Remuneration Committee Report

"The key focus for the Committee this year has been reviewing the Directors' Remuneration Report in advance of submitting a new Policy to shareholders at the AGM in September and considering how best to support our colleagues in the context of the cost of living challenges."

Jill Caseberry
Chair of the Remuneration Committee

Committee Composition
During the year, the Committee comprised:

Jill Caseberry Chair

Helen Jones

Tom Singer

Remuneration Committee meetings held:

6

Chair's Letter

Dear shareholder

On behalf of the Remuneration Committee, I am pleased to present the Remuneration Report for the financial period ended 31 March 2023.

The Report consists of four sections:

- This Chair's statement providing a summary of pay outcomes for FY23 and our approach for FY24;
- Remuneration at a glance;
- The 2023 Directors' Remuneration Policy – in accordance with the Directors' Remuneration Reporting Regulations, **Halfords** is bringing a revised Directors' Remuneration Policy to the Annual General Meeting ("AGM") in September 2023 for shareholder approval; and
- The annual Directors' Remuneration Report – this summarises the remuneration outcomes for FY23 and explains how we intend to apply the Remuneration Policy in FY24.

Supporting Colleagues Through the Cost of Living Crisis

To reflect the cost of living challenges faced by our colleagues and good performance in the year, we were pleased to be able to award average salary increases to our workforce higher than in previous years of 4%.

Our benefits package gives access to discounts on everyday essential spend such as supermarket shopping. Used well, the average colleague can save up to 1% of their annual salary. For colleagues who need short-term emergency support on unexpected spend such as home repairs, funeral costs and travel to work expenses, the **Halfords** Here to Help Fund ("HHF Fund") can support with up to £2,000 of one-off funding, and throughout last year, the Fund distributed payments to 258 colleagues in such cases. During FY24, we will continue to monitor the impact of rising inflation on our colleagues.

Performance in the Year

Our underlying profit before tax of £51.5m in FY23 was a resilient performance, given the macro-economic climate we operated in throughout the year. We estimate that we have experienced over £95m of headwinds in the year, driven by an unenviable combination of our core markets being depressed versus pre-COVID, coupled with some of the most extreme cost inflation our business has seen.

Our focus in the year was on impacting the things within our control, and as a result we delivered a very effective cost and efficiency programme which exceeded our targets. We also continued to strategically invest in the transformation programme that the business has been on since 2018, whilst also ensuring we support customers through the ongoing cost-of-living crisis.

As we look forward, FY24 will be another year where we face both cost and market pressures, but the strategic transformation in our business leaves us confident that **Halfords** still has a bright future ahead of it.

Remuneration Outcomes in Respect of the Year

The annual bonus for FY23 was based 80% on financial measures (Group profit before tax – 50%, Group revenue – 15%, Free Cash Flow – 15%) and 20% on strategic metrics (NPS, Employee Engagement, Group Services-Related Sales and ESG (electrification, D&I and collection of Scope 3 data), all equally weighted.

During the year, Group profit before tax was £51.5m, Group revenue was £1,591.6m and Free Cash Flow was £3.1m. Further detail on performance against strategic targets can be found on page 36. Performance against targets set resulted in an annual bonus outcome of 23.75% of maximum.

However, the Committee considered the overall outcome in the context of wider business performance in the year and determined that downwards discretion should be applied and no bonus should be paid. In making this decision, the Committee took into account a number of factors including overall stakeholder experience and payouts for colleagues who received no bonus due to a PBT threshold being missed. The annual bonus for FY23 will therefore be 0%.

The FY21 Performance Share Plan ("PSP") was based on Underlying EPS (20% of the award), Group Services related sales (10% of award), Free Cash Flow (30% of award) and Relative TSR (40% of the award). Based on performance against the targets set the vesting outcome would have been 60.6%

The Committee is mindful of shareholder expectations that incentive outturns should be carefully considered to ensure that they reflect the underlying financial and non-financial performance of the Group, as well as the experience of our stakeholders and colleagues. Therefore, as is the case in prior years, the Committee evaluated performance in the round against a range of factors to assess whether the level of annual bonus and PSP pay-out was appropriate.

