halfords

# GETTING INTO GEAR

**Supporting** drivers of every car

**Inspiring** cyclists of every age

**Equipping** families for their leisure time

HALFORDS GROUP PLC
ANNUAL REPORT AND ACCOUNTS
FOR THE PERIOD ENDED 28 MARCH 2014
STOCK CODE: HFD

halfords

# WE HELP AND INSPIRE OUR CUSTOMERS WITH THEIR LIFE ON THE MOVE

1
2 3
4

**IMAGES**

1 Products available digitally from all refreshed stores.

2 ***we***fit service growth supported by Gears training programme.

3 Refreshed cycle retail presentation.

4 All smiles, Halfords now one of the Sunday Times 25 Best Big Companies to Work For.



# WE ARE

- The UK's leading retailer of automotive and cycling products
- The leading operator in garage servicing and auto repair in the UK
- Cash generative
- Focused on sustainable and profitable revenue growth

Read more: OUR BUSINESS MODEL Page 6

# WE HAVE

- Many brands and product categories which hold number one market positions in the UK
- Unrivalled scale and national coverage and an agile global sourcing infrastructure
- Skills in brand management and maximising marketing opportunities
- A service-based proposition
- A significant online presence
- Thousands of amazing colleagues across our business who are knowledgeable experts providing advice and a range of fitting and repair services for our customers

Read more: AT A GLANCE Page 20

# WE PLAN TO

- Maintain our leading core retail and car servicing positions
- Source the best products and launch exclusive ranges extending the breadth and quality of our product ranges
- Provide a great customer experience through well-trained, knowledgeable colleagues, good stock availability and improved store environments
- Provide real value solutions, balancing high-quality products with a competitive combination of range, price, service and product knowledge
- Create a service-led digital proposition
- Make Halfords great!

Read more: GROUP STRATEGY Page 24



ONLINE Read more halfords.annualreport2014.com

# WELCOME TO HALFORDS

WE AIM TO DELIVER A SERVICE THAT **WOWS** EVERY TIME.

"I went into your store in Grimsby last night and spoke with one of your car seat specialists, Alan. I just wanted to say how wonderful he was, so helpful, friendly and informative. I would definitely recommend to my 'mummy' friends that they go to Halfords."

LM, Grimsby

"I had wonderful service when I recently purchased a Boardman cycle from Merthyr Tydfil. Hefin took care of me and I couldn't have asked for a more thorough and professional experience. Hefin was extremely knowledgeable and customer-focused. To be honest, I was quite baffled at the start of the process but all soon became clear with the explanations given by Hefin. He was informative, professional and extremely helpful, all with great humour."

Customer, Merthyr Tydfil


"I would like to say a big, big thank you to Graham who helped me when I had a flat tyre. My whole car was full of Christmas food, including frozen food. As an OAP, I was all on my own and worried but Graham took all the worry from me, inflated my tyre and checked I was OK. He went the extra mile for me."

Customer, Dagenham

# INTEGRATED REPORTING

AN INTEGRATED REPORT PROVIDES A CONCISE OVERVIEW OF **HOW VALUE IS GENERATED FOR ALL STAKEHOLDERS**. IN ESSENCE HOW WE MANAGE RISK, STRATEGY AND ETHICS IN **A SUSTAINABLE WAY**.

## WHY INTEGRATED REPORTING?

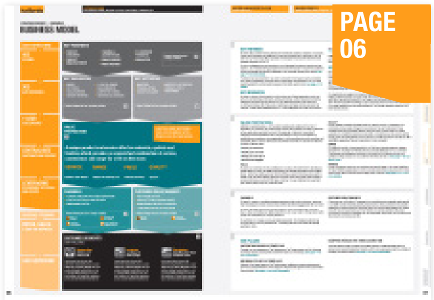
An integrated report provides a concise overview of how value is generated for all stakeholders. In essence how we manage risk, strategy and ethics in a sustainable way.

The global drive for public companies to transparently report on sustainable competitive advantage with a view to the short, medium and long term impact on stakeholder value has informed our first integrated report.

Our primary focus in this report is on shareholder value generation but this report also demonstrates how we interact with other stakeholders.

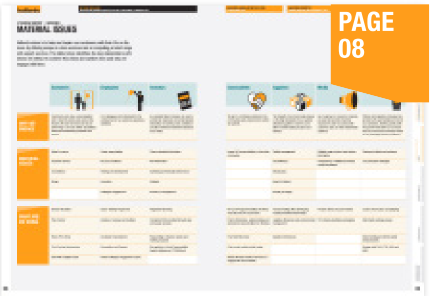
## WHAT'S CHANGED IN THIS REPORT

- **Strategic focus and future orientation** - The business model has evolved to provide greater clarity of our ability to create value in the short, medium and long term, and to its use of and effects on the capitals.
- **Connectivity of information** - Signposting for interrelated factors has improved with more signposting from the business model (see page 6) and material issues (see page 8).
- **Stakeholder relationships** - The nature and quality of our relationships with our key stakeholders have been outlined, along with the material issues that relate to those groups and how we are engaging with them (see page 8).
- **Materiality** - Information has been disclosed about matters that substantively affect our ability to create value over the short, medium and long term (see page 64).
- **Conciseness** - Repetition has been removed where possible to provide a more intuitive and logical signposting throughout our integrated report.
- **Reliability and completeness** - Material matters both positive and negative have been approached in a fair, balanced and understandable way and without material error.
- **Consistency and comparability** - A commitment to provide performance KPIs with 5 year comparisons throughout the document has been achieved. Although some narrative content is provided in a language that is consistent with the Halfords brand, the framework and the use of plain English provides greater clarity of information and enables comparisons with other organisations.




OUR UPDATED BUSINESS MODEL PROVIDES A MORE COMPARABLE MODEL, **VALUE PROPOSITION AND REVENUE STREAMS**, ALL CLEARLY LINKED TO FURTHER CONTENT.


SUSTAINABILITY ACTIVITIES AND **CORPORATE RESPONSIBILITY** ARE SIGNPOSTED AND HIGHLIGHTED.




OUR TABLE OF MATERIAL ISSUES PROVIDES GUIDANCE ON OUR APPROACH TO A **SUSTAINABLE BUSINESS.**


OUR **RISK REPORTING** PROVIDES LINKS AND MAPPING TO OUR **MATERIAL ISSUES.**

TAKING A RESPONSIBLE AND SUSTAINABLE APPROACH TO RUNNING OUR BUSINESS MEANS BEING TOTALLY FOCUSED ON HELPING AND INSPIRING OUR CUSTOMERS.

## WHAT NEXT?

Integrated reporting is evolving and this, our first integrated annual report, is an important step in the journey. In future reports, we will seek to:

- Incorporate measurement of the broader value we deliver to the UK.
- Explore the connections and interdependencies between the resources and relationships that sustain our business and to which we contribute.
- Demonstrate how integrated reporting affects thinking in our business.
- Develop further our approach for identifying and prioritising material issues.

### FIND OUT MORE

International Integrated Reporting Council:
**www.theiirc.org**

STRATEGIC REPORT > OVERVIEW

# BUSINESS MODEL

## COST STRUCTURE

**465** STORES

**303** AUTOCENTRES

***c.* 12,000** COLLEAGUES

**CENTRALISED** DISTRIBUTION CENTRES

**LEVERAGING** ECONOMIES OF SCALE AND SCOPE

## KEY PARTNERS

- PRODUCT DESIGNERS
- PRODUCT MANUFACTURERS
- TRAINING & ACCREDITATION
- BRAND OWNERS
- PARTS FACTORS
- IT & NETWORK PROVIDERS
- REGULATORS

Related 'Getting into Gear' strategic activities: P26
the 'h' factor; 21st century infrastructure; stores fit to shop; service revolution; click with the digital future; stores fit to shop

## KEY RESOURCES

- BRANDS
- 465 STORES
- 303 AUTOCENTRES
- CATEGORY EXPERTISE
- *c.*12,000 COLLEAGUES
- CASH GENERATION
- COMPETITIVE FUNDING
- HALFORDS ASIA SOURCING

Related 'Getting into Gear' strategic activities: P26
the 'h' factor; 21st century infrastructure; stores fit to shop

## KEY ACTIVITIES

- MARKETING
- RETAILING, BUYING
- ONLINE FULFILLMENT
- INVENTORY & DISTRIBUTION
- TRAINING & PEOPLE DEVELOPMENT

Related 'Getting into Gear' strategic activities: P26
service revolution; click with the digital future; stores fit to shop

## VALUE PROPOSITION

P24

HELPING AND INSPIRING OUR CUSTOMERS WITH THEIR LIFE ON THE MOVE

**A unique product and service offer for motorists, cyclists and families which provides an unmatched combination of service, convenience and range for a life on the move.**

**SERVICE** — SERVICE THAT 'DELIGHTS'.

**RANGE** — RANGE YOU CAN RELY ON.

**PRICE** — PRICES YOU CAN TRUST.

**QUALITY** — QUALITY YOU CAN TRUST.

## CHANNELS

- TV, RADIO, EMAIL AND HIGH STREET ADVERTISING
- STORE COLLECTION OR HOME DELIVERY
- OMNICHANNEL ROUTES

Related 'Getting into Gear' strategic activities: P26
the 'h' factor; stores fit to shop; service revolution; click with the digital future

## CUSTOMER RELATIONSHIPS

- 'WE DO MORE FOR YOU'
- LOW COST FITTING, BUILDING SERVICE
- KNOWLEDGEABLE HELPFUL COLLEAGUES
- <20m DRIVE FOR 90% OF POPULATION

Related 'Getting into Gear' strategic activities: P26
the 'h' factor; service revolution

## REVENUE STREAMS

**RETAIL SALES** & ADD-ON SERVICES

**CAR SERVICING**

## CUSTOMER SEGMENTS

OUR PILLARS P24

**Supporting** drivers of every car

**Inspiring** cyclists of every age

**Equipping** families for their leisure time

## KEY PARTNERS

We work with a number of key partners both inside and outside our business. Our *Apollo, Carrera* and *Boardman* ranges are designed in-house and manufactured in factories in the Far East. Our Hong Kong office organises and manages the production lead times and arranges shipments to the UK.

Our store colleagues are very important to us in delivering the customer service that we aspire to. Our 3-Gears training programme has been introduced to ensure that consistent product knowledge and service is delivered to our customers across all our stores. See pages 28 to 30 for more details.

IT systems are very important to us, both in store and in the Support Centre and parts are in need of upgrading. During the year we have begun the upgrade of our core SAP operating platform and improved the speed of the PEDs used in-store. See pages 37 to 38 for details.

## KEY RESOURCES

We have a number of key brands in both the Auto and Cycling categories, across car parts, in-car technology, child seats, cycling, roof boxes, outdoor leisure and camping equipment and these are sold across our 465 nationwide stores. Our 303 autocentres offer a full service, maintenance and repair service across all car marques. Within these establishments our *c*.12,000 colleagues are a major key resource as it is they that are face-to-face with our customers on a daily basis. See pages 28 and 34 for more information.

Halfords is a cash generative business having generated £39.5m of free cashflow in the year (see pages 53 and 63) and is well supported by its banking syndicate having renegotiated a new facility in September 2013 (see page 62).

## KEY ACTIVITIES

Our key activities are all designed to help and inspire our customers with their life on the move through our *Getting into Gear* strategy (pages 26 to 39). As a retailer Halfords makes a profit from the combination of low cost sourcing and supply chain coupled with excellent marketing skills and a national store network, leveraging these skills in the car service sector by running an efficient service offer and profits from scale and efficiency. Halfords provides services cheaper than most franchised garages and more comprehensively than many independent garages.

Our operations are designed to be best in class so that we can leverage our market leading positions through our supply chain. We source direct from suppliers around the world who manufacture products to our designs and rigid specifications. Our distribution team use their specialist knowledge to group and ship products in line with the sales plan of our retail operation and the market demands. Our internal operations draw from the best industry practice.

## VALUE PROPOSITIONS

Halfords is a great business – it's the nation's leading cycle retailer and the "go to" destination for motorists. Our products and services are as relevant to today's customers as they were when we started out over 100 years ago. Customers' needs aren't changing but their expectations. We are setting out to grow our business by attracting more customers; encouraging them to buy more products and/or services; and persuading them to visit our stores and autocentres more often. To do this we make four promises; Halfords offers:

- **Prices you can trust**
- **Quality you can trust**
- **Range you can rely on**
- **Service that delights**

### PRICE

We want our customers to have confidence in our prices. We want them to feel they are getting value for money. We shall be introducing new impulse promotions and 'bundled' prices - rather than selling a product then the fitting we want to introduce prices with no hidden costs. We have already introduced 'rounded' prices doing away with the 99p as we feel customers are cynical of this type of pricing. It is very important to our growth plans that we offer prices our customers trust.

### QUALITY

Product quality is another important aspect of 'value for money'. In listening to our customers we have made changes to our products. We want customers to have confidence that their purchases will last. During the year we have made our Quality Guarantee on all Halfords Advanced socket sets, a no quibble one. We used to exempt moving parts but having listened to the customer, it is really important to be able to offer a total lifetime guarantee. We want customers to trust our quality.

### RANGE

Our range of products is very important to us. We have a strong range and category management, ensuring that Halfords remains a natural destination for our customers. These ranges and categories contribute to the brand that is Halfords and we must continue to bring products to our customers that they can rely on. See page 33 for our *Apollo* story.

### SERVICE

In order to improve service to our customers we have focused on four clear objectives. To make Halfords a great place to work; to provide stores that we are proud of; to have services that make us the best and to delight every customer. See pages 28 to 30 for more details.

## CHANNELS

We want to create a compelling shopping experience that excites customers, improves their knowledge of products and services and their emotional engagement with our brand.

We have 465 retail stores and 303 autocentres in which to engage with customers face-to-face and building our digital proposition is also a key route to driving future topline growth and maintaining our ongoing relevance.

Our ambition is to create a service-led digital proposition. Of all retailers, Halfords has the opportunity to be truly multichannel – combining the best of the web with friendly expertise in store.

## CUSTOMER RELATIONSHIPS

Customers are our life-blood. Fundamental to a profitable and sustainable sales growth is our ability to offer a friendly-expertise based service, where customers have a better experience at Halfords than they would at other non-service based retailers and spend more with us and recommend us to their friends. Our Service Revolution will ensure customers are served by colleagues who are enthusiastic about their role at Halfords and the products and services we offer.

## OUR PILLARS

### SUPPORTING DRIVERS OF EVERY CAR

Through our core categories of Car Maintenance, Car Enhancement and Car Servicing we provide services and expertise to take the hassle out of motoring. See page 22 for more information.

### INSPIRING CYCLISTS OF EVERY AGE

Halfords is the largest player in the cycling market, reflecting its scale positioning and also the successful extension of its ranges into the premium segment of the cycle market in recent years. See page 23 for more information.

### EQUIPPING FAMILIES FOR THEIR LEISURE TIME

This third category pillar occupies the smallest element of Halfords Retail sales. It is spread across several fragmented markets, which can be grouped under the umbrella of camping and outdoor leisure. See page 23 for more information.

STRATEGIC REPORT > OVERVIEW

# MATERIAL ISSUES

Halfords' vision is to *Help and Inspire our Customers with their Life on the Move* by offering unique in-store services and a compelling product range with expert services. The table below identifies the key stakeholders with whom we interact to achieve this vision and outlines how and why we engage with them.

| | Customers | Colleagues | Investors |
|---|---|---|---|
| **WHY WE ENGAGE** | Customers want value, personalisation and to trust the advice and service they receive. We want to know how we are performing so we can deliver unparalleled honest and trustworthy products and services. | Our colleagues are fundamental to the achievement of our customer experience ambitions. | 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. |
| **MATERIAL ISSUES** | Value for money | Career opportunities | Future-orientated information |
| | Customer service | Pay and conditions | Risk information |
| | Convenience | Training and development | Operating and financial performance |
| | Range | Innovation | Dividend |
| | | Colleague engagement | Access to management |
| **WHAT ARE WE DOING** | Service Revolution | 3-Gears Training programme | Integrated reporting |
| | The 'H' Factor | Listening : surveys and colleague groups | Consistent KPIs provided through clear and regular updates |
| | Stores Fit to Shop | 'Accelerate' management development courses | Responding to investor queries and meeting requests |
| | 21st Century Infrastructure | Recognition and reward | Recognition in Social Responsibility investor indices e.g. FTSE4Good |
| | Click with the Digital Future | Annual colleague engagement survey | |

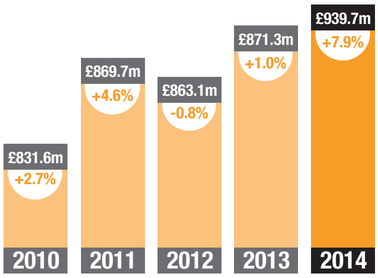
| Communities | Suppliers | Media | Government |
|---|---|---|---|
| We aim to contribute positively to the communites and environment in which we operate. | The strength of our brand relies heavily on the high standards of our carefully selected suppliers in order for us to deliver market leading products and services. | As a business to consumer company we need strong omnichannnel exposure in order to connect with customers and our wider stakeholder audience. | Policies and regulatory changes may provide both opportunities and risk to our operations. Working closely with the Government allows us to ensure that our products and services evolve to any changing market conditions. |
| Impact of Group activities on the wider community | Quality management | Reliable range, product and pricing information | Transport policies and schemes |
| Developing future customers | Cost efficiency | Transparency of reliable and timely Group information | $CO_2$ reduction strategies |
| | Ethical Trading policy | | |
| | Speed to market | | |
| | Security of supply | | |
| Re~Cycle Partnership | Far East trading office developing mutually beneficial relationships | Product videos and peer reviews | Cycle to work policy campaigning |
| Onley Prison Workshops giving training and employment opportunities for ex-offenders | Logistics efficiencies and environmental management | TV & Radio advertising campaigns | DAB Radio working groups |
| Free Kids' Holiday Bike clubs | Supplier conferences | E-mail and PR customer engagement | Driver training and vehicle safety enhancements |
| Cub Scouts Cyclist Activity badge workshops | | Improving Twitter, Facebook and You Tube content | Engaging with VOSA, DVLA, TSI, ASA and HSE |
| Stores will donate payroll hours to engage with local charities | | Monitoring and responding to comments and concerns on social channels | |

See more: Page 44

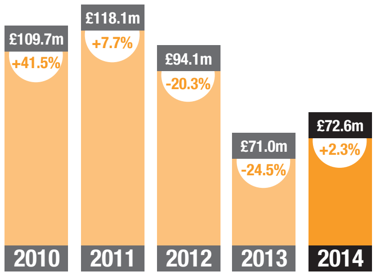
STRATEGIC REPORT > OVERVIEW

# GROUP HIGHLIGHTS

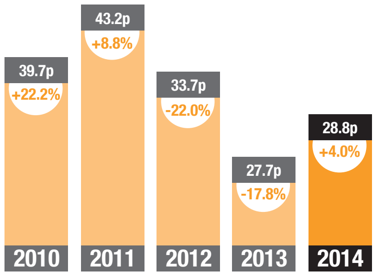
## REVENUE
**+7.9%**



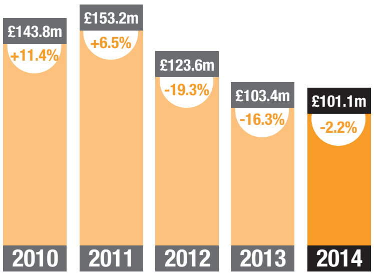

## PROFIT BEFORE TAX
**+2.3%**



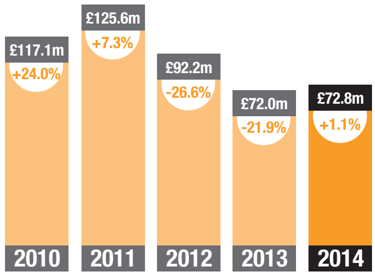

## UNDERLYING BASIC EARNINGS PER SHARE
**+4.0%**



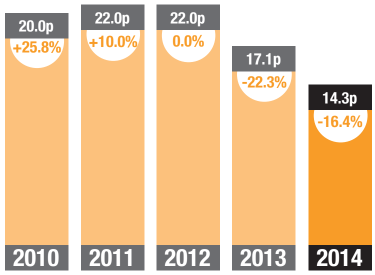

## UNDERLYING EBITDA
**-2.2%**



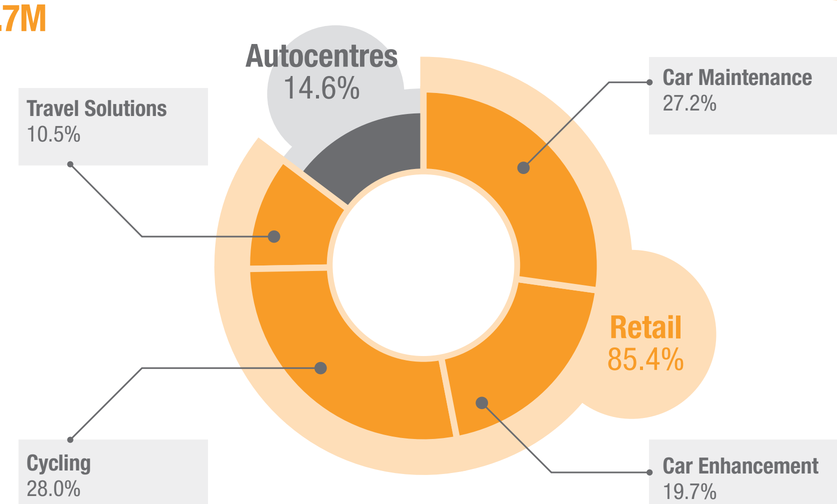

## UNDERLYING PROFIT BEFORE TAX
**+1.1%**




## DIVIDEND PER ORDINARY SHARE
**-16.4%**




## GROUP REVENUE
**£939.7M**




## RETAIL NPS SCORE
**72%**

## RETAIL COLLEAGUES THROUGH GEAR 1
**90%**

## NEW WEBSITES LAUNCHED
WWW.HALFORDS.COM
WWW.HALFORDSAUTOCENTRES.COM

STRATEGIC REPORT > OVERVIEW

# CHAIRMAN'S LETTER

IN MAY 2013 WE SET OUT THE **GETTING INTO GEAR STRATEGY** FOR OUR RETAIL BUSINESS THAT WE WOULD PURSUE AND THE **GROWTH PLANS** FOR OUR AUTOCENTRE BUSINESS.

OUR MISSION IS TO **HELP AND INSPIRE OUR CUSTOMERS WITH THEIR LIFE ON THE MOVE.** EACH ELEMENT OF OUR STRATEGY, WHICH HAS THE **CUSTOMER AT THE FOREFRONT**, HAS BEEN PURSUED WITH VIGOUR IN BOTH OUR RETAIL AND AUTOCENTRES BUSINESSES.

In May 2013 we set out the *Getting into Gear* strategy for our Retail business that we would pursue and the growth plans for our Autocentre business. We are now a year into the journey and progress has been very encouraging across a broad front. The ride so far has been exciting, the pace high and the year has been very busy, touching all parts of Halfords. The response of our colleagues has been enthusiastic and heartening. Their engagement with the many initiatives that Matt Davies and his executive team have introduced has been infectious and this has begun to have the desired effect: increasingly engaged, well trained and committed colleagues serve our customers better. There is still a way to go but I would like to commence this letter by thanking all of our *c.*12,000 colleagues for a job well done.

Our mission is to *Help and Inspire our Customers with their Life on the Move*. Each element of our strategy, which has the customer at the forefront, has been pursued with vigour in both our Retail and Autocentres businesses. In essence, the thrust of our strategy is: to bring about a step change in the quality of our service offer to our customers by investing in colleague training, staffing and capability; reasserting our authority in our key product and services categories; investing in our store and Autocentres standards and estates and in our systems; and creating a more contemporary and competitive omnichannel offer. The report that follows sets out the progress we are making and what still needs to be done.

Transparent measurement of our progress is critical, as is linking this to our remuneration and incentive structures throughout the organisation. In the report we have also set out in detail our Shareholder, Retail and Autocentre KPIs and our performance this year at pages 52 to 63. Progress has been encouraging. However, most heartening has been the improvement in our service delivery with customer response, as measured by our Net Promoter Scores (NPS), showing a significant and sustained improvement across both businesses. Given where we were a year ago this is particularly pleasing. Once again, there is still some way to go.

The financial performance of Retail was better than we had expected at the commencement of the year. Retail sales of £803m were up 7.6% on a like-for-like (LFL) basis with a stellar performance in the Cycling category with LFL sales rising 19.4%. Car Maintenance was up 4.9% and online sales, primarily *Click & Collect,* rose a healthy 17.7%. Retail gross margin was down as we cleared inventory,

STRATEGIC REPORT > OVERVIEW

# CHAIRMAN'S LETTER CONTINUED


as planned, and due to the strong growth of the lower-margin Cycling category. Retail operating costs rose, commensurate with the significant investment we made, and are making, in the training and development of our colleagues, better colleague store and centre coverage, higher activity levels and increased incentives as most operational and strategic milestones were reached. This resulted in Retail operating profit of £75.2m for the year, up 2.2%.

Driving the progress and performance of the Retail business is largely a new management team that Matt brought together during the year. Andrew Findlay (Finance & IT) and Jonathan Crookall (People), who have been with the Company for over three years, were joined by Rob Swyer (Retail/Stores), Emma Fox (Commercial/Marketing/Digital) and Jason Keegan (Supply Chain). The impact of the new team has been immediate and effective.

INVESTMENT IN OUR STORES, INFRASTRUCTURE AND COLLEAGUES OF SOME **£100M OVER THE NEXT THREE YEARS** REMAINS ON TRACK.

The financial performance of Autocentres was disappointing. Sales increased by 8.6%, boosted by an increase of 23 to 303 centres during the year, with LFL sales down 0.1%. Despite an increase in gross margin, operating profit decreased £2.0m to £4.3m. Midway through the year there was a change in leadership and Andrew Findlay temporarily took over the reins and successfully began a process of gradual improvement. He has now handed over the baton to Andy Randall who joined us in March 2014. The business is now travelling better than this time last year and Andy will be given the time and resource to get 'under the bonnet' of the business. In November we will present a fresh view of the way forward for Autocentres.

Investment in our stores, infrastructure and colleagues of some £100m over the three years in our *Getting into Gear* plan remains on track. In the year, £30.4m of spend on stores, IT infrastructure and on new Autocentres was outlaid, some £12.0m more than the previous year. In addition, an incremental investment of £17.0m in Retail inventory to achieve the right levels and product ranges was made. Despite these outlays and a one-off tax payment of £21.0m, cash flow was once again robust and net debt decreased to £99.6m with gearing at a comfortable 1.0 times net debt:EBITDA.

Group underlying profit before tax of £72.8m is marginally up on last year but exceeded our expectations set out over a year ago. Earnings per share (before non-recurring items) of 28.8p were up 4% and the Board is recommending a final dividend of 9.1p, taking the total for the year to 14.3p. It is our intention to maintain a *c*.2x dividend cover over the medium term, growing full-year dividends broadly in line with earnings per share.

One of the most truly inspiring aspects of the year has been the involvement by colleagues at all levels in a large number of community initiatives. For example, a partnership was forged with *Re~Cycle*, a charity that collects and ships second-hand bicycles to community networks in Africa. There the bicycles are repaired, thereby providing employment, and are then made available to disadvantaged communities. Through two events, customers responded generously by donating over 10,000 of their old bikes to this cause. Kids' Holiday Bike Club events were held in-store where children were taught how to maintain their bikes and road safety; the response was fantastic and over 20,000 children and parents attended. Halfords has also been confirmed as the Official Mechanics Partner for the 2014 *Sky Ride Big Bike* series, spanning 14 events nationwide and supporting over 100,000 cyclists this summer. There were also many other local events and the buzz that these community activities produce throughout Halfords is tangible; it is no doubt that it was one of the key factors that saw our colleagues vote Halfords as one of the Top 25 Best Big UK Companies to Work For.

1

2

**BELOW**

1 Enhanced car maintenance product promotion.

2 Improved layout in refreshed store.

**OPPOSITE**

Enthusiasts increasingly attracted to Halfords.

It is a joy and a privilege to chair the Halfords Board and to work with Matt and his team. It is therefore with sadness that we say goodbye to Bill Ronald and Keith Harris who leave the Board at the end of May 2014 after 10 years' service. Both joined at the initial listing of Halfords in 2004 and have been a source of much sound advice and support to me and fellow Board members, for which I thank them. It gives me pleasure to welcome Helen Jones who joined the Board in March 2014. Helen is currently a senior executive at Caffé Nero and, prior to that, was CEO of the Zizzi Restaurants group and was also responsible for successfully launching the Ben & Jerry's brand in the UK and Europe. She will provide valuable brand positioning and marketing and experience in managing multiple-outlet networks.

The new financial year has started positively and the progress being made with all aspects of our strategy continues apace. The ambitious targets we set at the outset of the *Getting into Gear* Retail strategy remain both valid and achievable.

**Dennis Millard**
Chairman
21 May 2014

Read more:
RE~CYCLE
Page 44



# A YEAR OF SOLID PROGRESS
# **GETTING INTO GEAR**

# STRATEGIC REPORT
## STRATEGY



The Strategic Report on pages 15 to 67 has been approved by the Board of Directors on 21 May 2014.

**Matt Davies**
Chief Executive
21 May 2014

ONLINE
Read more
halfords.annualreport2014.com

STRATEGIC REPORT > STRATEGY

# CHIEF EXECUTIVE'S INTRODUCTION

**THE CYCLING CATEGORY WAS THE STANDOUT PERFORMER** THROUGHOUT THE YEAR, WITH LFL **GROWTH OF 19.4%** REFLECTING FURTHER MARKET-SHARE GAINS.

Halfords Retail delivered a strong performance in the year as the business repositions to offer a significantly-enhanced customer experience. The work undertaken in areas such as stock availability, product ranges and marketing was accompanied by a material uplift in investment.

The Retail categories are in better shape and the Retail management team has been strengthened by several key appointments. *Getting into Gear* has got off to a busy start and the early signs are encouraging; there will be much work to do over the coming years. New leadership of Autocentres is aligned with the Group's service-based priorities so that, in the fullness of time, Halfords will offer an even better end-to-end customer experience.

## SUMMARY OF GROUP RESULTS

Halfords Retail produced a strong sales performance with like-for-like ("LFL") revenue growth of 7.6% and online growth of 17.7% reflecting a number of factors including improved stock availability, colleague engagement, stronger product ranges and a more-effective marketing approach. Average weather conditions were also more favourable for Cycling during the year. Despite improvements in the second half that delivered 2.0% LFL sales growth, the Autocentres performance did not reflect its market-share potential over the full year, with FY14 revenues increasing by 8.6%, accompanied by flat LFL sales; new leadership of Autocentres was appointed at the end of the year.

Sales of £939.7m were up 7.9% year-on-year and up 6.5% on a LFL basis. Group gross margin fell by 110 basis points to 53.7%. Total operating costs rose by 6.9% primarily as a result of the increase in store-colleague investment and incentives. Investment in the expansion of our Autocentres business continued as the business added 20 centres (net). Group earnings before finance costs, tax and non-recurring items ("EBIT") were £77.8m, which compares with £78.1m in the prior year.

Earnings before non-recurring items, finance costs, depreciation and amortisation ("EBITDA") were down 2.3% to £101.1m. Profit before tax and non-recurring items was £72.8m and earnings per share before non-recurring items were 28.8p, up 1.1% and 4.0% respectively.

Group inventory and capital expenditure continued to be managed tightly, although the planned levels of additional Retail stock to improve on-shelf availability led to a 12.8% increase in Group inventories on the prior period; Autocentres inventory was up £0.1m on the prior year. Against the backdrop of a significant uplift in investment and a one-off tax settlement of £21.0m, the cashflow performance was robust with free cashflow of £39.5m generated against £71.8m in the prior year. Net debt at the end of the year was down £11.0m at £99.6m, with a non-lease-adjusted 12-month net debt: EBITDA ratio of 1.0:1 versus 1.1:1 in the prior period.

