Graham on 15 January 2021 following the end of the three-year retention period. Details of Graham's buy-out awards were included in the 2018 Remuneration Report and the value of this award was included in the 2018 single figure in-line with the regulations.

Remuneration Committee Report

CEO Pay Compared to Performance

The following graph shows the TSR performance of the Company since April 2010, against the FTSE All Share General Retailers Index (which was chosen because it represents a broad equity market index of which the Company is a constituent).



The following table summarises the CEO single figure for the past ten years and outlines the proportion of annual bonus paid as a percentage of the maximum opportunity and the proportion of PSP awards vesting as a percentage of the maximum opportunity. The annual bonus is shown based on the year to which performance related and the PSP is shown for the last year of the performance period.

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	**FY21**
CEO Single Figure (£000)											
Graham Stapleton[1]	–	–	–	–	–	–	–	1,818	670	678	**2,430**
Jonny Mason[2]	–	–	–	–	–	–	–	236	–	–	**–**
Jill McDonald[3]	–	–	–	–	–	851	741	295	–	–	**–**
Matt Davies[4]	–	–	499	1,372	645	54	–	–	–	–	**–**
David Wild[5]	531	617	198	–	–	–	–	–	–	–	**–**
Annual Bonus (% of maximum)											
Graham Stapleton[1]	–	–	–	–	–	–	–	70%	–	–	**92.5%**
Jonny Mason[2]	–	–	–	–	–	–	–	42.3%	–	–	**–**
Jill McDonald[3]	–	–	–	–	–	23.5%	–	–	–	–	**–**
Matt Davies[4]	–	–	50%	97.5%	–	–	–	–	–	–	**–**
David Wild[5]	–	0%	–	–	–	–	–	–	–	–	**–**
PSP Vesting (% of maximum)											
Graham Stapleton[1]	–	–	–	–	–	–	–	–	–	–	**84.9%**
Jonny Mason[2]	–	–	–	–	–	–	–	–	–	–	**–**
Jill McDonald[3]	–	–	–	–	–	–	–	–	–	–	**–**
Matt Davies[4]	–	–	–	–	–	–	–	–	–	–	**–**
David Wild[5]	–	99%	–	–	–	–	–	–	–	–	**–**

1. Graham Stapleton was appointed in January 2018. An incorrect benefits figure was reported for FY19 in error, this has been corrected and reflected in the total for FY19.
2. Jonny Mason was appointed as interim Chief Executive Officer for the period from September 2017 to the date of Graham Stapleton joining in January 2018, and the figures represent 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.

Shareholding Guidelines

The Committee believes that it is important that Executive Directors' interests are aligned with those of the shareholders. Executive Directors are encouraged to acquire and retain shares with a value equal to 200% of their annual base salary. Executive Directors are expected to retain 75% of any post-tax shares that vest under any share incentive plans until this shareholding guideline is met.

	Graham Stapleton	**Loraine Woodhouse**
Shareholding guideline	200%	200%
Shareholding as at 2 April 2021	28,748	22,395
Current value (based on share price on 2 April 2021)	£107,058	£83,399
Current % of salary	19.6%	23.8%

These figures include those of their spouse or civil partner and infant children, or stepchildren, as required by Section 822 of the Companies Act 2006. There was no change in these beneficial interests between 2 April 2021 and 16 June 2021.

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 appointments and retain the fees received, provided that these appointments are not likely to lead to conflicts of interest. During the year, Graham Stapleton was appointed as a Non-Executive Director of The Magic Bean Co. Limited on 21 January 2021 and, Loraine Woodhouse was appointed as a Non-Executive Director of The British Land Company plc with effect from 1 March 2021. Both Graham and Loraine retained their earnings for these roles.

Loss of Office Payments (Audited)

No loss of office payment was made to a Director during the year.

Payments to Former Directors (Audited)

No payments were made to former Directors during the year.

How the Remuneration Policy was Implemented in FY21 – 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] 2021 (£)	Total "Single Figure" 2020 (£)
Keith Williams[3]	Company Chair	192,400	–	–	–	**192,400**	192,400
Helen Jones[4]	Senior Independent Director, ESG Committee Chair and Employee Voice Director	52,000	5,455	10,000	93	**67,548**	63,180[5]
Jill Caseberry[6]	Remuneration Committee Chair	52,000	–	10,000	–	**62,000**	62,715[5]
Tom Singer[7]	Audit Committee Chair	28,167	–	2,500	–	**30,667**	–[7]
David Adams[8]	Senior Independent Director and Audit Committee Chair	39,000	4,545	7,500	183	**51,228**	74,224[5]

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. Helen Jones was appointed Senior Independent Director with effect from 15 September 2020.
5. Due to a payroll error, a portion of fees which related to FY19 were actually paid in FY20. These amounts were: £2,000 for Helen Jones; £164 for Jill Caseberry; and £2,000 for David Adams.
6. Jill Caseberry did not claim any taxable benefits during the year.
7. 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.
8. 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.

Remuneration Committee Report

Non-Executive Director Shareholding

Director	2021	2020
Keith Williams	**130,000**	130,000
Helen Jones	**3,000**	3,000
Jill Caseberry	**–**	–
Tom Singer	**30,000**	N/A
David Adams	**9,041**	9,041

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 2 April 2021 and 16 June 2021.

Non-Executive Directors do not have a shareholding guideline but they are encouraged to buy shares in the Company.

David Adams stepped down from the Board on 31 December 2020 and his shareholdings are shown at this date.

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-19	28-Feb-22	8 months
Helen Jones	01-Mar-14	01-Mar-20	28-Feb-23	20 months
Tom Singer	16-Sep-20	16-Sep-20	15-Sep-23	27 months
Keith Williams	24-Jul-18	24-Jul-18	23-Jul-21	1 month

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 FY22 – Executive Directors

Salary

Salaries for Executive Directors were increased by 1.8 % with effect from 1 October 2020 in line with the increase received across the wider workforce. Current salaries for the Executive Directors are as follows:

Chief Executive Officer	£565,530
Chief Financial Officer	£362,720

Salaries will next be reviewed with effect from 1 October 2021.

Pension

Executive Directors will continue to receive a pension allowance of 15% of base salary. The Committee carefully considered the level of pension allowance for Executive Directors and no changes were made to this allowance for 2020/21 and 2021/22. While the Committee acknowledges that this level of pension is above the rate that is available to the wider workforce in the UK, the Committee did not consider that it was appropriate to lower the pension allowance for Executive Directors at this stage, given their existing contractual entitlements and limited tenure in role. However, mindful of shareholder guidance that pensions for Executives should be aligned with the pension provision available for the wider workforce, the Executive Directors have, however, agreed to reduce their pension to be in line with the rate available for the wider workforce from 1 April 2023.

For any new Executive Director appointed to the Board, the pension opportunity will be in line with the policy for the majority of the workforce.

Annual Bonus

The normal maximum annual bonus for the CEO and CFO is 150% of base salary with 2/3 paid in cash and 1/3 paid in **Halfords**' shares deferred for three years.

For FY21, given the uncertainty caused by the pandemic we changed measures to ensure that it focused management on the key financial and strategic KPIs that were critical for the business over the following 12 months. Therefore, the Committee broadened the range of financial measures to include the critical priorities of cost reduction as well as debt and cash management.

As we progress from the initial impact of the pandemic, we feel we are now able to revert to more normalised measures. We will increase the weighting of PBT from 15% to 50%, increase the cash flow metric from 7.5% to 15% and include a new Group revenue metric. Both net debt and cost reduction have now been removed.

Finally, in order to incorporate a new ESG metric, we have reduced each strategic measure to 5% and also replaced Digital Sales with Group Services Related Sales to assist in implementing the new strategic priorities of the business.

Performance measures for FY22 annual bonus	
Financial Measures • Underlying Group PBT (post exceptions) – 50% • Group revenue – 15% • Operating cash flow – 15%	80%
Strategic Measures • Group NPS – 5% • Group services-related sales – 5% • Group colleague engagement – 5% • ESG Metric – 5%	20%

Targets have not been disclosed at the current time as they are considered to be commercially sensitive. The Committee intends to disclose targets in next year's Directors' Remuneration Report.

Performance Share Plan ("PSP")

The normal PSP award for Executive Directors is 200% of base salary. The Committee is mindful of shareholder guidance that award levels should be adjusted where the share price has fallen significantly compared to prior years. The Committee will take this into account when determining award levels in September.

FY22 PSP awards will be based on the following performance measures:

- 30% based on Relative TSR versus the FTSE All Share General Retailers Index;
- 50% based on EPS growth; and
- 20% based on Group services-related sales. Vesting will also be subject to the Company maintaining an appropriate margin on services revenue.

Our normal practice is to grant awards in September.

In the event that there is a material acquisition or disposal during the performance period then the Committee would look to review the targets to ensure they remained suitably stretching.

In light of the impact of the COVID-19 pandemic on the business, and the wider economy the Committee re-assessed the performance measures for 2020/21 and sought to ensure that pay reflected the current circumstances of the business and the experience of our shareholders.

As a result, for FY21 PSP awards an increase was applied to the weighting on relative TSR in light of the uncertainty around financial target setting and to ensure that outcomes were aligned with the shareholders' experience. We also increased the weighting on Free Cash Flow to ensure focus on the management of our cash position during this critical period.

Although uncertainties in the market outlook remain, we have reviewed the measures and weightings and now feel we can revert to measures and weightings that are best positioned to support our ongoing strategy as we move away from the initial impact of the pandemic. We have therefore reduced TSR to 30% (from 40%) and increased EPS growth to 50%. Group services-related sales will increase to a 20% weighting, whilst Free Cash Flow has been removed.

The PSP will be weighted towards EPS growth which the Committee considers incentivises management to both grow revenue and manage cost in a balanced way.

Additionally, given our continued focus on increasing services-related revenue the Committee considered that it was appropriate to increase the weighting of this metric whilst relative total shareholder return is included to ensure that PSP outcomes are aligned with the value we have returned to our shareholders relative to our key retail peers.

Free Cash Flow has been removed as a performance measure as the Committee considered that this was no longer an appropriate measure in the context of our enhanced investment plans.

These measures are in line with the current priorities of the business. The Committee feels they will serve to incentivise and reward management for delivering against our intention to accelerate the growth of the motoring services business, to generate higher and more sustainable financial returns for shareholders and to best reflect the wider stakeholder experience.

In determining whether any annual bonuses are payable or performance share plan awards vest, the Committee retains the discretionary authority to adjust incentive pay-outs (both upwards and downwards) if the original outcome is not considered to reflect the underlying performance of the Company or the participant over the period, the outcome is not considered appropriate in the context of circumstances that were unexpected or unforeseen at the time the targets were set, or where the outcome is not considered appropriate in the context of the experience of shareholders or other stakeholders over the performance period.

These measures are in line with the current priorities of the business. The Committee feels they will serve to incentivise and reward management for delivering against our intention to accelerate the growth of the motoring services business, to generate higher and more sustainable financial returns for shareholders and to best reflect the wider stakeholder experience.

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How the Remuneration Policy will be Implemented for FY22 – 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 March 2020 and at the time it was agreed that a fee increase would not be appropriate due to the COVID-19 pandemic, instead the next fee review was set for March 2021. In March 2021, the Remuneration Committee decided that the NED fee review would be considered later in the year, and if any changes are agreed, these will be effective from October 2021, in line with the rest of the business.

Current fees for Non-Executive Directors are as follows:

	FY21	FY20
Chair	**£192,400**	£192,400
Base fee	**£52,000**	£52,000
Additional fees		
Senior Independent Director	**£10,000**	£10,000
Committee Chair (Audit and Remuneration)	**£10,000**	£10,000
Employee Voice Director	**£5,000**	£5,000
Committee Chair (ESG)	**£5,000**	£5,000

Change in Remuneration of Directors Compared to Group Employees

The table below sets out the increase in total remuneration of the Directors and that of all colleagues.

	% change in base salary FY20 to FY21	**% change in bonus paid FY20 to FY21**	**% change in benefits FY20 to FY21**
Chief Executive Officer	1.8%	-%[1]	-[3]
Chief Financial Officer	1.8%	-%[1]	-[3]
Keith Williams	0%	%	-[3]
Helen Jones[4]	9.5%	-%[7]	-[3]
Jill Caseberry	0%	-%[7]	-[3]
Tom Singer[5]	N/A	-%[7]	-[3]
David Adams[6]	N/A	-%[7]	-[3]
All colleagues	4.02%	45.42%[2]	-[3]

1. No bonus payable for FY20.
2. 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.
3. No change to the benefits available for both Directors and colleagues.
4. Helen Jones was appointed as Senior Independent Director on 15 September 2020.
5. Tom Singer was appointed as a Non-Executive Director on 16 September 2020, and as Audit Committee Chair on 1 January 2021.
6. 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.
7. Not eligible for a bonus.

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**
2020/21	Option B	143:1	126:1	99:1
2019/20	Option B	40:1	36:1	28:1

In addition to the ratio of the CEO's pay to the 25th, median and 75th percentile of UK employees, companies are also required to disclose:

- an explanation of the methodology used, including an explanation of the reason where any components of total remuneration have been omitted and a brief explanation of any assumptions used to determine full-time equivalent remuneration;
- the total remuneration and salary value (the £ value) for the 25th, median and 75th percentile employees used in the pay ratio calculation;
- an explanation for changes to the ratio year on year (not applicable for first year disclosures); and
- whether the Company considers the median pay ratio consistent with the Company's wider policies on employee pay, reward and progression.

Of the three options set out in the new legislation for calculating the CEO pay ratio, we have used Option B using Gender Pay Gap data. This option was chosen as it represents the most efficient method to determine the respective pay ratios. The colleagues at the three quartiles were identified and their respective single figure values calculated as of 5 April 2020. 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 2021 compared to 2020. As is appropriate the remuneration arrangements for the Executive Directors are more closely linked to performance. Given the very strong performance for FY21, remuneration for the CEO has risen more than for the wider workforce.

Component	**P25**	**P50**	**P75**
Base Salary	£16,986.45	£18,920.85	£23,918.05
Total Remuneration	£16,986.45	£19,349.78	£24,555.39

Workforce Engagement in Remuneration

As referenced on page 51, **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 launch of the FY21 bonus and PSP plans.