The Committee considered the outcome in the context of the shareholder and stakeholder experience. While the Committee considered that there has been strong progress over the three-year performance period, the Committee recognised the challenges in the most recent financial year and determined that it was appropriate to exercise downward discretion to reduce vesting to 50% of maximum. This was felt to be a better reflection of the overall experience for all stakeholders within the business.

The Committee was also aware of expectations around adjustments for windfall gains. However, as 2020 awards were made at a higher share price to those in 2019 (and the current share price is lower than for 2020 awards) it was determined that there was no windfall gain.

2022 PSP awards

PSP awards were granted in October 2022. The original intention was to grant an award of 200% of base salary to the CEO and an award of 150% of base salary to the CFO (a reduced award for the first year of her employment was agreed on joining). However, taking into account the share price prior to award and how this compared to the share price used to determine the 2021 awards, the Committee determined that it was appropriate to reduce the CEO's award to 175% of base salary to guard against windfall gains. The CFO's award remained at 150% of salary given that she was new to the business and a reduced award was already proposed.

Awards were based on Underlying EPS Growth (50%), Relative TSR (30%) and Group Services-Related Sales (20%). In light of the macroeconomic uncertainty around the time of award, the Committee was still reviewing the performance measures and targets for the 2022 PSP awards and these were not disclosed with the 2022 Remuneration Report. These targets were determined before award and are now set out on page 150.

Remuneration for FY24

The current Directors Remuneration Policy was last approved by shareholders in September 2020 and is, therefore, due for renewal at the 2023 AGM. As part of this process, the Remuneration Committee reviewed the current policy to assess whether it remained fit for purpose and continued to best support the business. It was decided that, given the high level of shareholder support received for the previous policy and the general view that the current structure remains appropriate to support the strategy, no major amendments would be made to the structure of pay, incentive opportunities or governance features.

The maximum incentive opportunities will remain at 150% of base salary for the annual bonus and 200% of base salary for the PSP.

For our new CFO, Jo Hartley, for the first year of appointment, her annual bonus and PSP awards were set at 125% and 150% of base salary, respectively, with the intention that, for FY24 onwards, her maximum opportunity would increase to 150% and 200% of base salary, subject to individual performance during the year. The Committee concluded that Jo has performed strongly since her appointment and that her incentive opportunities should be increased as planned.

After undertaking a thorough review of performance metrics in the year, the Committee determined that the majority of measures remained aligned to the ongoing focus and strategy of the business, minor changes have been made to the annual bonus measures and the PSP measures are unchanged (although the Committee is currently reviewing the relative weightings of the measures). The Annual Bonus for FY24 will continue to be based 80% on financial measures and 20% on strategic and ESG measures. Financial measures for the year will include underlying PBT, Group Revenue Growth, Free Cash Flow and Cost. Cost has been introduced for FY24 to reflect the importance of cost management over the next 12 months. Strategic and ESG measures will include customer NPS, market share, colleague engagement and colleague turnover. These are also considered to be key strategic objectives for the forthcoming year. The 2023 PSP will be based on relative TSR, EPS and Group services-related sales.

Salaries will be reviewed in the year with increases effective from 1 October 2023. The Committee's intentions are that increases will not exceed those for the wider workforce. Pension contributions for both Directors have been aligned with the maximum employer pension contribution available to the majority of the workforce (currently c.3%).

Concluding Remarks

The Committee is committed to an open dialogue with shareholders and institutional investor bodies on remuneration matters and considered shareholder perspectives in developing the Policy. The Committee also considers voting on Annual General Meeting resolutions and is pleased with the high level of support received, historically, for its Annual Reports on Remuneration and for the three-yearly renewal of the Remuneration Policy. Additionally, the Committee has sought to promote a remuneration environment that strongly aligns the commercial direction of the Group with the interests of shareholders, and regularly keeps up to date with best practice developments and market trends.

I look forward to your support on both the 2023 Directors' Remuneration Policy and the FY23 Annual Directors' Remuneration Report at the Annual General Meeting.

Jill Caseberry
Chair of the Remuneration Committee

21 June 2023