The Board has recommended a final dividend of 9.1 pence per share (FY13: 9.1 pence), taking the full-year dividend to 14.3 pence per share. If approved, the final dividend will be paid on 1 August 2014 to shareholders on the register at the close of business on 4 July 2014. In the light of the guidance given twelve months ago, the Board will now look to maintain a *c.*2× dividend cover over the medium

THE RESULTS ILLUSTRATE HOW HALFORDS IS BEGINNING TO BUILD BOTH ITS PROPOSITION AND **A SIGNIFICANTLY-ENHANCED RETAIL CUSTOMER EXPERIENCE.**

term, growing full-year dividends broadly in line with earnings per share. Given the operating cash flow profile of the business the Board also now anticipates the ratio of future interim and final dividend payments to move toward 30:70.

## OPERATIONAL REVIEW: RETAIL

Sales were £803.1m, up 7.7% on the previous year and 7.6% on an LFL basis.

In FY14 Cycling was the largest Retail category by sales and was the standout performer throughout the year. LFL growth of 19.4% reflected improved execution, a successful Christmas for children's bikes, more-conducive weather conditions and sustained interest in Cycling as a leisure activity. The cycle offer was enhanced during the year, with refreshes of the *Apollo* and *Boardman* ranges particularly engaging customers. Representing over one third of premium-cycle sales, *Cycle-To-Work* revenues grew by 14.8%. Halfords also implemented a major acceleration of its presence in the Cycling Parts, Accessories and Clothing market ("PACs"). This activity was combined with the appointment of additional Cycling capability, including the creation of a Head of PACs role and, with a more-effective marketing approach, every Cycling sub-category grew, including 15.8% growth in PACs, 28.6% growth in Cycle Repair and 29.9% growth in Premium Bike sales.

LFL sales of Car Maintenance products and services grew by 4.9%. Sales in the second half were hampered by mild winter conditions versus a cold and snowy prior year. However the sale and fitting of bulbs, blades and batteries ("3Bs") again represented the largest single element of the category and growing demand emanated from the building of awareness of the *we*fit service, this year via the TV and radio *'Cheaper than a Favour'* campaign.

Car Enhancement LFL revenues decreased by 0.1%. Representing nearly a quarter of category sales, Car Cleaning revenues grew by 13.7%, boosted by the re-merchandising of the range to emphasise the strength of Halfords' branded offer. Key price points were also targeted to improve value perception. Sat Nav sales, down 8.1% in the year, continued to be impacted by the effects of a structurally-declining market, whilst Audio sales grew 1.1%.

Travel Solutions LFL revenues increased by 2.1%, with additional clearance and more-compelling offers driving improved sales of camping and travel-equipment products.

Online Retail revenues grew by 17.7% and represented 11.3% of total Retail sales (FY13: 10.3%). The growth was driven by the first phase of *Halfords.com*'s relaunch in November 2013, leading to substantially-increased conversion rates. Whilst over half of online Retail sales were represented by the Cycling category, a consistent 88% of online orders were collected in store during the period.

In the year total in-store service income included within all of the above categories increased by 17.4% to £24.3m, with the majority of revenues flowing from 3Bs fitting and Cycle Repair.

## OPERATIONAL REVIEW: AUTOCENTRES

Total Autocentres revenues were up 8.6% and, on a LFL basis, down 0.1%. Despite improvements in the second half, this performance reflected operational and market challenges the business faced. 23 new Autocentres were opened and three were closed in the year, taking the total number of Autocentre locations to 303. Halfords is committed to the continued investment in the Autocentres business to secure medium-term growth, though the business plans to refocus the centre-opening programme on fewer and larger new centres. Halfords will continue to close sub-optimal centres as a matter of course.

## OPERATIONAL REVIEW SUMMARY

The Halfords Retail performance was strong, driven by self-help actions and, although weather conditions were favourable for the Cycling category, they were adverse for Car Maintenance. The results illustrate how Halfords is beginning to build both its proposition and a significantly-enhanced Retail customer experience. With Autocentres focusing on the enhancement of its service proposition, underpinned by further investment, the business will deliver a more consistent and engaging experience for its Autocentre customers.

## HALFORDS BUSINESS REVIEW

Halfords' mission is to *Help and Inspire our Customers with their Life on the Move* within the following categories: *Supporting Drivers of Every Car, Inspiring Cyclists of Every Age* and *Equipping Families for their Leisure Time.*

*Equipping Families for their Leisure Time* gives the flexibility to extend the range, introduce innovative products and leverage space. However the vast majority of management's focus is currently on Auto and Cycling as these markets are significant and, with strong execution, management anticipates sustainable opportunities for growth.

The Retail strategy, *Getting into Gear*, is based on the following five elements designed to significantly enhance the customer experience:

1. *Service Revolution* — introducing a step change in customer service across Halfords stores
2. *The 'H' Factor* — reasserting our proposition authority to *Support Drivers of Every Car, Inspire Cyclists of Every Age* and *Equip Families for Their Leisure Time*
3. *Stores Fit to Shop* — investing to raise the Halfords store estate to a standard the business is proud of
4. *21st Century Infrastructure* — systems and infrastructure to support service and sales
5. *Click with the Digital Future* — creating a service-led digital proposition

# CHIEF EXECUTIVE'S INTRODUCTION CONTINUED

1 2
3

**IMAGES**

1 Further *we*fit growth.

2 Improved customer experience from our *Service Revolution*.

3 Training fuels our differentiated offer.

## SERVICE REVOLUTION

Highlights include a new recruitment process that involves centralised online application, telephone screening, interviews in store with role play and an in-store audition before an appointment is made. Since launch nearly 55,000 applicants were screened for around 1,000 vacancies. This new approach significantly raised the quality of new colleagues.

The *3-Gears* training programme was launched with virtually all eligible colleagues having completed Gear 1 by the end of the year. A number of colleagues began Gear 2 before the end of the year. 50% of colleagues are anticipated to complete Gear 2 by March 2015. Two colleagues per store will pass the Gear 3 guru level by the end of FY16.

Colleague engagement is central to the Getting Into Gear strategy, so it was particularly encouraging to see an increase in the latest Group colleague engagement survey score to 80% (FY13 77%). The result was underpinned by the good news that Halfords was recently voted as one of the 25 Best Big Companies to Work For in the UK (see *The Sunday Times Best Companies To Work For 2014*). These scores were reflected in a rise in the Retail net promoter score to 72% from a run rate of around 55% in the prior year.

## THE 'H' FACTOR

A revitalisation of the Retail product range was enhanced by the appointment of a new Commercial Director in September 2013. Examples of the refresh in the period included upgraded ranges of Boardman and Apollo cycles, trials of cycle finance in-store, extended ranges online, the introduction of wearable fitness technology and a revised private-label hierarchy that included the new *Halfords Essentials* brand.

The business also focused on the balance between third-party and private-label brands. The third-party Tenn brand in Cycling clothing was introduced in the period, whilst the upweighted focus on *Kärcher* pressure washers compared against a reduced focus on the Halfords-branded offer in Car Cleaning. Global brands such as General Electric were also introduced within the Car Maintenance category. Attention has been paid to the execution of marketplace offers at the front of store, as well the introduction of interactive merchandising.

## STORES FIT TO SHOP

Three refreshed stores were opened at the end of July 2013 wherein Halfords created a modern, engaging and friendlier store environment that encourages browsing and more interaction with colleagues. At the period end, 27 stores were trading in the new format, with a further c.50 stores planned for refresh in the new financial year. The stores refreshed so far are delivering results in line with management's plans and investment criteria. Halfords will continue improving its portfolio of Cycling departments by the end of FY16 after 100 were refreshed in the period.

## 21st CENTURY INFRASTRUCTURE

A key focus within the Getting Into Gear programme is infrastructure, particularly across IT systems and capability. Examples of the progress made include the upgrade to SAP, the core Retail operating system, completed in May 2014. New chip & PIN pads in store saved customers an average of 19 seconds per transaction, and to help colleagues, the business installed laptop computers in stores to make it easier to progress through the 3-Gears training programme. New VOIP technology across the store estate also enabled colleagues to serve customers more effectively and at reduced cost.


HALFORDS CREATED **A MODERN, ENGAGING AND FRIENDLIER STORE ENVIRONMENT** THAT ENCOURAGES BROWSING AND MORE INTERACTION WITH COLLEAGUES.

## AWARD WINNING YEAR

We were finalists in the Business Charity Awards in two categories: Charity Partnership – Retail and Leisure; and CSR Team. The Business Charity Awards are run by Third Sector magazine to recognise the outstanding contribution made by businesses in the UK to good causes.

ThirdSector
Business Charity Awards
2014 Finalist

We are also pleased to have been confirmed as an International CSR Excellence Award winner, in recognition of our commitment to community and corporate social responsibility.

The International CSR Excellence Awards

The appointment of a new Supply Chain Director was followed by a trial to deliver more frequently to store, benefitting stock availability and potentially saving a significant element of courier cost related to the *Click & Collect* proposition.

### CLICK WITH THE DIGITAL FUTURE

The goal of *Click with the Digital Future* is to create a much-improved online and omnichannel Retail experience. Phase One of the website relaunch went live in November 2013, with a different tone of voice to make the website more emotionally engaging and inspiring. A new home page included more-intuitive navigation to help all customers find what they are looking for more easily and with far fewer clicks. The system of checkout was reshaped to help customers complete their transaction more simply; this was designed to reduce the risk of abandoned baskets. Customers also now pay for their entire *Click & Collect* transactions in store. Further enhancements will be completed in due course, including social-network interactions and upgraded 'my account' functionality.

## AUTOCENTRES

The investment plan continued as new centres were opened and the business looks to improve the consistency of in-centre service. Expenditure was directed to improving the infrastructure, from new IT systems to more-efficient processing systems, enabling more effective centre management. As service is central to the Halfords strategy, colleague incentives were changed in the year to embed customer-service metrics, such as net promoter scores; colleague engagement continued to improve this year.

This customer-centric plan is vital as the business extends its differentiation from key competitors. Autocentres will also better leverage the relationship with the Retail stores. Andy Randall was appointed in March 2014 to lead the business and is focused on delivering a significantly-enhanced experience for Autocentre customers.

## COMMUNITY ENGAGEMENT

This was the first year of a major step-up in activity designed to leverage Halfords' specialist credentials in local areas through community engagement.

In FY14 over 20,000 children and parents attended a *Kids' Bike Workshops* in store to learn the basics of how to look after their bike, with 97% of parents likely to recommend the summer workshop to others. In FY15, together with the Easter holiday, stores will run the workshop in the summer and during the October half-term week, promoted through schools and links with children's organisations such as *UK Youth* and *Children's University*. Halfords now partners with the Scouts Association and supports the *Cub Cyclist Activity* badge. Building on this success, Halfords will also offer a tailored workshop in schools, focused on year-six pupils as they progress through *Bikeability* (formerly called cycling proficiency), as well as teachers seeking additional life skills to support their pupils' transition to senior school.

The partnership with *Re~Cycle* (the charity that sends unwanted bikes to Africa) went from strength to strength. In FY14 Halfords helped *Re~Cycle* double the number of containers sent to Africa through the world's largest bike trade-in event, with over 10,000 unwanted bikes donated at Halfords stores, diverting over 150 tonnes of waste to a sustainable alternative and generating £1.5m in new bike sales. In addition to more trade-in events in FY15, Halfords will also trial accepting bike donations at over 75 stores and will continue fundraising to support the £10 it costs to send a bike to Africa, with over £90,000 raised so far. In FY15 stores will also receive 'community' hours to support additional local-community activity, helping them to build closer relationships with their local communities.

Halfords has also been confirmed as the Official Mechanics Partner for the 2014 *Sky Ride Big Bike* series, spanning 14 events nationwide and supporting over 100,000 cyclists this summer. These free one-day events offer cyclists of all ages and abilities the chance to ride their bike on traffic-free streets or on cycle paths and parks in the heart of towns and cities across Britain. Halfords cycle mechanics will be a key part of the day, keeping cyclists on the move assisting with essential adjustments, cabling and tube replacements.

Halfords is also trialling a Cycle Repair Academy in Onley Prison, where a number of prisoners close to their release dates are being trained as bike mechanics with a view to being employed in Halfords stores, once released. This programme will provide Halfords with potentially very loyal, trained and motivated colleagues whilst at the same time supporting the broader goal of rehabilitation of offenders.

## CURRENT ACTIVITY

As Halfords becomes more of a Cycling business in the first half of the year, a *Summer Of Cycling* lies ahead, with major launches imminent within the Halfords cycle range. The fastest growing and second-largest volume brand in the range, *Carrera*, will undergo a complete refresh in the summer. I am particularly pleased to see *Kona* and *Mongoose*, two formidable global Cycling brands, added to our growing list of superb cycle options. The *Pinarello* brand of cycles will soon be available at 43 stores with around 50 models onlin today. These launches will coincide with a busy summer of Cycling events, with the recent Giro d'Italia Big Start in Belfast, the Tour de France's *Le Grande Départ* in Yorkshire in July and the Commonwealth Games in Glasgow in July and August.

Halfords Retail's auto business also has a busy period ahead, with the launch of *Car Parts Direct* by the end of summer 2014, wherein around 130,000 car-part SKUs will be available for prompt pick-up at Halfords stores or through home delivery. A number of smaller accretive opportunities will be progressed, including the sale of powersport and leisure batteries, the sale online of car registration plates as well as the ranging of scooter helmets.

On behalf of the Board, I would like to thank all colleagues for their immense contribution and commitment to the progress of Halfords and the implementation of the plan to reposition the business. It has been a pleasure to work with you over the past year.

**Matt Davies**
Chief Executive
21 May 2014

# AT A GLANCE

REPOSITIONING TO OFFER
**A SIGNIFICANTLY-ENHANCED CUSTOMER EXPERIENCE.**

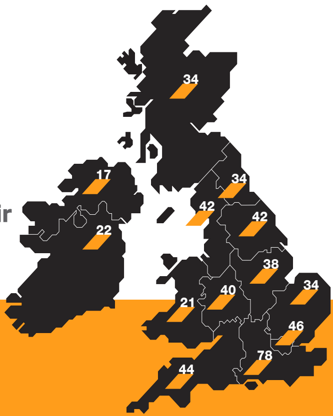
## RETAIL

Halfords Retail employs approximately 9,000 colleagues and sells around 9,000 product lines in store with significant ranges in car parts, in-car technology, child seats, cycling, roof boxes, outdoor leisure and camping equipment. Halfords Retail trades from 465 retail stores located throughout the UK and the ROI and online through **halfords.com** and **halfords.ie** websites.

**Supporting** drivers of every car

**Inspiring** cyclists of every age

**Equipping** families for their leisure time




### TURNOVER
£803.1m

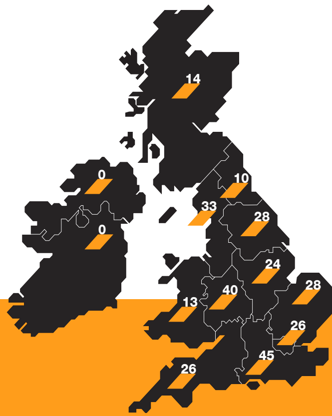
### OPERATING PROFIT (before non-recurring items)
£75.2m


Read more about:
RETAIL STRATEGY
Page 26

## AUTOCENTRE

Halfords Autocentres employs approximately 3,000 colleagues and is the UK's leading independent car servicing and repair operator offering maintenance, service, MOT and repair services at competitive prices and excellent standards of customer service. Halfords Autocentres trades from 303 car servicing centres located in the United Kingdom and online through **halfordsautocentres.com**.

**Supporting** drivers of every car



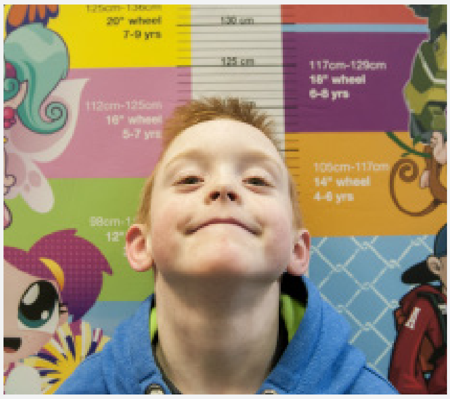

### TURNOVER
£136.6m

### OPERATING PROFIT
£4.3m


Read more about:
AUTOCENTRE STRATEGY
Page 40

STRATEGIC REPORT > STRATEGY

# MARKETS

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**IMAGES**

1 Good, better, best ranges in bulbs.

2 Matching product presentation to customer segment.

3 Engaging the next generation.

## THROUGH ITS **RETAIL AND AUTOCENTRES** BUSINESSES THE GROUP CAN EXPLOIT A NUMBER OF **DIVERSE GROWTH OPPORTUNITIES.**

Halfords has a unique role to play for UK and Irish consumers. Through its Retail and Autocentres businesses the Group can exploit a number of diverse growth opportunities. With a special place in the heart of consumers, Halfords is a powerful brand with a great heritage and strong brand equity.

Halfords Retail differentiates itself in the markets of automotive, cycling and outdoor leisure across its three strategic pillars of *Supporting Drivers of Every Car, Inspiring Cyclists of Every Age* and *Equipping Families for their Leisure Time.*

With 465 locations, Halfords Retail has a significantly favourable market position with stores being located less than 20 minutes driving distance away from 90% of the UK population. Unique offers such as ***we***fit create convenient local solutions. Halfords.com, in combination with the stores, their expert colleagues and specialist product ranges, creates a true omnichannel advantage for the business.

Over the past year Halfords' markets have been either relatively flat or, in categories such as cycling, in strong growth. It's difficult to segregate how much of the market performance was down to changing consumer behaviour, an improving economy or even the weather; however, the sustained growth in the popularity of cycling and advantageous technological changes in the Auto Aftercare category have and will benefit Halfords in the future.

## SUPPORTING DRIVERS OF EVERY CAR

After a number of years of decline, UK car mileage rose in 2013, coinciding with the highest number of new-car registrations for five years. According to the SMMT, 2,264,737 cars were registered in 2013, up 10.8% on 2012. The UK is consistently Europe's second-largest car market and was the only one to grow continually throughout 2013.

The number of cars on Britain's roads also continued to grow whilst the average age of a UK car increases each year. Technology changes progressed with around 50% of new cars coming fitted with stop-start batteries. Although the Sat Nav market remains in structural decline, technological and regulatory factors have favourably impacted the Auto Aftercare market. For instance, European Union directives regarding $CO_2$ emissions and road safety mean that more and more cars will come fitted with daylight and automatic lights, along with flat wiper-blade functionality.

With bulbs, blades and batteries ("3Bs") becoming increasingly complex to fit on new vehicles and the DIY approach to fixing cars shrinking with each generation of new drivers, the 3Bs fitting market presents Halfords with a unique opportunity to grow its current low market share. Fitting services were in significant demand throughout FY14, augmented by an enhanced marketing approach and expert service with Halfords uniquely placed to provide a value and hassle-free Do It For Me ("DIFM") level of service that more and more drivers are set to need.

Since the acquisition of Autocentres, Halfords has also consolidated and strengthened its position in the *c.*£9bn servicing market. That market was made up of nearly 40,000 outlets in 2008, dropping to less than 37,000 in 2013 as the market continues to consolidate. Halfords can and does exploit this

| 1 | 2 |
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**IMAGES**

1 New signage in refreshed stores.

2 Own brand *Urban Escape* tents.

3 Opportunities in under-represented ranges.

## WITHIN A **RAPIDLY GROWING CYCLE MARKET** HALFORDS HAS STRENGTHENED ITS CORE POSITION WHILST **PENETRATING KEY OPPORTUNITIES.**

opportunity using its scale-based business model, expanding its number of Autocentres each year.

In the Car Enhancement category the Sat Nav market shows no signs of slowing its sharp decline. However the Government remains committed to a digital future for radio with a potential switchover in the medium term. With Halfords occupying most of the in-car digital-radio market in 2013, this could have a material impact on the category for the business, though not in the short term. Halfords also made gains in audio equipment thanks to reduced competition on the high street and with the digital switchover on the horizon, this looks set to continue. In fact no other UK-wide business can match Halfords' skillset and price on either Audio fitting or Sat Nav set-up and demonstration.

## INSPIRING CYCLISTS OF EVERY AGE

Halfords is the largest player in the UK cycling market, reflecting its scale positioning and also the successful extension of its ranges into the premium segment of the cycle market in recent years. This included the introduction of the *Pinarello* brand to the range alongside a successful complete refresh of the *Boardman* series. The business also materially expanded its offer in the fast-growing Cycling Parts, Accessories and Clothing ("PACs") market during the year.

The summer of 2013 saw better weather conditions year on year, despite the fact that the October 2013 to February 2014 period was one of the wettest on record. According to Mintel, road bikes saw the strongest growth in the past year, reflecting the success of British riders in the Tour de France and the growth of UK road-riding events, known as sportives. Before Sir Bradley Wiggins' famous win in Paris in 2012, the British Cycling Association had around 42,500 members; by November 2013, it had grown to 84,250.

The number of people cycling keeps growing against a continuing trend of declining participation for other major sports. As a result, Mintel expects up to 46% growth in the value of the Cycle market between 2013 and 2018 (as a best-case scenario).

In 2013, a record number of certificates were issued by the Cycle To Work Alliance, a group of leading providers of the scheme, including Halfords. Around 100,000 new users were recruited to the scheme in 2013.

Road safety remains the greatest concern for potential UK cyclists. However, public bodies are increasingly looking to invest in Cycling infrastructure, particularly given the benefits greater participation can bring in terms of not only public health but also reduced congestion and pollution.

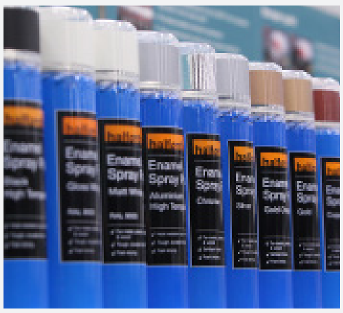
It is clear that smartphones and wearable technology play an increasingly important role for cyclists; this trend will only accelerate. In the year Halfords introduced a compelling range of wearable-fitness products from brands such as *Jawbone* and *Garmin.* A new Halfords Bikes Miles app allows cyclists to earn points for offers online and in-store, join teams, log rides and reach milestones.

Within a rapidly growing cycle market Halfords has strengthened its core position whilst penetrating key opportunities across premium, PACs, female, junior and a host of others. With a strong brand, increasingly-skilled expert colleagues, a growing range of products and brands, an extensive national network of stores being refreshed and a true omnichannel offer, Halfords' credibility as a place for *Inspiring Cyclists of Every Age* is beyond doubt.

## EQUIPPING FAMILIES FOR THEIR LEISURE TIME

This third category pillar occupies the smallest element of Halfords Retail sales. It is spread across several fragmented markets, which can be grouped under the umbrella of camping and outdoor leisure, while also encompassing a wide variety of strategically chosen impulse products. The range changes throughout the year build in a vital element of seasonality.





STRATEGIC REPORT > STRATEGY

# GROUP STRATEGY

HALFORDS **DIFFERENTIATES ITSELF** BY OFFERING UNIQUE IN-STORE SERVICES, A COMPELLING PRODUCT RANGE AND EXPERT SERVICE.

**Supporting** drivers of every car

**Inspiring** cyclists of every age

**Equipping** families for their leisure time

Our objective is to maximise value for our shareholders. To this end our Retail and Autocentres divisions focus activities around our mission to help and inspire our customers with their life on the move.

We do this by focusing on significantly enhancing the customer experience at our stores and centres while operating our business as a good corporate citizen.

Operating in fragmented markets, our core activities of retailing and car repair services leverage the Halfords brand to consolidate a range of products and services for motorists, cyclists and family leisure time. In Retail this means promoting our 465 stores, halfords.com and product categories in which we hold leading market positions and in our Autocentre business through our 303 Autocentres and halfordsautocentres.com.

With a focus on organic growth in retail we continue to position ourselves as the destination for products and services that enhance our customers' use of their car, their bikes and their touring activities. We support drivers of every car by providing the products, services and expertise required to take the hassle out of motoring and making driving more enjoyable. We are able to both encourage our customers to do it for themselves as well as provide a fast cost effective way for us to do it for them in-store. We are dedicated to providing the right level of service to our customers, from stocking in-store and online a comprehensive assortment of car parts, through a price competitive, 7 days a week on-demand fitting service, to a full service and repair offer through the national coverage afforded by our Autocentres.

With over 100 years' heritage in cycling, our service, expertise, brands and product range are unsurpassed and we will continue to offer these products and services whether it be to customers who are purchasing their first bike or a top-of-the-range *Boardman* road bike. We aim to inspire cyclists of every age and to build on our service and brand credentials as well as providing a leading national range of parts, accessories and clothing, contributing to the growing popularity of cycling as a healthy and environmentally friendly form of transport.

Supported by the development of our own range of camping equipment and roof boxes, we equip families for their leisure time, making the most of their journeys and their time outdoors. With the demand for a more active lifestyle and the desire for the enjoyment of simple family pleasures, such as camping, Halfords offers a range of great range of leisure products from travel accessories, travel equipment and camping solutions.

In order to deliver our promise of supporting drivers of every car, inspiring cyclists of every age and equipping families for their leisure time, we will continue to offer a unique range of products, which are constantly innovated and extended. They are matched by an honest and trustworthy service delivered by our trained, enthusiastic and knowledgeable colleagues in-store, at the autocentres and online thereby helping our customers, from novices to enthusiasts, to work out exactly what they need.

Our unique store fitting service and competitive autocentre repair service gives customers the choice of having us do it for them or doing it themselves. We deliver convenient and value solutions to our customers, where they can get what they need when they need it, through our extensive store network with market-leading coverage, open 7 days a week, and 24/7 online, with a market leading omnichannel offer available to order or reserve. Our autocentre network can deal with planned and emergency work alike.

We provide our customers with solutions that offer real value by balancing convenience, range and service.

OUR STRATEGY IS BUILT ON OUR VISION TO **HELP AND INSPIRE OUR CUSTOMERS WITH THEIR LIFE ON THE MOVE.**

STRATEGIC REPORT > RETAIL STRATEGY

# RETAIL STRATEGY

| Strategic Pillars | Our Customer Promise | Getting into Gear | KPI's | Risks | Remuneration |
|---|---|---|---|---|---|
| | PRICES YOU CAN TRUST<br>QUALITY YOU CAN TRUST<br>RANGE YOU CAN RELY ON<br>SERVICE THAT WOWS | service revolution<br>the 'h' factor<br>stores fit to shop<br>21st century infrastructure<br>click with the digital future | We have a number of key performance indicators and milestones that allow management to monitor the performance of our strategy. These are shown in more detail on pages 42 and 43 and on pages 52 to 57. | Like all businesses, our Group faces risks and uncertainties that could impact the achievement of the Group's strategy.<br>These risks are accepted as being a part of doing business and are described in more detail on pages 64 and 67. | There are a number of incentive schemes available across the business, which aim to deliver growth and key projects aligned with the Group's strategy. Details of executive remuneration and incentives can be found on pages 90 and 110. |

## GETTING INTO GEAR

WE PLAN TO OFFER CUSTOMERS THE ABILITY TO SHOP IN A **WARM, INVITING AND ENGAGING STORE ENVIRONMENT.**

The execution of this strategy is central to our aim to build a sustainable business that not only drives profitable top-line sales growth, but also seeks to promote a strong work culture with a focus on colleague development. This is combined with a determination to provide a customer shopping experience based on friendly expertise. We know that this will lead to more customers, visiting more often, taking advantage of more products and services, creating value for our shareholders.

### service revolution

P28

We aim to offer a significantly enhanced Halfords Retail experience for our customers. We have embarked upon a series of changes to how we get the best from our colleagues, introducing our 3-Gears training programme to enable colleagues to serve customers knowledgeably and to support them going that extra mile. We've also executed a number of management programmes for colleagues and managers whilst focusing on improving our selling communications and our product availability. The services that we offer customers have been enhanced by our colleagues and have delivered product-specific fitting training, improving skills and capability. All of this has been done with the customer in mind so that we can enhance the trust that our customers have in our brand and our colleagues and deliver service that wows every time.

## the 'h' factor

P 31

We will ensure that Halfords is the No.1 destination for the products that we offer. Our Auto offer, the largest part of our business, looks to support drivers with the servicing, maintenance and enhancement of their motor vehicles. In Cycling we are already the largest retailer of cycles in the UK, selling bicycles into all areas of the market, with *Boardman* at the heart of our premium range and the biggest UK cycling brand *Apollo* being used for the majority of our customers' leisure and short commute rides.

In FY15 we shall be launching a new range of junior bikes within *Boardman* and relaunching our fast-growing *Carrera* brand as well as adding more parts, accessories and clothing to our store range.

Camping and associated products have been a focus for Halfords over recent years and we will be looking to build on past successes of equipping families for their leisure time by introducing new ranges of camping accessories, wearable fitness products and offering 'bundled' products.

## stores fit to shop

P 34

We plan to offer customers the ability to shop in a warm, inviting and engaging store environment. To do so we have commenced a refresh project within our store portfolio, with many undergoing redevelopment as part of our *Stores Fit to Shop* refresh programme. We are improving signage both externally and internally, giving customers clear information about store segregation and product usage. We have reallocated space in some stores to accentuate our specialist offer in Auto and Cycling, enabling stores to range more bikes and to provide a more relevant environment in which to shop. We are introducing digital technology into stores allowing customers to look up products for their vehicles and to order extended-range products online. Our colleagues are also very much part of the Halfords shopping experience and changes are being introduced to our stores to ensure that they become central to the services we offer and to the overall customer journey.

## 21st century infrastructure

P 36

We will have a Supply Chain & IT infrastructure that supports our delivery and availability aspirations both in-store and direct to customers. Technical improvements must be considered to enable our business to fulfil its potential. Shopping online or in-store needs to be seamless and easy, improving availability and ensuring that our customers feel engaged. We'll ensure our colleagues are supported to serve customers with access to product information that is accurate, timely and interactive. Our supply chain needs will be flexible to meet the needs of our customers and our stores, helping stores maintain on-shelf availability with more regular out of hours deliveries and delivering web-based orders at a time and place convenient to the customer.

## click with the digital future

P 38

Our website will continue to evolve to both help and enhance our customers' shopping experience. To ensure that we meet the challenges of a changing retail marketplace we are significantly improving the website, introducing How To Guides whilst launching a Halfords app and simplifying our *Click & Collect* process. We can now give our customers the opportunity to book services online in both the Retail and Autocentre businesses. We are now in the process of rolling out tablets to all stores to help our expert colleagues provide better information to our customers. All these improvements are essential as we move to a truly omnichannel model.

WE WILL ENSURE THAT HALFORDS IS THE **NO.1 DESTINATION** FOR THE PRODUCTS THAT WE OFFER.

TO READ ABOUT OUR AUTOCENTRE STRATEGY TURN TO PAGE 40

# GETTING INTO GEAR | SERVICE REVOLUTION

## HELP AND INSPIRE OUR CUSTOMERS WITH THEIR LIFE ON THE MOVE

### 1 GREAT PLACE TO WORK

- We're all colleagues - one team
- Genuine concern for colleagues
- Committed to our local communities

### 2 SHOPS TO BE PROUD OF

- Full, clean, inspiring stores
- Continuous improvement
- Acting like an owner

### 3 WOW EVERY CUSTOMER

- Always going the extra mile
- Passion for solving customer issues

### 4 SERVICES THAT MAKE US THE BEST

- Linking the omnichannel world
- Unrivalled auto fitting
- Industry-leading cycle repair and service
- One Halfords

service revolution

Our Retail Service Revolution is all about *Helping and Inspiring Our Customers with their Life On The Move* and has four clear objectives. To make Halfords a great place to work; to provide shops that we are proud of; to have services that make Halfords the best; and to WOW every customer.

OUR COLLEAGUES ARE **ABSOLUTELY CENTRAL** TO THE GROWTH PLANS WE HAVE.

### 1 A GREAT PLACE TO WORK

Quite simply a great place to work creates a great place to shop. Last year we recognised that in this part of our Service Revolution programme we had to improve our approach to recruiting the very best people and provide a structured development programme for all our colleagues. All of this is underpinned by the ambition to deliver a friendly, expert service for our customers.

During the year we introduced a new process to recruiting store colleagues. Now they apply online, their application is screened; candidates are then telephone interviewed and if successful they go to store for a rigorous three-stage process: an interview, a role play and a 'road test'. We now have the opportunity to see candidates in action before offering them a job making sure they are right for Halfords and Halfords is right for them.