Gender Pay Gap Report

Details of the Group's Gender Pay Gap Report for 5 April 2020 are available at www.halfordscompany.com/corporate-responsibility/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.

	2021	2020
EBITDA (underlying)	**£233.0m**	£185.9m
PBT (underlying)	**£99.5m**	£53.6m
Payments to employees:		
Wages and salaries	**£262.3m**	£232.7m
Executive Directors[1]	**£4.0m**	£1.1m
Dividend paid to shareholders and share buybacks	**£nil**	£36.6m

1. Based on the single figure calculation, not all of which is included within wages and salary costs.

Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with international standards in conformity with the requirements of the Companies Act 2006 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and, have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for the Group for that period. The Directors are also required to prepare financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and, additionally for the Group, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- for the parent Company financial statements, state whether applicable UK Accounting Standards comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the parent Company financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- prepare a Director's Report, a Strategic Report and Director's Remuneration Report which comply with the requirements of the Companies Act 2006.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. 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 and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group; and
- 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
16 June 2021


halfords

Our Financials

Contents

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 2 April 2021 and of the Group's profit for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of **Halfords** Group Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the 52 weeks ended 2 April 2021 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 Company Balance Sheet, the Company Statement of Changes in Shareholders' Equity, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

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 recommendation of the audit committee, we were appointed by the Board of Directors on 13 July 2019 to audit the financial statements for the year ended 3 April 2020 and subsequent financial periods. In respect of the year ended 2 April 2021, we were reappointed by the Parent Company's members on 15 September 2020 at the Annual General Meeting. The period of total uninterrupted engagement including retenders and reappointments is two years, covering the years ending 3 April 2020 to 2 April 2021. 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 2022 and including the impact of strategic initiatives (including store closures and planned investments in FY22) as well as the ongoing and uncertain impact of COVID-19. We considered whether the forecasts aligned with how the Group had traded through the pandemic and post year end.
- Financing: confirmed the Group had financing facilities in place throughout the period of the going concern review as modelled in its forecasts. We also confirmed the calculations supporting covenant compliance and headroom throughout the going concern period.
- 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.
- 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 Group has considered in reaching their going concern assessment.

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's and 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

		FY21	FY20
Coverage[1]	*93% (FY20: 98%) of Group profit before tax and non-underlying items* *91% (FY20: 95%) of Group revenue* *94% (FY20: 97%) of Group total assets*		
Key audit matters	Going Concern		✔
	Goodwill impairment		✔
	Inventory valuation		✔
	Cycle Republic closure costs		✔
	IFRS16 – leases	✔	✔
	Costs related to store and autocentre closure programme	✔	
	FY20 included key audit matters in relation to going concern, goodwill impairment and inventory valuation principally owing to the increased management judgement and higher estimation uncertainty required as a result of the onset of the COVID-19 pandemic. However owing to the Group's FY21 performance and financial position, whilst these remain audit risk in these areas, they are no longer considered key audit matters. The closure of Cycle Republic was a one off non-recurring event.		
Materiality	*Group financial statements as a whole* £3.4m (2020: £2.6m) based on 5% of normalised (3 year average) profit before tax and non-underlying items. (2020: 5% of 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.

In establishing the overall approach to the Group audit, we assessed the audit significance of each reporting unit in the Group by reference to both its financial significance and other indicators of audit risk, such as the complexity of operations and the degree of estimation and judgement in the financial results.

All of the Group's 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 not significant and subject to analytical review procedures by the Group audit team.

The significant components within the scope of our work accounted for 91% of group revenues and 94% of total assets.

Independent Auditor's Report to the Members of Halfords Group plc

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.

<table>
<tr><th colspan="2">Key audit matter</th><th>How the scope of our audit addressed the key audit matter</th></tr>
<tr><td>IFRS 16 – Leases

(Accounting polices, Note 14 Leases – closing right-of-use assets £282.8m, lease liabilities £344.3m)</td><td>The Group has a large portfolio of retail and autocentre sites, with the majority of properties being leased. The ongoing impact to the financial statements of IFRS 16 is therefore significant.

The calculation of right-of-use assets and lease liabilities involves adjustments relating to changes in lease arrangements and assumptions over the lease term and the incremental borrowing rate. Small changes to lease arrangements and management applied assumptions across a number of leases could lead to a material change in the valuation of right-of-use assets and lease liabilities.

Owing to the magnitude of the right-of-use assets and lease liability balances and the estimation and judgement required in accurately assessing these balances, the application of IFRS16 was raised as a key audit matter.</td><td>Our audit procedures included:

• Technical analysis: assessing the calculation methodology driving the lease liability and right-of-use asset against the requirements of the accounting standard.
• Sample testing: testing the completeness and accuracy of the right-of-use asset and lease liability figures calculated by re-performing the calculation for a sample of new leases agreed in the year, lease modifications, and lease exits. To confirm completeness we agreed the brought forward balances to the prior year closing balances in the consolidated financial statements.
• Lease length assumptions: evaluating assumed lease terms with reference to both the underlying lease agreements and consideration of the broader economics of the lease contracts, including enquiry of management and review of historical trends.
• Valuation assumptions: corroboration of the inputs applied within the incremental borrowing rate calculation with assistance from BDO Valuations specialists to confirm the approach to compiling the incremental borrowing rate was in line with the requirements of IFRS 16 and based on appropriate inputs reflective of the lease portfolio.

Key observations:
As a result of the testing above we did not find any material matters to report.</td></tr>
</table>

Key audit matter		How the scope of our audit addressed the key audit matter
Costs related to store and autocentre closure programme **(Note 5 Non underlying items - £28.5m)**	During FY21 the Group announced plans to close a number of stores and autocentres. Material impairments and provisions are recorded in relation to redundancies and other costs associated with the closures which also resulted in property plant and equipment and right of use assets having a reduced recoverable amount. Provisioning and impairment are key areas of judgement and particularly owing to the proximity to the year end this and the associated disclosure within the financial statements was considered a key audit matter.	Our audit procedures included: • Discussions with management: to understand the nature, extent and timing of the store closure programme. • Technical analysis: evaluation as to whether costs were appropriately provided in accordance with IAS 37. • Lease testing: recalculation of a sample of lease modification adjustments with reference to the underlying lease agreement where the Group intended to exercise the break option. Our work also considered the sublease assumptions applied by management within the right of use asset impairment and other property cost provisioning assessments. • Redundancy costs: confirmation of a communicated redundancy program prior to the year-end and recalculation of a sample of redundancies payments. • Corroborative work: corroboration of management's estimates of the costs associated with the planned exit of store leases with reference to comparable costs previously incurred by the Group or estimates the Group have received for the work required. We also assessed the completeness of the provision by comparing to our expectations the cost categories and stores that had been included within management's workings. • Property plant and equipment impairments: Agreement of charges incurred to the underlying asset registers and evaluation of the assumptions made by management in relation to the recoverability of the carrying value of store and autocentre property plant and equipment, which was largely estimated to be £Nil. • Disclosure: assessment of the adequacy of the Group's disclosures concerning both the income statement, inclusive of consideration as to whether the closure costs met with the Group's definition of a non-underlying item owing to their size, nature and incidence and provisions on the balance sheet, with reference to relevant accounting standard requirements. **Key observations:** As a result of the testing above we did not find any material matters to report.

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	
	2021 £m	**2020 £m**	**2021 £m**	**2020 £m**
Materiality	3.4	2.6	1.7	1.3
Basis for determining materiality	5% of normalised (3 year average) profit before tax and non-underlying items.	5% of 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 FY21 a normalised (3 year average) has been taken owing to the significant impact of the COVID-19 pandemic on the FY21 financial year.	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.	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	65% of materiality.			
Basis for determining performance materiality	Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at 65% of materiality. In setting the level of performance materiality we considered a number of factors including the expected total value of known and likely misstatements.			

Component materiality

We set materiality for each component of the Group based on a percentage of between 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 £1.7m 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 £70k (2020:£52k). 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 Statement 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 72; and • The Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why the period is appropriate set out on page 73.
Other Code provisions	• Directors' statement on fair, balanced and understandable set out on page 87; • Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 108; • The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 108; and • The section describing the work of the audit committee set out on page 116.

Independent Auditor’s Report to the Members of Halfords Group plc

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.

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 and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006, the FCA listing and DTR rules, the principles of the UK Corporate Governance Code, and IFRSs.
- We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including understanding where and how fraud might occur.
- We obtained an understanding of the procedures and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures were designed to provide reasonable assurance that the financial statements were free of fraud or error.
- Based on the understanding obtained we designed audit procedures to identify non-compliance with the laws and regulations, as noted above. This included enquiries of in-house legal counsel, Management, the Audit Committee, review of Board minutes, and correspondence with legal counsel and regulators.
- We tested 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.
- We tested and challenged the key estimates and judgements made by management in preparing the financial statements for indications of bias or management override when presenting the results and financial position of the Group, including the costs related to store and autocentre closure programme identified as a key audit matter.

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, UK
16 June 2021

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 2 April 2021 Before non-underlying items £m	Non-underlying items (Note 5) £m	Total £m	53 weeks to 3 April 2020 Before non-underlying items £m	Non-underlying items (Note 5) £m	Total £m
Revenue	1	**1,292.3**	**–**	**1,292.3**	1,155.1	–	1,155.1
Cost of sales		**(636.0)**	**–**	**(636.0)**	(565.4)	–	(565.4)
Gross profit		**656.3**	**–**	**656.3**	589.7	–	589.7
Operating expenses	2	**(541.8)**	**(35.0)**	**(576.8)**	(522.5)	(34.2)	(556.7)
Results from operating activities	3	**114.5**	**(35.0)**	**79.5**	67.2	(34.2)	33.0
Finance costs	6	**(15.0)**	**–**	**(15.0)**	(13.9)	–	(13.9)
Finance income	6	**–**	**–**	**–**	0.3	–	0.3
Net finance expense		**(15.0)**	**–**	**(15.0)**	(13.6)	–	(13.6)
Profit before income tax		**99.5**	**(35.0)**	**64.5**	53.6	(34.2)	19.4
Income tax expense	7	**(17.4)**	**6.1**	**(11.3)**	(6.9)	5.0	(1.9)
Profit for the financial period attributable to equity shareholders		**82.1**	**(28.9)**	**53.2**	46.7	(29.2)	17.5
Earnings per share							
Basic	9	**41.7p**		**27.1p**	23.7p		8.9p
Diluted	9	**40.7p**		**26.4p**	23.3p		8.7p

All results relate to continuing operations of the Group.

The notes on pages 165 to 189 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Notes	52 weeks to 2 April 2021 £m	53 weeks to 3 April 2020 £m
Profit for the period		**53.2**	17.5
Other comprehensive income			
Cash flow hedges:			
Fair value changes in the period		**(9.6)**	7.9
Income tax on other comprehensive income	7	**1.6**	(0.7)
Other comprehensive income for the period, net of income tax		**(8.0)**	7.2
Total comprehensive income for the period attributable to equity shareholders		**45.2**	24.7

All items within the Consolidated Statement of Comprehensive Income are classified as items that are or may be recycled to the consolidated income statement.

The notes on pages 165 to 189 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

	Notes	2 April 2021 £m	3 April 2020 £m
Assets			
Non-current assets			
Intangible assets	11	**398.3**	395.7
Property, plant and equipment	12	**81.3**	83.1
Right-of-use assets	14	**282.8**	349.9
Derivative financial instruments	22	**0.1**	–
Deferred tax asset	21	**12.3**	7.3
Total non-current assets		**774.8**	836.0
Current assets			
Inventories	15	**143.9**	173.0
Trade and other receivables	16	**86.1**	53.5
Assets held for sale	13	**6.0**	–
Derivative financial instruments	22	**0.5**	8.7
Current tax assets	7	**3.1**	8.2
Cash and cash equivalents	17	**67.2**	115.5
Total current assets		**306.8**	358.9
Total assets		**1,081.6**	1,194.9
Liabilities			
Current liabilities			
Borrowings	18	**(0.2)**	(0.2)
Lease liabilities	18	**(63.4)**	(83.2)
Derivative financial instruments	22	**(5.9)**	(1.1)
Trade and other payables	19	**(270.2)**	(217.0)
Provisions	20	**(24.5)**	(9.7)
Total current liabilities		**(364.2)**	(311.2)
Net current (liabilities)/assets		**(57.4)**	47.7
Non-current liabilities			
Borrowings	18	**–**	(179.1)
Lease liabilities	18	**(280.9)**	(332.8)
Derivative financial instruments	22	**(0.4)**	–
Trade and other payables	19	**(3.3)**	(1.9)
Provisions	20	**(15.0)**	(4.1)
Total non-current liabilities		**(299.6)**	(517.9)
Total liabilities		**(663.8)**	(829.1)
Net assets		**417.8**	365.8
Shareholders' equity			
Share capital	23	**2.0**	2.0
Share premium	23	**151.0**	151.0
Investment in own shares	23	**(10.0)**	(10.0)
Other reserves	23	**(1.8)**	4.9
Retained earnings		**276.6**	217.9
Total equity attributable to equity holders of the Company		**417.8**	365.8

The notes on pages 165 to 189 are an integral part of these consolidated financial statements.

The financial statements on pages 148 to 189 were approved by the Board of Directors on 16 June 2021 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				
	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 29 March 2019	2.0	151.0	(10.0)	0.3	1.6	264.4	**409.3**
Impact of adoption of IFRS 16*	–	–	–	–	–	(27.0)	**(27.0)**
Opening balance at 30 March 2019	2.0	151.0	(10.0)	0.3	1.6	239.3	**384.2**
Total comprehensive income for the period							
Profit for the period	–	–	–	–	–	17.5	**17.5**
Other comprehensive income							
Cash flow hedges: fair value changes in the period	–	–	–	–	7.9	(2.3)	**5.6**
Income tax on other comprehensive income	–	–	–	–	(0.7)	(0.8)	**(1.5)**
Total other comprehensive income for the period net of tax	–	–	–	–	7.2	(3.1)	**4.1**
Total comprehensive income for the period	–	–	–	–	7.2	14.4	**21.6**
Hedging gains and losses transferred to the cost of inventory	–	–	–	–	(4.2)	–	**(4.2)**
Transactions with owners							
Share-based payment transactions	–	–	–	–	–	1.0	**1.0**
Income tax on share-based payment transactions	–	–	–	–	–	(0.2)	**(0.2)**
Dividends to equity holders	–	–	–	–	–	(36.6)	**(36.6)**
Total transactions with owners	–	–	–	–	–	(35.8)	**(35.8)**
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 transferred to the cost of inventory	–	–	–	–	1.3	–	**1.3**
Transactions with owners							
Share options exercised	–	–	–	–	–	–	**–**
Share-based payment transactions	–	–	–	–	–	6.4	**6.4**
Income tax on share-based payment transactions	–	–	–	–	–	0.4	**0.4**
Dividends to equity holders	–	–	–	–	–	–	**–**
Total transactions with owners	–	–	–	–	–	6.8	**6.8**
Balance at 2 April 2021	2.0	151.0	(10.0)	0.3	(2.1)	276.6	**417.8**

* 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.

The notes on pages 165 to 189 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Notes	52 weeks to 2 April 2021 £m	52 weeks to 3 April 2020 (Restated)* £m
Cash flows from operating activities			
Profit after tax for the period, before non-underlying items		**82.1**	46.7
Non-underlying items		**(28.9)**	(29.2)
Profit after tax for the period		**53.2**	17.5
Depreciation – property, plant and equipment	12	**21.0**	24.3
Impairment – property, plant and equipment	12	**2.8**	5.4
Amortisation and impairment of right-of-use assets	14	**81.8**	83.0
Amortisation – intangible assets	11	**12.9**	11.4
Net finance costs	6	**15.0**	13.6
Loss on disposal of property, plant and equipment and intangibles	3	**1.7**	2.8
Equity-settled share-based payment transactions		**6.4**	1.0
Exchange movement		**2.1**	(2.0)
Income tax expense		**11.3**	1.9
Decrease in inventories		**35.0**	3.9
Increase in trade and other receivables*		**(26.2)**	(1.0)
Increase in trade and other payables*		**40.2**	35.4
Increase/(decrease) in provisions*		**25.7**	(0.7)
Income tax paid		**(10.8)**	(16.3)
Net cash from operating activities		**272.1**	180.2
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		**(11.5)**	(10.9)
Purchase of intangible assets		**(11.8)**	(12.5)
Purchase of property, plant and equipment		**(15.7)**	(21.1)
Net cash used in investing activities		**(39.0)**	(44.5)
Cash flows from financing activities			
Finance income received		**–**	0.3
Finance costs paid		**(5.5)**	(2.2)
Payment of loan following acquisition		**–**	(1.8)
Proceeds from loans, net of transaction costs		**–**	1,377.0
Repayment of borrowings		**(180.0)**	(1,262.0)
Interest paid on lease liabilities*		**(10.0)**	(11.3)
Payment of capital element of leases*		**(85.9)**	(76.4)
Dividends paid	8	**–**	(36.6)
Net cash used in financing activities		**(281.4)**	(13.0)
Net (decrease)/increase in cash and bank overdrafts	I.	**(48.3)**	122.7
Cash and cash equivalents at the beginning of the period		**115.3**	(7.4)
Cash and cash equivalents at the end of the period	I.	**67.0**	115.3

Cash and cash equivalents at the period end consist of £67.2m (2020: £115.5m) of liquid assets and £0.2m (2020: £0.2m) of bank overdrafts.

* Adjustment to reported 3 April 2020 results. See note 30.

The notes on pages 165 to 189 are an integral part of these consolidated financial statements.

Note to Consolidated Statement of Cash Flows

I. Analysis of movements in the Group's net debt in the period

	At 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 leases	(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)**

	At 29 March 2019 £m	Cash flow £m	Recognised on adoption of IFRS 16	Other non-cash changes £m	**At 3 April 2020 £m**
Cash and cash equivalents at bank and in hand	(7.4)	122.7	–	–	**115.3**
Debt due after one year	(63.8)	(115.0)	–	(0.3)	**(179.1)**
Total net debt excluding leases	(71.2)	7.7	–	(0.3)	**(63.8)**
Current lease liabilities	(1.3)	87.7	(79.4)	(90.2)	**(83.2)**
Non-current lease liabilities	(9.3)	–	(377.4)	53.9	**(332.8)**
Total lease liabilities	(10.6)	87.7	(456.8)	(36.3)	**(416.0)**
Total net debt	(81.8)	95.4	(456.8)	(36.6)	**(479.8)**

Non-cash changes include finance costs in relation to the amortisation of capitalised debt issue costs of £1.1m (2020: £0.4m), additions of new leases, modifications to leases and foreign exchange movements and changes in classification between amounts due within and after one year.

Cash and cash equivalents at the period end consist of £67.2m (2020: £115.5m) of liquid assets and £0.2m (2020: £0.2m) of bank overdrafts. Included within cash and cash equivalent is £6.4m (2020: £5.1m) held by the trustee of the Group's employee benefit trust in relation to the share scheme for employees (£5.1m) and 'Here to Help' fund (£1.3m). 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 2 April 2021 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 international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis of Preparation

The consolidated financial statements of **Halfords** Group plc and its subsidiary undertakings (together the “Group”) are prepared on a going concern basis for the reasons set out below, and under the historical cost convention, except where adopted IFRSs require an alternative treatment. The principal variations relate to financial instruments (IFRS 9 “Financial instruments”), share-based payments (IFRS 2 “Share-based payment”) and leases (IFRS 16 “Leases”). Management have undergone rigorous financial reviews taking into account specific consideration in regards to the trading position of the Group in the context of the current COVID-19 pandemic in the UK.

The financial statements are presented in millions of UK pounds, rounded to the nearest £0.1m.

The accounts of the Group are prepared for the period up to the Friday closest to 31 March each year. Consequently, the financial statements for the current period cover the 52 weeks to 2 April 2021, whilst the comparative period covered the 53 weeks to 3 April 2020.

Going Concern

In determining the appropriate basis of preparation of the financial statements for the year ended 2 April 2021, the Directors are required to consider whether the Group & Company can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the Going Concern basis, having undertaken a rigorous assessment of financial forecasts.

The Group has significantly outperformed the scenarios reviewed as part of the Going Concern assessment in the Annual Report and Accounts to 3 April 2020.

Management has updated the assessment of Going Concern, which included reviewing financial forecasts and projections to 30 June 2022. 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 (24.0%) before the first covenant condition is broken. Management believe that this is a significant material event which is highly unlikely to occur in the next 15 months.

If sales were to reduce by (24%), then further actions could be taken by management to prevent the breach. The key mitigating action would be to halt strategic investment in FY22, which would provide further headroom of c.5% of sales decline.

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 in a positive net debt position pre-IFRS 16 of £58.1m and continues to be cash generative. The Group has a revolving credit facility of £180.0m at the date of approval of these financial statements, expiring on 3 December 2023. The Group has no other debt or facilities. Significant headroom exists on both financial covenants contained within the banking agreement.

Covenant	FY21	FY20
Interest payable to EBITDAR >1.5	2.5	2.1
Net borrowings to EBITDA <3.0	(0.4)	0.8

The Group ends the year in a net current liabilities position (£57.4m). If required to settle the amount, the Group would utilise the undrawn revolving credit facility.

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.

Government Support

Support payments are recognised only when there is reasonable assurance that the Group will comply with the conditions attached to them and that the monies will be received.

Support payments receivable as compensation for expenses already incurred are recognised in profit or loss within operating costs, in the period in which they become receivable. During the period support and other payments received equated to £49.6m in relation to business rates relief, furlough support and related salary savings. The Group has made the decision to repay the amounts received in relation to furlough support (£10.5m), this was repaid during the period therefore, a £nil balance will be presented in Note 4.

Basis of Consolidation

Subsidiary Undertakings

A subsidiary investment is an entity controlled by **Halfords**. Control is achieved when **Halfords** is exposed, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power, directly or indirectly, over the investee.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred, in which case an 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.

The subsidiary undertakings of the Company at 2 April 2021 are detailed in Note 4 to the Company balance sheet on page 193.

Business Combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised as expenses in the period in which the costs are incurred.

The identifiable assets, liabilities and contingent liabilities of the acquired entity that meet the conditions for recognition under IFRS 3 “Business combinations” are recognised at their fair value at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group’s interest in the net fair value of these elements exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

Revenue Recognition

The Group recognises revenue when it has satisfied its performance obligations to external customers and the customer has obtained control of the goods or services being transferred.

The revenue recognised is measured at the transaction price received and is recognised net of value added tax, discounts, and commission charged and received from third parties for providing credit to customers.

The Group operations comprise the retailing of automotive, leisure and cycling products and car servicing and repair operations. The table below summarises the revenue recognition policies for different categories of products and services offered by the Group.

For the vast majority of revenue streams, there is a low level of judgement applied in determining the transaction price or the timing of transfer of control.

Products and services	Nature, timing and satisfaction of performance obligations and significant payment terms
Automotive, leisure and cycling products, car servicing and repair operations	The majority (both value and volume) of the Group’s sales are for standalone products and services made direct to customers at standard prices either in-store or online. In these cases all performance obligations are satisfied, and revenue recognised, when the product or service is transferred to the customer. The customer pays in full at the same point in time. Where customers pay in advance online, the sale is recognised upon collection of the goods. In the case of Cycle to Work a company will pay to be part of the scheme on a contracted basis but the balance will be held on the balance sheet until the product or service has been transferred to the customer, at which point revenue is recognised.
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 unrecognised income is held within trade and other payables.
Product warranties	Certain products, principally motoring and cycling, have a warranty period attached which is built in to the price of the product rather than being sold separately as an incremental purchase. The warranty element has been identified as a separate performance obligation to the sale of the product, and given it is not sold separately, a transaction price has been allocated for the warranty element based on the expected cost approach. This element of revenue is recognised on a straight-line basis over the period of the plan. The performance obligation of the Group, being the rectification of faults on products sold, will be the period over which the customer can exercise their rights under the warranty and therefore revenue should be recognised over this period. The full price of the product is paid for on commencement of the warranty, and unrecognised income is held within trade and other payables.

Accounting Policies

Returns
A provision for estimated returns is made based on the value of goods sold during the year which are expected to be returned and refunded after the year end based on past experience.

The sales value of the expected returns is recognised within provisions, with the cost value of goods expected to be returned recognised as a current asset within inventories.

Gift Cards
Deferred income in relation to gift card redemptions is estimated on the basis of historical returns and redemption rates.

Supplier Income
As is common in the retail industry, the Group receives income from their suppliers based on specific agreements in place. These enable the Group to share the costs and benefits of promotional activity and volume growth and are explained below. This supplier income received is recognised as a deduction from cost of sales based on the entitlement that has been earned up to the balance sheet date for each relevant supplier agreement. The Group receives other contributions that do not meet the definition of supplier income, including, but not limited to, marketing, advertising and promotion contributions that are offset against the costs included in administrative expenses to which they relate.

The supplier income arrangements are often not co-terminus with Group's financial period end. Such income is only recognised when there is reasonable certainty that the conditions for recognition have been met by the Group, and the income can be reliably measured based on the terms of the contract. The Group is sometimes required to estimate the amounts due from suppliers at year end. However, as the majority of supplier income is confirmed before the year end, the level of estimation and judgement required is limited.

Supplier income is recognised on an accruals basis, based on the entitlement that has been earned up to the balance sheet date for each relevant supplier contract. The accrued supplier income is included within trade and other receivables.

Supplier income comprises:

- **Rebates** – typically these are based on the volume of purchases of goods for resale. These are earned based on purchase triggers over set periods of time. In some cases, rebates will also be received to support promotional pricing.
- **Fixed contributions** – typically these will be for cost price discounts or for favourable positioning of products in store.

Supplier income recognised is recorded against cost of sales and inventory, which is adjusted to reflect the lower purchase cost for the goods on which the income has been earned. Depending on the agreement with the supplier, supplier income is either received in cash from the supplier or netted off payments made to suppliers.

Finance Income
Finance income comprises interest income on funds invested. Income is recognised, as it accrues in profit or loss, using the effective interest rate method.

Non-underlying Items
Non-underlying items are those items that are unusual because of their size, nature (one-off, non-trading costs) or incidence, 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.

The Group has also chosen to present an alternative earnings per share measure, with profit adjusted for non-underlying items. A reconciliation of this alternative measure to the statutory measure required by IFRS is given in Note 9.

Foreign Currency Translation
Functional and Presentation Currency
The consolidated financial statements are presented in pounds sterling, which is the Group's presentation currency and are rounded to the nearest 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 which is received in advance, the tax base of the resulting liability is its carrying amount, less any amount of the revenue that will not be taxable in future periods.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred taxation arises from initial recognition of an asset or liability in a transaction other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred taxation is calculated using rates that are expected to apply when the related deferred asset is realised or the deferred taxation liability is settled.

Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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.

Accounting Policies

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.

iii) Acquired Intangible Assets

Intangible assets that are acquired as a result of a business combination are recorded at fair value at the acquisition date, provided they are identifiable and capable of reliable measurement.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

- Brand names and trademarks – 2 years, in respect of Autocentres, and 10 years in respect of *c.*Boardman;
- 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 flows (cash-generating units). Property, plant and equipment relating to Retail stores or for Car Servicing garages are grouped on an individual store or garage basis.

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, deferred tax assets, employee benefit assets, investment property or biological 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, and any equity-accounted investee is no longer equity accounted.

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. Extension options (or periods after termination options) are included in the lease term if there is reasonable certainty of exercising these options. 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. These are used to maximise the operational flexibility in terms of managing the assets used in the Group's operations.

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 payment 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.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group; and
- makes adjustments specific to the lease, for example location, type of property.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

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.

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 of 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.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle and includes purchase costs, adjusted for rebates and other costs incurred in bringing them to their existing location.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Details of the provisions recognised and the estimates and judgements can be seen in Note 21.

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, cash held in trust and short-term deposits with original maturities of less than 90 days which are subject to an insignificant risk of changes in value. In the consolidated statement of cash flows, net cash and cash equivalents comprise cash and cash equivalents, as defined above, net of bank overdrafts.

Financial Instruments

i) Recognition and Initial Measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

On initial recognition, a financial asset is measured at: amortised cost; 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 OCI. This election is made on an investment-by-investment basis.