In May 2013 we launched the 3-Gears programme, focusing on practical training as well as e-Learning, whereby all elligible colleagues now undertake a structured three-month induction (Gear 1), followed by a programme lasting up to nine months (Gear 2), which includes workshops, e-learning and demonstrable expertise on the shop floor. Gear 3 focuses on high-skill training for a limited group of colleagues which will establish them as real technical experts in Auto or Cycling.

We now have our eligible colleagues through Gear 1 and we are now focusing on Gear 2 with the aim to get 50% of colleagues through this part of the programme by the end of FY15. We have supported the completion of 3-Gears in stores by putting laptop computers into our stores which enable colleagues to work on the training in-store before or after their shifts.

The 3-Gears programme is just one part of our development activity. In addition, we have developed and built the Aspire, Accelerate and Engage programmes. Aspire is a structured programme to help colleagues develop into their first Assistant Manager role and for current Assistant Managers to develop into Store Managers. Accelerate is a three day leadership programme for store managers whilst

## CUSTOMER FEEDBACK

**"I AM RETIRED AND I WAS NEEDING HELP WITH CHOOSING PAINT TO COVER UP SCRATCHES ON MY CAR. I WAS SERVED BY AN ASSISTANT CALLED LEWIS HIGGINS HIS CUSTOMER SERVICE WAS ABSOLUTELY OUTSTANDING"**

**DT**
*BRISTOL, WINTERSTOKE ROAD STORE*

Engage is a programme for our Area Managers that also focuses on leadership skills.

All these activities show that we are fully committed to our colleagues, their well-being and development. Our colleagues are absolutely central to the growth plans we have, so the Board was delighted that our colleagues voted Halfords as one of the Sunday Times 25 Best Big Companies to Work For in the UK (February 2014). We are striving to become a truly great place to work.

### 2 STORES TO BE PROUD OF

Our stores need to be places that our colleagues are proud of and that our customers are happy to visit. There is a need to improve and strengthen our operational standards – the essential element of managing great stores. This year we have focused on our price mechanics, labelling, merchandising and basic availability standards. We have also worked hard on resource planning and holiday management to ensure we have the right colleagues in the right place at the right time.

We have also introduced a balanced scorecard of measures that allows us to identify great and poor performance in our stores. This is key to our store operations as we will never be satisfied or complacent about the level of service our customers deserve. Some examples this year have been the introduction of trading feedback, changes to rotas to meet colleague and store needs, as well as simplifying our communications from the Support Centre.

### 3 WOW EVERY CUSTOMER

Last year as well as recognising that we need the right people in store we also recognised that we need to create an environment in which colleagues had the time and expertise to delight our customers. We knew that we needed to reduce the amount of time our colleagues spent on non-value added tasks, increase customer contact time, and incentivise colleagues to deliver a great customer experience and thereby drive sales.

Reinforcing the ethos that the customer is the most important person in the store is key to our business and we continue to make sure our teams prioritise customers over other tasks they have to perform. We have prioritised net promoter score ("NPS") as our key service metric and over the year we saw it rise to 72%. We are also making sure that we understand why, if things go wrong, what we have to do to stop that happening again. We have a real opportunity to solve customers' problems using our wide range of products, colleague expertise and genuine concern for the customer. To illustrate this, the imminent roll-out of tablets in every store will give us a further opportunity to delight our customers with an extended range of products and online ordering in-store.

## WE ARE PROUD THIS YEAR TO BE ON THE SUNDAY TIMES 25 BEST BIG COMPANIES TO WORK FOR LIST.

We continue to aim to be an employer of choice, where our colleagues enjoy equal opportunities to help our customers and prosper within a rewarding and inspiring team.

THE SUNDAY TIMES 25 BEST BIG COMPANIES TO WORK FOR 2013

STRATEGIC REPORT > RETAIL STRATEGY

# GETTING INTO GEAR | SERVICE REVOLUTION CONTINUED

## 4 SERVICES THAT MAKE US THE BEST

Halfords' position as a natural destination for auto and cycling products makes it a natural place for us to offer associated services. Sophisticated car production is causing a long-term shift amongst customers from a Do it Yourself ("DIY") to a Do it for Me ("DIFM") attitude. As the UK's No.1 Cycling retailer we are in a position to support our customers' purchases with advice, bike builds, bike care plans and service and repair. As our 3-Gears programme bears fruit this service area gives our colleagues the opportunity to showcase their expertise.

Within our Car Maintenance category we supply our unique ***we***fit service, especially with the fitting of bulbs, blades and batteries ("3Bs"). This offer allows our colleagues to build a close relationship with our customers, developing an understanding of our customers' needs and offering further help and advice as appropriate. It offers convenience for the customer, with parts being professionally fitted at the point of purchase. At one point in 2013 our stores were fitting a bulb, blade or battery for our customers every six minutes!

We also offer a ***we***check service free of charge to customers to ensure that any automotive part or consumable required is not only needed, but is the correct part for their vehicle. All of our stores provided customer reference lists and we are rolling out digital vehicle registration look-up devices to enhance this offer.

In our Cycling category we build our customers' bikes free of charge, but where this is not the case we provide a ***we***assemble service. We provide ***we***service where, on purchase of a bicycle, we provide a free six-week check. Customers can also purchase a bike care plan ("BCP") to have the labour element of any regular maintenance covered. A focus of the last year has been ***we***repair as we seek to develop our colleagues' expertise in repairing and servicing cycles and enhance Halfords' credentials as a comprehensive Cycling destination. Details of the number of jobs performed in FY14 and of the associated revenues can be found on pages 54 and 55.

We are an equal opportunities organisation with clear expectations about how we all behave both internally and with customers and other stakeholders, including in relation to diversity and gender. Historically there has been a tendency for more males than females to be attracted to working in our stores and autocentres; however, through our recruitment, talent and development programmes we seek to become more reflective of the customers and communities that we serve.

**WE HAVE CARRIED OUT 4.46m *we*fit/ *we*repair JOBS IN FY14.**

# GETTING INTO GEAR | THE 'H' FACTOR

the 'h' factor

Halfords is an iconic British brand with a strong heritage, having over 100 years' presence on the UK High Street in both the Auto and Cycling categories. However, we needed to do more, so in FY14 we began our journey to reassert our Retail proposition authority by ensuring our offer is more relevant for our customers.

WE WILL CONTINUE TO BRING **NEW PRODUCTS AND INNOVATIONS** TO OUR CUSTOMERS OVER THE COMING YEARS.

## SUPPORTING DRIVERS OF EVERY CAR

Our Auto offer comprises Car Maintenance and Car Enhancement. It's the largest part of our Retail business, representing around 47% of Group revenues and the changing nature of the Auto market means we are well placed to exploit material opportunities.

The number of cars on British roads continues to grow and overall mileage is starting to increase for the first time since 2008. The age of the car parc continues to increase and newer cars on the road have added complexity, both of which lend themselves to our unique Car Maintenance proposition.

In FY15 our Car Maintenance category will continue to be driven by initiatives across our product ranges and service offering, including car parts. bulbs, blades and batteries ("3Bs") represent a significant growth opportunity for us, with the parts and labour market estimated to be worth around £1bn. Halfords currently has a relatively low market share. In FY14 we sold 5.3m bulbs and fitted 37% of them and we will continue to enhance the breadth of our car parts range by bringing innovative and specialist products to market. As the technology in wiper blades develops we will be extending our range to include flat blades and widening our range of rear-wiper blades as retail aftermarket demand increases. More and more new cars are being fitted with batteries that feature start-stop technology and with the knowledge and capability to fit these types of batteries we will be a cost-effective service to our customers.

In the Car Enhancement category we are well prepared for any forthcoming digital radio switchover. During the year we launched an exclusive range of Pure in-car digital radios. This is a strong partnership with the leading brand in in-home digital radio and has already delivered an award-winning product. We will continue to bring new products and innovations to our customers over the coming years.

## INSPIRING CYCLISTS OF EVERY AGE

Cycling has always been at the core of the Halfords offer, from the opening of the first shop in Charlotte Street, Birmingham in 1892 through the opening of the out-of-town retail stores in the 1990s to today's interest in Cycling as a healthy and fun activity.

We cater for all cyclists, from young children to families to commuters to premium cyclists. Our range of products includes a large number of SKUs from the UK's biggest bike brand *Apollo*, our fastest-growing bike brand *Carrera* to our premium brand *Boardman* and our newest brand *Pendleton.*

We recently relaunched much of the *Apollo* range with 21 bikes redesigned to appeal to the very broad spectrum of customers, who range in age from 12 to 72. This new range is all about making Cycling accessible to everyone, and making our bikes specific to their leisure needs. We undertook a lot of customer research to ensure we got this right and we're really pleased with the results we hope our customers will be too.

A new range of *Carrera*, our second-largest bike brand by volume will be launched in June 2014. We're delighted with the performance of the brand, in part driven by a very successful spot-buy programme.

STRATEGIC REPORT > RETAIL STRATEGY

# GETTING INTO GEAR | THE 'H' FACTOR CONTINUED

**"THEY'RE BRILLIANT — EVEN THE CUSTOMERS ARE COMMENTING."**

**GREG SAVAGE**
*DERBY STORE*

We will also be taking advantage of our market position to attract more junior riders to Cycling and will be launching specifically designed junior bikes for every need across *Apollo*, *Carrera* and for the first time, *Boardman*. Now our aspiring, junior customers will be able to choose from hybrid, road and premium bikes.

Halfords also implemented a major acceleration of its presence in the Cycling Parts, Accessories and Clothing market ("PACs") during FY14. This represents an exciting opportunity for growth and during 2014 our stores will feature a larger range of PACs products with more space allocated to clothing, merchandised by gender and product type. We're moving closer and closer to something for everyone in clothing and we have introduced a great value range starting at £10 for a jersey under the *Tenn* brand.

Complementing this we have released space in some stores for our Cycle Repair offer and delivered Cycle Repair training as part of our 3-Gears programme as we seek to re-establish Halfords as a comprehensive Cycling destination.

## EQUIPPING FAMILIES FOR THEIR LEISURE TIME

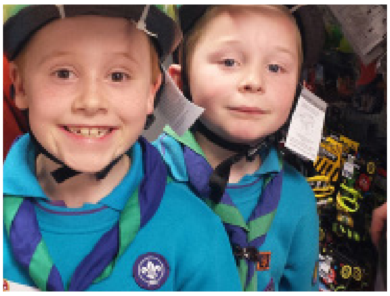
As we leverage the heritage of Halfords into *Equipping Families for their Leisure Time* we have focused not only on products but also on customer convenience. We have refocused our camping offers on two specific markets, introduced new promotions on camping accessories, and will be trialling pop-up *Click & Collect* collection points. We are also focused on making life easier for our customers - where additional items and fitting are required to fulfil our customers' needs, we will be introducing bundled 'complete' prices that our customers can trust e.g roof boxes

We will look to take advantage of a new area for the business - the rapidly growing wearable fitness and well-being technology, driven by the success of technology within the Cycling category. The expansion of the fitness and well-being market, along with a stream of innovations in wearable technology, will see Halfords also offering fitness solutions. A wide range of products and brands will be available, from Cycling GPS, running watches, health-tracker wristbands and action cams, such as the *Go Pro* brand. We will also offer an extended range online to include additional accessories.

## THE 'H' FACTOR

All of our product-ranging activities are designed to leverage the heritage of over 100 years' presence on the British retail scene. Our repositioning has only just begun as we recreate our 'H'-factor! — the confidence and trust with which customers can turn to Halfords as the natural destination for their Auto, Cycling and Leisure needs.

**20,000 CHILDREN AND PARENTS ATTENDED KIDS' HOLIDAY BIKE CLUBS.**



Read more:
KIDS HOLIDAY BIKE CLUBS Page 35

# CASE STUDY
# APOLLO BIKES

Halfords have been selling *Apollo* bikes since 1930, and with over 80 years of heritage, it is now the number one bike brand in the UK for bikes sold – over 170,000 bikes per year and the second most recognised bike brand in the UK, with 43% recognition amongst mainstream cyclists.

As a result, the brand is really important to Halfords, and is our second most profitable bike brand. Halfords have approximately 80% consideration from the mainstream customer, and they form the heartland of our current customer base.

The current *Apollo* adult range is 3½ years old, and in real need of a refresh to match the expectations of the Halfords customer.

When beginning the redesign of the complete range back in summer 2012, we had the following key objectives:

- Update the visual appearance and specification of the bikes
- Improve the positioning of the *Apollo* brand as the solution to mainstream cyclists needs
- Focus on improving female specific designs
- Target incremental markets, such as teen and older Mountain Bike customers
- Increase profitability of mainstream bikes

Customer focus groups had informed us that bike design was as important to them as specification when choosing a mainstream bike, so we invested in making the bikes look as contemporary as possible whilst maintaining good value specification to meet the needs of mainstream cyclists. Consequently design moved away from “literal” graphics towards cleaner designs.

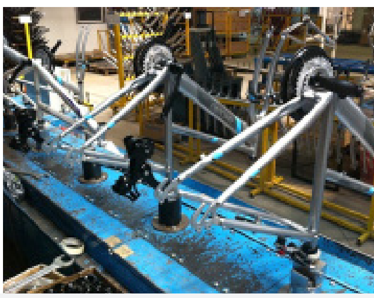
Key learnings from customer focus groups both pre- and post-bike design was that the new range offers something for everyone, with very strong value for money. Most noticeably, the progress in female bike designs was highlighted as a success and a positive move.

As part of the sourcing strategy for the new range, we widened the factory base that produces *Apollo* bikes. This involved developing existing factories so that they could produce higher-spec bikes, as well as building relationships with new suppliers and thus increasing our supplier base.

The new bike range spans 21 models in total, grown from 17 models in the previous range. we seek to maximise on incremental market opportunities, and to invest in hybrid as a fit-for-purpose option for the leisure cyclist.

Nine of these models were launched in September 2013 to provide a new offer and marketing message for the key Christmas trading period. These models were backed with a large stockholding to ensure a strong Christmas availability. The brand sold 24% more volume in Q3 FY14 vs. Q3 FY13.

The remaining models were launched between October 2013 and January 2014 to give a new range message in store for spring. This has been supported by new point-of-sale in store to highlight the newness of the bikes and the great deal for customers.

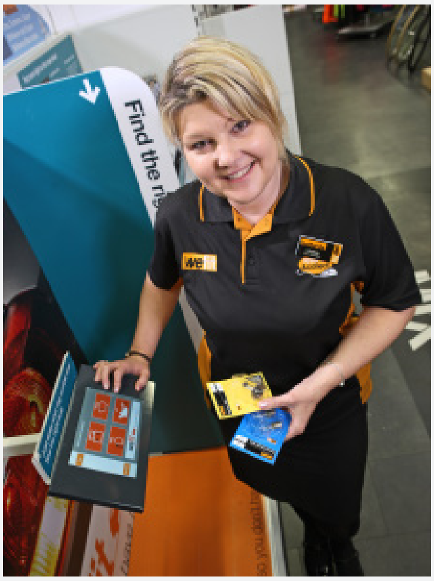


STRATEGIC REPORT > RETAIL STRATEGY

# GETTING INTO GEAR | STORES FIT TO SHOP

## stores fit to shop

We acknowledged last year that we needed to improve our stores. With only low levels of investment in the past decade, the priority was to create a modern, engaging and friendlier store environment that encourages browsing and more interaction with colleagues.



1
2

**IMAGES ABOVE**

**1** Digital product selection improves the shopping experience.

**2** Colleagues with tablets broaden product range and add video capability.

In July 2013 three refreshed stores were opened in Evesham, Coventry and York. They were designed for customers to feel the warmth and personality of the Halfords brand and to find the products and services they need more easily, bringing our ***we***fit and our ***we***repair offers to life.

These stores were also designed to support the digital customer, the smartphone user, and the online buyer. Around 90% of our online sales are collected in-store, so we make this process easy and obvious, with better collection points and communication to customers.

We also leveraged our store space better to maximize sales opportunities. For example, the Cycling category space was increased by 50% to more appropriately represent its store sales participation.

Learning from this initial launch, additional stores were converted to the refreshed format, so that by the end of the year, 27 stores were trading in the refreshed design. We showcased the Evesham store to investors and sell-side analysts in March 2014.

Along with progressing our modest refreshes of every single Cycling department by March 2016, we will continue to roll out a variety of refresh models in the coming years, from light touch to full scale, with the ambition of having around 150 stores refreshed by the end of financial year 2016. Whatever treatment a store gets, our vision is based on a ten-point plan that clearly demonstrates how we want to enhance the customer experience so that we can leverage sales:

1. **Invite Me In** — Installing new external signage that specifically tells our customers who we are and what we do.
2. **Showcase *we*fit and Cycle Repair** — In-store services help to differentiate Halfords from our competitors and this is central to our *Getting into Gear* strategy.
3. **Customer Guidance** — Introducing clear signage to direct and guide customers in their buying decisions.
4. **Space Reallocation** —Reallocating space in-store in line with sales participation. This will allow us to range more bicycles and also to segment them better.
5. **Enliven the Customer Journey** — Making the store environment more fun and creating a pleasurable shopping experience.
6. **Digital Relevance** — Introducing digital technology to improve the shopping experience and making the whole process more convenient.
7. **Showcase Colleagues** — Colleagues are central to our service proposition and as their expertise grows we want them to be available to customers and for customers to see them in action.
8. **Communicate Value** — We want our customers to clearly understand our pricing messages, to know they are getting value for money.
9. **Considerate Customer Experience** — We have thought about the customer journey and are introducing small but helpful benefits, such as a bike park with free air for customers.
10. **Category Stories** — We want the way we display products to help customers understand what they do and whether they need them.

## KIDS' HOLIDAY BIKE CLUBS

# PARENTS WERE ASKED FOR FEEDBACK VIA AN ONLINE SURVEY FOLLOWING EVERY WORKSHOP — 98% FOUND THE SUMMER WORKSHOPS USEFUL AND 97% WOULD RECOMMEND THEM TO OTHER PARENTS.

Commencing in Easter 2013, we have offered a free Kids' Holiday Bike Clubs for children and their parents. This was an opportunity for our stores to engage with a new generation of customers and welcome parents in-store who may not otherwise have visited us. Run during the school holidays, the clubs show children aged 7 to 11 years old, and their parents, the basics of bike maintenance, providing the perfect starting point for children to return home and, together with their parents, make sure their bikes are looked after and safe.

**Link to more information: www.halfords.com/bikeclub**



STRATEGIC REPORT OVERVIEW
STRATEGIC REPORT STRATEGY
STRATEGIC REPORT PERFORMANCE
STRATEGIC REPORT RISK
GOVERNANCE
FINANCIALS
SHAREHOLDER INFORMATION

STRATEGIC REPORT > RETAIL STRATEGY

# GETTING INTO GEAR | 21st CENTURY INFRASTRUCTURE

## 21st century infrastructure

Halfords Retail's strategy is clear: we need a 21st century supply chain and IT infrastructure to support our aspirations in delivering a significantly-enhanced customer experience. Our aim is ensure customers can purchase what they want whenever they visit stores, either because the product is on our shelves or because they have the opportunity to order goods for prompt delivery or collection.

DURING THE YEAR WE HAVE ACKNOWLEDGED THE NEED FOR OUR SUPPLY CHAIN TO DELIVER A **CONSISTENT, CONVENIENT AND RELIABLE CUSTOMER EXPERIENCE.**

This means that our distribution centres hold the right stock and are able to pick orders accurately. It also requires the supply chain capability to deliver in a timely manner, at a time to suit our customers. It also means that we need the right IT solutions to support these activities, allowing customers to benefit from short delivery lead times, choosing from our extended range of products online.

### IT

Recently our IT team has been significantly reorganised to provide the appropriate building blocks to support the business as a whole. Our capability is now based on simplifying the technical solutions used within the Company, putting relevant and quality information at the heart of our improvement processes.

During FY14 our IT department has supported:

- The launch of new faster card-payment processes in stores
- A trial to introduce free wi-fi into stores
- Moving all store telephony onto a Voice-over-IP network, reducing costs and delivering a more robust solution
- The inclusion in our refurbished stores of video screens, informing customers of our additional service offerings and providing engaging product information on our ranges, together with point-of sale-messaging via video
- The trials of tablets in store, enabling colleagues to have access to the Halfords extended range via halfords.com
- The upgrade of SAP, the core operating platform for the business, was completed in May 2014

Over the next twelve months IT projects that will support the business in delivering its customer promises include:

- A project to enable store colleagues to place orders for next-day delivery
- Supporting improvements in distribution centre processes
- Refreshing store and distribution centre hardware
- Introducing a new set of email and collaboration tools to improve knowledge-sharing

### SUPPLY CHAIN

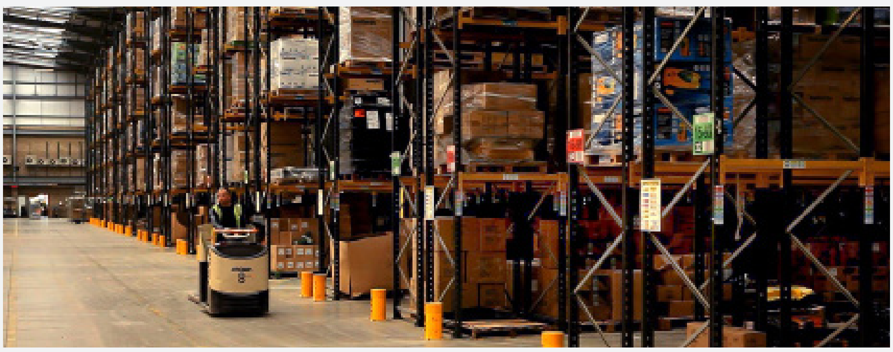
During the year we have acknowledged the need for our Supply Chain to deliver a consistent, convenient and reliable customer experience and to do this we will be enhancing the standards of our supply chain operations. We will focus on procurement and stock management, delivery scheduling and improving the working environment for our colleagues. We will work more closely with our suppliers, ensuring we have an efficient end-to-end supply chain, whilst adopting a continuous improvement methodology across all operations. We will also improve flexibility, lead times and standardise operating principles.

We are committed to putting our customer at the heart of all supply chain activity. We will support sales by balancing stock across the UK and the Far East to stabilise lead times. We have already introduced out-of-hours deliveries to 90 stores and are trialling more frequent deliveries to stores in the UK and Ireland.

We know that customers' delivery expectations are continually evolving; no longer are the protracted timescales of the past acceptable. Customers want their purchases delivered when it's convenient for them across all channels, so we need to deliver against these high expectations such as the capability to book the building of a bike or have a Sat Nav product fitted. All of this requires 21st century supply systems delivering 21st century customer solutions.

IMAGE

Coventry Distribution Centre.



## CASE STUDY


In 2012, Halfords embarked on a review of their payments infrastructure with the aim of developing a long-term strategy across all payment systems and processes. Not only did we want to refresh our PIN Entry Device (PED) estate and future-proof our systems in relation to PCI DSS compliance but we also wanted to give customers a great shopping experience whilst minimising the cost of change.

We identified that a managed payment service would best meet our requirements and following a comprehensive procurement exercise, selected FIS as our Payment Services Provider (PSP) partner.

FIS provided PA-DSS certified EFT software (TRANSAXpay EFT) which meets the latest encryption guidelines as laid down by the PCI Security Standards Council. This software encrypts card data at the point of PIN entry to ensure no card data is held “in the clear” on the Point of Sale (PoS) system or Halfords network. Card data is routed through the FIS Payment Gateway, a PCI DSS Level 1-certified environment, for authorisation, settlement and financial reporting. When used in conjunction with certified processes, the scope and cost of PCI compliance for retailers can be drastically reduced.

Following integration with Halfords BT Expedite PoS, we commenced a pilot scheme in July 2013, in a single store with 3 PEDs. After an initial 2 week period, a further 8 PEDs were added in two stores to the pilot scheme for a 1 week period. A further pilot to 43 stores and 217 PEDs quickly proved that the concept logic and the roll out strategy worked. We then initiated an aggressive roll out strategy which resulted in the successful roll out of 2,400 PEDs over a 14 week period. At peak, 411 PED’s were rolled out in 1 week and the full roll out completed in October 2013.

Peter Lawrence, our Principal Business Analyst commented: “This was a text book project, roll out completed on time and to budget. We have never had so much positive feedback from store colleagues on how quick the new PEDs are.”

The FIS’ TRANSAXpay solution has enabled us to maintain PCI DSS compliance whilst improving the customer payment experience through reduced queue times and enhanced card data security.

Internal surveys at our stores have shown that on average New CHIP & PIN pads in over 300 stores saved our customers 19 seconds per transaction, meaning we now have one of the fastest card transaction times in UK retail in these stores.

In support of the above, Halfords has provided FIS with a selection of ‘Payment Card Performance Monitor’ data that we have collated from various stores during the pilot phase. The data shows the time difference in performing various stages of the card payment transaction process, before and after the implementation of the TRANSAXpay solution, and the overall time saving for comparison.

STRATEGIC REPORT > RETAIL STRATEGY

# GETTING INTO GEAR | CLICK WITH THE DIGITAL FUTURE

## click with the digital future

An online proposition is now a big part of the retail landscape, enhancing consumer shopping experiences with increased product availability, improved product information, price transparency and many delivery options. At Halfords we have recognised that as a 'brick and click' retailer we can harness both the power of the internet and the use of smart devices to attract, retain and delight our customers.

52% OF OUR DIGITAL BUSINESS IS CONDUCTED USING **MOBILES OR TABLETS.**

## WE'RE REVAMPING OUR **MOBILE WEBSITE** EXPERIENCE

**EVERYTHING** FROM UPDATING **THE DESIGN** TO HOW PEOPLE USE **THE ONLINE CHECKOUT**


## TOP 5 DIGITAL CHANGES OF THE YEAR

### 1 SITE REDESIGN

The extensive redesign of pages across the desktop and tablet site has eliminated clutter, making navigating around the site quicker and easier. The homepage has been split out across four pillars - Cycling, Motoring, Sat Nav & Car Audio, and Touring & Child Seats. Product list pages have also been redesigned to make key information clearer for each product. As a result of these changes conversion rate is now up by 19% across the site.

### 2 HOW CAN I GET IT?

By removing duplicated content from the product detail page, space has been left for a 'how can I get it?' section. This allows the customer to clearly see the delivery and collection options for all products.


### 3 SIMPLIFIED CHECKOUT

The previous checkout system was far too long and complex, and didn't allow customers to purchase products reserved from stock in store in combination with goods from the distribution centre. As a result we've removed 50% of the current steps for a more streamlined checkout process, and improved the shopping experience for our customers - leading to a 9% increase in checkout completion.

### 4 VIDEOS

We've undertaken a huge video project with well over 200 product videos being shot, including the full *Boardman* 2014 range and many of our other brands such as *Apollo*, *Carrera* and *Pendleton*. Over 50 How To Guides and 45 Buyer's Guides have also been filmed, which are designed to give our customers advice and help them make their purchase decisions. All videos are available to view on Halfords.com or on our Halfords YouTube channel.

### 5 NEW ADVICE CENTRE

We've completely redesigned our advice centre in order to make finding help and advice faster and easier for our customers. Articles and videos are now searchable and categorised by pillar. Customer Services pages and FAQs have also been improved, and products are now listed alongside relevant advice. We have also added advice to the mobile site for the first time.

**TRIAL STUDY**

## TABLETS

**WE WANT TO GIVE CUSTOMERS THE BEST EXPERIENCE ONLINE AND IN-STORE. WE ARE EXPLORING THE USE OF TABLETS AS THEY CAN PROVIDE A WIDER RANGE OF INFORMATION AND ASSIST OUR STORE COLLEAGUES.**

**CLIVE WEST**
*DIGITAL*

In November 2013 we completed the first phase of our Retail website redesign. We changed the look and feel of the site, segmenting the site into four distinct areas. We enhanced product and service communications by adding nearly 100 cycling videos and 50 How To Guides and we also reduced the number of steps to purchase by 50%. In April 2014 we added new features to keep evolving and improving the cycling experience including a bike-selection guide, downloadable cycling routes and a bespoke cycling app.

We also simplified our *Click & Collect* process allowing orders to be split, with part being delivered to store for immediate pick and part delivered direct to home – around 90% of orders are collected from store. Customers also now pay for their entire *Click & Collect* transactions in-store with further enhancements due for completion in due course, including social network interactions and upgraded 'my account' functionality.

We also took a leaf from the Autocentres business and developed an online booking system for customers who wanted to use services that we provide in store such as ***we***build and ***we***fit.

As mobile and tablet browsing and shopping are forming a larger part of the customer journey, *c.*52% of our digital business is conducted using mobiles or tablets; we plan to continue enhancing the mobile journey. Importantly we also recently extended the current order cut-off time from 3pm to 6pm for next day delivery.

As we move to a true omnichannel business we will also be reviewing how we bring the best of the website into stores. We will be rolling out colleague tablets to assist our store teams in selling the extended ranges available online, the ability to sell cycle credit and also access all the product videos and How To Guides in our stores.

We will continue to invest in our online and digital solutions, leveraging our store portfolio so that each supports the other in delivering the ultimate customer shopping and service experience.

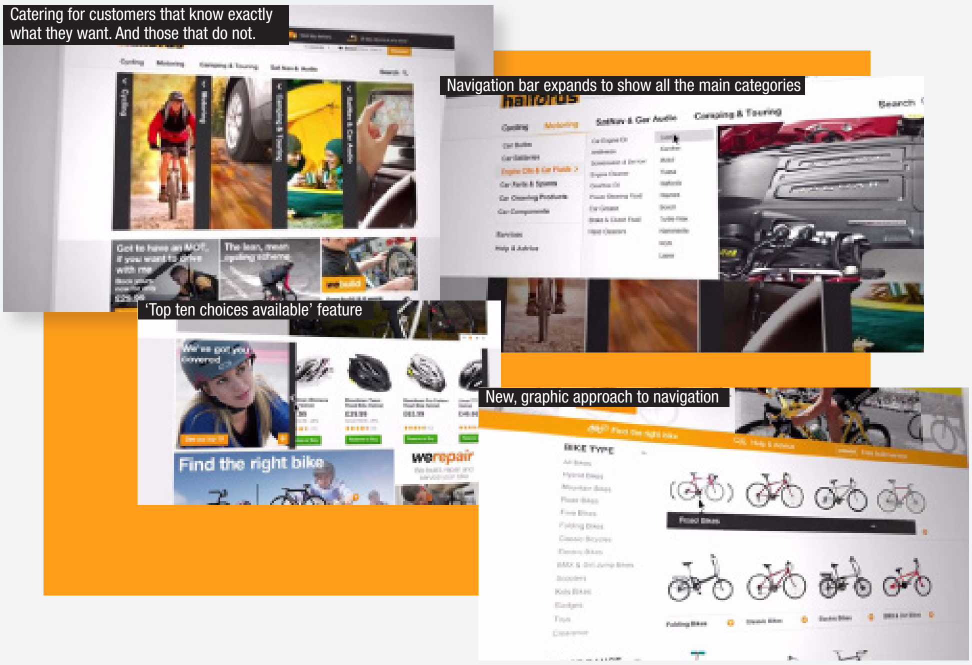
## OUR NEW **WEBSITE:**

**SIMPLE, FOCUSED** AND **EASY** TO NAVIGATE

**ENTERTAINING AND RESPONSIVE** CONTENT

NOW WITH **FOUR** MAIN PRODUCT AREAS

NEW **PREVIOUSLY VIEWED ITEMS** MENU



Catering for customers that know exactly what they want. And those that do not.

Navigation bar expands to show all the main categories

'Top ten choices available' feature

New, graphic approach to navigation

ABOVE ALL, WE BELIEVE IT IS A GREAT EXAMPLE OF A **BEST PRACTICE** WEBSITE.

**Watch the video at: http://www.halfordscompany.com/media-centre/videos**

# AUTOCENTRE STRATEGY | SCALING THE PROPOSITION

halfords autocentre
MOT | service | repairs

**DURING THE YEAR WE ACKNOWLEDGED THAT 62% OF CAR OWNERS VALUE TRUST ABOVE OTHER FACTORS.**

## CUSTOMER FEEDBACK

**"FROM WHEN WE FIRST WENT IN WE WERE TREATED VERY WELL. THE RECEPTION WAS CLEAN, TIDY AND WARM. THE MANAGER CARL WAS VERY HELPFUL AND EXPLAINED WHAT WAS GOING TO HAPPEN. THE TYRES WHERE FITTED BY JOHN WHO LEFT OUR CAR UNDER COVER SO WE DID NOT GET WET WHEN WE DROVE IT AWAY, IT WAS RAINING QUITE A BIT! WHAT I THOUGHT WAS GREAT WAS THAT THAT WHEN THE TYRES WERE FITTED JOHN WASHED THE WHEELS AS PART OF THE JOB, THIS IS A FIRST FOR ME AND I HAVE BEEN DRIVING FOR OVER 40 YEARS. WELL DONE TO THE TWO LADS."**

CUSTOMER
*AINTREE AUTOCENTRE*

FY14 has been a challenging year for our Autocentres business. At the beginning of the year car servicing was still regarded by customers as discretionary spending and in the first half of the year our sales were -2.1%LfL recovering to flat for the full year. In the second half of the year a mild winter meant that the usual business associated with that time of the year did not come through in the expected volumes.

The year also saw a change of leadership. In August, Bill Duffy left the business to be replaced on a temporary basis by Andrew Findlay, Chief Financial Officer and Autocentres Chairman. Andrew remained in charge until March 2014 when Andy Randall arrived as the new Managing Director for Halfords Autocentres. Andy will lead the business through the next phase of its development.

The Autocentres business *Supports Drivers Of Every Car* and complements our retail offer in meeting the Do it for Me ("DIFM") requests of our customers. Our ambition is to be the Best Garage in Town and to do so we are using elements of Halfords Retail's *Getting into Gear* strategy to influence our services, centres and colleagues.

## THE 'H' FACTOR

Just as in the Retail business, trust is an important part of our offer. During the year we acknowledged that 62% of car owners value trust above other factors, with location and price as the next two factors. We seek to earn our customers' trust by giving them an enhanced customer experience, offering a strong brand, delivering a quality service at affordable prices and getting it right first time.

## SERVICE REVOLUTION

In order to revolutionise our service and augment our customers' experiences we have enhanced our online proposition and improved the online booking experience with an increased number of job slots. These initiatives are based on improving the expertise of our colleagues and delighting our customers. Over the year we have successfully improved customer feedback, with the number of respondents scoring us 10 out of 10 increasing from 49% to 60%.

## THE BEST GARAGE IN TOWN

In February we opened our 300th centre in Accrington. We've increased the number of centres by a third since the business returned to the Halfords family in February 2010. Our centres are equipped with modern diagnostic tools and are able to perform work on any car without invalidating any warranties. Our colleagues are experienced, trained and passionate and we operate the largest independent apprentice scheme in the motor industry. We never fail to offer employment to our apprentices who complete the three-year training scheme.

We continue to make investments in multiple training programmes underpinned by investing in a new Learning Management System. It is important that to offer the best customer service we recruit, train, develop, engage and support our colleagues creating an environment in which they want to work.

## CLICK WITH THE DIGITAL FUTURE

The new Autocentres website, launched in July, offers a much-improved service for online customers. There's a new Quick Book facility and clearer search and menu functions. We have introduced an 'Advice Centre' which highlights general advice, guides and specific events. Customers can search for help on such topics as brakes or air conditioning. Current hot topics include the Plain English Guide to Garage Jargon, How to Shell out Less on Fuel, and How to Prepare for an MOT.

## 21st CENTURY INFRASTRUCTURE

Our infrastructure continues to develop. Aware that our customers want flexibility as well as service we now have around 90 centres opening on Sundays. Tyres have become an important part of our offer and we continue to review our diagnostic solutions to ensure we have the capability to service and repair all marques of vehicle.


1
2
3

IMAGES

1 Retail offer promotion in conjunction with Autocentre.

2 Autocentres friendly professional service.

3 Highly trained vehicle technicians.

## CASE STUDY

**OUR MOT GUARANTEE HAS HELPED MANY CUSTOMERS SAVE MONEY WHEN FACED WITH EXPENSIVE MOT REPAIR BILLS AND WE HAVE A NUMBER OF LOYAL CUSTOMERS WHO REQUEST IT EVERY YEAR.**

**SIMON BENSON**
*OPERATIONS*

STRATEGIC REPORT > STRATEGY

# MILESTONES

We have set operational milestones for both internal and external use. These are not financial metrics but sustainable profitability will flow from the delivery of these milestones. The following are some of the milestones that will support our growth targets.

**MILESTONES: COLLEAGUES**

| | FY14 Target | FY14 Achieved | FY15 Target | FY16 Target |
|---|---|---|---|---|
| 3-Gears | All qualifying colleagues through Gear 1 | ✔ | 50% of colleagues through Gear 2 | 80% of colleagues through Gear 2 |
| | | | | Two Gear 3 colleagues per store |
| Reduce % of Colleagues Leaving within 3 months | | | <12.5% | <10% |
| Colleague Engagement | | | | >85% |

**IMAGE LEFT**

Navigating our customers on the Halfords journey.

**IMAGE RIGHT**

Improved store displays enhanced the customer experience.

**MILESTONES: OPERATIONAL**

| | FY14 Target | FY14 Achieved | FY15 Target | FY16 Target |
|---|---|---|---|---|
| Autocentres Opened | 20-30 | 23 | 10-15 | 10-15 |
| Launch PACs | ✓ | ✓ | | |
| Annual PACs Sales Growth | | | 20% | 20% |
| Cycle Repair Sales Growth | 25% | 29% | 25% | 25% |
| Improved Cycle Departments | 100 | 100 | 180 | 180 |
| Stores in a Refreshed Format | 10-15 | 27 | *c.* 55 | *c.* 70 |
| Launch New Retail Website | ✓ | ✓ | | |
| Mobile & Tablet-optimised Site Launched | ✓ | ✓ | | |

**MILESTONES: CUSTOMERS**

| | FY14 Target | FY14 Achieved | FY15 Target | FY16 Target |
|---|---|---|---|---|
| Retail Net Promoter Score | >60% | 72% | >75% | >75% |
| Stores working stock outside peak trading hours | 25% | 33% | Majority of stores | |

STRATEGIC REPORT > STRATEGY

# SUSTAINABILITY

Halfords has a clear Group strategy for how we operate our business to benefit our customers and colleagues, and of course, to generate value for our shareholders. We recognise that to be successful in achieving our Group strategy Halfords must contribute positively to the world in which we operate. Acting responsibly in all our operations, and towards our colleagues, customers and other stakeholders, supports the delivery of our Group strategy and thereby benefits our business and our brand.

As part of this, in January 2013 we recognised that the development of a Community Strategy was a fundamental part of our Group strategy. Hence, a dedicated Community & CSR Manager was appointed to explore opportunities for developing and implementing community programmes. Since then, with the support of the Chief Executive Officer and Chairman, she has focused on building the foundations for a long-term Community Strategy.

The Chief Executive Officer is responsible for the alignment of our wider sustainability initiatives with our Group strategy. Executive Management monitor the achievement of related KPIs.

We endeavour to monitor our exposure and response to sustainability issues, to preserve not only our business, but also the environment and the local communities in which we operate.

## COMMUNITIES

Our extensive store and autocentre network puts us in an ideal position to become the hub of our local communities.

We have made significant progress, developing links with local communities by launching various initiatives to inspire cyclists of every age with a particular focus on primary school-age children.

## RE~CYCLE

In 2013, we agreed a long-term charity partnership with Re~Cycle, a UK charity that sends unwanted bikes, going to waste in sheds and garages across the country, to Africa. We are proud to support this initiative because in some areas of Africa, a bike can be the only means of transport. Owning a bike enables people to travel to work or school, and carry goods or passengers, whilst small scale farmers and traders can reach customers further afield.

The bikes can similarly be an invaluable resource for travelling health workers and provide access to training and employment, helping to improve lives in a sustainable way. However, bikes can be too expensive for the majority in Africa. Additionally, the skills to maintain the bikes might not exist.

As part of our partnership, we have opened our stores to donations from the public through National Bike Trade-In Events, thereby diverting unwanted bikes from landfill/disuse to more constructive and sustainable use. To date over 10,000 bikes have been donated by the public, diverting 150 tonnes from landfill/waste. We are also pleased to be able to share our skills and knowledge to support the charity's growth.


Since 1997, Re~Cycle has sent around 53,000 bikes to Africa, as well as parts and tools. We hope that through our partnership, Re~Cycle will be able to build on the fantastic work it has already achieved and inspire more and more cyclists of every age across Africa.

**You can read more about Re~Cycle on their website - http://www.re-cycle.org/**

### RAISING OVER £90,000 SO FAR

An additional facet of our Re~Cycle partnership is that all our colleagues connect with their local communities, whilst having fun raising money to cover the cost of sending bikes to Africa. This also provides incidental team building opportunities for our colleagues. Highlights in the last year in our stores and Support Centre include cycle rides, fun days, Snowdon and Ben Nevis challenges, cake sales, raffles, continuous turbo trainer contests and car washes amongst other fun activities, some even in fancy dress!

## BEN

Our Autocentres have a long-term partnership with BEN,the dedicated charity for those who work, or have worked, in the automotive and related industries, as well as their dependants. BEN provides practical, emotional or financial support, as well as day, nursing and residential care across the country for older people in the automotive community.

## SCOUTS ASSOCIATION

Building on the success of our Kids' Holiday Bike Clubs (see page 35), it was a natural progression for us to team up with the Scouts Association to help 2,200 Cubs achieve their Cyclist Activity badge by attending an in-depth workshop at our stores. These give our store colleagues additional opportunities to inspire our future customers and foster closer links with our local communities.

**Link to more information: http://scouts.org.uk/halfords**

## MOVEMBER

In 2013, our colleagues formed the biggest company network in Europe for Movember helping to increase the profile of men's health with colleagues and customers across our stores and autocentres in a fun way.

## PARTNERSHIP WITH ONLEY PRISON

Through the Ministry of Justice, we are starting a partnership with Onley Prison to provide skills training and employment opportunities for ex-offenders.

## COLLEAGUES

As we recognise that our Retail colleagues are central to our progress on the Retail Getting into Gear journey as described on pages 26 to 39, we support them on our 3-Gears training and colleague qualification programme.

Similarly, we invest in our Autocentres colleagues via our training academy apprenticeship programme. This comprises a three-year fully funded technician programme leading to the Institute of Motor Industry NVQ 3 and Diploma. In twenty years of operation, we offered employment to the majority of apprentices who completed the three-year scheme. In addition, we offer a range of technical and management qualification opportunities to our Autocentres colleagues via our IMI accredited Academy of Learning.

We are proud this year to be on The Sunday Times 25 Best Big Companies to Work For list. We continue to aim to be an employer of choice, where our colleagues enjoy equal opportunities to help our customers and prosper within a rewarding and inspiring team.

We recognise that it is the continued trust of our colleagues, customers, suppliers, shareholders and other stakeholders that is central to the ongoing delivery of our strategy. Whether it be their trust in our commitment to our diverse workforce or in the way we do business; maintaining their trust is of paramount importance to us.

**Retail Colleagues**

| Gear 1 | Gear 2 |
|---|---|
| 7,023 | 234 |

1
2
3

**IMAGES**

1 Scouts Association.
2 Scouts Association.
3 Movember: Europe's Biggest Single Company Network 2014.

STRATEGIC REPORT > STRATEGY

# SUSTAINABILITY CONTINUED

## DIVERSITY

**Total Women**

| 2014 | 2013 | 2012 |
|---|---|---|
| 24% | 25% | 26% |

**Women in Stores**

| 2014 | 2013 | 2012 |
|---|---|---|
| 28% | 29% | 28% |

**Women in Senior Management Team[1]**

| 2014 | 2013 |
|---|---|
| 22% | 13% |

**Women in Distribution Centre**

| 2014 | 2013 | 2012 |
|---|---|---|
| 19% | 16% | 13% |

**Women on the Board[2]**

| 31 May 2014 | 1 March 2014 | 2013 |
|---|---|---|
| 33% | 25% | 14% |

**Women in Autocentres**

| 2014 | 2013 | 2012 |
|---|---|---|
| 3% | 1% | 1% |

[1] This comprises the individuals in the business who fall into the definition of other senior managers in The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

[2] On 1 March 2014 Helen Jones was appointed. On 31 May 2014 Keith Harris and Bill Ronald will retire from the Board.

## CHARITY FUNDRAISING

We are an equal opportunities organisa tion with clear expectations about how we all behave both internally and with customers and other stakeholders, including in relation to diversity and gender. Historically there has been a tendency for more males than females to be attracted to working in our stores and autocentres, however through our recruitment, talent and development programmes we seek to become more reflective of the customers and communities that we serve. Our approach to Diversity is further described on pages 80 and 82.

## ACCESSIBILITY

We endeavour to ensure that our stores and autocentres are accessible to both our colleagues and customers, providing a comfortable and convenient environment in which to work and shop.

## HEALTH AND SAFETY MANAGEMENT

We are committed to minimising the risk of injuries and ill health to our colleagues, contractors, customers, visitors and others who come into contact with our business. As such, we are committed to high standards of occupational health and safety. Our overall incident rate remains below the industry benchmarks.

## HUMAN RIGHTS

We are committed to upholding human rights. The Halfords Code of Conduct on Ethical Trading states our policy on legislation, child labour, conditions of employment, wages and benefits, health and safety and environmental policy.

We undertake all reasonable and practical steps, including factory, warehouse and tied accommodation inspections and audits, to ensure that our standards are being implemented throughout the businesses of our suppliers and that local legislation and regulations are complied with. We will assess any instances of non-compliance on a case-by-case basis and will then tailor remedial action appropriately. We will only trade with those who fully comply with this policy or those who are taking verifiable steps towards compliance.

We oppose the exploitation of children and young people and, in addition to national employment laws, we require of our suppliers that children under the age of 14 years, or those below the age for completion of compulsory schooling, must not be employed full-time.

We oppose the exploitation of workers and we will not tolerate forced labour, or labour which involves physical, verbal or psychological harassment, or intimidation of any kind. We will not permit the exploitation of, or discrimination against, any vulnerable group. Workers must have the right to form and join organisations to facilitate freedom of association and collective bargaining and all workers must have written employment details, which must pay due regard to the welfare of individuals. We support fair and reasonable rewards for workers. Wages should reflect local norms and should meet or exceed any legal minimum wage levels. Wages must be paid in cash, or by cheque or bank transfers. Workers must receive full written details of their pay. While local and cultural differences will be observed, workers must not be expected to work in excess of 60 hours per week on a regular basis, including overtime. Any overtime must be voluntary. Workers will be entitled to at least one day off in seven. Individual workers have the right to choose not to take their days off should they so wish.

We require that appropriate health and safety training, including training in fire safety, be provided for all people in all working areas. All activities must be carried out under conditions that have proper and adequate regard for the health and safety of those involved. Management arrangements must be in place to detect, avoid and respond to potential threats to health and safety.

We promote our own business objectives with those in our supply chain to minimise the environmental impact of our operations and also encourage the consideration of social issues in business.

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| **Number of Audits Undertaken**[1] | 136 | 111 | 113 | 51 | 79 | **75** |
| **Percentage of Suppliers Covered** | 91 | 99 | 99 | 96 | 95 | **95** |

[1] During the year we have continued to rationalise our supplier base, reducing the number of suppliers that we engage with. As a result whilst the number of audits conducted has reduced we have maintained our audited coverage in line with our internal targets.

In addition, we have a company-wide Anti-Bribery & Corruption policy which prohibits payments to public officials. Support Centre colleagues have this year participated in a training programme which seeks to refresh the principles of the policy, and undertaken a compulsory test thereafter. It is planned to undertake this training/testing programme on a yearly basis.

Available here: http://www.halfordscompany.com/investors/governance/policies/anti-bribery-corruption-policy

A Whistleblowing policy also exists as described at page 89.

## THE ENVIRONMENT

We recognise that in today's marketplace consumers have an increasingly wide choice of retailers from which to make their purchase. This means that as well as reasonable price and the quality of the services they receive, the quality and provenance of the products become ever more relevant to our customers' decision-making process.

Similarly, we seek to better understand the direct and indirect effects of our business activities. In so doing, we are better able to manage not only our impact on the environment but also our operations.

### STANDARDS

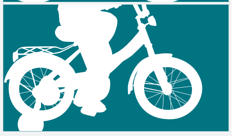
Our product specifications demand that they are consistent with or are stronger than relevant legislation, international conventions and codes of practice. The upholding of these high standards is scrutinised by our quality control procedures, as well as via our mystery shopper programme. This enables us to respond to any inadequacies identified. We are also monitored by external organisations such as VOSA and Trading Standards.

Additionally, we are pleased to often work alongside trade associations, research institutes, standards authorities, universities and government organisations to improve standards and safety, and develop and influence best practice. For example, we continue to work closely with WHICH Magazine on Child Seat Fitting, and with the IMI for in-car electrical installation

STRATEGIC REPORT > STRATEGY

# SUSTAINABILITY CONTINUED

## NUMBER OF CYCLE RANGES STOCKED

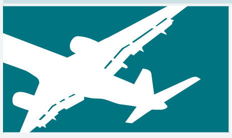
| | | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|
|  | Total Bikes | 150 | 160 | 178 | 170 | 179 | 189 | 177 | **198** |
|  | Child Bikes | 50 | 60 | 71 | 73 | 77 | 82 | 82 | **85** |

2014 saw us achieve 15% year-on-year growth in our cycle2work business. We also passed the milestone of providing over 500,000 cycle2work bikes to organisations across the public and private sectors since the scheme launched. This success is reflected in the latest Cycle to Work Alliance data for 2014, which reflects our strong performance and increase in cycle2work market share.

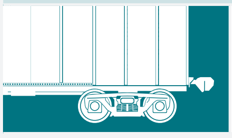
Conscious that the majority of our products are sourced overseas, we limit our use of air freight. Where possible we ship our products which, once landed in the UK, are brought by rail to our Coventry and Redditch Distribution Centres.

This year we have seen an increase in tonnes airfreighted due to improved reporting and certain sales requirements but predominantly as a result of having to airfreight 61.6 tonnes of bikes from Cambodia due to shipment delays caused by strikes immediately before the Chinese New Year shutdowns. This was an exceptional requirement for air freight and we anticipate our levels of air freight returning to normalised levels in subsequent periods.

## TONNES OF PRODUCT AIRFREIGHTED

| Retail[1] | | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|
|  | Tonnes of Product Airfreighted | 187.0 | 67.6 | 29.0 | 89.2 | 177.0 | 36.8 | 11.8 | **84.7[2]** |

## NUMBER OF CONTAINERS MOVED BY RAIL

| Retail[1] | | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|
|  | % of Total Containers Moved | 41 | 67 | 69 | 61 | 78 | 93 | **90** |

Our commitment to helping the environment is evidenced by our participation in the CRC Energy Efficiency Scheme[3] which is designed to improve energy efficiency and cut emissions in large public and private sector organisations. Other examples of our commitment are a green recycling initiative which will commence in May 2014 and see 24 stores backhaul and recycle plastics, wiper blades and scrap metals at the Distribution Centres. In addition, the Distribution Centres will be establishing a Halfords Lift Share website to promote car sharing as part of their Green Travel Plan. All our Autocentres deliveries are made from local branches in small vans that are route managed.

[1] Retail only. All goods supplied for Autocentres are from local branches within England, Scotland and Wales.

[2] Includes exceptional air freighting of 61.6 tonnes of bikes from Cambodia due to shipment delays caused by strikes immediately before the Chinese New Year shutdowns.

[3] More information available here: https://www.gov.uk/crc-energy-efficiency-scheme-qualification-and-registration

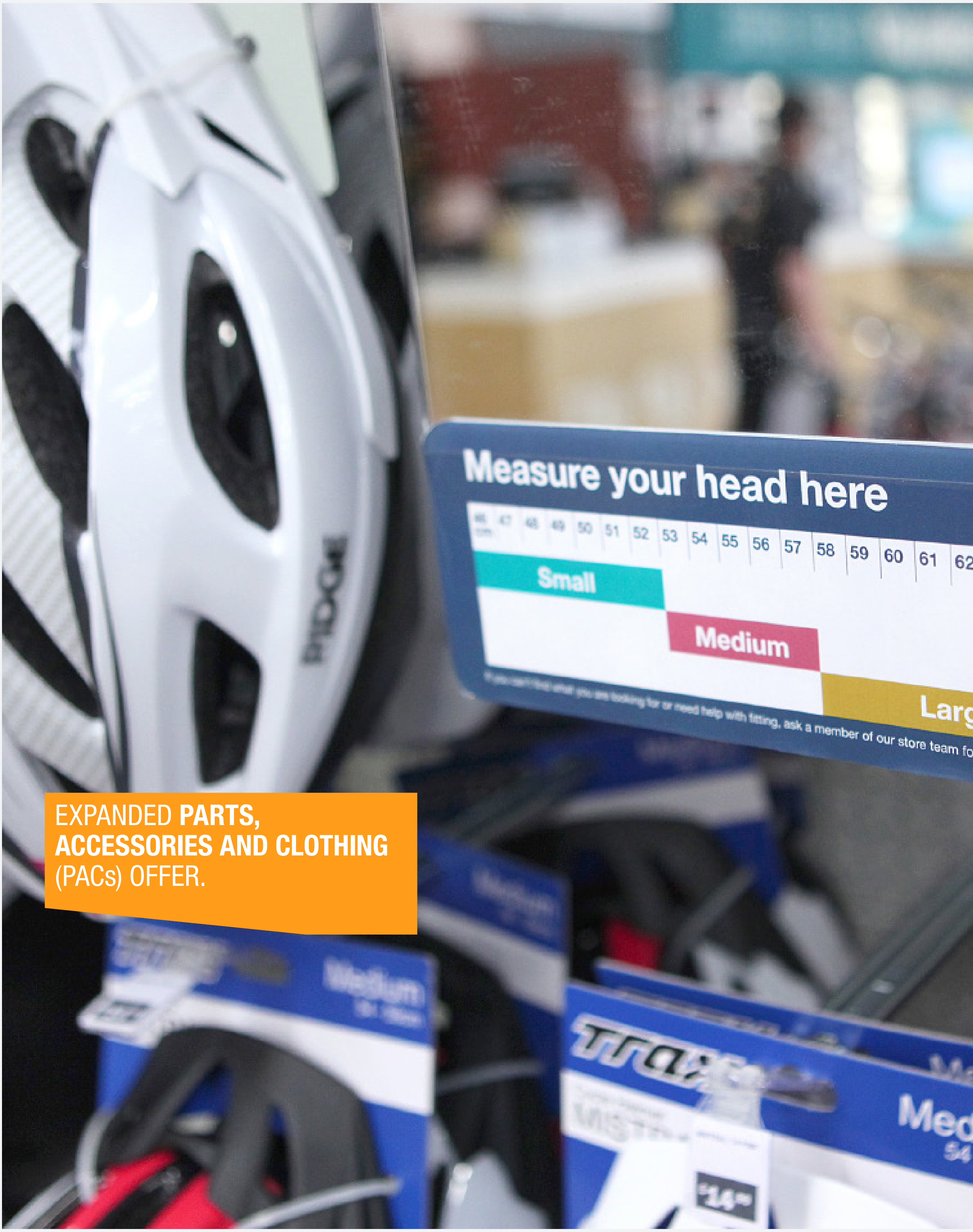
The following table provides measures for the impact of our operations in the financial year. The mandatory data required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 is included here. Data for all material emissions which are within are operational control and therefore our responsibility are included.

## MEASURES OF THE IMPACT OF OUR OPERATIONS

| | 2014 | 2013 |
|---|---|---|
| **Distribution Centre Transport** | | |
| Kilometres Driven Total | **7m** | 6.2m |
| Kilometres Driven Retail | **6m** | 5m |
| Litres Fuel | **1.9m** | 1.83m |
| Number of Retail Deliveries | **30.2k** | 29.7k |
| Volume Delivered | **689.5k BFE[1]** | 616.5k BFE[1] |
| Efficiency : BFE[1] per Load | **52.6 BFE[1]** | 51.97 BFE[1] |
| **Distribution Centre Operations** | | |
| Units Despatched | **69.5m** | 63.7m |
| Units Received | **68m** | 66.7m |
| Bikes Despatched | **1.2m** | 1.03m |
| Bikes Received | **1.5m** | 1.2m |
| E-Fulfilment Orders | **350k** | 307k |
| E-Fulfilment Units Despatched | **580k** | 514k |
| Warehouse Pallet Moves | **467.3k** | 413.4k |
| Distance Travelled, Internal MHE[2] to the Distribution Centres | **600k miles** | no data available |
| **Recycling** | | |
| Distribution Centre Driven Recycling Revenues (cardboard, plastic) | ***c.*£300k** | no data available |
| Tonnes of Car Batteries Recycled by Retail | **2017 (equivalent to 134,000 batteries)** | 1725 (equivalent to 115,000 batteries) |
| Car Batteries Recycled by Autocentres | **4,897** | 3,891 |
| Tyres Recycled by Autocentres | **321,445** | 297,482 |
| Oil Recycled by Autocentres | **950,568 litres** | 950,957 litres |
| % of Autocentres Waste Recycled | **84** | 60 |
| **Water Consumption** | | |
| Retail Water Consumption | **71,485.02 $cm^3$** | 71,775.47 $cm^3$ |
| Autocentres Water Consumption | **42,277$cm^3$** | 36,925 $cm^3$ |
| **Global Greenhouse Gas Emissions[3]** | **$tCO_2E$** | $tCO_2E$ |
| Retail Combustion of Gas | **7,190.31** | 9,297.84 |
| Autocentres Combustion of Gas | **3,092.46** | 2,146.43 |
| Cars on Company Business[4] | **850.52** | no data available |
| Retail Directly Purchased Electricity | **23,117.81** | 21,998.54 |
| Autocentres Directly Purchased Electricity | **3,124.54** | 2,691.12 |
| **TOTAL** | **37,375.64** | 36,133.93 |
| Company's Chosen Intensity Measurement: $tCO_2E$ per £1m Group Revenue | **39.77** | 41.47 |

Halfords recognises that its business can have a direct, as well as an indirect, effect on the environment and the data given will allow us to monitor this effect and to make improvements where feasible. We are committed to understanding any impact that our products, stores, autocentres, Support Centre and delivery fleet have on the environment and will manage these responsibly.

1. Bulk Flow (picking cage) Equivalent
2. Mechanical Handling Equipment
3. Carbon Trust Conversion Factors Energy and Carbon Conversions 2013 update.
4. Average Petrol Car and Diesel Car Carbon Trust Conversion Factors Energy and Carbon Conversions 2013 update. Mileage taken from Expense Claims.




EXPANDED **PARTS, ACCESSORIES AND CLOTHING** (PACs) OFFER.


# STRATEGIC REPORT
## PERFORMANCE AND RISK



ONLINE
Read more
halfords.annualreport2014.com

STRATEGIC REPORT > PERFORMANCE

# SHAREHOLDER KPIs

| KPI | Definition | Commitment |
|---|---|---|
| **Underlying Profit** | Measures the normal underlying performance of the business after removing non-recurring items | The Board considers that this measurement of profitability provides stakeholders with information on trends and performance |
| **Underlying Earnings per Share** | Underlying profits as defined above divided by the number of shares in issue | EPS is a measure of our investment thesis and as such we aim to manage revenues and margins and invest in long-term growth. |
| **EBITDA** | Earnings before Interest, Tax, Depreciation and Amortisation | The Board considers that this measurement of profitability is a viable alternative to underlying profit and uses this measure to incentivise management. |
| **Dividend per Ordinary Share** | Cash returned to shareholders as a return on their investment in the Company | To maintain this policy whilst retaining the flexibility to invest when opportunities are identified. |
| **Total Revenues** | Total sales revenues from all business activities | The Group is committed to growing sales in all of its core trading activities. |
| **Net Debt** | Bank debt plus finance leases, less cash and cash equivalents both in-hand and at bank | The Group remains strongly cash generative and continues to invest in the business. The Board is committed to maintaining an efficient balance sheet, returning any surplus capital not required to fund growth to shareholders. |
| **Free Cash Flow** | Cash generated from activities, less taxation, capital expenditure and net finance costs | The Group has a track record of robust cash generation which the Board intends to continue. |



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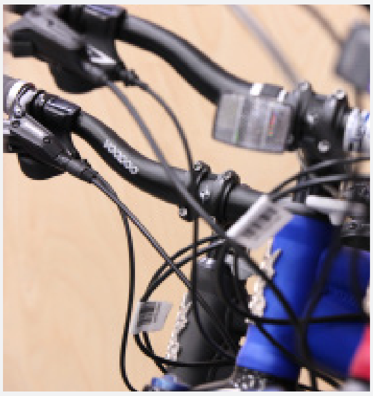
IMAGES

1 Improved signage and displays in refreshed stores.

| Annual Performance | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Group revenues were up 7.9% year-on-year, however Group gross margin fell by 110 basis points and operating costs rose by 6.7%. This and the continued investment in another 20 autocentres meant that underlying profit rose by 1.1% year-on-year. | £117.1m | £125.6m | £92.2m | £72.0m | **£72.8m** |
| As a result of the increase in underlying profit before tax EPS rose by *c*.4%. | 39.7p | 43.2p | 33.7p | 27.7p | **28.8p** |
| The reduction in Group EBITDA is as a result of a £2m reduction in Autocentres operating profits. | £143.8m | £153.2m | £123.6m | £103.4m | **£101.1m** |
| The Board has recommended a final dividend of 9.1 pence per share (FY13: 9.1 pence). The Board continues to recognise the importance of dividends but believes that such dividends should be prudently covered by earnings and will continue to maintain a *c*.2× dividend cover over the medium term. | 20.0p | 22.0p | 22.0p | 17.1p | **14.3p** |
| At £939.7m Group revenues were up 7.9% year-on-year. Retail revenues at £803.1m were up 7.7%, whilst Autocentres revenues at £136.6m were up 8.6%. | £831.6m | £869.7m | £863.1m | £871.3m | **£939.7m** |
| The Group has continued its strong track record of operating cash generation. | £155.5 | £103.2m | £139.2m | £110.6m | **£99.6m** |
| Free cash flow FY14 is stated after a one-off tax payment of £21.0m in order to settle prior year tax laibilities and also reflects continued capital investment. | 142.8m | £96.4m | £70.4m | £71.8m | **£39.5m** |