All financial assets not measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets (Note 22). On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets: Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a CGU level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the business unit and the operation of those policies in practice. This includes whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate portfolio, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- How the performance of the business unit is evaluated and reported to Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business unit) and how those risks are managed;
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- Contingent events that would change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable rate features;
- Prepayment and extension features; and
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

Accounting Policies

Financial assets: Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit and loss. However, see Note 22 for derivatives designated as hedging instruments.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of investment. Other net gains and losses are recognised in OCI and never reclassified to profit or loss.

Financial liabilities: Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit and loss. All other financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

iv) Offsetting

Financial assets and financial liabilities are offset and the net position presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

v) Derivatives

Derivative financial instruments are used to manage risks arising from changes in foreign currency exchange rates relating to the purchase of overseas sourced products. The Group does not hold or issue derivative financial instruments for trading purposes. 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 asset measured at amortised cost. Trade receivables 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.

The judgements and key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are detailed below:

Allowances Against the Carrying Value of Inventories

The Group reviews the market value of and demand for its inventories on a periodic basis to ensure that recorded inventory is stated at the lower of cost and net realisable value. In assessing the ultimate realisation of inventories, the Group is required to make estimates as to future demand requirements and to compare these with the current or committed inventory levels. Assumptions have been made relating to the timing and success of product ranges, which would impact estimated demand and selling prices. These assumptions have been reviewed in light of COVID-19.

A sensitivity analysis has been carried out on the carrying value of inventory, including consideration of the uncertainties arising from COVID-19. A 10% change in provisions applied to clearance stock would impact the net realisable value of inventories by £0.7m. A 10% change in the current selling price of products would impact the net realisable value of inventories by £0.2m.

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 165 to 189. Sensitivity analysis on the key assumption in the value-in-use calculations has been undertaken on the two Group cash-generating units (Retail and Car Servicing) independently of one another, which found that there is adequate amount of headroom before an impairment could be triggered. For further information see Note 11.

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 FY21 was 2.51%. **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.

Management exercises judgment in determining the lease term of its lease contracts. 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).

Accounting Policies

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)
- 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.

National Minimum Wage

HMRC conducted an investigation into national minimum wage liability across the **Halfords** Group. The Group has continued to work with HMRC and external advisors during FY21 and a full data validation exercise is underway to determine the required Notice of Underpayment. The exercise is in progress and based on information available to date and the Group's assessment of a range of potential outcomes, management has increased the provision to £3.4m which represents management's best estimate of the value of underpayments and the associated penalty charge.

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 2 April 2021 but either had no material impact on the result or net assets of the Group or were not applicable.

- Definition of a Business (Amendments to IFRS 3);
- Interest Rate Benchmark Reform – IBOR 'phase 2' (Amendments to IFRS 9, IAS 39 and IFRS 7); and
- COVID-19 Related Rent Concessions (Amendments to IFRS 16).

Other new and amended standards and Interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to impact the Group as they are either not relevant to the Group's activities or considered immaterial.

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 3 April 2021:

- 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
- Amendments to IAS 1: Classification of Liabilities as Current or Non-current.

The Group is currently assessing the impact of these new accounting standards and amendments.

Notes to the Financial Statements

1. Operating Segments

The Group has two reportable segments, Retail and Car Servicing, which are the Group's strategic business units. Car Servicing became a reporting segment of the Group as a result of the acquisition of Nationwide Autocentres on 17 February 2010. The strategic business units offer different products and services, and are managed separately because they require different operational, technological and marketing strategies.

The operations of the Retail reporting segment comprise the retailing of automotive, leisure and cycling products through retail stores. The operations of the Car Servicing reporting segment comprise car servicing and repair performed from Autocentres and mobile vans.

The Chief Operating Decision Maker is the Executive Directors. Internal management reports for each of the segments are reviewed by the Executive Directors on a monthly basis. Key measures used to evaluate performance are Revenue and Operating Profit. Management believes that these measures are the most relevant in evaluating the performance of the segment and for making resource allocation decisions.

The following summary describes the operations in each of the Group's reportable segments. Performance is measured based on segment operating profit, as included in the management reports that are reviewed by the Executive Directors. These internal reports are prepared in accordance with IFRS accounting policies, with IFRS 16 accounting entries applied at a Group level.

All material operations of the reportable segments are carried out in the UK and Republic of Ireland and all material non-current assets are located in the UK and Republic of Ireland. Revenue from stores within the Republic of Ireland were £40.0m, 3.8% of retail revenue (FY20: £41.3m, 4.3% of retail revenue). 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 2 April 2021 Total £m
Revenue	1,039.8	252.5	1,292.3
Segment result before non-underlying items	91.4	12.7	104.1
Non-underlying items	(33.6)	(3.7)	(37.3)
Segment result	57.8	9.0	66.8
Unallocated expenses[1]			(2.3)
Operating profit pre IFRS 16			64.5
IFRS 16 – underlying			12.7
IFRS 16 – non-underlying			2.3
Operating profit post IFRS 16			79.5
Finance income			–
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

Notes to the Financial Statements

1. Operating Segments continued

Income statement	Retail £m	Car Servicing £m	53 weeks to 3 April 2020 Total £m
Revenue	961.0	194.1	1,155.1
Segment result before non-underlying items	52.0	5.5	57.5
Non-underlying items	(29.5)	(2.6)	(32.1)
Segment result	22.5	2.9	25.4
Unallocated expenses[1]			(2.1)
Operating profit pre IFRS 16			23.3
IFRS 16 – underlying			11.8
IFRS 16 – non-underlying			(2.1)
Operating profit post IFRS 16			33.0
Finance income			0.3
Finance costs			(13.9)
Profit before tax			19.4
Taxation			(1.9)
Profit for the year			17.5
Products and services transferred at a point in time	913.5	168.3	1,081.8
Products and services transferred over time	47.5	25.8	73.3
Revenue	961.0	194.1	1,155.1

1. Unallocated expenses have been disclosed to reflect the format of the internal management reports reviewed by the Chief Operating Decision Maker and include an amortisation charge of £2.3m in respect of assets acquired through business combinations (2020: £2.1m).

Other segment items:	**Retail £m**	**Car Servicing £m**	**52 weeks to 2 April 2021 Total £m**
Capital expenditure	**23.3**	**22.0**	**45.2**
Depreciation and impairment expense of property, plant and equipment	**19.1**	**4.7**	**23.8**
Impairment of right-of-use asset	**11.6**	**0.6**	**12.2**
Amortisation of right-of-use assets	**58.2**	**11.4**	**69.6**
Amortisation expense	**9.6**	**1.2**	**10.8**

Other segment items:	Retail £m	Car Servicing £m	53 weeks to 3 April 2020 Total £m
Capital expenditure	28.8	18.0	46.8
Depreciation and impairment expense of property, plant and equipment and intangibles	25.0	4.7	29.7
Impairment of right-of-use asset	8.5	0.9	9.4
Amortisation of right-of-use assets	63.7	9.9	73.6
Amortisation expense	8.5	0.8	9.3

There have been no transactions between segments in the 52 weeks ended 2 April 2021 (2020: £nil).

2. Operating Expenses

For the period	52 weeks to 2 April 2021 £m	53 weeks to 3 April 2020 £m
Selling and distribution costs	**422.9**	436.0
	422.9	436.0
Administrative expenses, before non-underlying items	**118.9**	86.5
Non-underlying administrative expenses (see note 5)	**35.0**	34.2
	153.9	120.7
	576.8	556.7

3. Operating Profit

For the period	52 weeks to 2 April 2021 £m	53 weeks to 3 April 2020 £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 leases of low-value assets	**0.7**	0.6
Expenses relating to short term leases	**5.6**	2.5
Rentals receivable under operating leases	**(2.7)**	(3.0)
Landlord surrender premiums	**0.1**	(0.6)
Loss on disposal of property, plant and equipment and intangibles	**1.7**	2.8
Amortisation of intangible assets	**12.9**	11.4
Amortisation of right-of-use assets	**69.6**	73.6
Depreciation of:		
– owned property, plant and equipment	**21.0**	24.3
Impairment of:		
– owned property, plant and equipment	**2.8**	5.4
– impairment of right-of-use assets	**12.2**	9.4
Trade receivables impairment	**0.1**	0.2
Staff costs (see Note 4)	**299.6**	256.2
Cost of inventories consumed in cost of sales	**629.1**	563.8

The total fees payable by the Group to BDO LLP and their associates during the period was £0.6m (2020: £0.6m), in respect of the services detailed below:

For the period	52 weeks to 2 April 2021 £000	53 weeks to 3 April 2020 £000
Fees payable for the audit of the Company’s accounts	**43.0**	43.0
Fees payable to BDO LLP and their associates in respect of:		
The audit of the Company’s subsidiary undertakings, pursuant to legislation	**447.0**	487.0
Audit-related assurance services	**78.0**	55.0
Other	**11.0**	–
	579.0	585.0

Notes to the Financial Statements

4. Staff Costs

For the period	52 weeks to 2 April 2021 £m	53 weeks to 3 April 2020 £m
The aggregated remuneration of all employees, including Directors, comprised:		
Wages and salaries	**262.3**	232.1
Redundancies included in non-underlying items	**5.9**	0.6
Social security costs	**19.2**	17.0
Equity settled share-based payment transactions (Note 24)	**6.4**	1.1
Contributions to defined contribution plans (Note 26)	**5.8**	5.4
	299.6	256.2

For the period	Number	Number
Average number of persons employed by the Group, including Directors, during the period:		
Stores/Autocentres	**9,635**	9,437
Central warehousing	**642**	595
Support Centre	**1,009**	975
	11,286	11,007

Furlough payments of £10.5m were received during the period, these were subsequently repaid on the basis of improved trading results.

Key Management Compensation

For the period	52 weeks to 2 April 2021 £m	53 weeks to 3 April 2020 £m
Salaries and short-term benefits	**6.4**	3.1
Compensation for loss of office	**0.3**	–
Social security costs	**0.6**	0.5
Pensions	**0.3**	0.3
Share-based payment charge	**3.5**	–
	11.1	3.9

Key management compensation includes the emoluments of the Board of Directors (including Non-Executive Directors) and the emoluments of the **Halfords** Limited and **Halfords** Autocentres management boards.

Full details of the Directors' remuneration and interests are set out in the audited tables in the Directors' Remuneration Report on pages 126 to 135 which form part of these financial statements.

5. Non-underlying Items

For the period	52 weeks to 2 April 2021 £m	53 weeks to 3 April 2020 £m
Non-underlying operating expenses:		
Organisational restructure costs (a)	**5.9**	2.8
Group-wide strategic review (b)	**–**	1.0
Closure costs (c)	**26.0**	26.8
Acquisition and investment-related fees (d)	**0.6**	1.9
One-off claims (e)	**2.9**	0.8
Impairment of right-of-use asset (f)	**(0.4)**	0.9
Non-underlying items before tax	**35.0**	34.2
Tax on non-underlying items (g)	**(6.1)**	(5.0)
Non-underlying items after tax	**28.9**	29.2

a. In the current and prior period separate and unrelated organisational restructuring activities were undertaken.

Current period costs comprised:

- Costs relating to a strategic redesign of our instore operating model undertaken to better meet our customers' expectations and deliver a consistent shopping experience across our estate. Redundancy costs of £5.9m were incurred to transition to the new operating model. These costs have materially been spent during the year.

5. Non-underlying Items continued

Prior period costs comprised:

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

b. In the prior period costs were incurred in preparing and implementing the new Group strategy.

- £0.4m of external consultant costs; and
- £0.6m of store labour costs, point of sale equipment and other associated costs in completing the cycling space relay across the store estate.

c. Of the closure costs £28.5m represents costs associated with the closure of a number of stores and garages following a strategic review of the profitability of the physical estate. The costs mostly relate to the impairment of right-of-use assets (£12.2m), tangible assets and ongoing onerous commitments under the lease agreements and other costs associated with the property exits.

Closure costs in the prior period represented costs associated with the closure of the operations of Cycle Republic and the Boardman Performance Centre ("Cycle Republic") following a strategic review of the Group's cycling businesses. The costs mostly relate to the impairment of right-of-use assets, intangible assets, tangible assets and inventories. £2.5m of these costs have been reversed during the year as the Group continues to negotiate lease disposals and was able to release stock provisions previously in place (£1.8m).

d. In the current and prior period costs were incurred in relation to the investment in Universal Tyres, McConechy's Tyre Services and Tyres On The Drive.

- In FY21, £0.6m relating to professional fees in respect of the acquisition of Universal Tyre Services;
- Tyres On The Drive acquisition costs comprised of £1.0m (FY20) principally relating to the costs of dual running **Halfords** Mobile Expert and Tyres on The Drive, as well as the write off of sales income due from Tyres On the Drive in respect of **Halfords** Mobile Expert prior to acquisition; and
- £0.9m (FY20) relating to professional fees in respect of the acquisition of McConechy's Tyres Services

e. During the prior year, the Group incurred £0.2m in settling a court case. In addition, a provision of £0.6m was created in relation to the HMRC audit relating to the national minimum wage. The Group has continued to work with HMRC and external advisors during FY21 and a full data validation exercise is underway to determine the required Notice of Underpayment. The exercise is in progress and based on information available to date and the Group's assessment of a range of potential outcomes, management has increased the provision to £3.4m which represents management's best estimate of the value of underpayments and the associated penalty charge.

f. In light of the ongoing COVID-19 pandemic, the Group revised future cash flow projections for stores and garages. As a result, in FY20 £0.9m incremental impairment has been recognised 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. This charge is directly attributable to impairment due to COVID-19 and relates primarily to the right-of-use asset value. During the year, £0.4m of this impairment has been reversed as the stores and garages have returned to a profitable position.

g. The tax credit of £6.1m represents a tax rate of 17.4% applied to non-underlying items. The prior period represents a tax credit at 14.6% applied to non-underlying items.