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**IMAGES**

1 Improving attachment rates through presentation and training.

STRATEGIC REPORT > PERFORMANCE

# RETAIL KPIs

| KPI | Definition | Strategy | Execution | Commitment |
|---|---|---|---|---|
| **Like-for-like sales** | Like-for-like-sales represent revenues from stores trading for greater than 365 days and include revenues denominated in foreign currencies translated at constant rates of exchange | | ■ Service Revolution<br>■ Store Portfolio<br>■ Digital Future<br>■ Proposition<br>■ Infrastructure | We are committed to maximising our like-for-like sales opportunities in whatever economic environments we find ourselves. |
| **Gross Profit Percentage** | Gross Profit expressed as a percentage of Sales | | ■ Service Revolution<br>■ Store Portfolio<br>■ Digital Future<br>■ Proposition<br>■ Infrastructure | Gross Profit is an important indicator of the Company's financial performance. Within the business we focus on maximising cash generation. |
| **Gross Profit** | Gross Profit expressed as actual GBPs | | | |
| **Underlying EBITDA** | Earnings before Interest, Tax, Depreciation and Amortisation | | | The Board considers this measurement of profitability a viable alternative to underlying profit and uses this measure to incentivise management. |
| **In-store Services** | The stores offer a fitting/repair service when customers purchase replacement products such as car bulbs, windscreen wiper blades and batteries (3Bs) | | ■ Service Revolution<br>■ Store Portfolio<br>■ Digital Future<br>■ Proposition<br>■ Infrastructure | Expert knowledge, advice and service remain at the heart of the Halfords customer offer, and specifically through fitting. This differentiates and defends the Halfords offer and generates attractive levels of return. |
| **In-store Service Income** | The sales revenue generated from all our fitting and repair services, including the sale of Bike Care Plans | | ■ Service Revolution<br>■ Store Portfolio<br>■ Proposition | Expert knowledge, advice and service remain at the heart of the Halfords customer offer, and specifically through fitting. This differentiates and defends the Halfords offer and generates attractive levels of return. |
| **Stores Trading in a Refreshed Format** | The layout and offering within our stores is important as the 2-formats of choice (superstore and compact) allow us to reach both large and small catchment areas | | ■ Store Portfolio<br>■ Proposition | We will continue to review the lines available in each of our formats of choice, looking to refresh or refurbish as appropriate as we believe this enhances like-for-like sales growth in these stores. |
| **Underlying Costs (as a % of sales)** | Operating expenses from the Retail business activities expressed as a percentage of sales | | ■ Service Revolution<br>■ Store Portfolio<br>■ Digital Future<br>■ Proposition<br>■ Infrastructure | We are committed to an ongoing focus on cost control. This ensures an efficient use of resources and the correct cost base for the prevailing economic conditions. |
| **Online Sales (as a % of Total Revenue)** | Sales enacted via the web, through *Click & Collect* and *Direct Delivery* | | ■ Digital Future<br>■ Proposition<br>■ Infrastructure | The Internet is changing the way our customers shop and provides us with new opportunities to grow our business. In the last few years we have introduced three ways to shop online: *Click & Collect* and *Direct Delivery*. |
| **% of Web Customers Visiting Stores** | % of online sales using the *Click & Collect* offer and visiting stores after researching online | | ■ Digital Future<br>■ Proposition<br>■ Infrastructure | Our strategy is to seamlessly integrate halfords.com and our store operations. Our Research tells us that our customers like the convenience of buying online but also want to visit our stores for our expert advice and value adding services. |

| Annual Performance | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Retail sales performance in FY14 was up 7.6% on a LFL basis and within our three categories of Auto, Cycling and Leisure, the Cycling category was the standout performer throughout the year with LFL growth of 19.4%. | +1.3% | -5.5% | -2.3% | -0.7% | **+7.6%** |
| The outstanding performance of the lower average margin Cycling category and improved stock clearance diluted gross margin by 144 basis points. | 54.4% | 54.5% | 53.1% | 53.3% | **51.8%** |
| | £443.8m | £420.0m | £399.8m | £397.0m | **£416.2m** |
| EBITDA was 1.1% down year-on-year. The increase in revenues of 7.7% was offset by a 144 basis point reduction in gross margin and a 5.4% increase in operating costs. | £143.1m | £144.9m | £114.6m | £94.6m | **£93.6m** |
| We have invested in our 3-Gears training programme and in payroll and national marketing to fulfil the demand and make more customers aware of our unique offer and we increased the number of jobs by 13.5% year-on-year. | 2.35m | 2.54m | 2.98m | 3.93m | **4.46m** |
| We have invested in our 3-Gears training programme and in payroll and national marketing to fulfil the demand and make more customers aware of our unique offer, increasing revenues by 17.9% year-on-year. | £11.7m | £12.4m | £15.2m | £20.7m | **£24.4m** |
| During the year we have introduced a new format to our stores. Creating a modern, engaging and friendly store environment that encourages browsing and interaction with colleagues. We plan to roll out this new format to other stores in FY15. | 10 | 26 | 83 | 20 | **27** |
| The slight reduction of 90 basis points was driven a 5.4% increase in operating costs. Costs rose primarily as a result of the increase in store-colleague investment and incentives. | 40.0% | 38.4% | 40.8% | 43.4% | **42.5%** |
| Online sales grew by 17.7% to *c.*£90m reflecting a an increase in online penetration to 11.3%. This was driven by the new website design and the enhanced product, service and How To Guides. New features were also added to complement our Cycling category. | 6.4% | 9.2% | 8.9% | 10.2% | **11.3%** |
| Continued improvements in the range of products offered online, delivery times and improved availability has led to 91% of online orders now being collected in-store, providing more opportunities for store colleagues to engage with online customers. | 77% | 85% | 86% | 88% | **91%** |

STRATEGIC REPORT > PERFORMANCE

# AUTOCENTRE KPIs

| KPI | Definition | Strategy | Execution | Commitment |
|---|---|---|---|---|
| **Like-for-like sales** | Like-for-like sales represent revenues from centres trading for more than 12 months | | ■ Service Revolution<br>■ Store Portfolio<br>■ Digital Future<br>■ Proposition<br>■ Infrastructure | We are committed to maximising our like-for-like sales opportunities in whatever economic environment we find ourselves. |
| **Gross Profit Percentage** | Gross Profit expressed as a percentage of Sales | | ■ Service Revolution<br>■ Store Portfolio<br>■ Digital Future<br>■ Proposition<br>■ Infrastructure | Gross Profit is an important indicator of the Company's financial performance. Within the business we focus on maximising cash generation. |
| **Gross Profit** | Gross Profit expressed as actual GBPs | | | |
| **EBITDA** | Earnings before Interest, Tax, Depreciation and Amortisation | | ■ Service Revolution<br>■ Store Portfolio<br>■ Digital Future<br>■ Proposition<br>■ Infrastructure | The Board considers that this measurement of profitability is a viable alternative to underlying profit and uses this measure to incentivise managements. |
| **Number of Centres** | The number of Autocentre servicing centres within the UK | | ■ Store Portfolio<br>■ Proposition | Our research on the geography and demographics of the £9bn Car Servicing and repair market and of our local catchment sizes shows that there is scope for up to 600 autocentres. |
| **Jobs per Productive per Week ("jpppw")** | Total jobs undertaken by the Centres divided by the average number of productive technicians and apprentices | | ■ Service Revolution<br>■ Proposition | We aim to increase sales in existing centres and make use of spare capacity in our technicians. We believe that we can raise jpppw to *c.*17, without needing to obtain more fixed cost labour. |
| **Online Bookings** | The number of service bookings made via halfordsautocentres.com against those made direct with the Centres | | ■ Digital Future<br>■ Proposition<br>■ Infrastructure | Enhancing our online offer and further extending our online presence through both halfords.com and halfordsautocentres.com is a Group investment priority. |

| Annual Performance | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Although LFL sales declined by 0.1%, total revenues were up 8.6%. This performance reflected operational and market challenges faced by the business. | +3.4% | -0.6% | +6.1% | +7.0% | **-0.1%** |
| Gross profit was up on the prior year driven by a reduced reliance on affiliate-driven tyre sales and stronger core Service, MOT and Repair margins. | 66.0% | 66.0% | 65.9% | 63.7% | **64.4%** |
| | £8.8m represents *c.*6 weeks of Halfords ownership | £65.0m | £73.0m | £80.1m | **£88.0m** |
| EBITDA was down year-on-year because revenue growth was outweighed by operating costs and investments made for future growth. | £0.7m represents *c.*6 weeks of Halfords ownership | £8.3m | £9.0m | £8.8m | **£7.5m** |
| As we expected we opened 23 new sites opened in the year and closed three. There is a healthy pipeline for the future and we expect to open a further 10-15 over the next year. | 224 | 240 | 260 | 283 | **303** |
| We continue to utilise capacity within our centres with additional Service/Mechanical/Repair work as well as growing the tyre mix. | 13.7 | 13.8 | 14.7 | 16.0 | **17.2** |
| We continue to invest in our online presence with a new site launched July 2013 with a much improved customer experience and advice centre. | 111,261 | 138,954 | 199,524 | 216,875 | **248,465** |

STRATEGIC REPORT > PERFORMANCE

# CHIEF FINANCIAL OFFICER'S REPORT

GROUP REVENUE IN FY14, AT £939.7M, WAS UP 7.9%.

## REPORTABLE SEGMENTS

Halfords Group operates through two reportable business segments:

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

All references to Group represent the consolidation of the Halfords ("Halfords Retail"/"Retail") and Halfords Autocentres ("Halfords Autocentres"/"Autocentres") trading entities.

The FY14 accounting period represents trading for the 52 weeks to 28 March 2014 ("the year"). The comparative period FY13 represents trading for the 52 weeks to 29 March 2013 ("the prior year"). All items in this report are shown before non-recurring items unless otherwise stated.

## FINANCIAL RESULTS

| | FY14 £m | FY13 £m | Change |
|---|---|---|---|
| Group Revenue | 939.7 | 871.3 | +7.9% |
| Group Gross Profit | 504.2 | 477.1 | +5.7% |
| Group EBIT* | 77.8 | 78.1 | -0.4% |
| Group EBITDA** | 101.1 | 103.4 | -2.3% |
| Net Finance Costs | (5.0) | (6.1) | -18.0% |
| **Profit Before Tax and non-recurring items** | 72.8 | 72.0 | +1.1% |
| Profit Before Tax, after non-recurring items | 72.6 | 71.0 | +2.3% |

* EBIT denotes earnings before net finance costs, tax and non-recurring items

** EBITDA denotes earnings before net finance costs, tax, depreciation, amortisation and non-recurring items

Group revenue in FY14, at £939.7m, was up 7.9% and comprised Retail revenue of £803.1m and Autocentres revenue of £136.6m. This compared to FY13 Group revenue of £871.3m, which comprised Retail revenue of £745.5m and Autocentres revenue of £125.8m. Group gross profit at £504.2m (FY13: £477.1m) represented 53.7% of Group revenue (FY13: 54.8%), reflecting a decrease in the Retail gross margin of 144 basis points ("bps") to 51.8% and an increase in the Autocentres gross margin of 78 bps to 64.4%.

Total Operating Costs before non-recurring items increased to £426.4m (FY13: £399.0m) of which Retail represented £341.0m (FY13: £323.4m), Autocentres £83.7m (FY13: £73.8m) and unallocated costs £1.7m (FY13: £1.8m). Unallocated costs represent amortisation charges in respect of intangible assets acquired through business combinations (the acquisition of *Nationwide Autocentres Ltd* in February 2010), which arise on consolidation of the Group.

Group EBITDA fell 2.3% to £101.1m (FY13: £103.4m), whilst net finance costs were £5.0m (FY13: £6.1m).

Group Profit Before Tax and non-recurring items for the year was up 1.1% at £72.8m (FY13: £72.0m).

Net non-recurring expenses of £0.2m (2013: £1.0m) during the year represented asset impairment costs of £0.4m to support the *Stores Fit To Shop* initiative and non-recurring income of £0.2m from the partial release of the Focus lease guarantee provision, recognised as a non-recurring cost in FY11, resulting from better than anticipated settlements.

Group Profit Before Tax in the year after non-recurring items was £72.6m (FY13: £71.0m).

CYCLING LFL REVENUES WERE UP 19.4% REFLECTING IMPROVED EXECUTION AND SUSTAINED INTEREST IN CYCLING AS A LEISURE ACTIVITY.

## HALFORDS RETAIL

| | FY14 £m | FY13 £m | Change |
|---|---|---|---|
| Revenue | **803.1** | 745.5 | +7.7% |
| Gross Profit | **416.2** | 397.0 | +4.8% |
| Gross Margin | **51.8%** | 53.3% | -144bps |
| Operating Costs | **(341.0)** | (323.4) | -5.4% |
| **EBIT before non-recurring items** | **75.2** | 73.6 | +2.2% |
| Non-recurring expense | **(0.2)** | (1.0) | -80.0% |
| EBIT after non-recurring items | **75.0** | 72.6 | +3.3% |
| **EBITDA before non-recurring items** | **93.6** | 94.6 | -1.1% |

Revenue for the Retail business of £803.1m reflected, on a constant-currency basis, a like-for-like ("LFL") sales increase of 7.6%. Non-LFL stores contributed £3.5m revenue in the year, with total revenue increasing 7.7%.

Cycling LFL revenues were up 19.4% reflecting improved execution, sustained interest in Cycling as a leisure activity, a successful Christmas for children's bikes, cycle-range refreshes and the benefit of focused marketing, driving strong premium-bike and accessory sales; Cycle Repair LFL revenues increased by 28.6%. The category also benefitted from favourable weather conditions compared to the prior year.

Car Maintenance LFL revenues sales increased by 4.9% in the year supported by the strong momentum in the fitting and sale of bulbs, blades and batteries ("3Bs"). Mild-winter weather conditions impacted demand for winter maintenance products and 3Bs, although the number of 3B fits was up 11.5% in the year with 3B-fitting revenues making up 49.6% of total in-store service income.

Car Enhancement LFL revenues were down 0.1%. Car Cleaning sales were up 13.8% supported by better merchandising to emphasise the strength of the Halfords branded offer. Audio continued to grow, this time by 1.1%. Although the Sat Nav category remained challenged, with sales down 8.1%, Halfords' value share in the 12 months to March was maintained.

Travel Solutions LFL revenues increased by 2.1%, with enhanced-clearance activity and more-compelling offers driving improved sales of camping and travel equipment.

Revenues for the Retail business are split by category below.

| | FY14 (%) | FY13 (%) |
|---|---|---|
| Cycling | **32.8** | 29.6 |
| Car Maintenance | **31.8** | 32.6 |
| Car Enhancement | **23.1** | 24.9 |
| Travel Solutions | **12.3** | 12.9 |
| **Total** | **100.0** | 100.0 |

STRATEGIC REPORT > PERFORMANCE

# CHIEF FINANCIAL OFFICER'S REPORT CONTINUED

GROSS PROFIT FOR THE RETAIL BUSINESS AT £416.2M (FY13: £397.0M).

Gross profit for the Retail business at £416.2m (FY13: £397.0m) represented 51.8% of sales, 144 bps down on the prior year (FY13: 53.3%), in line with guidance. Higher sales volumes in lower-margin premium bikes, the launch of third-party branded Cycling parts, accessories and clothing ("PACs"), along with the impact of a mild winter on the higher-margin Car Maintenance category drove the reduction in margin, as did a more aggressive clearance and promotional approach across the categories.

Management anticipates a 25-75 bps decrease in Retail gross margin in FY15, primarily reflecting the mix effect emanating from the disproportionate strength of the lower-margin Cycling category. The decline is also a result of a switch of various cycle supplies to Halfords from duty-free Cambodia to Vietnam. This move has been designed to assure supply, given ongoing and increasing levels of significant industrial action in Cambodia. The demand for cash-accretive, margin-dilutive products such as PACs and flat wiper blades will continue whilst management will focus on the pricing of the Halfords wiper-blade offer as well as dozens of key-value-indicator products.

Operating Costs before non-recurring items were £341.0m (FY13: £323.4m), up 5.4% on the prior year and in line with guidance. The breakdown is set out below:

| | FY14 £m | FY13 £m | Change |
|---|---|---|---|
| Store Staffing | **92.4** | 85.1 | +8.6% |
| Store Occupancy | **139.7** | 140.1 | -0.3% |
| Warehouse & Distribution | **33.7** | 28.5 | +18.2% |
| Support Costs | **75.2** | 69.7 | +7.9% |
| **Total Operating Costs before non-recurring items** | **341.0** | 323.4 | +5.4% |

Strong trading volumes led to incremental investment in store hours and increased incentive payments. These, plus the uplift in national minimum wages contributed to the increase in Store Staffing costs by 8.6%. The impact of the *3-Gears* training programme on Store Staffing costs this year was immaterial. With an increase in minimum weekly-contracted hours, the number of Retail colleagues fell by around 1,000 during the year to around 9,000, although there was a material increase in the number of full-time equivalent colleagues.

Store Occupancy costs decreased by 0.3% year on year. Inflationary increases in utilities and investment in store repairs were offset by continued savings from rent negotiations and surrender payments, plus depreciation, given the profile of the store portfolio.

Warehouse & Distribution costs increased by 18.2% driven by the surge in store and, in particular, online volumes, as well as increases in transport and utility costs. A number of service-focused trials were executed during the year, including out-of-hours deliveries and more-frequent store deliveries. The cut-off time in relation to the online *Click & Collect* proposition recently moved from 3pm the day before to 6pm.

Support Costs rose by 7.9%. This reflected increased activity associated with the change programmes *Click with the Digital Future* and *21st Century Infrastructure* as well as the launch of both the extended PACs range and the enhanced Retail website. The increase also reflected the up-weighted marketing investment to support higher sales volumes. Increases in payroll costs, reflecting the annualisation of headcount increases in FY13 and the strengthening of the senior management team were offset by savings in recruitment costs following the move to bring recruitment of store colleagues in-house. Given the performance of the business over the period, incremental colleague incentive payments were accrued for payment.

Management anticipates a 4-5% increase in Retail operating costs in FY15. A significant proportion of this increase is dependent on volumes/performance. Major investments will include Store Labour costs associated with potential increased volumes as well the pay award as part of the *3-Gears* training programme. Increased volumes have the potential to inflate Warehouse & Distribution costs and depreciation is set to increase, given the material uplift in capital expenditure versus prior periods. One-off operating cost investments in *c.*50 refreshed stores in FY15 will also be notable.

## HALFORDS AUTOCENTRES

| | FY14 £m | FY13 £m | Change |
|---|---|---|---|
| Revenue | **136.6** | 125.8 | +8.6% |
| Gross Profit | **88.0** | 80.1 | +9.7% |
| Gross Margin | **64.4%** | 63.7% | +78 bps |
| Operating Costs | **(83.7)** | (73.8) | +13.4% |
| **EBIT** | **4.3** | 6.3 | -31.7% |
| **EBITDA** | **7.5** | 8.8 | -14.8% |


IMAGE

Engaging and fun place to shop in refreshed stores.

## THE GROUP PORTFOLIO AT THE END OF THE YEAR COMPRISED 465 STORES AND 303 AUTOCENTRES

There were no non-recurring items related to the Autocentres business in either year presented.

Autocentres generated total revenues of £136.6m (FY13: £125.8m), an increase of 8.6% on the prior year with a LFL revenue decline of 0.1%. This performance reflected the operational and market challenges faced by the business. LFL tyre revenues increased by 4.7% and represented 16.0% of total LFL revenues. Online-booking revenues in the year grew 43.7% versus the prior period.

Gross profit at £88.0m (FY13: £80.1m) represented a gross margin of 64.4% against a prior-year margin of 63.7% driven by reduced reliance on affiliate-driven tyre sales and stronger core Service, MOT and Repair margins, underpinned by consistent improvements in parts buying.

Autocentres' EBIT was down 31.7% at £4.3m (FY13 £6.3m) as a result of revenue growth outweighed by operating costs and the investments made for future growth. Operating costs increased due to the centre-opening programme together with the ongoing expansion of the support structure. Halfords is committed to the continued investment in the Autocentres business to secure medium-term growth, though the business plans to slow down the centre-opening programme from the prevailing 20–30 new centres per year to 10–15 in the medium term by opening fewer, larger centres.

On the basis of an anticipated material uplift in LFL sales, management anticipates Autocentres' EBITDA to increase in FY15.

## PORTFOLIO MANAGEMENT

The Retail store portfolio at the end of the year comprised 465 stores (end of FY13: 466).

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

| | Number | Stores |
|---|---|---|
| **Relocated** | 2 | Newport , Weston-Super-Mare |
| **Re-gears** | 13 | South Shields, Telford, Wakefield, Trowbridge, Dewsbury, Doncaster, Oldham, Edinburgh (Leith), Waterlooville, Stoke (Fenton), Grantham, Torquay, Bangor |
| **Downsizes** | 4 | Cardiff (Newport Road), Cannock, Chadwell Heath, Eastbourne |
| **Openings** | 1 | *Sky* headquarters (Osterley) |
| **Closed** | 2 | Felixstowe, Glasgow Shettlestone |

A number of further rightsizes and relocations will be completed in due course, including Altrincham, Bedford, Perth, Workington and Thanet (Margate).

23 new Autocentres were opened and three (Croydon, Preston and Ilford) were closed in the year, taking the total number of Autocentre locations to 303 as at 28 March 2014.

With the exception of nine 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 *c.*8 years.

STRATEGIC REPORT > PERFORMANCE

# CHIEF FINANCIAL OFFICER'S REPORT CONTINUED

CAPITAL INVESTMENT IN THE YEAR TOTALLED £30.4M (FY13: £18.8M).

## NET NON-RECURRING EXPENSES

The following table outlines the components of the non-recurring expenses incurred in the year:

| | FY14 £m | FY13 £m |
|---|---|---|
| Onerous lease charges | – | (1.2) |
| Asset impairment charges | (0.4) | (0.8) |
| Release of *Focus* lease-guarantee provision | 0.2 | 1.0 |
| **Net non-recurring expenses** | **(0.2)** | (1.0) |

£0.4m of assets from certain stores were impaired in the year as a result of the investment in the *Stores Fit To Shop* initiative (FY13: £0.8m).

In FY11, an exceptional charge of £7.5m was recognised in respect of a provision for property leases to which Halfords was a guarantor, triggered by the demise of the Focus DIY retail chain. At 28 March 2014 the provision was £0.2m, reflecting the settlement of a number of leases and utilisation for on-going rent, insurance and service charges. Whilst there were on-going associated rental costs, there was a release of £0.2m of the provision in the year. £0.2m of this provision remained as at 28 March 2014 and is anticipated to be utilised in FY15.

## FINANCE EXPENSE

The net finance expense for the year was £5.0m (FY13: £6.1m). The expense includes £0.2m of accelerated amortisation of issue costs in the current year following completion of debt facility refinancing in September 2013. The new, reduced revolving credit facility expires in November 2017. An element of the net finance expense also relates to the crystallisation of a number of prior-year tax computations in the year.

Management anticipates a decline in the FY15 finance expense versus FY14.

## TAXATION

The taxation charge on profit for the financial year was £17.1m (FY13: £18.3m), including a £0.1m charge (FY13: £0.1m) in respect of tax on non-recurring items. The full-year effective tax rate of 23.5% (FY13: 25.7%) was higher than the UK corporation tax rate (23.0%) principally due to the non-deductibility of depreciation charged on capital expenditure and other permanent differences arising in the year.

A number of prior-year outstanding tax computations were settled during the year and accounted for a £21.0m cash outflow (being tax plus interest). The outstanding tax positions had been provided for in prior periods with the provisions being utilised against the tax payments.

Management anticipates an effective tax rate of 21–22% in FY15 and no one-off tax payments.

## EARNINGS PER SHARE ("EPS")

Basic EPS before non-recurring items was 28.8 pence (FY13: 27.7 pence), a 4.0% increase on the comparable year. Basic EPS after non-recurring items was 28.6 pence (FY13: 27.2 pence). Basic weighted-average shares in issue during the year were 194.0m (FY13: 194.3m).

## DIVIDEND

The Board has recommended a final dividend of 9.1 pence per share (FY13: 9.1 pence), taking the full-year dividend to 14.3 pence per share. If approved, the final dividend will be paid on 1 August 2014 to shareholders on the register at the close of business on 4 July 2014. In the light of the guidance given twelve months ago, the Board will now look to maintain a *c.*2x dividend cover over the medium term, growing full-year dividends broadly in line with earnings per share. Given the operating cash flow profile of the business the Board also anticipates the ratio of future interim and final dividend payments to move toward 30:70.

## CAPITAL EXPENDITURE

Capital investment in the year totalled £30.4m (FY13: £18.8m) comprising £24.4m in Retail and £6.0m in Autocentres. Consistent with prior years, management adopted a prudent approach with regard to capital investment and focused on investments generating material returns in line with the Getting Into Gear strategy.

Within Retail, £13.9m (FY13: £5.8m) was invested in stores, including 23 store refreshes. The investment also reflected refresh-based relocations and right-size activity as well as general capital spend relating to store roofing, flooring and security. By the end of FY14, 27 stores were trading in the refreshed format in line with the *Stores Fit To Shop* initiative. Additional investments in Retail infrastructure included a £9.7m investment in IT systems, such as development of the online Retail proposition and an upgrade of the core SAP operating system. The Support Centre also attracted a small element of refresh investment.

Within Autocentres a further £6.0m (FY13: £5.6m) was invested to drive the centre roll-out plan and upgrade centre equipment, especially in relation to the delivery of the tyre–fitting proposition. Expenditure was directed to improve other infrastructure elements, from a refreshed website to more-efficient IT processing systems, enabling more effective customer-focused centre management.

Management continues to anticipate an investment of around £100m in Retail capital expenditure in the three-year period to the end of FY16. Timing of investments such as the SAP upgrade reflected the shortfall in the FY14 expenditure versus guidance. FY15 Retail capital expenditure is anticipated to amount to *c.*£35m. Autocentres' capital expenditure in FY15 is anticipated to be *c.*£8m, the increase reflecting incremental investment in property and equipment, diagnostics and IT systems.

## INVENTORIES

Group inventory held at the year end was £150.2m (FY13: £133.2m), in line with guidance; the increase was primarily Cycling-related. Stock continued to be managed tightly and the planned levels of additional Retail stock increased on-shelf availability to 98.3%. Autocentres inventory was £1.4m (FY13: £1.3m). The Autocentres business model is such that only modest levels of inventory are held within the centres, with most parts being acquired on an as-needed basis.

| | |
|---|---|
| 1 | 2 |
| 3 | 3 |

**IMAGES**

1 Improving clothing offer.

2 Strong brands add credibility to cycling proposition.

3 Improved Retail presentation.

## CASHFLOW AND BORROWINGS

The Group continued its track record of robust cash generation. Cash generated from operating activities in the year was £67.5m (FY13: £93.5m). After taxation, capital expenditure and net finance costs, free cashflow of £39.5m (FY13: £71.8m) was generated. The reduced cashflow performance reflected the upweighted levels of capital and inventory investment in the year and also included the settlement of £21.0m of prior-year outstanding tax computations.

Group net debt of £99.6m (FY13 £110.6m) represented a decline of 9.9% with a non-lease-adjusted 12-month net debt: EBITDA ratio of 1.0:1 versus 1.1:1 in the prior year. A new £200m revolving credit facility was secured in the year, expiring in November 2017.

## PRINCIPAL RISKS AND UNCERTAINTIES

The Board considers risk assessment, identification of mitigating actions and internal control to be fundamental to achieving Halfords' strategic corporate objectives. In the Annual Report & 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 note 19 to the Annual Report and Accounts. Other risks that might impact the achievement of Halfords strategic corporate objectives are detailed on pages 64 to 67 and include:

- Economic risks
- Business strategy risks
- Competitive risks
- Compliance
- Changing customer preferences
- Reliance on foreign manufacturers
- Product and service quality
- Information technology systems and infrastructure
- Dependence on key management personnel

Specific risks associated with performance include Christmas trading as well as weather-sensitive sales, particularly within the Car Maintenance and Cycling categories in the Retail business.

**Andrew Findlay**
Chief Financial Officer
21 May 2014




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GOVERNANCE
FINANCIALS
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STRATEGIC REPORT > RISK

# RISKS AND UNCERTAINTIES

Like all businesses, our Group faces risks and uncertainties that could impact the achievement of the Group's strategy.

These risks are accepted as being a part of doing business. The Board recognises that the nature and scope of these risks can change and so regularly reviews them as well as the systems and processes to mitigate them.

The Corporate Governance report on pages 76 to 89 describes the systems and internal control processes through which the directors identify, assess, manage and mitigate risks.

Senior Management colleagues assess risks on a department-by-department basis using a variety of techniques to identify risk. The likelihood and impact of these risks are considered and scored against a recognised framework dependent upon their effect on the achievement of our corporate strategies. Responsibility for taking the necessary actions to manage risk is delegated to appropriate colleagues in the business, with executive manager sponsor involvement. The risk register is monitored and updated with current and ongoing mitigation on a regular basis.

Mindful of corporate strategy, executive management and the Board consider the risks reported within the risk register and review and monitor new risks and all mitigating actions to ensure that the Group's appetite for risk is not exceeded. The Board recognises that each of its strategic pillars (i.e. *Supporting Drivers of Every Car, Inspiring Cyclists of Every Age,* and *Equipping Families for their Leisure Time*) could be compromised by any of the risks set out below. Individual *Getting into Gear* initiatives are reliant on some of the mitigations identified. For example *Service Revolution* delivery is reliant on full utilisation of our *3-Gears* online training system and on our ability to attract and retain good colleagues. *Stores Fit to Shop* is reliant on our continuing investment in modernisation of our stores.

Specific financial risks are detailed in note 19 to the Annual Report and Accounts on pages 141 to 144.

| Key Risks and Uncertainties | Mitigation |
|---|---|
| **Economic, Environmental and Political** | |
| The economy is a major influence on consumer spending. Trends in employment, inflation, taxation, consumer debt levels, weather and interest rates impact consumer expenditure in discretionary areas. Changes in Government policies (e.g. Cycle to Work, DAB switchover) may also affect our consumers' ability to benefit from our products and services. | The Group mitigates these risks by maintaining a focus on the "defensive" characteristics of its "needs driven" product groups. A firm focus is maintained on cost control. Targeted promotions and excellent service are designed to attract and retain customers. It ensures that marketing and merchandising can be revised quickly to react to weather conditions.<br>We also ensure that we have representation with Governmental decision-makers in the areas supporting our core categories. |
| **Business Strategy** | |
| The aim of the Group's business strategy is to deliver long-term value to our shareholders. The Board understands that if the strategy and vision are inappropriately formulated, communicated, or executed then the business will suffer. | The Group has its established 'three pillars' strategy. Following a thorough review, a retail three-year plan (*Getting into Gear*) was announced during the year. Strategic issues, including the three-year plan, are regularly reviewed at Board meetings. Regular assessment is made to ensure that strategy remains appropriate, and that the business is making progress in meeting its strategic objectives. KPIs relating to strategy have been communicated clearly both within the business and to the market. These KPIs are regularly discussed by the Board. Our budget process recognises the importance of strategic initiatives. |
| **Competition** | |
| The retail industry is highly competitive and dynamic. The Group competes with a wide variety of retailers of varying sizes and faces competition from UK retailers, in both stores and online, as well as international operators. The car servicing servicing market is a service-based market with a number of different-sized providers where trust is extremely important to customers. Failure to compete with competitors on areas including price, product range, quality, service and trustworthiness could have an adverse effect on the Group's financial results. | The Board is aware of the risks faced from UK retailers, both in-store and online, and from the national car-servicing networks and smaller independents.<br>We announced a significant investment programme at the start of the year to support *Getting into Gear*. The investment programme is allowing us to improve the service we provide to customers by improving the quality of our stores, IT infrastructure, training and website (including optimisation for mobile and tablet devices). Excellent service is fundamental to differentiating ourselves from our competitors.<br>The national geographical coverage of our stores underpins our *Click & Collect* offering. Our ***we***fit service is a key differentiator. Our cycle repair and extended parts, accessories and clothing range offer confirm our credibility within the cycling market.<br>The Group seeks to continually strengthen its "own-brand" and "sub-brand" retail offer and develop opportunities to differentiate the Halfords brand including TV, radio, press and social media advertising. |

STRATEGIC REPORT > RISK

# RISKS AND UNCERTAINTIES CONTINUED

| Key Risks and Uncertainties | Mitigation |
|---|---|
| **Compliance** | |
| The Group operates in an environment governed by legislation, standards and codes in areas including, but not limited to, trading, advertising, product quality, health and safety, hazardous substances, bribery act and data protection. | Regulatory requirements are closely monitored by our Company Secretarial team. The Group has Quality Assurance and Compliance teams working in both the Retail and Autocentres businesses. Specialist Health and Safety teams ensure that the Group has adequate policies and risk assessments.<br><br>Colleagues and management are trained to identify and handle regulatory issues using the 3-Gears training modules on our online Learning Management System. We have a whistleblowing hotline that allows colleagues to raise concerns in confidence.<br><br>We operate a Code of Conduct that clearly sets out our expectations of suppliers. We have a corporate delegated authorities framework ('How We Do Business') setting out key authorisation levels. Anti-Bribery and Corruption training has been delivered through face-to-face and online training sessions. |
| **Changing Customer Preferences** | |
| Some of the products that Halfords sells, particularly in the Car Enhancement category, are subject to rapidly changing consumer preferences. Products such as children's cycles face competition from alternative products (such as games consoles) and some of the products that the Group sells are non-discretionary in their nature and predicting future trends is difficult. | Halfords has recruited experienced, knowledgeable trading colleagues who can identify and interpret trends and consequently respond in a timely manner to changes in consumer preferences. Colleagues also monitor developments in alternative products and our forecasts reflect the latest assumption in these areas. We are continually looking at ways of moving into new merchandising opportunities to mitigate technology changes and to improve forecasting and planning to ensure we meet our customers' changing needs. |
| **Reliance on Foreign Manufacturers** | |
| Halfords sources a significant proportion of the merchandise it sells in its stores from outside of the UK, either directly or via third-party suppliers. Consequently, the Group is subject to the risks associated with international trade (particularly those which are common in the import of goods from developing countries) including, but not limited to, inflation, currency fluctuation, the imposition of taxes or other charges on imports, the exposure to different legal standards, the burden of complying with a variety of foreign laws and changing foreign government policies and natural disasters. | Extensive research is conducted into quality and ethics before the Group procures products from any new country or supplier. The Group's strong management team in the Far East has been recruited locally and understands the local culture, market regulations and risks and we maintain very close relationships with both our suppliers and shippers to ensure that disruption to production and supply are managed appropriately.<br><br>We work with suppliers in a number of territories to reduce the risks of disruption. |

| Key Risks and Uncertainties | Mitigation |
|---|---|
| **Product and Service Quality and Brand Reputation** | |
| The Board recognises that the quality and safety of both our products and services in our stores and Autocentres is of critical importance to us and that any major failure will affect consumer confidence and our reputation. Failure to protect the Group's reputation and brand could lead to a loss of trust and confidence. This could result in a decline in the customer base and affect the ability to recruit and retain good people. There is also the risk that our service proposition fails due to inconsistent levels of service at individual stores and individual centres, or through unavailability of stock as a result of disruption to the supply chain (e.g. unavailability of distribution centre). | The Group constantly seeks to enhance its position as the store or centre of first choice in each of the markets that it serves. Halfords continues to invest in both its existing estate to ensure that it remains contemporary and in constant product innovation to meet customer needs. In addition, the Group's market leading in-store ***we***fit proposition provides a range of services at a lower cost to our customers than that provided by competitors.<br><br>Our 'Gears' training programme uses online modules to ensure that colleagues are consistently knowledgeable about our products and able to deliver quality services to customers. We have also implemented measures to ensure that we attract and retain the best colleagues: Engagement Surveys aim to identify opportunities to reduce colleague turnover; we have recently been recognised as one of the Sunday Times 25 Best Big Companies to Work For; our recruitment processes are now centralised to improve efficiency and consistency.<br><br>Our products are thoroughly tested for safety and quality. Complaints received in stores are closely monitored. Management in both retail stores and Autocentres are incentivised on quality of service targets. Our product recall procedures have been comprehensively reviewed and revised during the year. We clearly set out our expectations for retail disciplines in-store to ensure on-shelf availability.<br><br>Our Autocentres business continually seeks to provide innovative solutions for their customers, such as brakes4life. In our centres, the training of our technicians to provide high quality motor vehicle repairs is enhanced through an apprenticeship programme. The majority of our centres workshop colleagues hold a Motor Industry qualification. Repairs are subject to extensive quality assurance processes.<br><br>The business has developed and tested continuity plans. |
| **Information Technology ("IT") Systems and Infrastructure** | |
| In common with most businesses, Halfords is dependent on the reliability and suitability of a number of important IT systems where any sustained performance problems (including those caused by cyber-attack), could potentially compromise our operational capability for a period of time impacting on stores, centres or warehouse, multi-channel and distribution systems. With ambitious growth plans for our multi-channel offer, our trading capacity could be affected by internal and external systems' resilience and interdependencies. | Extensive controls are in place to maintain the integrity of our systems and to ensure that systems changes are implemented in a controlled manner. Halfords' key trading systems are hosted within a secure data centre operated by a specialist company remote from our support centre. These systems are also supported by a number of disaster recovery arrangements including a comprehensive backup strategy, and a hotlink secure data centre hosted outside the UK. IT recovery processes are tested regularly. We have successfully completed an upgrade of our core SAP system.<br><br>We have thoroughly reviewed our IT security processes this year and recruited a number of specialists to the IT team, including dedicated IT security and continuity experts. |
| **Dependence on Key Management Personnel** | |
| The success of the Group's business depends upon its Senior Management closely supervising all aspects of its business, in particular, the operation of the stores and autocentres, including the appropriate training of in-store and centre colleagues, and the design, procurement and allocation of merchandise. | Our Remuneration Policy outlined on pages 92 to 101 details the strategies in place to ensure that high calibre Executives are attracted and retained. The Group looks to improve its senior manager cadre through operating a talent management process to help individuals achieve their full potential within Halfords and to ensure that appropriate succession plans are in place to meet the future needs of the business. At a junior level the Group continues to invest in graduate programmes and store and centre colleague training and development. |


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FURTHER
Ask here for
help and assistance
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ND ASSISTANCE
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So you don't have to – just ask


# GOVERNANCE



ONLINE
Read more
halfords.annualreport2014.com

# BOARD OF DIRECTORS

## DENNIS MILLARD

**CHAIRMAN**

n r

**CURRENT ROLE |** Chairman since 28 May 2009.

**ADDITIONAL ROLES HELD |** Chairman of Connect Group plc (formerly Smiths News plc), Non-Executive Deputy Chairman of Pets at Home Group Plc and Non-Executive Director and Senior Independent Director of both Debenhams plc and Premier Farnell plc.