6. Finance Income and Costs

Recognised in profit or loss for the period	**52 weeks to 2 April 2021 £m**	53 weeks to 3 April 2020 £m
Finance costs:		
Bank borrowings	**(2.5)**	(1.6)
Amortisation of issue costs on loans	**(1.1)**	(0.4)
Commitment and guarantee fees	**(1.1)**	(0.6)
Other interest payable	**(0.3)**	–
Interest payable on lease liabilities	**(10.0)**	(11.3)
Finance costs	**(15.0)**	(13.9)
Finance income:		
Bank and similar interest	**–**	0.3
Finance income	**–**	0.3
Net finance costs	**(15.0)**	(13.6)

Notes to the Financial Statements

7. Taxation

For the period	52 weeks to 2 April 2021 £m	53 weeks to 3 April 2020 £m
Current taxation		
UK corporation tax charge for the period	**16.9**	5.4
Adjustment in respect of prior periods	**(1.0)**	(0.5)
	15.9	4.9
Deferred taxation		
Origination and reversal of temporary differences	**(4.7)**	(1.5)
Adjustment in respect of prior periods	**0.1**	(1.5)
	(4.6)	(3.0)
Total tax charge for the period	**11.3**	1.9

The tax charge is reconciled with the standard rate of UK corporation tax as follows:

For the period	52 weeks to 2 April 2021 £m	53 weeks to 3 April 2020 £m
Profit before tax	**64.5**	19.4
UK corporation tax at standard rate of 19% (2020: 19%)	**12.3**	3.7
Factors affecting the charge for the period:		
Depreciation on expenditure not eligible for tax relief	**0.9**	0.5
Employee share options	**(1.3)**	-
Other disallowable expenses	**0.6**	0.8
Adjustment in respect of prior periods	**(0.9)**	(1.9)
Impact of overseas tax rates	**(0.3)**	(0.3)
Impact of change in tax rate on deferred tax balance	**–**	(0.9)
Total tax charge for the period	**11.3**	1.9

The March 2021 Budget announced a further increase to the main rate of corporation tax to 25% from 1 April 2023. This rate has not been substantively enacted at the balance sheet date, as result deferred tax balances as at 2 April 2021 continue to be measured at 19%. If all of the deferred tax was to reverse at the amended rate the impact to the closing deferred tax position would be to increase the deferred tax asset by £3.9m.

The effective tax rate of 17.5% (2020: 9.7%) is lower than the UK corporation tax rate principally due to the impact of deferred tax on accounting for share options and adjustments in respect of provisions held in respect of prior periods.

The tax charge for the period was £11.3m (2020: £1.9m), including a £6.1m credit (2020: £5.0m credit) in respect of tax on non-underlying items.

An income tax credit of £1.6m (2020: £0.7m charge) on other comprehensive income relates to the movement in fair valuing forward currency contracts outstanding at the year end. No other items within other comprehensive income have a tax impact.

The Group engages openly and proactively with tax authorities both in the UK and internationally, where it trades and sources products, and is considered low risk by HM Revenue & Customs ("HMRC"). The Company is fully committed to complying with all of its tax payment and reporting obligations.

In this period, the Group's contribution from both taxes paid and collected exceeded £170m (2020: £208m) with the main taxes including corporation tax of £10.8m (2020: £16.3m), net VAT of £97.4m (2020: £101.4m), employment taxes of £61.2m (2020: £54.3m) and business rates of £0.9m (2020: £36.3m).

8. Dividends

For the period	52 weeks to 2 April 2021 £m	53 weeks to 3 April 2020 £m
Equity – ordinary shares		
Final for the 52 weeks to 3 April 2020 – (52 weeks to 29 March 2019: 12.39p)	–	24.4
Interim for the 52 weeks to 2 April 2021 – (53 weeks to 3 April 2020: 6.18p)	–	12.2
	–	36.6

In addition, the Directors are proposing a final dividend of £9.9m at 5.0p per share (2020: £nil) in respect of the financial period ended 2 April 2021.

9. Earnings Per Share

Basic earnings per share are calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. The weighted average number of shares excludes shares held by an Employee Benefit Trust (see Note 23) and has been adjusted for the issue/purchase of shares during the period.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the 52 weeks to 2 April 2021.

The Group has also chosen to present an alternative earnings per share measure, underlying earnings per share, with profit adjusted for non-underlying items because it better reflects the Group's underlying performance. This measure is defined on page 201.

For the period	52 weeks to 2 April 2021 Number of shares m	53 weeks to 3 April 2020 Number of shares m
Weighted average number of shares in issue	199.1	199.1
Less: shares held by the Employee Benefit Trust (weighted average)	(2.0)	(2.1)
Weighted average number of shares for calculating basic earnings per share	197.1	197.0
Weighted average number of dilutive shares	4.9	3.3
Weighted average number of shares for calculating diluted earnings per share	202.0	200.3

For the period	52 weeks to 2 April 2021 £m	53 weeks to 3 April 2020 £m
Basic earnings attributable to equity shareholders	53.2	17.5
Non-underlying items (see Note 5):		
Operating expenses	35.0	34.2
Tax on non-underlying items	(6.1)	(5.0)
Underlying earnings before non-underlying items	82.1	46.7

Earnings per share is calculated as follows:

For the period	52 weeks to 2 April 2021	53 weeks to 3 April 2020
Basic earnings per ordinary share	27.1p	8.9p
Diluted earnings per ordinary share	26.4p	8.7p
Basic underlying earnings per ordinary share	41.7p	23.7p
Diluted underlying earnings per ordinary share	40.7p	23.3p

Notes to the Financial Statements

10. Acquisition of Subsidiaries

Universal

On 18 March 2021, the Group acquired 100% of the issued share capital of The Universal Tyre Company (Deptford) Limited and its subsidiary companies (see page 193) ("Universal") for a cash consideration of £14.0m (excluding transaction costs) and deferred consideration of £1.0m. The acquired businesses comprise a number of garages and a fleet of vans which provide support for commercial customers, based in the South East of England. The principal reason for the acquisition was to build on the commercial fleet customer base and expand presence in the South and South East of England.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows (fair value is used apart from leases, contingent liabilities and income taxes).

	Book value £m	Fair value adjustment £m	IFRS 16 adjustment £m	Final fair value £m
Universal net assets at the acquisition date				
Intangible assets	0.5	2.1	–	2.6
Tangible assets	6.0	1.4	2.7	10.1
Inventories	3.2	–	–	3.2
Assets held for sale	0.4	–	–	0.4
Trade and other receivables	5.7	–	–	5.7
Cash	4.2	–	–	4.2
Trade and other payables	(6.6)	(0.4)	(2.7)	(9.7)
Other taxation and social security	(1.0)	–	–	(1.0)
Borrowings	(1.7)	–	–	(1.7)
Current tax liabilities	(0.2)	–	–	(0.2)
Deferred tax liability	(0.2)	(0.5)	–	(0.7)
Total	**10.3**	**2.6**	–	**12.9**

Goodwill

Goodwill was recognised as a result of the acquisition as follows:

	£m
Total cash consideration	14.0
Total deferred consideration	1.0
Less fair value of identifiable (assets)/liabilities	(12.9)
Goodwill	2.1
Intangible Assets:	
Customer relationships	1.6
Other	0.2
Brand names	0.8
Total	**2.6**

None of the goodwill acquired is expected to be deductible for income tax purposes. The goodwill constitutes value of locational benefits giving **Halfords** ability to expand growth within the South and South East of England and also increase presence in the commercial fleet marketplace.

The Universal businesses contributed £1.4m revenue and a profit of £0.1m to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition of the Universal businesses had been completed on the first day of the financial year, Group revenues for the period would have been £30.0m higher and Group profit before tax would have been £1.0m higher (before amortisation of intangible assets arising on consolidation £nil).

Acquisition costs of £0.6m arose as a result of the transaction. These have been recognised as part of non-underlying costs in the consolidated income statement.

11. Intangible Assets

	Brand names and trademarks £m	Customer relationships £m	Supplier relationships £m	Favourable leases £m	Computer software £m	Goodwill £m	Total £m
Cost							
At 29 March 2019	9.8	14.9	7.8	2.3	67.6	364.7	467.1
Additions	0.7	2.0	–	–	12.5	7.6	22.8
Reclassification to right-of-use assets	–	–	–	(2.3)	–	–	(2.3)
Disposals	–	–	–	–	(2.1)	–	(2.0)
At 3 April 2020	10.5	16.9	7.8	–	78.0	372.3	485.5
Additions	1.0	–	1.6	–	11.8	2.1	16.5
Disposals	–	–	–	–	(2.1)	–	(2.1)
At 2 April 2021	**11.5**	**16.9**	**9.4**	–	**87.7**	**374.4**	**499.9**
Amortisation and impairment							
At 29 March 2019	3.6	11.3	1.4	0.8	40.9	21.7	79.7
Charge for the period	0.7	0.7	0.5	0.1	9.4	–	11.4
Reclassification to right-of-use assets	–	–	–	(0.9)	–	–	(0.9)
Disposals	–	–	–	–	(0.4)	–	(0.4)
At 3 April 2020	4.3	12.0	1.9	–	49.9	21.7	89.8
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**
Net book value at 2 April 2021	**6.4**	**4.2**	**7.0**	–	**28.0**	**352.7**	**398.3**
Net book value at 3 April 2020	6.2	4.9	5.9	–	28.1	350.6	395.7

No intangible assets are held as security for external borrowings.

Goodwill is allocated to two groups of cash-generating units (CGU's), 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 cash-generating unit.

2) Car Servicing

Goodwill of £69.7m arose on the acquisition of Nationwide Autocentres on 17 February 2010 and is allocated to the Car Servicing segment. The goodwill relates to a portfolio of centres within the UK which management monitors on an overall basis as a group of cash-generating units being Car Servicing.

During the current period Autocentres acquired The Universal Tyre Company (Deptford) Limited with goodwill of £2.1m. This acquisition has been 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 cash-generating unit.

During the prior period Autocentres acquired McConechy's Tyre Service Limited with goodwill of £6.9m and Tyres on the Drive with goodwill of £0.7m. These acquisitions were allocated to the Car Servicing segment. The goodwill relates to a portfolio of garages within Scotland which management monitors on an overall basis as part of the Car Servicing cash-generating unit.

The goodwill arising on the acquisition of the Nationwide Autocentres is attributable to a) future income to be generated from new retail, fleet customer contracts and related relationships, b) the workforce, c) the value of immaterial other intangible assets, and d) operating synergies. The goodwill on acquisition of the Boardman Bikes is attributable to a) operating synergies and increased control of operations, b) the value of immaterial other intangible assets, and c) future income to be generated from new retail customer contracts and related relationships. The goodwill on acquisition of Tredz and Wheelies is attributable to a) assembled workforce and b) future expansion and growth opportunities.

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount of goodwill is determined based on "value-in-use" calculations for each of the two groups of cash-generating units, being Retail and Car Servicing. This is the lowest level within the Group at which the goodwill is monitored for internal management purposes, which is not higher than the Group's operating segments as reported in Note 1.

Notes to the Financial Statements

11. Intangible Assets (continued)

This requires estimation of the present value of future cash flows expected to arise from the continuing operation of the CGU. Cash flow projections are based on financial budgets approved by management covering a five-year period, which are reviewed by the Board. Budgets are based on both past performance and expectations for future market development, linked to the strategy of the Group as set out in the Strategic Report section in these financial statements.

The five-year plan assumes like for like sales growth to remain at the same level as that applied within the FY22 going concern projections within the Retail Motoring Markets, a small growth on the FY22 going concern projections in the Autocentres (4%) and McConechys (1%) market due to share gains and a stronger growth in the **Halfords** Mobile Expert (8.8%) market as we scale the number of vans from 143 to at least 200. Retail Cycling has a single digit growth rate assumed as we expect infrastructure investments by the Government suggesting strong growth rate in the market. Forecasts prepared have been risk adjusted to recognise ongoing uncertainty caused by COVID-19.

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 as required. The discount rates used are shown below:

		Retail		Car Servicing	
	Notes	**2021**	2020	**2021**	2020
Discount rate	1	**9.9%**	10.6%	**9.9%**	10.6%
Growth rate	2	**1.0%**	1.0%	**1.0%**	1.0%

Goodwill for the retail CGU was £273.3m (2020: £273.3m) and for the car servicing CGU was £79.4m (2020: £77.3m).

Notes:

1. Pre-tax discount rate applied to the cash flow projections.
2. Growth rate used to extrapolate cash flows beyond the five-year budget period.

Sensitivity analysis over the key assumptions in the value-in-use calculations has been undertaken inclusive of considerations of the ongoing effect of COVID-19. Modelling included looking at the effect of a 1% decrease in terminal growth rate and a 1% increase in the discount rate. Both separately and combined, 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. Management did not believe this percentage movement was likely. Results of this sensitivity analysis are shown below:

	Retail 2021 £m	Car Servicing 2021 £m
Original headroom	**365.0**	**162.0**
Headroom using a discount rate increased by 1%	**247.0**	**121.0**
Headroom using 0% long term growth rate	**212.0**	**117.0**
Headroom combining -1% long term growth rate and +1% discount rate	**132.0**	**87.0**

Further modelling was also undertaken to review the point headroom would be reduced to £nil. For the carrying amount and recoverable amount to be equal within Retail cash generating unit, EBIT (pre-IFRS 16) would need to decrease by 43%, the pre-tax discount rate would need to increase by 3.2% and the long term growth rate would need to decrease by 3% (each sensitivity applied individually). For the carrying amount and recoverable amount to be equal within Car Servicing cash generating unit, EBIT (pre-IFRS 16) would need to decrease by 55%, the pre-tax discount rate would need to increase by 8.6% the long term growth rate would need to decrease by 5.7% (each sensitivity applied individually).

Based on the analysis summarised above the Directors were satisfied that no reasonably possible change in key assumptions would lead to an impairment, 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 29 March 2019	80.4	240.3	320.7
Reclassification to right-of-use assets	(13.7)	(3.5)	(17.2)
Additions	3.3	20.7	24.0
Disposals	(0.4)	(2.2)	(2.6)
At 3 April 2020	69.6	255.3	324.9
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**
Depreciation and impairment			
At 29 March 2019	50.9	172.5	223.4
Reclassification to right-of-use assets	(7.5)	(1.6)	(9.1)
Depreciation for the period	4.2	20.1	24.3
Impairment for the period	0.6	4.8	5.4
Disposals	(0.4)	(1.8)	(2.2)
At 3 April 2020	47.8	194.0	241.8
Depreciation for the period	4.2	16.8	21.0
Impairment for the period	0.4	2.4	2.8
Disposals	(0.6)	(2.1)	(2.7)
At 2 April 2021	**51.8**	**211.1**	**262.9**
Net book value at 2 April 2021	**20.8**	**60.5**	**81.3**
Net book value at 3 April 2020	21.8	61.3	83.1

No fixed assets are held as security for external borrowings.