**PAST ROLES |** His former appointments include Chief Financial Officer of Cookson Group plc, Finance Director of Medeva plc, Non-Executive Director of Exel plc and a member of the Economic Affairs Committee of the CBI.

**BRINGS TO THE BOARD |** Dennis has a broad commercial and financial experience in the retail, service, distribution and manufacturing sectors in the UK and internationally. Dennis is a member of the South African Institute of Chartered Accountants and holds an MBA from the University of Cape Town.

Dennis is a keen cyclist and rides on-road a *Boardman Road Team Carbon* and off-road either a *Boardman Team Comp* or a *Carrera Crossfire*. He is also an avid surfer and golfer.

## MATT DAVIES

**GROUP CHIEF EXECUTIVE**

n

**CURRENT ROLE |** Group Chief Executive since 4 October 2012.

**ADDITIONAL ROLES HELD |** Matt is a Non-Executive Director at the Dunelm Group plc.

**PAST ROLES |** Matt was Chief Executive of Pets At Home for eight years having originally joined as Finance Director in 2001.

**BRINGS TO THE BOARD |** Under Matt's leadership, Pets at Home developed into a market-leading UK retailer, offering an outstanding customer experience. The approach was to create a strong culture of work ethic and enjoyment amongst colleagues combined with a determination to provide exceptional customer service. Matt also has in-depth experience in corporate finance with Rothschild and Hawkpoint and extensive financial experience in the consumer-facing retail sector with both Caudwell Communications and as Finance Director of Pets at Home.

Matt rides a *Boardman Air Pro* and a *Boardman Mountain Bike Pro Hardtail 29er*. He can often be found on a weekend cycling the lanes of the Lake District with his family and friends. His three dogs Archie, Bear and new addition Chester, a golden retriever puppy, form a big part of his life!

## ANDREW FINDLAY

**CHIEF FINANCIAL OFFICER**

**CURRENT ROLE |** Chief Financial Officer since 1 February 2011, with responsibility for IT.

**PAST ROLES |** Prior to his appointment, Andrew was Director of Finance, Tax and Treasury at Marks and Spencer Group plc. Prior to this, he held senior finance roles at the London Stock Exchange and at Cable and Wireless, both in the UK and US. Andrew qualified as a chartered accountant with Coopers & Lybrand.

**BRINGS TO THE BOARD |** A track record in retail and other competitive, consumer and business facing industries. Andrew has experience of: operational management, strategy development, commercial finance, refinancing and pension scheme funding; bid defence; procurement; shared services; financial accounting, investor relations, tax and audit.

Andrew's first car was a Hillman Imp under which he spent many an hour fixing! He now rides a *Carrera TDF* at weekends when he gets the chance.

## BILL RONALD

**INDEPENDENT NON-EXECUTIVE DIRECTOR**

a n r

**CURRENT ROLE |** Non-Executive Director since 17 May 2004. Senior Independent Director to 28 February 2014.

**ADDITIONAL ROLES HELD |** Bill is currently Chairman of Dialight plc, Chairman of The Compleat Food Group, Chairman of Fever Tree and Chairman of the Muscular Dystrophy Campaign.

**PAST ROLES |** Bill spent 23 years in a variety of roles within the Mars Corporation ending up as Managing Director of the UK confectionery operation and Vice-President of Masterfoods Europe. More recently, Bill was also CEO of Uniq plc and a Non-Executive Director of Bezier Limited and Alfesca.

**BRINGS TO THE BOARD |** Bill brings experience of brand building and winning loyalty by putting the customer first. He also brings a focus upon organisational development.

Bill rides a *Carrera Crossfire* but prefers skis in the winter.

## DAVID ADAMS

**SENIOR INDEPENDENT DIRECTOR**

a n r

**CURRENT ROLE I** Non-Executive Director since 1 March 2011. Senior Independent Director since 1 March 2014.

**ADDITIONAL ROLE HELD I** David is currently Chairman of Conviviality Retail plc, Musto Ltd, Park Cameras Ltd, and Walk the Walk (a breast cancer charity), and is a Non-Executive Director and Chair of the Audit Committee at Hornby plc.

**PAST ROLES I** David was Finance Director and Deputy Chief Executive of House of Fraser plc until its sale in 2006, then Executive Chairman of Jessops plc in 2007, becoming Non-Executive Chairman after it was taken private, leaving in 2012. in addition he has been Chairman at Moss Bros plc and Alexon plc , and has held several Executive and Non-Executive roles in over 25 years in retailing.

**BRINGS TO THE BOARD I** He brings extensive and relevant experience in financial and general management roles, including 10 years as plc Finance Director, and has held 4 other plc Audit Chair roles over the last 5 years.

David is a keen tennis player, golfer, and skier and enjoys getting out on his Boardman bike when the sun comes out.

## CLAUDIA ARNEY

**INDEPENDENT NON-EXECUTIVE DIRECTOR**

a n r

**CURRENT ROLE I** Non-Executive Director since 25 January 2011. Remuneration Committee chairman since 1 March 2014.

**ADDITIONAL ROLES HELD I** Claudia is a Non-Executive Director of Telecity Group PLC, and of Which. She is Chair of the Public Data Group, and a member of the Advisory Boards of the Shareholder Executive, and of Huawei.

**PAST ROLES I** Claudia was the Group Managing Director, Digital at EMAP Inform until late 2010 where she led the development and execution of online publishing strategy as well as managing the public sector and media divisions. Prior to this she was Director of the Enterprise and Growth Unit at HM Treasury, which she joined from Goldman Sachs where she was an Executive Director. She has also worked at FT.Com, and Mckinsey, and was Managing Director of TheStreet.co.uk from 1998 to 2000.

**BRINGS TO THE BOARD I** Claudia brings extensive experience of strategy formulation and business development, particularly in the online consumer and media space.

Claudia and her family are keen campers and are regularly found out and about in their *Urban Escape Kurai* tent. Destinations have ranged from France to Scotland to their back garden, and all have been much enjoyed.

## KEITH HARRIS

**INDEPENDENT NON-EXECUTIVE DIRECTOR**

a n r

**CURRENT ROLE I** Non-Executive Director since 17 May 2004.

**ADDITIONAL ROLES HELD I** Keith is currently on the Boards of Cooper Gay (Holdings) Limited and Sellar Investments Limited.

**PAST ROLES I** More recently Keith was on the Board of Sellar Investments Limited, the company which built the Shard of Glass. Previously Keith was Executive Chairman of Seymour Pierce Limited following its acquisition from Investment Management Holdings plc, Chairman of the Football League, Chief Executive of HSBC Investment Bank plc and a Benfield plc board member.

**BRINGS TO THE BOARD I** Keith brings extensive experience of public company governance, particularly in the field of executive remuneration.

## HELEN JONES

**INDEPENDENT NON-EXECUTIVE DIRECTOR**

a n r

**CURRENT ROLE I** Non-Executive Director since 1 March 2014.

**ADDITIONAL ROLES HELD I** Helen is currently a senior executive at Caffé Nero.

**PAST ROLES I** Helen was CEO of the Zizzi Restaurants group and was also responsible for successfully launching the Ben & Jerry's brand in the UK and Europe.

**BRINGS TO THE BOARD I** Helen brings valuable and relevant marketing and branding experience in consumer focused businesses.

Helen rides a Specialized Ariel but has yet to muster the courage to move to road bikes, preferring the relative comfort of the hybrid version. She promises to buy a Halfords' brand next time! She is married with three adult sons.

# 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 28 March 2014.

## 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 |

## SUMMARY OF GENERAL DISCLOSURES (INCORPORATED INTO THIS DIRECTORS' REPORT)

**The following information required to be disclosed in this Directors' Report has been provided by the Company:**


**IMAGE**

Engaging customers by allowing interaction with technology products.

## PROFITS AND DIVIDENDS

The Group's results for the year are set out in the Consolidated Income Statement on page 117. The profit before tax on ordinary activities was £72.6m (2013: £71.0m) and the profit after tax amounted to £55.5m (2013: £52.7m). The Board proposes that a final dividend of 9.1 pence per ordinary share be paid on 1 August 2014 to shareholders whose names are on the register of members at the close of business on 4 July 2014. This payment, together with the interim dividend of 5.2 pence per ordinary share paid on 21 January 2014, makes a total for the year of 14.3 pence per ordinary share. The total final dividend payable to shareholders for the year is estimated to be £18.1m. Computershare Nominees (Channel Islands) Limited, trustee of the Halfords Employee Share Trust, has waived its entitlement to dividends.

## PERFORMANCE MONITORING

The delivery of the Group's strategic objectives is monitored by the Board through KPIs and the periodic review of various aspects of the Group's operations. The Board considers the KPIs listed on pages 42 to 43 and pages 52 to 57 are appropriate measures for the delivery of the strategy of the Group via its Retail and Autocentres divisions.

## DIRECTORS

The following persons were Directors of the Company during the period ended 28 March 2014 and unless otherwise stated at the date of this Annual Report:

Dennis Millard
Matt Davies
Andrew Findlay
David Adams
Claudia Arney
Helen Jones (appointed 1 March 2014)
Keith Harris (will retire on 31 May 2014)
Bill Ronald (will retire on 31 May 2014)

In accordance with the Company's Articles of Association and the UK Corporate Governance Code guidelines, all those persons holding positions as Directors of the Company on 28 March 2014 will offer themselves for re-election at the AGM on 29 July 2014, except for Keith Harris and Bill Ronald who will retire on 31 May 2014. Helen Jones, who was appointed on 1 March 2014, will stand for election at the AGM.

## DIRECTORS' INTERESTS

The Directors' interests in shares and options over shares in the Company are shown in the Directors' Remuneration Report on pages 90 to 110. 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). These were considered and approved by the Board in accordance with the Company's Articles of Association and each Director informed of the authorisation and any terms on which it was given.

# DIRECTORS' REPORT CONTINUED

## DIRECTORS' INDEMNITIES

The Company maintains liability insurance for its Directors and officers. The Directors of the Company, and the Company's subsidiaries, have the benefit of a third-party indemnity provision, as defined by section 236 of the Companies Act 2006, in the Company's Articles of Association.

## AUDITORS

At the 2013 AGM, KPMG LLP was appointed as the Company's Auditors. A resolution proposing the reappointment of KPMG LLP is expected to be contained in the Notice of the AGM and will be put to the shareholders at the meeting.

## DISCLOSURE OF INFORMATION TO THE AUDITORS

So far as the Directors are aware, there is no relevant audit information of which the auditors are unaware and the Directors have taken all reasonable steps to ascertain any relevant audit information and ensure the auditors are aware of such information. The Directors are responsible for maintaining the integrity of financial information including this Annual Report, together with other financial statements, presentations and announcements on the Company's corporate website. Legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## GOING CONCERN

With effect from 11 September 2013 the Group secured a four-year £200m revolving credit facility (extendable by a further year) and at 28 March 2014 the Group had undrawn borrowing facilities of £114m (29 March 2013: £197m). The Group's previous and current committed borrowing facilities contain certain financial covenants, which have been met throughout the period. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its borrowing facilities and covenants for the foreseeable future. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the uncertain economic outlook. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, hence they continue to adopt the going concern basis of accounting in preparing the Financial Statements.

## COLLEAGUES

The Group has established a framework of colleague communications, including a monthly colleague magazine, to provide colleagues with information on matters of concern to them and business performance, as well as to encourage the engagement of every colleague in the Board's commitment to high standards of customer care and service provision. This is reinforced via training initiatives across the business, details of which can be found on pages 28 and 30, and the facilitation of colleague share ownership via a Sharesave Scheme.

The Group is dedicated to the principle of equal opportunity in employment. No potential or current colleague receives less favourable treatment on grounds such as gender, marital status, race, ethnic origin, religion, disability, sexual orientation, or age, or is disadvantaged by conditions or requirements which cannot be shown to be justified. Fair and equitable employment policies are applied which seek to promote entry into, and progression within, the Group. The basis for all appointments is personal ability and competency relevant to the specific job criteria.

Full and fair consideration is given to employment applications by disabled persons wherever suitable opportunities exist, having regard to their particular aptitudes and abilities. Training and career development support is provided where appropriate. Should a colleague become disabled, efforts are made to ensure their continued employment with the Group and retraining provided if necessary.

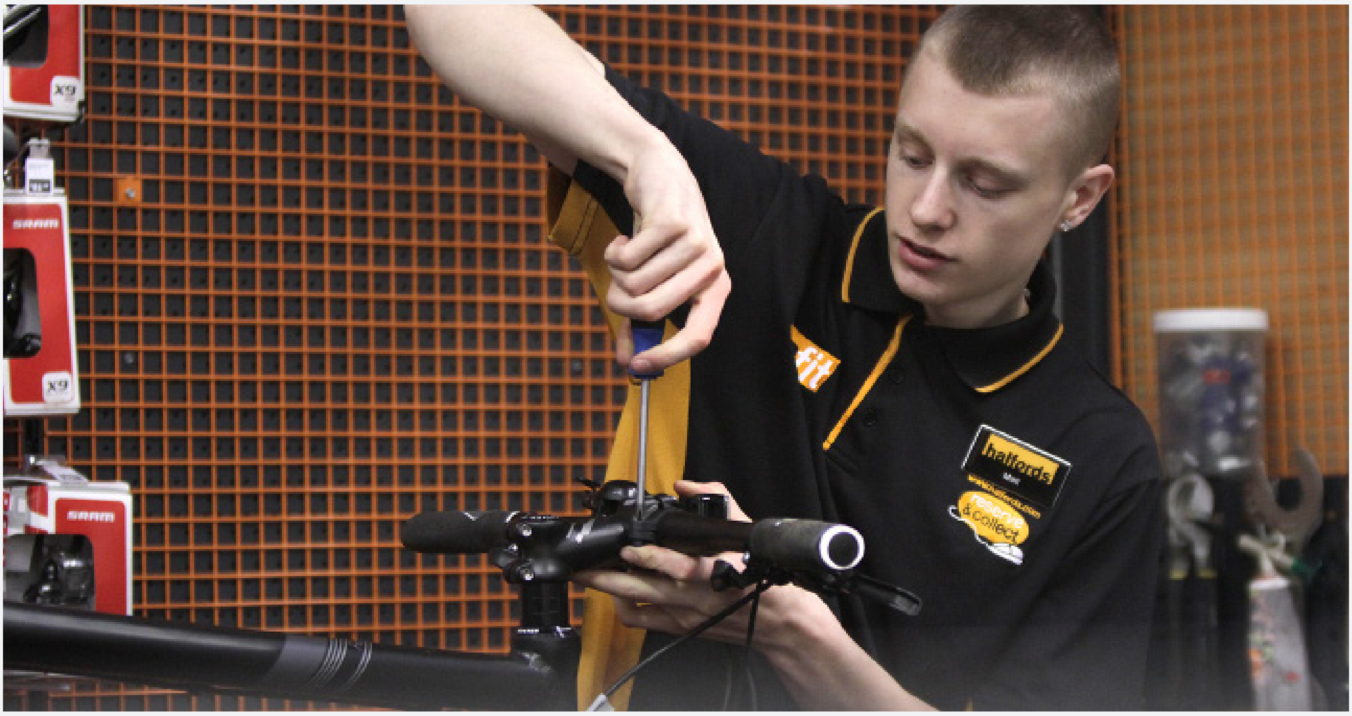
A whistleblowing policy and procedure enables colleagues to report concerns on matters affecting the Group or their employment, without fear of recrimination. In addition, the Group takes a zero-tolerance approach to matters of discrimination, harassment and bullying in all aspects of its business operations, including in relation to gender, race, national origin, disability, age, religion or sexual orientation. Appropriate policies and procedures are in place for reporting and dealing with such matters.

## POLITICAL DONATIONS

The Group's policy is not to make any donations for political purposes. However, the Companies Act 2006 defines the term "donations" very widely and, as a result, certain expenses legitimately incurred as part of the process of talking to Government at all levels and making the Group's position known are now reportable. Although during the year no such expenditure or political donations were made, resolutions were passed at the 2013 Annual General Meeting ("AGM") that provided for limited authority for such expenditure, such authority remaining valid until the earlier of 30 September 2014 or the conclusion of the AGM to be held in 2014, and as such the Company will be asking for this limited authority to be renewed at the AGM to be held on 29 July 2014. The Group did not make any political donations throughout the period (FY13: nil).

## SHARE CAPITAL

Details of the Company's share capital, including changes during the year in the issued share capital and details of the rights attaching to the Company's ordinary shares, are set out in Note 20 on page 144. All ordinary shares, including those acquired through Company share schemes and plans, rank equally with no special rights. All shareholders are entitled to attend and speak at the general meetings of the Company,




**IMAGE**

Gears 2 training provides specialist skills.

appoint proxies, receive any dividends, exercise voting rights and transfer shares without restriction. There are no known arrangements which may restrict the transfer of shares or voting rights.

The Company has term and revolving credit facilities which 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 employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plan may cause options and awards granted to Directors and employees under such schemes and plans to vest on a takeover.

Rules relating to the appointment or removal of the Directors, and their powers, are contained within the Company's Articles of Association, which in accordance with legislation can only be changed with shareholder approval.

## MAJOR SHAREHOLDERS

At 12 May 2014, the Company's register of substantial shareholdings showed the following interests of 3% or more of the Company's issued ordinary shares:

| Holder | Number of shares | % of issued shares |
|---|---|---|
| Artemis Investment Management LLP on behalf of discretionary funds under management | 22,809,710 | 11.46% |
| Schroders plc | 11,949,139 | 6.00% |
| Invesco Limited | 9,036,967 | 4.53% |
| Legal & General Group Plc | 7,929,685 | 3.98% |

## AUTHORITY TO PURCHASE SHARES

At the 2013 AGM, shareholders approved a special resolution authorising the Company to purchase a maximum of 19,906,322 shares, representing less than 10% of the Company's issued share capital at 12 June 2013, such authority expiring at the conclusion of the AGM to be held in 2014.

## ANNUAL GENERAL MEETING

The AGM will be held at the Hilton Garden Inn, 1 Brunswick Square, Brindley Place, Birmingham B1 2HW on Tuesday 29 July 2014. The notice of the AGM and explanatory notes regarding the special business to be put to the meeting will be set out in a separate circular to shareholders.

By order of the Board

**Alex Henderson**
Group Company Secretary
21 May 2014

# CORPORATE GOVERNANCE REPORT

## CHAIRMAN'S INTRODUCTION

The effectiveness of the Board is underpinned by clear corporate governance arrangements for the Group. The Board is collectively responsible for upholding high standards of corporate governance. This period, this has been reflected in the implementation of an updated delegated authorities framework as described in this report. This framework seeks to embed procedures and processes throughout the Group for the approval of financial commitments, contracts and other day-to-day and non-business-as-usual activities of the business. Additionally, the "tone from the top" has been set with regard, for example, anti-bribery and corruption and whistleblowing arrangements.

The Board works with the Executive Directors to provide advice and independent challenge to develop and deliver the long-term strategy of the Group.

Each year the Board is evaluated to uncover any issues, and confirm that the Board maintains the right composition to undertake its duties. More information on this period's internal evaluation exercise can be found on page 81. It concluded amongst other things that our Board continues to maintain the right balance of skills, experience and knowledge to be able to serve the Company and its shareholders effectively.

**Dennis Millard**
Chairman
21 May 2014

## STATEMENT OF COMPLIANCE WITH UK CORPORATE GOVERNANCE CODE

The UK Corporate Governance Code published by the Financial Reporting Council in September 2012 (the "Code") applies to the Company and is available on the FRC website at www.frc.org.uk. The Listing Rules have yet to be updated by the Financial Conduct Authority and continue to require that certain compliance statements are made in relation to the predecessor edition of the Code, issued in June 2010. The Board confirms that for the period ended 28 March 2014 it complied fully with the requirements of both editions of the UK Corporate Governance Code, where relevant, except in relation to the ongoing service until 31 May 2014 of Keith Harris and Bill Ronald as explained on page 80.

This report outlines how we have complied with the five Main Principles of both editions of the Code, where relevant.

## LEADERSHIP

Details of the Group's business model and strategy can be found on pages 6 to 7 and pages 16 to 49.

### LEADERSHIP: ROLE OF THE BOARD

The Board is collectively responsible for ensuring that the business acts in the best interests of the Company to generate sustainable value for shareholders, whilst preserving the interests of its customers, employees and other stakeholders. The main facets of this responsibility comprise: consideration of the long-term direction and strategy of the Company; the values and standards within the business; management performance; resources; and controls. To effectively discharge these responsibilities, the Board has implemented the system of delegated authorities set out below, which enables the day-to-day operation of the business, and ensures that significant matters are brought to the attention of management and the Board as appropriate.

Delegated Authorities

**Board**

Matters Reserved for the Board include: Strategy and Management; Structure and Capital; Investor Relations; Audit, Financial Reporting and Controls; Nominations to the Board; Executive Remuneration and Significant Contracts.

Available at: www.halfordscompany.com/i/g/mrftb

**Board Committees**

Committee Terms of Reference set out the remit of each of the Audit, Nomination and Remuneration Committees as described further at pages 82 to 85.

Available at: www.halfordscompany.com/i/g/oc

**Executive Directors and Senior Management**

**The Business**

How We Do Business is the internal name of the formal delegated authorities document approved by the Board. It describes how day-to-day decisions are delegated to the Executive Directors, the Senior Management Team and others within the business. Each potential activity is set out by reference from whom approval must be sought and what paperwork is required as confirmation of that approval. Where an activity is not expressly described within How We Do Business, approval must be sought from the Senior Management Team who will apply the principles of How We Do Business to the decision. Training sessions were held for all relevant Support Centre colleagues on How We Do Business after it was launched with refresher courses planned yearly. The implementation of the document is constantly monitored, with an updated document to be circulated on a yearly basis.

It is through the above system of delegated authorities, that the Board is able to provide oversight and direction to the Executive Directors, Senior Management Team and the wider business.

Read more about:
INTERNAL CONTROLS Page 83

GOVERNANCE > CORPORATE GOVERNANCE REPORT

# CORPORATE GOVERNANCE REPORT CONTINUED

## BOARD COMPOSITION AND MEETING ATTENDANCE

The Board meets regularly both at the Company's Support Centre (head office), and at its store, autocentre and distribution centre locations. This provides regular opportunities for the Board to engage with, and understand, the business so as to better inform and influence their decision-making.

| | | | Meeting Attendance * indicates attendance of whole or part of the meeting by invitation | | | |
|---|---|---|---|---|---|---|
| | Role | Date of Appointment | Board | Audit Committee | Remuneration Committee | Nomination Committee |
| Board Member | | | Scheduled: 11 | Scheduled: 3 | Scheduled: 6 | Scheduled: 2 |
| Dennis Millard | Chairman and Chair of Nomination Committee | 28 May 2009 | 11/11 | 3/3* | 6/6 | 2/2 |
| Matt Davies | Chief Executive | 4 October 2012 | 11/11 | 3/3* | 4/6* | 2/2 |
| Andrew Findlay | Chief Financial Officer | 1 February 2011 | 11/11 | 3/3* | n/a | n/a |
| Bill Ronald | Non-Executive Director[1] | 17 May 2004 | 9/11 | 1/3 | 6/6 | 2/2 |
| David Adams | Senior Independent Director and Chair of Audit Committee[2] | 1 March 2011 | 11/11 | 3/3 | 6/6 | 2/2 |
| Claudia Arney | Non-Executive Director and Chair of Remuneration Committee[3] | 25 January 2011 | 11/11 | 3/3 | 6/6 | 2/2 |
| Keith Harris | Non-Executive Director[4] | 17 May 2004 | 9/11 | 2/3 | 5/6 | 1/2 |
| Helen Jones | Non-Executive Director | 1 March 2014 | 1/1 | n/a | 1/1 | 1/1 |

1. Bill Ronald stood down as Senior Independent Director on 1 March 2014. He will retire from the Board on 31 May 2014.
2. David Adams was appointed Senior Independent Director on 1 March 2014.
3. Claudia Arney was appointed Chair of the Remuneration Committee on 1 March 2014.
4. Keith Harris stood down as Chair of the Remuneration Committee on 1 March 2014. He will retire from the Board on 31 May 2014.

There were 5 Disclosure Committees during the year, which approved the final versions of market announcements, and supplementary sub-committees are created as necessary. Other members of the Senior Management Team or advisors attended by invitation as appropriate throughout the year. The Board also holds additional full-day Strategy meetings at least once a year.

At each Board meeting, the Chief Executive delivers a high level update on business, before the Board moves to considering specific reports reviewing business and financial performance, key initiatives, risk and governance. In addition, throughout the year the Senior Management Team and other colleagues deliver presentations to the Board on proposed initiatives and progress on projects.

### CHAIRMAN AND CHIEF EXECUTIVE

Throughout the period under review, the role of Chairman, held by Dennis Millard, and Chief Executive, held by Matt Davies, have been separate in compliance with the Code. A clear division of responsibilities exists between these roles, and is formally documented.

Available at:
www.halfordscompany.com/investors/governance/division-of-responsibilities-between-the-chairman-and-chief-executive-officer.

### NON-EXECUTIVE DIRECTORS

The role of the Non-Executive Directors is to provide independent thought and challenge to the Board. Specifically this involves:

- evaluating and appraising the performance of Executive Directors and Senior Management against agreed targets;
- participating in developing the strategy of the Group;
- monitoring the financial information, risk management and controls processes of the Group to make sure they are sufficiently robust;
- meeting regularly with senior management;
- periodic visits to stores, autocentres and distribution centres;
- meeting together regularly without the Executive Directors present; and
- formulating Executive Director remuneration and succession planning.

The Non-Executive Directors meet from time to time without the Executive Directors, sometimes with and without the Chairman present. The Non-Executive Directors will continue to hold similar meetings as and when required.

The Non-Executive Directors are David Adams, Keith Harris, Bill Ronald, Claudia Arney and Helen Jones. Helen Jones was appointed on 1 March 2014. Keith Harris and Bill Ronald will retire on 31 May 2014.

### SENIOR INDEPENDENT DIRECTOR

The role of the Senior Independent Director is to:

- hold meetings with the other Non-Executive Directors without the Chairman at least once a year to appraise the Chairman's performance;
- act as an intermediary for the other Directors or a sounding board for the Chairman if required; and
- if direct contact with the Chairman, Chief Executive or other Executive Directors has not alleviated shareholder concerns, or if such direct contact would not be appropriate, be contacted by shareholders.

Bill Ronald was Senior Independent Director until he stood down on 1 March 2014 when David Adams was appointed Senior Independent Director.

### CONCERNS

The Chairman seeks to resolve any concerns raised within or outside meetings by the Board. However, any unresolved business can be recorded on behalf of a Director in the minutes of the relevant meeting. A resigning Non-Executive Director would also able to raise any concerns in a written letter to the Chairman who would bring such concerns to the attention of the Board. No such concerns have been raised throughout the period.

**IMAGE**

A fun place to work means a better environment for our customers.

### INSURANCE

Appropriate Directors' Liability Insurance is in place.

## EFFECTIVENESS

### EFFECTIVENESS: COMPOSITION OF THE BOARD

The composition of the Board is as set out on 78 and the biographies, including other business commitments, of individual Directors are available on pages 70 to 71.

Available at: www.halfordscompany.com/investors/governance/the-board

The Directors together act in the best interests of the Company via the Board and its Committees, and devote sufficient time and consideration as is necessary to fulfil their duties. Each Director brings different skills, experience, and knowledge to the Company, and the Non-Executive Directors additionally bring independent thought and judgement. This combination seeks to ensure that no individual or group restricts or controls decision-making unduly.

GOVERNANCE > CORPORATE GOVERNANCE REPORT

# CORPORATE GOVERNANCE REPORT CONTINUED

### SKILLS AND EXPERIENCE


As at 28 March 2014.

### INDEPENDENCE

As at the date of this report, both Keith Harris and Bill Ronald will have served for over nine years as Non-Executive Directors of the Company. The Code requires the Board to determine whether independence is affected by service of more than nine years from the date of first election of each individual. The Board previously confirmed in the Annual Report 2013 that both Keith Harris and Bill Ronald were still considered to be independent in character and judgement and confirms this belief continues through to 31 May 2014 when both Keith Harris and Bill Ronald will retire as Non-Executive Directors of the Company. Therefore, neither Keith Harris nor Bill Ronald will offer themselves for re-election at the AGM.

In respect of the other Non-Executive Directors, the Board considers David Adams, Claudia Arney and Helen Jones to be independent in character and judgement in accordance with the requirements of the Code. The Chairman, Dennis Millard, was considered independent on his appointment.

In compliance with the requirements of the Code for at least half of the Board, excluding the Chairman, to be independent, the Company confirms that 62.5% of its Board are independent. From the 31 May 2014, when Keith Harris and Bill Ronald step down from the Board 50% of the Board will be independent.

### DIVERSITY

The Board considers that it is the background and experience brought to the Board by each individual that best secures and demonstrates its diversity. The principle that candidates are considered "on merit and against objective criteria, and with due regard for the benefits of diversity on the Board, including gender" is established in the Terms of Reference of the Nomination Committee[1]. No fixed quota is applied to decisions regarding any recruitment, rather the Nomination Committee considers capability and capacity to commit the necessary time to the role, in its recommendations to the Board. The intention is the appointment of the most suitably-qualified candidate to compliment and balance the current skills, knowledge and experience on the Board who will be best able to help lead the Company in its long-term strategy.

1. Available here: www.halfordscompany.com/investors/governance/our-committees/nomination-committee.

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.

| Executive | Non-Executive[1] |
|---|---|
| 2 | 4 |

| Female Non-Executive[2] |
|---|
| 2 |

Read more about:
DIVERSITY
Page 46 and 82

1. Bill Ronald and Keith Harris will retire on 31 May 2014.
2. Helen Jones was appointed on 1 March 2014.

## APPOINTMENTS TO THE BOARD

Helen Jones joined the Company as Non-Executive Director on 1 March 2014. Egon Zehnder International were engaged by the Company to conduct the search for suitable candidates and short-listed several candidates who met individually with members of the Board. Feedback from these one-to-one meetings was fed back to the Chairman. The Nomination Committee subsequently met to discuss the potential appointment and after considering the existing balance of skills, knowledge and experience on the Board, the merit and capabilities of the candidates and the time they were able to devote to the role in order to promote the success of the Company, recommended the appointment of Helen Jones to the Board.

## INDUCTION AND DEVELOPMENT

An induction programme is maintained for new Directors, which is tailored to include briefings on the activities of the Group and visits to operational sites. Helen Jones is currently undertaking a full induction programme as prepared by the Chairman, with the assistance of the Company Secretary. She was provided with background materials covering the operational and organisational structure of the business, as well as the strategic aims and key initiatives of the Company when she joined. Over the next few months, she will undertake extensive store, autocentres and distribution centre visits and on-site discussions with store, autocentre and distribution centre colleagues as well as one-to-one meetings with the Senior Management Team. All current Directors have various opportunities for ongoing development and support via:

- a programme of head office, distribution centre and store/autocentre visits;
- reviews with the Chairman to identify any training and development needs;
- advice on governance, relevant legislative changes affecting the business or their duties as directors from the Company Secretary;
- membership of the Deloitte Academy, a training and guidance resource for boards and directors; and
- access to independent professional advice at the Company's expense[1].

1. No such advice has been sought throughout the period as far as the Company Secretary is aware.

## KNOWLEDGE OF THE COMPANY


2. Keith Harris and Bill Ronald will retire on 31 May 2014.

## EVALUATION

Last year an external board evaluation exercise took place involving face-to-face interviews which was conducted using an external facilitator Egon Zehnder, who had previously worked with the Company on an executive recruitment project.

This year, an internal survey was used where questions were devised by the Company Secretary and agreed with the Chairman. A web-based solution was used to deliver the survey to all Board members. The survey considered topics under the headings:

- Leading the Business — Strategy, Performance, and Talent;
- Board Dynamics & Behaviour;
- Board Composition; and
- Board Process.

Following this review, a summary of the results of the evaluation was prepared and shared with all members of the Board. The main outcomes of the evaluation this period were to acknowledge the Board's understanding of the Group's Getting into Gear strategy and any key business and strategy risks, and their management and mitigation. The survey also acknowledged that that that there is an appropriate balance of skills, experience, independence, diversity (including gender) and knowledge of the Company to enable the Directors to discharge their respective duties and responsibilities effectively.

There has been a focus during the period on the ensuring the quality of information being sent and presented to the Board so as to optimise its time and effectiveness. In the coming period, technological improvements are being considered to optimise the interface between the Board and management and further improve the efficiency of the Board's operation.

## RE-ELECTION

In compliance with the Code and the Company's Articles of Association, all Directors on the Board as at 28 March 2014, except for Keith Harris and Bill Ronald, will seek re-election at the Company's AGM. Keith Harris and Bill Ronald will retire on 31 May 2014. Helen Jones who was appointed to the Board on 1 March 2014 will offer herself for election at the AGM.

# CORPORATE GOVERNANCE REPORT CONTINUED

## DIRECTORS AND THEIR OTHER INTERESTS

Each Director has notified the Company of any situation in which he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company (a situational conflict). The Board considered and approved these interests in accordance with the Company's Articles of Association and each Director was informed of the authorisation and the terms on which it was given.

All Directors are aware of the need to consult with the Company Secretary regarding any further possible situational conflict that may arise so that prior consideration can be given by the Board as to whether or not such conflict will be approved.

Details of the Directors' service contracts, emoluments, the interests of the Directors and their immediate families in the share capital of the Company and options to subscribe for shares in the Company are shown in the Directors' Remuneration Report on pages 90 to 110.

## BOARD COMMITTEES

Some of the Board's responsibilities are discharged via Nomination, Audit and Remuneration Committees. The activities of these Committees are described on pages 82 to 84. The Company Secretary also acts as the secretary to each Committee. Whilst not entitled to attend, other Directors, professional advisors and senior management attend when invited to. The auditor attends certain Audit Committee meetings by invitation. No member is present at Nomination and Remuneration Committee discussions pertinent to them.

A Disclosure Committee, made up of a minimum of two Directors, approves the final wording of market announcements prior to release.

The day-to-day treasury needs of the Group are managed by the Treasury Committee chaired by the Finance Director and whose other members are senior members of the Finance and Treasury teams.

The Board may establish other *ad hoc* committes of the Board to consider specific issues.

# NOMINATION COMMITTEE

## NOMINATION COMMITTEE CHAIRMAN'S LETTER

The Group's overall approach to diversity is that we aim to reflect the communities that we serve. In FY15, the Company has committed to put in place plans for improving gender diversity as an important step in achieveing this goal. The Company does not currently publish specific diversity targets, but is aiming to create a more balanced workforce over the next three years, in particular on a gender basis. In achieving this goal, the focus is on improving our ability to attract a more balanced candidate pool, ensuring our recruitment processes are also appropriate and building more confidence, capability and gender diversity awareness through our development and career programmes. The Nomination Committee and the Board will continue to review progress against this area on a regular basis.

**David Adams**
Nomination Committee Chairman
21 May 2014

**Chair:** Dennis Millard
**Members:**
Matt Davies
Keith Harris[1]
Bill Ronald[2]
Claudia Arney
David Adams
Helen Jones[3]

1. Keith Harris will retire on 31 May 2014.
2. Bill Ronald will retire on 31 May 2014.
3. On joining the Board on 1 March 2014, Helen Jones also became a member of the Nomination Committee.

Except for Matt Davies, all members of the Nomination Committee are considered independent. The test of independence is not appropriate for Dennis Millard as the Chairman of the Group following his appointment to the Board as stated in the Code. The Board feels it is appropriate that Dennis Millard chairs the Committee as all Non-Executive Directors sit on the Committee. Senior members of management and advisors are invited to attend meetings as appropriate.

## PRINCIPAL ACTIVITIES

The responsibilites of the Nomination Committee are set out in its Terms of Reference[4] and in summary are making appropriate recommendations to maintain the appropriate balance of skills and experience on the Board by considering:

- the size, structure and composition of the Board; and
- senior management succesions plans, retirements and appointments of additional and replacement Directors.

More information on the Group's diversity policy can be found on pages 46 and 80.

4. Available at: www.halfordscompany.com/investors/governance/our-committees/nomination-committee.

| Standing Items | One-Off Considerations |
|---|---|
| **November 2013** | |
| NED Succession | |
| CEO Management Team | |
| **March 2014** | |
| Re-election of Directors | Ratification of Non-Executive Director Appointment |
| Board Committees' Memberships | Ratification of Senior Independent Director Appointment |
| AGM Attendance | |

## ACCOUNTABILITY

It is the role of the Audit Committee to ensure full stakeholder confidence in the financial matters of the business.

## AUDIT COMMITTEE

### AUDIT COMMITTEE CHAIRMAN'S LETTER

Please see the Introduction to the Audit Committee report on page 86.

**Chair:** David Adams
**Members:**
Keith Harris[1]
Bill Ronald[2]
Claudia Arney
Helen Jones[3]

1. Keith Harris will retire on 31 May 2014.
2. Bill Ronald will retire on 31 May 2014.
3. On joining the Board on 1 March 2014, Helen Jones also became a member of the Audit Committee.

### PRINCIPAL ACTIVITIES

Please see the Principal Activities section in the Audit Committee report on page 87.

## INTERNAL CONTROL AND RISK MANAGEMENT

Overall responsibility for the system of internal control, reviewing its effectiveness and ensuring that there is a process to identify, evaluate and manage any significant risks that may affect the achievement of the Group's strategic objectives lies with the Board.

The Board and the Audit Committee have reviewed the effectiveness of the Group's risk management and internal control systems in accordance with the Code for the period ended 28 March 2014, and up to the date of approving the Annual Report and Financial Statements. The risk management and internal control system is designed to manage, rather than eliminate, the risk of failing to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The assessment and control of risk are considered by the Board to be fundamental to achieving corporate objectives. An ongoing process for identifying, evaluating and managing the significant risks faced by the Group and assessing the effectiveness of related controls has been established by the Board to ensure an acceptable risk/reward profile across the Group. The process has been in place throughout the period ended 28 March 2014, and up to the date of approving the Annual Report and Financial Statements. The key elements of this process which cover both the Retail and Autocentres businesses are:

- a comprehensive system of monthly reporting from key executives, identifying performance against budget, analysis of variances, major business issues, key performance indicators and regular forecasting;
- well-defined policies governing appraisal and approval of capital expenditure and treasury operations;
- reviews of key business risks (e.g. 'cyber threat' which was the subject of an Audit Committee presentation by KPMG in January 2014, with a subsequent follow-up report by internal audit) and of management's controls and plans to mitigate these risks;
- regular meetings to identify and discuss key risks and mitigations with a broad sample of the Senior Management Team and the Executive Directors;
- review of the corporate risk register in terms of completeness and accuracy with the Senior Management Team and the Executive Directors; and
- Audit Committee discussion of the corporate risk register and the risk management system with subsequent reports to the Board.

# CORPORATE GOVERNANCE REPORT CONTINUED

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, but the Board has neither identified nor been advised of any failings or weaknesses which it has determined to be material or significant.

We are pleased to report that following a rigorous review process by HMRC, we have been categorised as a low risk tax business.

The Board considered its appetite for risk in relation to the top 30 risks determining that the risks and mitigating actions were appropriate to the level of risk that was both acceptable to, and incumbent within, a FTSE 250 business. More information on the Company's key risks and uncertainties is shown on pages 64 to 67.

## REMUNERATION

### REMUNERATION COMMITTEE CHAIRMAN'S LETTER

Please see the Remuneration Committee Chairman's Letter on pages 90 to 91.

**Chair:** Claudia Arney [1]
**Members:**
Keith Harris [2]
David Adams
Bill Ronald [3]
Dennis Millard
Helen Jones [4]

1. Claudia Arney was appointed Chair of the Remuneration Committee on 1 March 2014, when Keith Harris stood down from the role.
2. Keith Harris stood down from the role of Chair of the Remuneration Committee on 1 March 2014 and will retire from the Board on 31 May 2014.
3. Bill Ronald will retire from the Board on 31 May 2014.
4. On joining the Board on 1 March 2014, Helen Jones also became a member of the Remuneration Committee.

### PRINCIPAL ACTIVITIES

Please see the Committee Activity section of the Annual Remuneration Report on page 102.

## RELATIONS WITH SHAREHOLDERS

During the period and until 1 March 2014 Bill Ronald served as Senior Independent Director when he stood down and David Adams was appointed Senior Independent Director. The Senior Independent Director relationship with shareholders is described on page 79.

During the period under review the Chief Executive, Chief Financial Officer and Chairman have met with analysts and institutional shareholders to keep them informed of significant developments and report to the Board accordingly on the views of these stakeholders. The Investor Relations officer also conducted a number of market meetings during the year, in and outside of the UK. A separate site visit in the year was well attended by analysts and shareholders. Each of the other Non-Executive Directors was also offered the opportunity to attend meetings with major shareholders and would do so if requested by any major shareholder.

The Company's investor relations programme includes formal presentations of full year and interim results and meetings with individual investors as appropriate. Feedback from these meetings and events is provided to the Board. The Company Secretary also brings to the attention of the Board any material matters of concern raised by the Company's shareholders, including private investors.

The Interim Report and the Annual Report and Financial Statements are the primary means of communication during the year with all of the Company's shareholders. The Board recognises the importance of the web as a means of communicating widely, quickly and cost-effectively and an Investor Relations website www.halfordscompany.com/investors facilitates communication with shareholders. Information available online includes copies of the full and half-year financial statements, market announcements, corporate governance information, the Terms of Reference for the Audit, Nomination and Remuneration Committees and the Matters Reserved for the Board. The Company's financial calendar and other shareholder information, which are also available online, are set out on page 157.

The Board welcomes the opportunity to meet with shareholders and to hear their views and answer their questions about the Group and its business at the Company's AGM which will be held on Tuesday, 29 July 2014 at the Hilton Garden Inn, 1 Brunswick Squre, Brindley Place, Birmingham B1 2HW. The Chairs of the Remuneration, Nomination and Audit Committees will be present at the AGM and will be in a position to answer questions relevant to the work of those Committees. It is the Company's practice to propose separate resolutions on each substantial issue at the AGM. The Chairman will advise shareholders on the proxy voting details at the meeting.

By order of the Board

**Alex Henderson**
Group Company Secretary
21 May 2014

# AUDIT COMMITTEE REPORT

## CHAIRMAN'S INTRODUCTION

This year has seen the Audit Committee continue its work of reviewing the effectiveness of Halfords' corporate governance framework with particular emphasis on the quality of financial reporting, internal control, and risk management systems.

I reported last year that we had appointed an in-house Head of Internal Audit and I am pleased to report that this year's internal audit plan has been delivered by a well-resourced, experienced and independent in-house team, assisted by external specialists where necessary. As we report below, the internal audit function has strong and direct links into the Audit Committee.

This report explains how the Audit Committee has discharged its responsibilities, and takes into account the three specific areas highlighted in the revised Corporate Governance Code:

- Significant issues considered in relation to the financial statements
- External Audit effectiveness and appointment
- External Audit objectivity and independence and the impact of non-audit work

**David Adams**
Chairman of the Audit Committee
21 May 2014

## MEMBERSHIP AND REMIT OF THE AUDIT COMMITTEE

### MEMBERSHIP

All the members of the Audit Committee are independent Non-Executive Directors. Having been the Deputy Chief Executive and Finance Director of the House of Fraser Plc, David Adams is considered by the Board to have recent and relevant financial experience and so the requisite experience to chair the Committee. Each of the other independent Non-Executive Directors has, through their other business activities, significant experience in financial matters. Dennis Millard, the Chairman, senior members of management and advisors are invited to attend meetings as appropriate. 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 auditors. There have been three such meetings in the period ended 28 March 2014 and nothing of note was reported.

### REMIT

The Audit Committee's responsibilities include:

- making recommendations to the Board on the appointment of the External Auditors, including on effectiveness, independence, non-audit work undertaken (against a formal policy) and remuneration;
- reviewing the accounting principles, policies and practices adopted throughout the period;
- reviewing and approving external financial reporting for adoption by the Board;
- assisting the Board in achieving its obligations under the Code in areas of risk management and internal control, focusing particularly on compliance with legal requirements, accounting standards and the Listing Rules;

- ensuring that an effective system of internal financial and non-financial controls is maintained; and
- approving a formal whistleblowing policy whereby staff 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, and includes arrangements to investigate and respond to any issues raised.

The Audit Committee's full Terms of Reference are available on the Company's website or on request from the Company Secretary.

## PRINCIPAL ACTIVITIES DURING THE YEAR

### GENERAL

The Audit Committee met three times during the year with the following timetable:

### MAY 2013

- Review of Year End Finance Director's Report
- Recommend the Preliminary Statement to the Board for Approval
- Recommend to the Board the approval of the Annual Report
- Review of External Auditors' Report
- Review Statement of External Auditors' Independence
- Review of Internal Audit Full-Year Report
- Approval of the External Auditors' Non-Audit Fee Policy
- Review of Group Whistleblowing Policy
- Review of Group Register of Risks and Controls

### NOVEMBER 2013

- Review of Half-Year Finance Director's Report
- Recommend the Interim Statement to the Board for Approval
- Review of External Auditors' Half-Year Report
- Review of Internal Audit Progress Report
- Approval of External Auditors' Non-Audit Fee Policy
- Review of Committee Terms of Reference

### JANUARY 2014

- Consideration of Cyber Security
- Review of External Auditors' Annual Strategy and Fees
- Review of Internal Audit Progress Report and Annual Strategy
- Review of Group Whistleblowing Policy

## SIGNIFICANT ISSUES IN RELATION TO THE FINANCIAL STATEMENTS

In order to discharge its responsibility to consider accounting integrity, the Committee carefully considers key judgments applied in the preparation of the consolidated financial statements which are set out on pages 117 to 122. The Committee's review included consideration of the following key accounting judgements:

### IMPAIRMENT OF GOODWILL AND INTANGIBLES (AUTOCENTRES)

Following the acquisition of Nationwide in 2010, the Group holds significant goodwill in the Halfords Autocentres business. With pressure on its like-for-like revenues (-0.1% for the year ending 28 March 2014) combined with a subdued aftercare market where customers are still looking to defer vehicle maintenance, there is a risk that the business may not meet either the growth projections expected by the business or those necessary to support the carrying value of the intangible asset (see note 10 of the financial statements).

The Audit Committee has received detailed reports from Halfords' finance team and External Auditors addressing this issue. Consideration has been given to ensuring that cash flow models, discount rates, customer retention rates, sensitivity models and centre profitability are all reasonable. The Committee concluded that it is satisfied with the accounting treatment of impairment of goodwill and intangibles.

### VALUATION OF INVENTORY

With the continuing pressure to provide up-to-date products to customers and with the change in ranges observed at the end of FY13 and through FY14, there is a risk that inventory provisions made will be inappropriate or incomplete (see note 12 to the financial statements). Management have recently implemented a revised methodology for assessing inventory provision. Range reviews are regularly undertaken to ensure that all discontinued inventory is identified.

The Audit Committee has received detailed reports from Halfords' finance team and External Auditors addressing this issue. After consideration of the accuracy of the new provisioning model, the completeness and accuracy of range reviews, and the reflection of these reviews within the provision, the Committee concluded that it is satisfied with the accounting treatment of the valuation of inventory.

# AUDIT COMMITTEE REPORT CONTINUED

## EXTERNAL AUDITORS

### EFFECTIVENESS OF EXTERNAL AUDIT

The effectiveness of the external audit is considered throughout the year through, amongst other factors, assessment of the degree of the audit firm's challenge of key estimates and judgements made by the business, feedback from any external or internal quality reviews on the audit and the wider quality of communication with the Committee.

In addition at its meeting in January 2014, the Committee performed a specific evaluation of the performance of the external auditor considering the areas set out above and feedback from management. Following this, the Committee concluded that:

- The overall audit approach, materiality, threshold, and areas of audit focus were appropriate to the business; and
- The audit team possessed the necessary quality, expertise and experience to provide an independent and objective audit.

### APPROACH TO APPOINTMENT OR REAPPOINTMENT

KPMG LLP were appointed as External Auditors to the Group in 2009 following a formal tender process. Since that time, KPMG LLP have complied with the partner rotation requirement set out in Ethical Standards for Auditors. A partner rotation is now due and KPMG's Peter Meehan is expected to take up the responsibilities of Senior Statutory Auditor in the new financial year. Peter has been attending Audit Committee meetings throughout the year as part of his induction process and the Committee believe him to be a suitable appointment.

The Audit Committee has considered the new UK Corporate Governance Code guidance in relation to auditor rotation including the proposed transition rules which will be considered when recommending the appointment of the External Auditors in future years.

The Audit Committee considers that the relationship with the External Auditors is working well and is satisfied with their independence, objectivity and effectiveness and has not considered it necessary to require KPMG LLP to re-tender for external audit work. The Audit Committee has recommended to the Board, for approval by shareholders at the AGM on 29 July 2014, the reappointment of KPMG LLP as External Auditors.

### 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 Auditors will not jeopardise objectivity and independence. The policy is consistent with Ethical Standards for Auditors.

The policy specifies:

i. 'The external auditors can be used to provide non-audit services subject to any non-audit engagement proposal provided by the External Auditors is formally approved by the Audit Committee before contractual arrangements are entered into, except for

ii. Half year review; and

iii. Internal support services supplied by the External Auditors in order to execute management's Internal Audit plan.

Other than for the above, for each separate service proposed to be provided by the External Auditors the 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 CEO giving a description of the work to be undertaken, the reasons why the External Auditors are involved in the proposal and how objectivity and independence has, and is seen to be, safeguarded.

Consent is required from the Audit Committee Chair on behalf of the Audit Committee before the External Auditors can be engaged for non-audit services.'

In addition, the External Auditors follows their 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 Auditors is disclosed in note 3 to the financial statements.

## ROLE AND EFFECTIVENESS OF INTERNAL AUDIT

The internal audit function principally reviews the effectiveness of the controls operating within the business by undertaking an agreed schedule of independent audits each year. The Audit Committee determines the nature and scope of the annual audit programme at the beginning of each year and revises it from time to time according to changing business circumstances and requirements. The Audit Committee also confirms that internal audit has appropriate resources available to it. The annual audit programme is derived from an audit universe including financial and commercial processes, governance issues, and key corporate risks.

IMAGE

Broader ranges help us to equip families for their leisure time.

Our internal audit function has undergone significant change the last two years. During the period ended 29 March 2013, the Company engaged KPMG to support the internal audit process in a non-managerial capacity. An experienced in-house Head of Internal Audit and Risk was appointed in October 2012 and following further recruitment, the internal audit programme for the year ended 28 March 2014 was planned and delivered by a well-resourced, experienced and independent in-house team, assisted by external specialists where necessary. We intend to continue with this resource model to deliver assurance.

Internal Audit reports on a day-to-day basis to Andrew Findlay, the Chief Financial Officer, but is independent in action and reporting of issues, with direct line of communication to the Audit Committee Chairman. The findings of the independent audits are reported initially to Executive management and any necessary corrective actions are agreed. Summaries of these reports are presented to, and discussed with, the Audit Committee along with details of progress against action plans as appropriate.

## WHISTLEBLOWING

A Whistleblowing policy and procedure 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 support centres.

Whistleblowing policy and procedure was reviewed and approved by the Audit Committee and was subject to an internal audit review during the year. The Company Secretary provides the Audit Committee with a regular summary of whistleblowing contacts and resolutions.

## ANTI-BRIBERY AND CORRUPTION POLICY

The Group's anti-bribery and corruption policy statement reinforces that the Halfords Board is committed to conducting its business affairs so as to ensure that it does not engage in or facilitate any form of corruption. It is Halfords' policy to prohibit all forms of corruption amongst our employees, suppliers and any associated parties acting on our behalf. The Group has a detailed Anti-Bribery and Corruption Policy and maintains Gifts and Hospitality Registers. Anti-bribery expectations are set out in standard purchasing terms and conditions. Face-to-face and online training has been provided to colleagues to raise the 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

Details of the Group's internal control and risk management framework are set out on pages 83 to 84.

# REMUNERATION COMMITTEE REPORT

## DEAR SHAREHOLDER,

FY14 has been an encouraging year for Halfords. Matt Davies, our CEO appointed in 2012, announced the details of Group's strategy to deliver on our vision to *Help and Inspire our Customers with their Life on the Move* in May 2013. The strategy is described elsewhere in this document but the key aim is to deliver a strong and sustainable business. For the Remuneration Committee this has therefore been a year of ensuring that we have the right talent, processes, structure and incentives in place to ensure we deliver the new strategy.

## PERFORMANCE MEASURES

As indicated in our last report, in the summer of 2013 the Committee undertook a review of performance measures for the Performance Share Plan ("PSP") to ensure that they aligned Executive Directors' interests with the delivery of our strategy. As the strategic focus of the business is to put in place the foundations necessary to deliver a strong and sustainable business, the Committee determined that Total Shareholder Return and Earnings Per Share were no longer the most suitable measures.

Following consultation with shareholders in the first half of the year, the Committee determined that PSP awards granted from 2013 onwards would be based on growth in the Group's revenue (25%) and growth in the Group's EBITDA (75%). The vesting of awards will also be subject to meeting a net debt underpin to ensure that debt remains at appropriate levels.

For 2013/14, the annual bonus was based 75% on PBT, and 25% on the delivery of key strategic objectives which the Committee believed were crucial to the delivery of our strategy, and which it believes will lead to the creation of shareholder value. For 2014/15, the Committee determined that the strategic objectives should remain linked to the delivery of the Company's vision but that the balance between financial and strategic targets should be amended as the strategy increasingly focuses on profitability. Consequently the Committee approved a FY15 bonus based 80% on PBT and 20% on strategic goals.

## REMUNERATION POLICY

Our focus on the appropriate remuneration policies for Halfords has also had to take account of the wide ranging market discussions over the last few years around Executive Director remuneration arrangements, and the new remuneration disclosure requirements which have been introduced from 1 October 2013. The legislation has introduced the concept of a binding vote for the Remuneration Policy Report and an advisory vote for the Annual Remuneration Report.

| | |
|---|---|
| 1 | 1 |
| | 1 |

IMAGES

1 A more spacious and engaging shopping experience.

We have considered all the regulations carefully, and focused on our duty as a Committee to ensure that our remuneration policy for Executive Directors supports the strategic aims of the business, without taking unnecessary risks, and enables us to recruit, motivate and retain executives of a high calibre, whilst at the same time being consistent with the remuneration policies for our *c.*12,000 colleagues. Our Remuneration Policy Report on pages 92 to 101 is broadly in line with previously reported policies.

The Annual Remuneration Report reports on how our policy has been applied during the financial year to 28 March 2014 and also to the date of this report.

## NEW COMPANY'S SHARE OPTION SCHEME ("CSOS") AND SAVE AS YOU EARN SCHEME ("SAYE")

The Committee considers that encouraging colleagues to own shares in our business helps to motivate and retain colleagues, and encourages them to think like an owner in their dealings with customers and colleagues alike. Colleague share ownership is an important part of making Halfords a great place to work and creating stores that are a great place to shop. The current CSOS and SAYE expire in 2014, and therefore the Committee has considered and approved new rules for these schemes which will be placed before members for their approval at the Company's Annual General Meeting on 29 July 2014. Executive Directors will not be invited to participate in the CSOS.

## REMUNERATION RECEIVED IN RESPECT OF 2013/14

The Remuneration Committee approved an average 1.5% salary increase in October 2013 for all colleagues and Executive Directors. Executive Directors earned bonuses of 97.5% of their maximum opportunity. The Committee determined that this level of bonus was appropriate, reflecting the strong PBT result and compelling performance against key strategic objectives during the year, see page 104 for more details. PSP awards granted in 2011 will lapse in 2014 as the EPS and TSR targets were not met.

## PRIORITIES FOR 2014/15

The priorities for the Committee in the forthcoming year remain to ensure that the Company's Remuneration Policy supports the delivery and ongoing development of the strategy, and the focus on the long-term success of the business.

In summary, the Committee has dealt with a number of changes over the last year both specific to the Company and in response to Government and shareholder consultations and is committed to ensuring that the Company's remuneration arrangements are designed to drive sustained shareholder value, and that proper levels of transparency are maintained.

Yours faithfully,

**Claudia Arney**
Chairman of the Remuneration Committee
21 May 2014

# REMUNERATION POLICY REPORT

## EXECUTIVE REMUNERATION POLICY

The policy report set out on pages 92 to 101 sets out the remuneration policy (the "Policy") that the Company intends to apply, subject to shareholder approval, with effect from 29 July 2014 (the date of the AGM). It is intended that this Policy will apply until the 2017 AGM, unless the Company seeks shareholder approval for a revised policy which comes into force before this date.

The Committee seeks to support the delivery of the Group's strategy through establishing appropriate remuneration arrangements. Our goal is to build a strong long-term sustainable business by delivering ongoing sales growth and sustainable shareholder returns through the delivery of authoritative ranges of products, colleague and service excellence, digital participation and helpful store and Autocentre environments.

Consequently, the overall remuneration policy of the Committee, and of the Board, is to provide remuneration packages for Executive Directors and other senior managers in the Group which:

- Attract and retain — Enable the Group to attract and retain management of a high calibre with the necessary retail, customer service, financial, digital and service-industry skills and credentials required to deliver a sustainable business model and drive shareholder returns. Remuneration arrangements are set at levels appropriate to achieving this goal without paying more than is considered necessary. Benchmarking exercises are undertaken at appropriate intervals to inform the positioning of executives' pay relative to the market and, without seeking to "match the median", to identify and mitigate the risk of losing strong performers.
- Link variable pay to performance and the delivery of the agreed strategy — Provide management with the opportunity to earn competitive remuneration through annual and long-term variable pay arrangements that are designed to support delivery against key strategic objectives. Performance measures are aligned with strategic goals so that remuneration arrangements are transparent to executives, shareholders and other stakeholders. Different elements of executive pay are delivered over the short and longer term and are designed to ensure that a substantial proportion of the executives' remuneration is variable and performance-related.
- Align executives as shareholders — Ensure management's interests are aligned with those of shareholders by incentivising management to deliver the Group's long-term strategy of a sustainable, growing business and thus enhance shareholder value. A significant portion of reward is delivered in shares to create alignment of interests.
- Drive sustainable performance — Remuneration arrangements are designed to support the sustainable delivery of performance and to prevent excessive risk taking.

## KEY ELEMENTS OF EXECUTIVE REMUNERATION POLICY

### Base Salary

**Purpose and link to strategy**

Base salary, which is payable in cash, is set at an appropriate level to attract and retain management of a high calibre with the necessary retail, customer service, financial, digital and service-industry skills and credentials required to deliver a sustainable business model and drive shareholder returns.

| Operation | Maximum Opportunity |
|---|---|
| Generally salaries are reviewed annually with increases effective from 1 October but may be reviewed at other times if the Committee considers this appropriate.<br><br>In determining base salary levels consideration is given to the individual's experience and the performance of the Group and the individual. Without seeking to "match the median" consideration is also given:<br><br>■ To salary levels at other companies of a similar size and complexity;<br>■ To salary levels at other UK listed retailers; and<br>■ To pay increases for other employees in the Group. | While there is no maximum salary level, salary increases will generally be in line with increases awarded to other employees in the Group.<br><br>However, larger increases may be made at the discretion of the Committee to take into account circumstances such as:<br><br>Changes in an individual's role or responsibility;<br><br>To reflect an individual's progression and increase in experience in the role;<br><br>Where a salary is significantly behind market practice.<br><br>**Performance Measures**<br><br>The payment of salary is not subject to performance conditions. However, when determining salary levels the performance of Executive Directors is taken into account, in advance of any increases being awarded. |

### Benefits

**Purpose and link to strategy**

To provide Executive Directors with market competitive benefits consistent with the role.

| Operation | Maximum Opportunity |
|---|---|
| The Committee's policy is to set benefits at an appropriate level taking into account the individual's circumstances and market practice.<br><br>Currently, base salary for Executive Directors is supplemented with a car plus fuel or a cash allowance, private health insurance and life assurance as standard benefits.<br><br>However, the Committee may determine that additional benefits may be provided based on individual circumstances, such as the use of a chaffeur when it is considered appropriate.<br><br>In the event that an executive is required to re-locate to perform their role then additional benefits may be provided such as relocation expenses, a housing allowance and school fees.<br><br>Executives are also eligible to participate in any all-employee share plans operated by the Company on the same basis as other employees. | The overall level of benefits will depend on the cost of providing individual items and the individual's circumstances and therefore there is no maximum level of benefit.<br><br>**Performance Measures**<br><br>None |

### Pensions

**Purpose and link to strategy**

To enable the Company to offer market competitive remuneration through the provision of additional retirement benefits.

| Operation | Maximum Opportunity |
|---|---|
| Defined employer contribution funding to the Halfords Pension Plan or payments into a personal fund up to the earnings cap as set by HMRC. Pension provisions above this level are made in the form of a cash allowance.<br><br>The Committee may determine that alternative arrangements should apply (including for new hires). When determining such arrangements the Committee will consider cost and market practice (subject to the overall limit set out in the maximum column). | The annual contribution for each individual will not exceed 20% of base salary. Currently the CEO receives 20% of base salary, whilst the Chief Financial Officer ("CFO") receives 15% of base salary.<br><br>**Performance Measures**<br><br>None |

# REMUNERATION POLICY REPORT CONTINUED

## Annual Bonus

### Purpose and link to strategy

To incentivise executives to achieve annual financial targets and performance against key strategic objectives. The Committee may determine that an Executive Director may be required to defer some or all of their annual bonus into shares under the Company's Deferred Bonus Plan to further incentivise them to manage risk and align their long-term interests with those of shareholders.