The impairment charge for the period of £2.8m mostly relates to tangible assets written off as part of the closure costs disclosed within non-underlying items (note 5).

13. Assets held for sale

	2 April 2021 £m	3 April 2020 £m
Freehold land and buildings	**6.0**	–
Total	**6.0**	–

Freehold land and buildings are stated at their carrying value. It relates to seven buildings acquired as part of the acquisition of The Universal Tyre Services (Deptford) Limited. Of the properties classified as held for sale six have been sold and leased back by the Group since the year end on lease terms of 15 years with a 10 year break.

Notes to the Financial Statements

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 the balance sheet

Right-of-Use Assets

	Land and buildings £m	Equipment £m	Total £m
At 30 March 2019	388.5	7.8	396.3
Reclassification from intangible assets	2.4	–	2.4
Additions on acquisition of subsidiary	11.1	0.3	11.4
Additions to right-of-use assets	10.0	1.9	11.9
Amortisation charge for the year	(70.2)	(3.4)	(73.6)
Effect of modification of lease	11.6	–	11.6
Derecognition of right-of-use assets	–	(0.7)	(0.7)
Impairment	(9.4)	–	(9.4)
At 3 April 2020	**344.0**	**5.9**	**349.9**
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**

The impairment charge for the period of £12.2m (2020: £9.4m) relates to the impairment of right-of-use assets in relation to the strategic project to close loss-making stores where a lease obligation still exists.

Lease Liabilities

	Land and buildings £m	Equipment £m	Total £m
At 30 March 2019	448.6	8.2	456.8
Additions on acquisition of subsidiary	11.0	0.2	11.2
Additions to lease liabilities	10.5	1.8	12.3
Interest expense	11.1	0.2	11.3
Effect of modification to lease	11.7	–	11.7
Lease payments	(83.8)	(4.2)	(88.0)
Foreign exchange movements	0.7	–	0.7
At 3 April 2020	**409.8**	**6.2**	**416.0**
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**

Carrying value of lease liabilities included in the statement of financial position	**2 April 2021 £m**	3 April 2020 £m
Current liabilities	**63.4**	83.2
Non-current liabilities	**280.9**	332.8

14. Leases continued

Lease liabilities	2 April 2021 £m	3 April 2020 £m
Maturity analysis – contractual undiscounted cash flows		
Less than one year	**71.2**	92.9
Between one and two years	**68.8**	76.5
Between two and three years	**64.4**	65.1
Between three and four years	**55.1**	60.4
Between four and five years	**43.2**	51.6
Between five and six years	**28.4**	41.9
Between six and seven years	**19.3**	27.3
Between seven and eight years	**12.1**	18.2
Between eight and nine years	**5.3**	11.1
Between nine and ten years	**3.5**	4.3
After ten years	**3.5**	5.9
Total contractual cash flows	**374.8**	455.2

ii) Amounts recognised in the Consolidated Income Statement

	Land and buildings £m	Equipment £m	Total £m
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**
53 weeks ended 3 April 2020			
Amortisation charge on right-of-use assets	70.2	3.4	73.6
Interest on lease liabilities	11.1	0.2	11.3
Expenses relating to short-term leases	2.5	–	2.5
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	–	0.6	0.6

iii) Amounts recognised in Statement of Cash Flows

The total cash outflow for leases for the period ended 2 April 2021 was £95.9m (2020: £87.7m).

15. Inventories

	2021 £m	2020 £m
Finished goods for resale	**143.9**	173.0

Finished goods inventories include £14.9m (2020: £18.0m) of provisions to carry inventories at net realisable value where such value is lower than cost. During the period £1.8m of inventory provisions were released (no reversals in the prior period).

During the period £3.0m was recognised as an expense in respect of the write-down of inventories (2020: £6.9m) 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 £629.1m (2020: £563.8m).

Inventories at 2 April 2021 include a right to recover returned goods amounting to £2.1m (2020: £1.9m). These are measured by reference to the former carrying amount of the sold inventories.

An amount of £2.3m (FY20: £0.3m deduction) relating to supplier income was recognised as an increase in cost of sales in the period and the balance included in the year end provision is £5.6m (FY20: £7.9m).

Notes to the Financial Statements

16. Trade and Other Receivables

	2021 £m	2020 £m
Falling due within one year:		
Trade receivables	**29.5**	16.6
Other receivables	**27.9**	14.3
Prepayments and accrued income	**28.7**	22.6
	86.1	53.5

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 2 April 2021 includes £7.5m (2020: £7.1m) relating to supplier income.

17. Cash and Cash Equivalents

	2021 £m	2020 £m
Cash at bank and in hand	**67.2**	115.5

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. £6.4m (2020: £5.1m) of the Group's cash and cash equivalents included in the balance sheet and the cash flow statement, is held by the trustee of the Group's employee benefit trust in relation to the share scheme for employees (£5.1m) and 'Here to Help' fund (£1.3m). Therefore, these funds are restricted and are not available to circulate within the Group on demand.

18. Borrowings

	2021 £m	2020 £m
Current		
Unsecured bank overdraft	**0.2**	0.2
Lease liabilities (see note 14)	**63.4**	83.2
	63.6	83.4
Non-current		
Unsecured bank loan and other borrowings[1]	**–**	179.1
Lease liabilities (see note 14)	**280.9**	332.8
	280.9	511.9

1. The above borrowings are stated net of unamortised issue costs of £1.6m (2020: £0.9m).

The Group's borrowing facility was extended in the year. The previous facility, a five-year £200m revolving credit facility began on 4 September 2017 and would have expired on 3 September 2022. A new facility was set up from 4 December 2020 for three years, with two options to extend by a further year. The new facility is a £180m revolving credit facility. 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.

Significant headroom exists on both financial covenants contained within the banking agreement.

Covenant	FY21	FY20
Interest payable to EBITDAR >1.5	**2.5**	2.1
Net borrowings to EBITDA <3.0	**(0.4)**	0.8

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:

	2021 £m	2020 £m
Expiring within one year	**20.0**	20.0
Expiring between one and two years	**–**	–
Expiring between two and five years	**160.0**	–
	180.0	20.0

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 (2020: £nil) relates to the Group's revolving credit facility. All these facilities incurred commitment fees at market rates.

19. Trade and Other Payables

	2021 £m	2020 £m
Current liabilities		
Trade payables	**131.7**	106.7
Other taxation and social security payable	**34.5**	33.2
Other payables	**21.6**	12.3
Accruals and other deferred income	**82.4**	64.8
	270.2	217.0
Non-current liabilities		
Accruals and other deferred income	**3.3**	1.9
	3.3	1.9

Trade and other payables at 2 April 2021 includes £7.9m (2020: £3.4m) of deferred income in relation to product warranties and service and repair plans; of which £4.6m (2020: £1.5m) is in current liabilities and £3.3m (2020: £1.9m) is in non-current liabilities.

20. Provisions

	Property related £m	Other trading £m	Other £m	Total £m
At 3 April 2020	6.5	7.3	–	13.8
Charged during the period	14.6	11.3	3.4	29.3
Reclassification from accruals*	9.0	–	–	9.0
Utilised during the period	(2.5)	(4.7)	–	(7.2)
Released during the period	(0.5)	(4.9)	–	(5.4)
At 2 April 2021	**27.1**	**9.0**	**3.4**	**39.5**
Analysed as:				
Current liabilities	13.6	7.5	3.4	24.5
Non-current liabilities	13.5	1.5	–	15.0

*The reclassification corrects an error in the presentation of the Cycle Republic closure costs provision as at 3 April 2020. £9.0m has been reclassified during the year from accruals and other deferred income to provisions, which mostly relates to costs associated with property leases that have become onerous as a result of the closures and will be utilised over the residual remaining lease term. The average remaining lease term was 4.9 years.

The reclassification has no effect on net assets but serves to reduce current liabilities, and increase non-current liabilities by £5.1m resulting in an increase to net current assets of £5.1m owing to the ageing of the balance.

Management considered a number of factors in assessing whether this classification was material and took into account that it did not affect net assets, the income statement, covenants, ratios used to evaluate the entity's financial position and results, and does not affect other information included in the entity's Annual report that may reasonably be expected to influence the economic decisions of the users of the financial statements. It was therefore concluded that the misclassification was not considered material.

Property-related provisions consist of costs 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 3.9 years.

Other trading provisions comprise a sales returns provision and an employer/product liability provision (of which £1.5m is expected to be realised in >12 months) and provision for unused gift vouchers in issue.

Other provisions comprise an amount payable to HMRC in relation to the national minimum wage investigation (see estimates and judgements accounting policy for further details).

Notes to the Financial Statements

21. Deferred Tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon in the current and prior reporting periods.

	Property-related items £m	Short-term timing differences £m	Share-based payments £m	Intangible assets £m	Total £m
At 29 March 2019	3.3	(0.9)	0.4	(2.9)	(0.1)
Adjustment on adoption of IFRS 16	6.2	–	–	–	6.2
Acquisition of subsidiary	(0.2)	–	–	(0.7)	(0.9)
Credit/(charge) to the income statement	2.1	1.0	–	(0.1)	3.0
Charge to other comprehensive income	–	(0.7)	(0.2)	–	(0.9)
At 3 April 2020	11.4	(0.6)	0.2	(3.7)	7.3
Acquisition of subsidiary	(0.2)	–	–	(0.5)	(0.7)
Credit/(charge) to the income statement	–	0.7	2.6	0.4	3.7
Credit to other comprehensive income	–	1.6	0.4	–	2.0
At 2 April 2021	**11.2**	**1.7**	**3.2**	**(3.8)**	**12.3**

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:

	52 weeks to 2 April 2021	53 weeks to 3 April 2020
Deferred tax assets	**16.1**	11.6
Deferred tax liabilities	**(3.8)**	(4.3)
	12.3	7.3

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.

22. Financial Instruments and Related Disclosures continued

b. Accounting Classifications and Fair Value

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

2 April 2021	Note	Carrying amount 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		0.6	–	–	–	–	0.6
		0.6	–	–	–	–	0.6
Financial assets not measured at fair value							
Trade and other receivables*	16	–	–	–	57.4	–	57.4
Current tax assets		–	–	–	2.5	–	2.5
Cash and cash equivalents	17	–	–	–	67.2	–	67.2
		–	–	–	127.1	–	127.1
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**	19	–	–	–	–	(209.4)	(209.4)
		–	–	–	–	(553.9)	(553.9)

* Prepayments and accrued income of £28.7m are not included as a financial asset.

** 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 April 2020	Note	Carrying amount 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		8.7	–	–	–	–	8.7
		8.7	–	–	–	–	8.7
Financial assets not measured at fair value							
Trade and other receivables*	16	–	–	–	30.9	–	30.9
Current tax liabilities		–	–	–	8.2	–	8.2
Cash and cash equivalents	17	–	–	–	115.5	–	115.5
		–	–	–	154.6	–	154.6
Financial liabilities measured at fair value							
Forward exchange contracts used for hedging		(1.1)	–	–	–	–	(1.1)
		(1.1)	–	–	–	–	(1.1)
Financial liabilities not measured at fair value							
Borrowings	18	–	–	–	–	(179.3)	(179.3)
Lease liabilities	18	–	–	–	–	(416.0)	(416.0)
Trade and other payables**	19	–	–	–	–	(106.7)	(106.7)
		–	–	–	–	(702.0)	(702.0)

* Prepayments and accrued income of £22.6m are not included as a financial asset.

** Other taxation and social security payables of £33.2m, deferred income and accruals of £66.7m and other payables of £12.3m are not included as a financial liability.

Notes to the Financial Statements

22. Financial Instruments and Related Disclosures continued

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 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 £127.7m (2020: £163.3m).

Impairment losses on financial assets recognised in profit or loss were as follows:

£m	**52 weeks to 2 April 2021**	53 weeks to 3 April 2020
Impairment loss on trade and other receivables	**0.1**	0.2
Impairment loss on cash and cash equivalents	**–**	–
	0.1	0.2

22. Financial Instruments and Related Disclosures continued

Trade receivables

The Group does not have any individually significant customers and so no significant concentration of credit risk.

The majority of the Group's sales are paid in cash at point of sale which further limits the Group's exposure. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Board of Directors has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment terms and conditions are offered. The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of one month for customers. All trade receivables are based in the United Kingdom.

The Group has taken into account the historic credit losses incurred on trade receivables and adjusted it for forward-looking estimates. The movement in the allowance for impairment in respect of trade receivables during the year was £0.1m.

Cash and cash equivalents

The Group held cash and cash equivalents of £67.2m at 2 April 2021 (2020: £115.5m). 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 (2020: £nil).

Derivatives

The derivatives are entered into with bank and financial institutions counterparties which are designated at least BBB by Standard & Poor and Fitch and Baa3 by Moody's.

iii) Market risk

The Group's exposure to market risk predominantly relates to interest, currency and commodity risk. These are discussed further below. Commodity risk is due to the Group's products being manufactured from metals and other raw materials, subject to price fluctuation. The Group mitigates this risk through negotiating fixed purchase costs or maintaining flexibility over the specification of finished products produced by its supply chain to meet fluctuations.

Foreign currency risk

The Group has a significant transaction exposure with increasing direct-sourced purchases from its suppliers in the Far East, with most of the trade being in US dollars. The Group's policy is to manage the foreign exchange transaction exposures of the business to ensure the actual costs do not exceed the budget costs by more than 10% (excluding increases in the base cost of the product).

The Group does not hedge either economic exposure or the translation exposure arising from the profits, assets and liabilities of non-sterling businesses whilst they remain less significant.

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 2 April 2021, the foreign exchange management policy was to hedge via forward contract purchases between 75% and 100% of the material foreign exchange purchase 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 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**

At 3 April 2020, 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)	57.1	28.3	15.3
Average GBP:USD forward contract rate	1.3084	1.3060	1.3097

Notes to the Financial Statements

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 2 April 2021		
Inventory purchases	**3.1**	**–**
At 3 April 2020		
Inventory purchases	5.3	–

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	2 April 2021		3 April 2020	
	USD £m	**Other £m**	USD £m	Other £m
Cash and cash equivalents	**–**	**14.1**	2.4	2.8
Trade and other payables	**(35.1)**	**(1.6)**	(44.2)	(0.6)
	(35.1)	**12.5**	(41.8)	2.2

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.

	2021 Increase/ (decrease) in equity £m	2020 Increase/ (decrease) in equity £m
10% appreciation of the US dollar	**22.0**	17.6
10% depreciation of the US dollar	**(18.0)**	(14.4)

A strengthening/weakening of sterling, as indicated, against the USD at 2 April 2021 would have increased/(decreased) equity and profit or loss by the amounts shown above. This analysis is based on foreign currency exchange rate variances that the Group considered to be 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 relates to the fair value movements on the Group's forward contracts that are used to hedge future stock purchases.

Interest rate risk

The Group's policy aims to manage the interest cost of the Group within the constraints of the Business Plan and its financial covenants. The Group's borrowings are currently subject to floating rate interest rates and the Group will continue to monitor movements in the swap market.

If interest rates on floating rate borrowings (i.e. cash and cash equivalents and bank borrowings which attract interest at floating rates) were to change by + or – 1% the impact on the results in the Income Statement and equity would be a decrease/increase of £0.8m (2020: £0.7m).

Interest rate movements on deposits, obligations under finance leases, trade payables, trade receivables, and other financial instruments do not present a material exposure to the Group's statement of financial position.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group manages capital by operating within a debt ratio, which is calculated as the ratio of net debt to underlying EBITDA pre IFRS 16. The Group was in a net cash position at the end of FY21 (2020: net debt ratio of 0.8:1).

Pension liability risk

The Group has no association with any defined-benefit pension scheme and therefore carries no deferred, current or future liabilities in respect of such a scheme. The Group operates a number of Group Personal Pension Plans for colleagues.

22. Financial Instruments and Related Disclosures continued

Liquidity risk

The Group ensures that it has sufficient cash or loan facilities to meet all its commitments when they fall due by ensuring that there is sufficient cash or working capital facilities to meet the cash requirements of the Group for the current Business Plan. The minimum liquidity level is currently set at £30m, such that under Treasury Policy the maximum drawings would be £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 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 Tax & Treasury reviews credit exposure on a daily basis.

The risk is measured through review of forecast liquidity each month by the Head of Tax & Treasury to determine whether there are sufficient credit facilities to meet forecast requirements, and through monitoring covenants on a regular basis to ensure there are no significant breaches, which would lead to an "Event of Default". Calculations are submitted biannually to the Group banking agent. There have been no breaches of covenants during the reported periods.

The contractual maturities of lease liabilities are disclosed in Note 14. All trade and other payables are due within one year.

The contractual maturity of bank borrowings, including estimated interest payments and excluding the impact of netting agreements is shown below:

	2 April 2021 Bank borrowings £m	3 April 2020 Bank borrowings £m
Due less than one year	**–**	0.9
Expiring between one and two years	**–**	0.9
Expiring between two and five years	**–**	180.0
Expiring after five years	**–**	–
Contractual cash flows	**–**	181.8
Carrying amount	**–**	179.1

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 2 April 2021 (3 April 2020).

	2021 Receivables £m	**2021 Payables £m**	2020 Receivables £m	2020 Payables £m
Due less than one year	**33.3**	**(151.7)**	146.1	(90.7)
Due between one and two years	**7.2**	**(18.8)**	17.5	(6.4)
Contractual cash flows	**41.1**	**(170.5)**	163.6	(97.1)
Fair value of derivatives	**0.6**	**(6.3)**	8.7	(1.1)

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Notes to the Financial Statements

23. Capital and Reserves

Ordinary shares of 1p each:	2021 Number of shares	2021 £000	2020 Number of shares	2020 £000
Allotted, called up and fully paid	**199,116,632**	**1,991**	199,116,632	1,991

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

There has been no change in share premium, which has remained at £151.0m (2020: £151.0m).

In total the Company received proceeds of £Nil (2020: £Nil) from the exercise of share options. During the year the Company purchased £Nil (2020: £Nil) of its own shares.

Investment in Own Shares

At 2 April 2021 the Company held in Trust 1,637,101 (2020: 2,134,139) of its own shares with a nominal value of £16,371 (2020: £21,341). The Trust has waived any entitlement to the receipt of dividends in respect of its holding of the Company's ordinary shares. The market value of these shares at 2 April 2021 was £6.1m (2020: £1.4m). In the current period nil (2020: nil) were repurchased and transferred into the Trust, with nil (2020: nil) reissued on exercise of share options.

Other Reserves

Capital Redemption Reserve

The capital redemption reserve has arisen following the purchase by the Company of its own shares and comprises the amount by which the distributable profits were reduced on these transactions in accordance with the Companies Act 2006.

Hedging Reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

24. Share-based Payments

The Group has 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 £6.4m (2020: £1.0m).

1. Halfords Company Share Option Scheme

The CSOS was introduced in June 2004 and the Company has made annual grants up to and including 2016. Options were granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. The contractual life of an option is ten years.

Options granted before August 2013 became exercisable on the third anniversary of the date of grant, subject to the achievement of a three-year performance condition. For grants up to 150% of basic salary the options can only be exercised if the increase in earnings per share ("EPS") over the period is not less than the increase in the Retail Price Index ("RPI") plus 3.5% per year. In the case of grants in excess of 150% of basic salary, the excess can only be exercised in full if the increase is not less than RPI plus 10% per year. Exercise of an option is subject to continued employment.

Changes to the performance criteria of the CSOS scheme in relation to the awards granted from August 2013 onwards were made by the Remuneration Committee. These changes were made in order to create better alignment with the Group's three-year strategic priorities following the Moving Up A Gear programme. The awards are dependent on EBITDA performance and are only exercisable if EBITDA growth exceeds a compound annual growth rate of 2.5% over the three-year performance period, or a total growth rate of 8.4%. Exercise of an option is subject to continued employment.

The expected volatility is based on historical volatility of a peer group of companies since the IPO in June 2004. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds.

Options were valued using the Black–Scholes option-pricing models. No performance conditions were included in the fair value calculations.

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.

24. Share-based Payments continued

3. Halfords Sharesave Scheme ("SAYE")

The SAYE is open to all employees with eligible employment service. Options may be exercised under the scheme if the option holder completes their saving contract for a period of three years and then not more than six months thereafter. Special provisions allow early exercise in the case of death, injury, disability, redundancy, retirement or because the company or business which employs the option holder is transferred out of the Group, or in the event of a change in control, reconstruction or winding up of the Company.

Options were valued using the Black–Scholes option-pricing models.

4. Performance Share Plan

The introduction of a Performance Share Plan ("PSP") was approved at the Annual General Meeting in August 2005, awarding the Executive Directors and certain senior management conditional rights to receive shares. Annual schemes have been approved for each year from 2005.

For 2009 awards onwards, the Committee has recommended the reinvestment of dividends earned on award shares, such shares to vest in proportion to the vesting of the original award shares. The shares awarded under the Performance Share Plan ("PSP") in 2016 and 2017 earned final dividends of 12.03p per share and were reinvested in shares at a cost of £3.23 per share. Shares awarded in 2016, 2017 and 2018 under the PSP earned interim dividends of 6.18p per share and were reinvested in shares at a cost of £2.41 per share.

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 & 2019 awards the PSP performance criteria is weighted 50% towards Group EPS growth, 25% towards Group revenue growth and 25% towards Group Free Cash Flow. 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. In order to focus management the awards will be underpinned by the Remuneration Committee determining whether, in its opinion, the extent to which the performance conditions have been satisfied is a genuine reflection of the Company's underlying financial performance and has generated value for Company's shareholders over the performance period, and by a net debt to EBITDA ratio no greater than 1.5 throughout the three-year performance period.

For other senior participants conditions are based on the performance of the individual business units. The awards are weighted 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 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") one third 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 have two different performance period end dates: 29 March 2019 and 3 April 2020.

Nil cost options have been granted which can be exercised on the first anniversary and second anniversary of the grant date for the 2018 and 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.

Notes to the Financial Statements

24. Share-based Payments continued

For the period ended 2 April 2021

	CSOS		MSP		SAYE		PSP		RSP-SMP	
	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)
Outstanding at start of year	728	3.71	1,398	1.94	2,958	2.00	4,237	–	57	–
Granted	–	–	567	2.25	6,378	1.34	1,879	–	–	–
Shares representing dividends reinvested	–	–	–	–	–	–	–	–	–	–
Forfeited	–	–	–	–	(96)	1.44	–	–	–	–
Exercised	–	–	(149)	2.78	(51)	2.44	(868)	–	(57)	–
Lapsed	(38)	3.71	(139)	2.25	(1,942)	1.87	–	–	–	–
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		–		1.34-2.78		–		–	
Weighted average remaining contractual life (years)	2.3		8.5		2.6		1.8		–	

For the period ended 3 April 2020

	CSOS		MSP		SAYE		PSP		PSP	
	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)
Outstanding at start of year	2,363	3.63	713	2.73	2,996	2.71	2,262	–	323	–
Granted	–	–	746	1.25	2,937	1.8	2,161	–	–	–
Shares representing dividends reinvested	–	–	–	–	–	–	271	–	–	–
Forfeited	–	–	–	–	(12)	2.7	(134)	–	(9)	–
Exercised	–	–	–	–	–	–	–	–	–	–
Lapsed	(1,635)	3.38	(61)	0.34	(2,963)	2.2	(323)	–	(257)	–
Outstanding at end of year	728	3.71	1,398	1.94	2,958	2.0	4,237	–	57	–
Exercisable at end of year	–		–		–		–		–	
Exercise price range (£)	3.07-5.43		–		1.77-2.78				–	
Weighted average remaining contractual life (years)	3.3		8.8		2.6		1.8		–	

The following table gives the assumptions applied to the options granted in the respective periods shown:

	52 weeks to 2 April 2021		
Grant date	**MSP**	**SAYE**	**PSP**
Share price at grant date (£)	2.43	1.34	2.43
Exercise price (£)	–	1.07	–
Expected volatility	59.14%	53.02%	64.22%
Option life (years)	10	3	3
Expected life (years)	3	3.5	2.47
Risk free rate	–	–	–
Expected dividend yield	2.63%	3.99%	–
Probability of forfeiture	33%	38%	21%
Weighted average fair value of options granted (£)	2.25	0.6	2.43

24. Share-based Payments continued

	53 weeks to 3 April 2020		
Grant date	MSP	SAYE	PSP
Share price at grant date (£)	2.30/1.70	2.10	1.70
Exercise price (£)	–	1.77	–
Expected volatility	31.87%/29.7%	30.46%	30.11%
Option life (years)	10	3	3
Expected life (years)	3	3.5	2.53
Risk free rate	–	0.46%	–
Expected dividend yield	8.22%/10.86%	9.06%	–
Probability of forfeiture	33%	41%	39%
Weighted average fair value of options granted (£)	1.78/2.22	0.27	1.70

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

	2021	2020
	£m	£m
Capital expenditure: Contracted but not provided	**0.2**	1.2

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 £5.8m (2020: £5.4m).

In accordance with Government initiatives **Halfords** operates an automatic enrolment process with regards to its pension arrangements. Employees who are aged between 22 and state pension age, earn more than £10,000 a year, and work in the UK are automatically enrolled into the Group pension arrangement. Employees retain the right to withdraw from this pension arrangement, however election of this choice must be made.

27. Contingent Liabilities

The Group's banking arrangements include the facility for the bank to provide a number of guarantees in respect of liabilities owed by the Group during the course of its trading. In the event of any amount being immediately payable under the guarantee, the bank has the right to recover the sum in full from the Group. The total amount of guarantees in place at 2 April 2021 amounted to £1.5m (2020: £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.

28. Related Party Transactions

The Group's ultimate parent company is **Halfords** Group plc. A listing of all related undertakings is shown within the financial statements of the Company on pages 190 to 196.

Transactions with Key Management Personnel

The key management personnel of the Group comprise the Executive and Non-Executive Directors and the **Halfords** Limited and **Halfords** Autocentres management boards. The details of the remuneration, long-term incentive plans, shareholdings and share option entitlements of individual Directors are included in the audited tables of the Directors' Remuneration Report on pages 126 to 135. Key management compensation is disclosed in Note 4.

Directors of the Company control 0.11% 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

Following refinements to **Halfords** IFRS 16 reporting process, the consolidated statement of cash flows for the 53 weeks to 3 April 2020 was adjusted to reduce the cash outflow for capital payments on leases (in financing activities) by £11.3m and to reduce the working capital movements across other payables, receivables and provisions (in operating activities) by the same amount to exclude from these line items amounts that had been eliminated from the balance sheet for IFRS 16 reporting purposes and should have similarly been eliminated in the operating cash flow reconciliation. These adjustments have had no impact on the reported profit or net assets of the Group.

Company Balance Sheet

	Notes	2 April 2021 £m	3 April 2020 £m
Fixed assets			
Investments	4	**803.6**	22.2
Current assets			
Debtors: amounts falling due within one year	5	**2.1**	501.1
Cash and cash equivalents	6	**5.1**	71.4
		7.2	572.5
Creditors: amounts falling due within one year	7	**(606.7)**	(218.5)
Net current (liabilities)/assets		**(599.5)**	354.0
Creditors: amounts falling due after more than one year	7	**–**	(179.1)
Net assets		**204.1**	197.1
Capital and reserves			
Called up share capital	9	**2.0**	2.0
Share premium account	9	**151.0**	151.0
Investment in own shares	9	**(10.0)**	(10.0)
Capital redemption reserve		**0.3**	0.3
Profit and loss account	12	**60.8**	53.8
Total shareholders' funds		**204.1**	197.1

The notes on pages 193 to 196 are an integral part of the Company's financial statements.

The Company has elected to prepare its financial statements under FRS 101 and the accounting policies are outlined on page 192.

The Company made a profit before dividends paid for the period of £0.6m (53 week period to 3 April 2020: £3.1m).

The financial statements on pages 190 to 196 were approved by the Board of Directors on 16 June 2021 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 29 March 2019	2.0	151.0	(10.0)	0.3	86.3	**229.6**
Profit for the period	–	–	–	–	3.1	**3.1**
Share options exercised	–	–	–	–	–	**–**
Issue of new shares	–	–	–	–	–	**–**
Share-based payments	–	–	–	–	1.0	**1.0**
Dividends paid	–	–	–	–	(36.6)	**(36.6)**
At 3 April 2020	2.0	151.0	(10.0)	0.3	53.8	**197.1**
Profit for the period	–	–	–	–	0.6	**0.6**
Share options exercised	–	–	–	–	–	**–**
Issue of new shares	–	–	–	–	–	**–**
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**

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 2 April 2021, whilst the comparative period covered the 53 weeks to 3 April 2020. 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 72, 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 international financial reporting standards adopted pursuant to Regulation (EC) 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 accounted for under IFRS 10 and are consolidated on the basis that the parent has control, thus the assets and liabilities of the EBT are included on the Company balance sheet and shares held by the EBT in the Company are presented as a deduction from equity.

Share-based Payments

The Company operates a number of equity-settled, share-based compensation plans that are awarded to employees of the Company's subsidiary undertakings.

In accordance with FRS 101 'Group and treasury share transactions', the fair value of the employee services received under such schemes is recognised as an expense in the subsidiary undertaking's financial statements, which benefit from the employee services. The Company has recognised the fair value of the share-based payments as an increase to equity with a corresponding adjustment to investments.

Fair values are determined using appropriate option pricing models. The total fair value recognised is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

At each balance sheet date, the Company revises its estimates of the number of share incentives that are expected to vest. The impact of the revision of original estimates, if any, is recognised as an adjustment to equity, with a corresponding adjustment to investments, over the remaining vesting period.

Investments

Investments in subsidiary undertakings are stated at the cost of the investments. Provision is made against cost where, in the opinion of the Directors, the value of the investments has been impaired.

Cash and Cash Equivalents

Cash and cash equivalents on the 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.

Dividends

Final dividends are recognised in the Company's financial statements in the period in which the dividends are approved by shareholders. Interim equity dividends are recognised in the period they are paid.

Notes to the Financial Statements

1. Profit and Loss Account

The Company made a profit before dividends paid for the period of £0.6m (53 week period to 3 April 2020: £3.1m). 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 126 to 135 which forms part of the audited information.

4. Investments

	£m
Shares in Group undertaking	
Cost	
At 3 April 2020	22.2
Additions	775.0
Additions – share-based payments	6.4
At 2 April 2021	**803.6**

The investments represent shares in the following subsidiary undertakings as at 2 April 2021 and the fair value of share-based compensation plans that are awarded to employees of the Company's subsidiary undertakings.

Subsidiary undertaking	Incorporated in	Ordinary shares percentage owned %	Principal Activities
Halfords Group Holdings Limited	Great Britain*	100	Intermediate holding company

* Registered in England and Wales. Registered office; Icknield St Dr, Washford Ln, Redditch B98 0DE

In the opinion of the Directors the value of the investments in the subsidiary undertakings is not less than the amount shown above.

During the year, the Group has commenced a reorganisation of the Group structure with the objective to reduce the number of non-trading entities within the Group. As part of this exercise, a new intermediate holding company was formed, **Halfords** Group Holdings Limited, which is a wholly owned subsidiary of **Halfords** Group plc. The investments in **Halfords** Limited and **Halfords** Autocentres Limited previously held within the wider Group structure, are now directly held by **Halfords** Group Holdings Limited.

As part of the reorganisation, **Halfords** Group plc released **Halfords** Holdings (2006) Limited from its obligation to settle its intercompany receivable of £308.2m. This resulted in a decrease in intercompany receivables (see Note 5) and the recognition of an investment in **Halfords** Holdings (2006) Limited. This investment was then reassigned to an investment in **Halfords** Group Holdings Limited as it now forms part of the parent company's investment in the underlying trading Group.

The additions to investments in the year of £775.0m represents the £308.2m reassigned from **Halfords** Holdings (2006) Limited and the transfer value of the investments in **Halfords** Limited and **Halfords** Autocentres Limited held by **Halfords** Group Holdings Limited.

Notes to the Financial Statements

4. Investments continued

The related undertakings of the Company at 2 April 2021 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*	Intermediate holding company	100
Halfords Holdings Limited*	Intermediate holding company	100
Halfords Finance Limited*	Intermediate holding company	100
Halfords Limited*	Retailing of auto parts, accessories, cycles and cycle accessories	100
Halfords Payment Services Limited*	Dormant	100
Halfords Autocentres Holdings Limited*	Intermediate holding company	100
Halfords Autocentres Funding Limited*	Dormant	100
Halfords Autocentres Limited*	Car servicing	100
Halfords Autocentres Acquisitions Limited*	Dormant	100
NW Autocentres Limited*	Dormant	100
Halfords Autocentres Developments Limited*	Dormant	100
Stop N' Steer Limited*	Dormant	100
Halfords Vehicle Management Limited*	Dormant	100
McConechy's Tyres Services Holdings Limited*	Intermediate holding company	100
McConechy's Tyre Services Limited*	Car servicing	100
Strathclyde Tyre Services Limited*	Dormant	100
The Universal Tyre Company (Deptford) Limited*	Car servicing	100
G W Autoserve (Ipswich) Limited*	Non-trading	100
G W Commercial Tyres Limited*	Non-trading	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
Tredz Limited*	Non-trading	100
Wheelies Direct Limited*	Dormant	100
Performance Cycling Limited*	Retailing of cycles and cycle accessories	100
Giant (Wales) Limited*	Non-trading	100
Subsidiary registered in the Republic of Ireland, with a registered address of:		
c/o DWF Dublin, 4 George's Dock, IFSC, Dublin 1, DO1 X8N7		
Halfords (Ireland)*	Dormant	100
Other equity investment, registered in Northern Ireland, with a registered address of:		
22 Derryall Road, Portadown, Craigavon, Northern Ireland, BT62 1PL		
Hamilton Internet Services Limited*	E-Commerce	0.06
Other equity investment , registered in England & Wales, with a registered address of:		
272 Bath Street, Glasgow, Scotland, G2 4JR		
ULM Services Limited*	Car servicing	47.3

* 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 and ULM Services Limited.

5. Debtors

	2021 £m	2020 £m
Falling due within one year:		
Amounts owed by Group undertakings	**2.1**	501.1
	2.1	501.1

Amounts owed by Group undertakings were subject to interest. At 2 April 2021, the amounts bear interest at a rate of 1.31% (2020: 1.92%)

Amounts owed by Group undertakings were reduced in the current year as part of the Group reorganisation (see Note 4).

6. Cash and Cash Equivalents

	2021 £m	2020 £m
Cash at bank and in hand	**5.1**	71.4

£5.1m (2020: £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

	2021 £m	2020 £m
Falling due within one year:		
Bank borrowings (Note 8)	**16.5**	–
Amounts owed to Group undertakings	**589.9**	217.3
Accruals and deferred income	**0.3**	1.2
	606.7	218.5
Falling due after more than one year:		
Bank borrowings (Note 8)	**–**	179.1
	–	179.1

Amounts owed to Group undertakings were increased in the current year as part of the Group reorganisation (see Note 4). 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.

8. Borrowings

	2021 £m	2020 £m
Current		
Unsecured bank overdraft	**16.5**	–
Non-current		
Unsecured bank loan and other borrowings (expiring between two and five years)	**–**	179.1
	16.5	179.1

The above borrowings are stated net of unamortised issue costs of £1.6m (2020: £0.9m).

Details of the Company's borrowing facilities are in Note 18 to the Group's financial statements.

Notes to the Financial Statements

9. Equity Share Capital

Ordinary shares of 1p each:	2021 Number of shares	2021 £000	2020 Number of shares	2020 £000
Allotted, called up and fully paid	**199,116,632**	**1,991**	199,116,632	1,991

During the current period the Company has not changed its share capital. There has been no change in share premium, which has remained at £151.0m (2020: £151.0m).

In total the Company received proceeds of £nil (2020: £nil) from the exercise of share options. During the year the Company purchased £nil (2020: £nil) of its own shares.

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 to the Group's financial statements.

Investment in Own Shares

At 2 April 2021 the Company held in Trust 1,637,101 (2020: 2,134,139) of its own shares with a nominal value of £16,371 (2020: £21,341). The Trust has waived any entitlement to the receipt of dividends in respect of its holding of the Company's ordinary shares. The market value of these shares at 2 April 2021 was £6.1m (2020: £1.4m). In the current period nil (2020: nil) were repurchased and transferred into the Trust, with nil (2020: nil) reissued on exercise of share options.

10. Share-based Payments

Share based payments during the period were £6.4m bringing the balance at 2 April 2021 to £28.5m (2020: £22.1m).

11. Profits available for distribution

Distributable reserves in the company balance sheet total £32.3m at 2 April 2021.

12. Reserves

The Company settled dividends of £nil (2020: £36.6m) 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 2 April 2021 amounted to £1.5m (2020: £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.

Shareholder Information

Contents


BOSCH
Active Line
Plus
POWERPACK
400
BOSCH

Five Year Record

	52 weeks to 31 March 2017 (audited) £m	52 weeks to 30 March 2018 (audited) £m	52 weeks to 29 March 2019 (audited) £m	52 weeks to 27 March 2020* £m	**52 weeks to 2 April 2021 (audited) £m**
Revenue	1,095.0	1,135.1	1,138.6	1,142.4	**1,292.3**
Cost of sales	(536.4)	(564.9)	(559.6)	(558.4)	**(636.0)**
Gross profit	558.6	570.2	579.0	584.0	**656.3**
Operating expenses	(481.5)	(495.6)	(516.8)	(525.3)	**(554.5)**
Operating profit before non-underlying items	77.1	74.6	62.2	58.7	**101.8**
Non-underlying operating expenses	(3.4)	(4.8)	(7.8)	(32.1)	**(37.3)**
Operating profit	73.7	69.8	54.4	26.6	**64.5**
Net finance costs	(2.3)	(2.7)	(3.4)	(2.8)	**(5.5)**
Underlying Profit Before Tax**	75.4	71.6	58.8	55.9	**96.3**
Non-underlying operating expenses	(3.4)	(4.8)	(7.8)	(32.1)	**(37.3)**
Non-underlying finance costs	(0.6)	0.3	–	–	**–**
Profit before tax	71.4	67.1	51.0	23.8	**59.0**
Taxation	(15.9)	(13.2)	(10.5)	(8.0)	**(16.1)**
Taxation on non-underlying items	0.9	0.8	1.4	4.7	**5.8**
Profit attributable to equity shareholders	56.4	54.7	41.9	20.5	**48.7**
Basic earnings per share before IFRS 16	28.7p	27.8p	21.2p	10.3p	**24.7p**
Basic underlying earnings per share before IFRS 16**	30.3p	29.6p	24.5p	24.3p	**40.7p**
Weighted average number of shares	196.6m	197.0m	197.1m	197.0m	**197.1m**

* The statutory 53-week period to 3 April 2020 comprises results that are non-comparable to the 52 week periods reported in other years. To provide a more meaningful comparison, the above tables include the unaudited pro forma 52 weeks to 27 March 2020.

** These alternative performance measures are defined on page 201.

*** The numbers above are all stated pre-IFRS 16 to enable meaningful comparison to other periods.

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 148. 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, as shown in the Group Income Statement. 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; as reconciled below:

	FY21 Pre-IFRS 16 £m	**FY21 Post-IFRS 16 £m**	FY20 Pre-IFRS 16 £m	FY20 Post-IFRS 16 £m
Cash and cash equivalents**	**67.2**	**67.2**	115.5	115.5
Borrowings – current	**(2.2)**	**(63.6)**	(1.8)	(83.4)
Borrowings – non-current	**(6.9)**	**(280.9)**	(186.9)	(511.9)
Net Debt*	**58.1**	**(277.3)**	(73.2)	(479.8)

* The statutory 53-week period to 3 April 2020 comprises reported results that are non-comparable to the 52-week periods reported in the current period.

** Included within cash and cash equivalents is an amount of £6.3m which is restricted and is not available to circulate within the Group on demand.

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.

	FY21 Pre-IFRS 16 £m	**FY21 Post-IFRS 16 £m**	FY20 Pre-IFRS 16 £m	FY20 Post-IFRS 16 £m
Underlying EBIT	**101.8**	**114.5**	55.4	67.2
Depreciation & amortisation	**38.0**	**118.5**	37.2	118.7
Underlying EBITDA	**139.8**	**233.0**	92.6	185.9
Non-underlying operating expenses	**(37.3)**	**(35.0)**	(32.1)	(34.2)
EBITDA	**102.5**	**198.0**	60.5	151.7
Share-based payment transactions	**6.4**	**6.4**	1.0	1.0
Loss on disposal of property, plant & equipment & intangibles	**1.7**	**1.7**	2.8	2.8
Working capital movements**	**43.4**	**49.0**	48.7	38.3
Provisions movement & other**	**32.6**	**25.7**	(3.1)	(0.7)
Adjusted Operating Cash Flow*	**186.6**	**280.8**	109.9	193.1

* The statutory 53-week period 3 April 2020 comprises reported results that are non-comparable to the 52-week periods reported in the current period.

** As restated see note 30.

8. Free Cash Flow is defined as Adjusted Operating Cash Flow (as defined above) less capital expenditure, net finance costs, taxation, exchange movement and arrangement fees on loans; as reconciled below.

	FY21 Pre-IFRS 16 £m	**FY21 Post-IFRS 16 £m**	FY20 Pre-IFRS 16 £m	FY20 Post-IFRS 16 £m
Adjusted Operating Cash Flow**	**186.6**	**280.8**	109.9	193.1
Capital expenditure	**(28.0)**	**(27.5)**	(34.1)	(33.6)
Net finance costs	**(5.5)**	**(15.5)**	(2.4)	(13.2)
Taxation	**(10.8)**	**(10.8)**	(16.3)	(16.3)
Exchange movement	**3.0**	**2.1**	(2.5)	(2.0)
Free Cash Flow*	**145.3**	**229.1**	54.6	128.0

* The statutory 53-week period to 3 April 2020 comprises reported results that are non-comparable to the 52-week periods reported in the current period.

** As restated see note 30.

Company Information

Financial Calendar

Friday 13 August 2021	Final Dividend Record Date
Wednesday 8 September 2021	Annual General Meeting
Wednesday 8 September 2021	20 Week Trading Update
Friday 17 September 2021	Final Dividend Payment Date
Wednesday 10 November 2021	Interim Results
13 January 2022	FY22 Q3 Trading Statement

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