### Operation

The annual bonus is normally based on performance over a financial year.

The Committee determines after the year end the extent to which targets have been met. In certain circumstances the Committee may review the annual bonus payout in the context of the performance of the business during the year and the delivery against strategy and may amend the level of bonus payout (upwards or downwards) to reflect overall business and individual performance.

Generally the annual bonus is paid in cash, but in certain circumstances the bonus may be paid in shares or in a mixture of cash and shares as determined by the Committee.

Currently the CEO must defer 1/3 of any bonus earned into an award over shares under the Deferred Bonus Plan. However, the Committee may determine that a different portion of the bonus will be paid in shares or that the bonus may be paid in cash.

Deferred bonus awards are normally made in the form of nil cost options (but may be in other forms such as a conditional award). Deferred awards normally vest three years from award (or such other period as the Committee determines) and have no additional performance conditions.

Executives may, at the Committee's discretion, receive an amount (in cash or shares) representing the dividends paid between the date of grant and the exercise of the award in respect of the number of deferred shares vesting. The Committee shall have the discretion to determine how the value of this dividend award shall be calculated, which may include the deemed reinvestment of dividends in shares on a cumulative basis.

Deferred awards vest three years after the date of the award. The Executive will also recieve an amount in cash or in shares representing the dividends paid between the date of the grant and the exercise of the award in respect of the number of shares vesting. This will include the deemed reinvestment of dividends in shares on a cumulative basis.

For deferred shares granted from 2014 onwards the Committee may determine that the number of deferred bonus shares can be scaled back before exercise in the event of a material misstatement of the Company's results, or where the Company has suffered serious loss or reputational damage in respect of the period for which the Executive had responsibilities for the running of the business.

Bonuses are non-pensionable.

### Maximum Opportunity

The maximum annual bonus opportunity is 150% of base salary.

The current individual limits are outlined below:

- CEO: Maximum annual award 150% of base salary.
- CFO: Maximum annual award 100% of base salary.

### Performance Measures

The annual bonus targets are based on a mix of financial and strategic measures. Measures are selected each year by the Committee to ensure continued focus on the Company's strategy. At least 50% of the bonus will be based on financial measures.

Performance measures are set annually to ensure they are appropriately stretching for the delivery of threshold, target and maximum performance.

For 2014/15, the bonus will be based on performance against PBT and strategic objectives consistent with the *Getting into Gear* strategy.

Further details are provided on page 109 of the Annual Remuneration Report.

No bonus will be paid for below threshold performance and 100% of bonus will be paid for achieving a stretching performance target set by the Remuneration Committee with reference to prior year performance and the Group's business plan.

## Performance Share Plan

### Purpose and link to strategy

To attract and retain Executive Directors of a high calibre. To align Executive Directors' interests with those of our shareholders by incentivising them to deliver the Company strategy and to create a sustainable business and maximise returns to shareholders.

| Operation | Maximum Opportunity |
|---|---|
| Annual awards of shares with vesting based on performance over a three-year period (or such other period as the Committee shall determine). The awards are normally made in the form of a nil-cost option award (but may be made in other forms such as conditional shares awards or jointly owned equity) and the vesting of awards to Executive Directors is subject to the satisfaction of performance conditions.<br><br>To the extent that awards granted from 2013 onwards vest in line with the Performance Multiplier (as defined in the next column) these share awards will normally only become exercisable following a retention period of two years (unless the Committee determines otherwise) from the point at which the Committee determined that the performance conditions have been met.<br><br>Executives may, at the Committee's discretion, receive an amount (in cash or shares) representing the dividends paid between the date of grant and the exercise of the award in respect of the number of shares which have vested. The Committee shall have the discretion to determine how the value of this dividend award shall be calculated, which may include the deemed reinvestment of dividends in shares on a cumulative basis.<br><br>The Committee may reduce, or impose further conditions on, an award which is subject to a holding period in circumstances where the Committee considers it appropriate such as the material misstatement of the Company's results, serious reputational damage to the Company or where the company suffers serious losses. | Maximum core award 150% of base salary.<br>Participants have the opportunity to earn up to 1.5 × core award for exceptional performance (the "Performance Multiplier").<br>The maximum annual face value of awards is therefore 225% of base salary.<br><br>**Performance Measures**<br><br>For 2014 awards will vest subject to the achievement of stretching Revenue and EBITDA targets.<br><br>The vesting of 25% of the awards will be determined by the growth in the Group's revenue and the vesting of 75% of the award will be determined by the growth in the Group's EBITDA over a three-year performance period.<br><br>In addition to achieving these targets, the vesting of awards will be subject to meeting a net debt underpin to ensure that debt remains at appropriate levels and that management are not incentivised to deliver revenue growth at the expense of profitability.<br><br>The portion of the award that can be earned in relation to the revenue portion will be limited by the extent to which EBITDA targets are met.<br><br>30% of the award vests for entry level performance.<br><br>For details of performance conditions for awards granted in 2011, 2012 and 2013 see notes to the table.<br><br>For future awards the Committee may determine that different financial, operational or share price related performance measures may apply to awards or that a different weighting between performance measures may apply to ensure continued alignment with our evolving strategy. The majority of the award will be subject to meeting a financial performance target. |

## CEO Co-Investment Award

### Purpose and link to strategy

The award was implemented in October 2012 as a one-off incentive to recruit and retain a high-calibre CEO, to align his interests with those of our shareholders, and to reward growth in share price. No further awards will be made under this plan.

| Operation | Maximum Opportunity |
|---|---|
| A one-off award made on the appointment of the CEO. The CEO was required to invest £500,000 in Halfords shares ("investment shares") to receive a matching share award.<br><br>If the CEO disposes of these investment shares during the matching share performance period, then the matching shares shall lapse to the extent the investment shares have been disposed.<br><br>The CEO was granted an award of matching shares in the form of a nil cost option that may vest in tranches following the Committee's assessment of performance (see performance measures column).<br><br>Prior to vesting the Committee will satisfy themselves that the achievement of the share price targets is a genuine reflection of the Company's underlying financial performance and may adjust the level of vesting accordingly.<br><br>The Committee may determine that the number of matching shares can be scaled back before exercise in circumstances that the Committee determines are appropriate such as a material misstatement of the Company's results, serious reputational damage to the Company, or where the Company suffers serious losses.<br><br>The CEO may, at the Committee's discretion, receive an amount (in cash or shares) representing the dividends paid between the date of grant and the exercise of the award in respect of the number of shares which vest. The value of this dividend award shall be calculated based on the deemed reinvestment of dividends in shares on a cumulative basis. | The maximum number of matching shares which may be acquired under the award (excluding dividend equivalents) is 3.5 times the number of investment shares acquired. The CEO acquired 164,056 at a price of 302.22p.<br><br>**Performance Measures**<br><br>Share price performance targets for November 2015, November 2016 and November 2017.<br><br>Share price performance will be assessed using the average mid-market closing share price for the 30 days following the announcement of the Interim results for the relevant year (normally November).<br><br>At each relevant vesting date the CEO may decide to either exercise any portion of the award that has vested based on performance at that time (in which case any unvested shares in that tranche in respect of which the share price target has not been met will lapse) or roll forward that tranche in full to be subject to performance testing at the next vesting date. In the latter case ("roll-forward") the Participant will forfeit the right to exercise any awards that had become capable of vesting at the earlier vesting date.<br><br>30% of the award vests for achieving threshold performance.<br><br>For further details of the operation and targets please see page 106 of the Annual Remuneration Report. |

# REMUNERATION POLICY REPORT CONTINUED

## OTHER INFORMATION

### 2011 AND 2012 PSP AWARDS PERFORMANCE CONDITION

Awards made under the PSP in 2011 and 2012 vest subject to the achievement of stretching TSR and EPS targets. The vesting of 50% of the awards will be determined by the Group's relative Total Shareholder Return ("TSR") performance when measured against a general retailers' comparator group chosen from the FTSE 350. The vesting of the other 50% will be determined by the Group's absolute Earnings per Share ("EPS") growth performance compared against RPI over the performance period.

### SHAREHOLDING GUIDELINES

The Committee believes that it is important that Executive Directors' interests are aligned with those of our shareholders to incentivise them to deliver the corporate strategy, thus creating value for all shareholders. Executive Directors are encouraged to acquire and retain shares with a value equal to 100% of their annual base salary. Executive Directors have a five-year period to build this shareholding following their appointment. However, the Committee retains its discretion to extend this period in instances it considers such extension appropriate. Current Executive Director shareholdings are disclosed on page 107.

### LEGACY AWARDS

The Committee reserves the right to make any remuneration payments and payments for loss of office (including the exercise of any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) before the Policy came into effect or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes "payments" includes the Committee satisfying awards of variable remuneration and an award over shares is "agreed" at the time the award is granted.

### MINOR AMENDMENTS

The Committee may however make minor amendments to the policy set out above (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

### PLAN RULES

Awards under the Deferred Bonus Plan, Performance Share Plan and Co-Investment Award will be operated in accordance with the rules of the plans. In the event of a variation of the Company's share capital or a demerger, delisting, special dividend, rights issue or other event, which may, in the Committee's opinion, impact the value of awards, the terms of awards may be adjusted. In addition, the Committee may amend an award's performance conditions where an event occurs which causes the Committee to reasonably consider that an amended performance condition would be, in the case of the PSP, a fairer measure of performance and a more effective incentive and, in the case of the Co-Investment Award, more appropriate and not be materially less difficult to satisfy. The rules may be amended in accordance with their terms.

### CASH

Awards may be settled in cash at the discretion of the Committee.

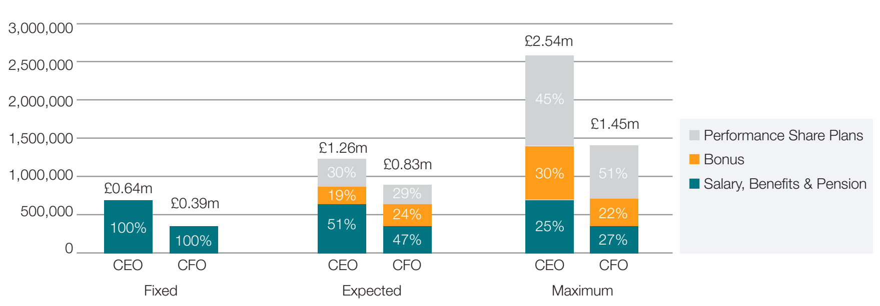
## REMUNERATION ARRANGEMENTS IN DIFFERENT PERFORMANCE SCENARIOS

As outlined above, the remuneration policy is designed to ensure that a substantial proportion of the Executive Directors' remuneration is variable and performance-related. By linking the remuneration of the individual Executive Director to the performance of the Company, the Committee seeks, as far as possible, to motivate that individual towards superior business performance and shareholder value creation, and to only pay rewards when these goals have been realised. Performance measures are aligned with strategic goals so that remuneration arrangements are transparent to Directors, shareholders and other stakeholders.

The charts below illustrate remuneration arrangements in different performance scenarios. The assumptions for each scenario are outlined below:

| | |
|---|---|
| **Fixed Pay** | ■ Fixed pay (base salary, benefits and pension) only |
| **Expected** | ■ Fixed pay |
| | ■ On target annual bonus opportunity |
| | ■ 50% of core PSP award (75% of salary) |
| **Maximum** | ■ Fixed pay |
| | ■ 100% of maximum annual bonus opportunity |
| | ■ 1.5× the core PSP award (225% of salary) |

The one-off CEO Co-Investment award has not been included in the scenario chart as there is no intention to grant further awards.




| Executive Director | Base Salary with effect from 1 October 2013 | Benefits Single Figure Value for 2013/14 | Pension Based on Salary with effect from 1 October 2013 | Total Fixed Remuneration |
|---|---|---|---|---|
| Matt Davies (CEO) | £507,500 | £31,212 | £101,500 | £640,212 |
| Andrew Findlay (CFO) | £325,000 | £17,050 | £48,750 | £390,800 |

The above scenarios do not take into account share price growth and any additional dividends that may be earned are not taken into account.

## PERFORMANCE CONDITIONS

Annual bonus: The bonus is subject to a mix of financial and strategic measures. These measures are selected to provide an appropriate balance between profitability and strategic objectives and to incentivise individual directors to meet corporate targets and drive individual performance. Targets are set on an annual basis taking into account internal and external expectations of performance.

Performance Share Plan: The performance measures for 2014 awards are Group Revenue and EBITDA growth. Revenue growth is a clear reaction to the Getting Into Gear 2016 programme and is easily identified by both management and shareholders. However, in order to add value for shareholders, revenue improvements need to lead through to improved profitability. The majority of the PSP award is therefore subject to improved profit performance. Growth in EBITDA is a measure of operational profit performance and operational cash management, with a clear line of sight for management. Given the evolution in strategy and the consequent focus on investment for long term shareholder value, EBITDA is a more appropriate measure of the effective delivery of the strategy. At the same time, to ensure a continued focus on cash management a target/underpin of net debt/EBITDA has been introduced. Targets are set taking into account internal and external expectations of performance.

The Committee may determine that different performance measures will apply to future PSP awards.

## RECRUITMENT REMUNERATION POLICY

When hiring a new Executive Director, it would be expected that the structure and quantum of the variable pay elements would reflect those set out in the policy table above. However, at recruitment, the Committee would retain the discretion to flex the balance between annual and long-term incentives and the measures used to assess performance for these elements, with the intention that a significant proportion would be delivered in shares subject and that variable pay would be subject to performance conditions. In all cases the value of any variable pay that will be granted in respect of an executive's recruitment (excluding any buyout compensation for the 'loss' of existing variable remuneration benefits) will be a maximum of 375% of annual salary.

The Committee may also make arrangements to compensate the new executive for 'loss' of existing remuneration when leaving a previous employer. In doing so the Committee may take account of the form in which they were granted; any relevant performance conditions; the length of time that any relevant performance periods have to run; and the organisation which previously employed the Executive. The Committee will seek to deliver buy-out arrangements on a broadly like for like basis to those forfeited.

When determining salary levels for a new Executive Director, the Committee may set the initial salary level towards the lower end of market practice and may award higher salary increases in the first few years as the individual gains in experience to move them towards a more market normal level.

To facilitate buy-out awards outlined above, in the event of recruitment, the Committee may grant awards to a new Executive Director under the Listing Rule 9.4.2 which allows for the granting of awards to facilitate, in unusual circumstances, the recruitment of an Executive Director without seeking prior shareholder approval or under other relevant Company incentive plans.

In the event that an internal candidate was promoted to the Board legacy terms and conditions would normally be honoured, including pension entitlements and any outstanding incentive awards.

# REMUNERATION POLICY REPORT CONTINUED

## REMUNERATION ARRANGEMENTS ELSEWHERE IN THE GROUP

Whilst our remuneration policy follows the same principles across the Group, remuneration packages for colleagues reflect their different roles and experiences, and market practice for similar roles.

The remuneration policy for senior executives in the Group is similar to the policy for Executive Directors as set out in this report - a substantial proportion of remuneration is performance related in order to encourage and reward superior business performance and shareholder returns and remuneration is linked to both individual and Company performance. Basic salary is targeted at normal commercial rates for comparable roles and is benchmarked on a regular basis. Bonuses can be earned on the same basis as the Executive Directors. Senior Executives immediately below Board level also benefit from participation in the PSP.

Increases to executive managers' base salaries are considered at the same time as all other colleagues across the Group and increases are generally in line with all colleagues.

All of the Group's *c.*12,000 colleagues are eligible to join the Halfords Sharesave Plan (SAYE) after they have served one complete month's service. At the same time they are all eligible for some form of quarterly or full year bonus, although the type, limits and performance conditions vary according to job level. Senior managers and other key management individuals are invited to join the Company Share Option Scheme.

In 2013/14 all newly appointed colleagues and other existing colleagues who had experienced a 'joining-trigger' event were eligible to join the Halfords Pension Plan 2009. All members of the Pension Plan are required to make a minimum contribution of 3% and the Company also contributes a minimum of 3%, dependent on length of service and seniority. During the year the Company has met its obligations under the pensions auto enrolment legislation, auto enrolling all other colleagues as appropriate.

## EXECUTIVE DIRECTORS' SERVICE AGREEMENTS

### TERM AND NOTICE PERIODS

The Company's policy in relation to contractual terms on termination, and any payments made, is that they should be fair to the individual, the Company and shareholders. Failure should not be rewarded and the departing Executive's duty to mitigate any loss he suffers should be recognised. The Committee periodically reviews the Group's policy on the duration of Executive Directors' service agreements, and the notice periods and termination provisions contained in those agreements. The Company is aware that companies are encouraged to consider notice periods of less than 12 months, and in contracting with the CEO it was agreed that a notice period of six months was appropriate. The notice periods of the other Executive Directors remains limited to 12 months. The Committee policy is that notice period for new Executive Directors will be no more than 12 months. The Committee will continue to review this policy, to ensure that it remains in line with the Company's overall remuneration policy

| | Date of Service Agreement | Notice Period |
|---|---|---|
| Matthew Davies | 4 October 2012 | 6 months |
| Andrew Findlay[1] | 16 November 2010 | 12 months |
| Paul McClenaghan[2] | 9 May 2005 | 12 months |

1. Andrew Findlay was appointed to the Board on 1 February 2011 and his service agreement was effective from that date.
2. Paul McClenaghan resigned on 12 April 2013.

### TERMINATION OF CONTRACT

No compensation would be payable if a service contract were to be terminated by notice from an Executive Director or for lawful termination by the Company (other than as set out below). The Company may terminate service agreements in accordance with the appropriate notice periods. In the event of early termination (other than for a reason justifying summary termination in accordance with the terms of the service agreement) the Company may (but is not obliged to) pay to the Executive Director, in lieu of notice, a sum equal to the Executive Director's then salary, benefits and pension contributions, which he would have received during the contractual notice period (12 months for the CFO and six months for the CEO), the sum of which shall normally be payable in monthly instalments.

Executive Directors who are considered to be good leavers may, if the Committee determines, receive a bonus for the financial year in which they leave employment. Such bonus will normally be calculated on a pro rata basis by reference to their period of service in the financial period in which their employment is terminated and performance against targets.

### MITIGATION ON TERMINATION

Where a contract has been terminated early the Executive Director shall use their best endeavours to secure an alternative source of remuneration, thus mitigating any loss to the Company, and shall provide the Board with evidence of such endeavours upon their reasonable request. If the Executive Director fails to provide such evidence the Board may cease all further payments of compensation. To the extent that the Executive Director receives any sums as a result of alternative employment or provision of services while he is receiving such payments from the Company, the payments may be reduced by the amount of such sums. In good leaver circumstances the Executive Director might be offered a lump sum termination payment paid at the time they cease employment which would normally be less than he would receive if he were to be paid his annual salary and benefits over 12 months (six months for the CEO).

### CHANGE OF CONTROL

The service agreements of Executive Directors do not provide for any enhanced payments in the event of a change of control of the Company.

The Executive Directors' services contracts are available for inspection by shareholders at the Company's registered office.

## SHARE PLANS – LEAVER TREATMENT

The treatment of outstanding share awards in the event that an Executive Director ceases to hold office or employment with the Group of the Company's associated companies is governed by the relevant share plan rules. The following table summarises leaver provisions under the executive share plans.

| | 'Good leavers' as determined by the Committee | Leavers in other circumstances (other than gross misconduct) |
|---|---|---|
| **Halfords Performance Share Plan** | | |
| Under the PSP "Good Leavers" include: Death, injury, ill-health disability, redundancy, retirement, sale of the individual's employing business or company out of the Group or to a company which is not associated with the Company or in any other circumstances the Committee determines. | Awards may vest at the end of the performance period or if a retention period applies at the end of the retention period. The Committee will determine the level of vesting having due regarding to the extent to which the performance conditions have been met and unless the Committee determines otherwise the proportion of the performance period that had elapsed at leaving.<br><br>Alternatively the Committee may determine that awards should vest at the time of leaving on the basis set out above.<br><br>The Executive has 12 months from vesting (or if later, his date or leaving or the end of the relevant retention period) to exercise options if awards are structured as nil-cost options. | Unvested awards normally lapse on leaving.<br><br>Awards for which the performance condition has been met at the time of leaving but which were subject to a retention period will continue to vest at the end of the retention period.<br><br>The Executive has 12 months from leaving, or if later, the end of the retention period to exercise vested but unexercised options (if applicable) unless the Committee determines otherwise. |
| **CEO Co-Investment Award** | | |
| Under the Co-Investment Plan "Good Leavers" include: Death, ill-health, disability or in any other circumstances the Committee determines. | The Committee may determine the extent to which matching shares vest either at the normal vesting date or at the time of leaving taking into account the extent to which the performance condition has been met and unless the Committee determines otherwise the period of time between award and the participant leaving.<br><br>The Executive has 12 months from vesting (or the date of leaving if later) to exercise matching shares. | Unvested Matching Shares normally lapse on leaving.<br><br>The Executive has 12 months to exercise any Matching Shares that have vested at cessation of their employment. |
| **Deferred Bonus Plan ("DBP")** | | |
| Under the Deferred Bonus Plan "Good Leavers" include: Death, injury, ill-health disability, redundancy, retirement, sale of the individual's employing business or company out of the Group or to a company which is not associated with the Company or in any other circumstances the Committee determines. | Outstanding awards vest on leaving.<br><br>The Executive has 6 months from leaving to exercise options (12 months in the case of death). | Awards will normally lapse unless the Committee determines that awards may be exercised. The Committee has discretion to determine the proportion of the award that shall vest and the period of time during which it may be exercised. |

The leavers' treatment under the Halfords Sharesave Scheme is determined in accordance with HMRC provisions.

In the event of an individual's misconduct all outstanding share awards would generally be forfeited.

## CHANGE OF CONTROL

In the event of a change of control of the Company, PSP awards may vest (pro-rated for time elapsed in the performance period unless the Committee determines otherwise) to the extent that the Committee determines the performance condition should be deemed satisfied having regarding to the Company's progress towards that condition. The Committee may allow awards to vest on the same basis in the event of a voluntary winding up or reconstruction of the company or a demerger except that in the event of a demerger [or reconstruction] the Committee may determine the extent to which awards shall be time pro-rated.

In the event of a change of control, the co-investment award may vest to the extent the Committee determines, taking into account the extent to which the performance conditions have been met and, unless the Committee determines otherwise, the period of time between grant and the relevant event and such other relevant factors (such as the performance of the Company) as the Committee considers appropriate. The Committee may determine that awards should vest on the same basis in the event of a winding-up of the Company or if the Company is affected by a demerger, de-listing, special dividend or other event which may in the Committee's opinion affect the value of awards.

DBP awards may vest on a change of control, winding up or demerger of the Company.

Alternatively awards may be rolled over into equivalent awards in a different company.

GOVERNANCE > REMUNERATON COMMITTEE REPORT

# REMUNERATION POLICY REPORT CONTINUED

## KEY ELEMENTS OF NON-EXECUTIVE REMUNERATION POLICY

| | Purpose and link to strategy | Operation | Maximum Opportunity | Performance Measures |
|---|---|---|---|---|
| **Chairman and Non-Executive Directors** | To attract and retain high-calibre individuals to serve as Non-Executive Directors. | Fee levels are set to reflect the time, commitment and experience of the Chairman and the Non-Executive Directors and taking into account fee levels at other companies of a similar size and complexity and to other UK listed retailers.<br><br>The fees of Non-Executive Directors shall normally be reviewed every two years to ensure that they are in line with market conditions and any changes to said fees will be approved by the Board as a whole following a recommendation from the Chief Executive.<br><br>Fees for the Company Chairman shall normally be reviewed every two years to ensure that they are in line with market conditions and any changes to said fees will be approved by the Board as a whole.<br><br>The fees are normally paid in cash quarterly but may be paid in shares if this is considered appropriate.<br><br>The Chairman is paid a single fee which includes his chairmanship of the Nomination Committee.<br><br>The Non-Executive Directors are paid a base fee plus additional fees for their chairmanship of a Board Committee and for the role of the Senior Independent Director.<br><br>Further additional fees may be paid to reflect additional time, committee or board responsibilities if this is considered appropriate.<br><br>The Company reimburses reasonable travel and subsistence costs.<br><br>The Chairman and Non-Executive directors do not currently receive other benefits but reasonable benefits may be provided in the future if appropriate. | Overall fees paid to Directors will remain within the limit stated in the Company's Articles of Association, currently £600,000.<br><br>Non-Executive Directors and the Chairman are not entitled to participate in any cash or share incentive schemes. | None |

## APPOINTMENT

None of the Non-Executive Directors has an employment contract with the Company. However, each has entered into a letter of appointment with the Company confirming their appointment for a period of three years, unless terminated by either party giving the other not less than three months' notice or by the Company on payment of fees in lieu of notice.

The remuneration package for a newly appointed Non-Executive Director would normally be in line with the structure set out in the policy table for Non-Executive Directors above.

The appointment period for each Non-Executive Director is set out below:

| Director | Date of Appointment | Date of Current Appointment | Date of resignation | Expiry Date | Unexpired term at the date of this Report |
|---|---|---|---|---|---|
| **Dennis Millard** | 28 May 2009 | 29 May 2012 | — | 29 May 2015 | 12 months |
| **Bill Ronald** | 17 May 2004 | 27 July 2013 | — | 26 July 2016 | 26 months |
| **David Adams** | 1 March 2011 | 1 March 2014 | — | 28 February 2017 | 32 months |
| **Claudia Arney** | 25 January 2011 | 25 January 2014 | — | 24 January 2017 | 31 months |
| **Keith Harris** | 17 May 2004 | 27 July 2013 | — | 26 July 2016 | 26 months |
| **Helen Jones** | 1 March 2014 | 1 March 2014 | — | 28 February 2017 | 32 months |

Their appointments are subject to the provisions of the Companies Act 1985 and 2006 and the Company's Articles of Association and in particular the need for re-election. Continuation of an individual Non-Executive Director's appointment is also contingent on that Non-Executive Director's satisfactory performance, which is evaluated annually by the Chairman. The Chairman is evaluated by the Senior Independent Director.

The Non-Executive Directors' letters of appointment are available for inspection by shareholders at the Company's registered offices.

| | |
|---|---|
| 1 | 2 |
| | 3 |

**IMAGES**

1 Space to assess and consider premium cycles.

2 Enhanced displays and, in selected stores, the ability to try pressure washers.

3 Bright and engaging product brands.

## TERMINATION OF NON-EXECUTIVE DIRECTORS' LETTERS OF APPOINTMENT

No compensation would be payable to a Non-Executive Director if his or her engagement were terminated as a result of him or her retiring by rotation at an Annual General Meeting, not being elected or re-elected at an Annual General Meeting or otherwise ceasing to hold office under the provisions of the Articles of Association of the Company. There are no provisions for compensation being payable upon early termination of the appointment of a Non-Executive Director.

## DIALOGUE WITH SHAREHOLDERS

The views of our shareholders are very important to the Committee and it is our policy to consult with our largest shareholders in advance of making any material changes to the executive remuneration arrangements.

In 2013 the Committee consulted with shareholders regarding changing the performance measures for the PSP from TSR and EPS to Revenue and EBITDA with a net debt underpin. The Committee found the consultation constructive and the feedback from shareholders resulted in a change in the ratio of Revenue and EBITDA and the introduction of a retention period of two years for shares that vest by virtue of employing the performance multiplier.

## DIALOGUE WITH EMPLOYEES

The Committee generally considers pay and employment conditions elsewhere in the Group when considering pay for Executive Directors and senior management. When considering base salary increases, the Committee reviews overall levels of base pay increases offered to other employees in the Group.

The Committee does not consult directly with employees regarding Executive Directors' remuneration. However, at regular intervals the Company conducts a survey of the views of employees in respect of their experience of working at Halfords including their own reward.



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# ANNUAL REMUNERATION REPORT

## COMMITTEE ACTIVITY

### THE COMMITTEE

During the year and the period to the date of this report the Remuneration Committee (the "Committee") consisted of Keith Harris; Dennis Millard; Bill Ronald; David Adams; and Claudia Arney. Claudia Arney took over the Chairmanship of the Committee from Keith Harris on 1 March 2014. In this time the Committee has:

- Discussed and approved both financial and strategic annual bonus metrics and targets;
- Reviewed and set the salaries of the CEO and FD with effect from 1 October 2013;
- Reviewed and commented on the salaries and incentive arrangements for the executive management;
- Reviewed and approved the salaries and incentives arrangements for the recruitment of senior executives;
- Held discussions with shareholders and approved changes to the performance conditions for awards made under the Performance Share Plan from 2013 onwards;
- Measured the performance conditions of the Company Share Option Scheme (which operates for Senior Executives below Board level) and the Performance Share Plan awards granted in 2010, confirming that neither of the Schemes' performance condition targets had been met;
- Approved grants under the Performance Share Plan, Company Share Option Scheme (to Senior Executives below Board level) and Sharesave Scheme;
- Approved amendments to the rules of the Company Share Option Scheme and the Sharesave Scheme in respect of Finance Act 2013 changes;
- Approved new rules for the Company Share Option Scheme and the Sharesave Scheme to be put before shareholders at the 2014 Company's Annual General Meeting (the old plans having expired this year);
- Reviewed and approved the Company's Remuneration Policy and Annual Remuneration Report for placing before shareholders at the Company's Annual General Meeting on 29 July 2014;
- Undertaken a review of Committee effectiveness and agreed steps to enhance effectiveness; and
- Considered and approved the Committee's terms of reference.

### ADVISORS

During the year the Committee has been supported by Jonathan Crookall, People Director and Alex Henderson, Company Secretary. The CEO and CFO may also on occasion attend Committee meetings on the request of the Committee but are not present when their own remuneration is discussed. The Committee also engaged with Deloitte LLP, who has advised on performance measures for the PSP, remuneration reporting and other remuneration matters. Fees paid to Deloitte for this advice were £5,900. Deloitte have also provided advice to management as part of their support to the Committee, primarily in relation to remuneration reporting. A separate team within Deloitte has also provided debt advisory advice.

Deloitte are founding members of the Remuneration Consultants Group and adhere to the Remuneration Consultants Group Code of Conduct when dealing with the Committee. The Committee considers their advice to be independent and impartial. The Committee is also satisfied that the Deloitte LLP engagement partner and team, which provided remuneration advice to the Committee, do not have connections with Halfords that might impair their independence. The Committee reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

Towers Watson also provided the Committee with executive salary benchmark data. Towers Watson are also signatories of the Remuneration Consultants Code of Conduct. Fees paid to Towers Watson for this advice were £3,500.

Fees for both Deloitte and Towers Watson were charged on a time and materials basis.

### SHAREHOLDER DIALOGUE

The Committee is committed to ongoing shareholder dialogue and carefully reviews voting outcomes on remuneration matters. In the event of a substantial vote against a resolution in relation to Directors' remuneration, Halfords would seek to understand the reasons for any such vote, determine appropriate actions and would detail any such actions in response to it in the Directors' Remuneration Report.

The following table sets out actual voting in respect of our last report in 2013:

| % of votes | For | Against |
|---|---|---|
| For 2012/13 Directors' Remuneration Report (2013 AGM) | 88.8% | 11.2% |

6,247,647 votes were withheld in relation to this resolution (*c.*4% of shareholders).

## HOW WAS THE REMUNERATION POLICY IMPLEMENTED IN 2013/14 — EXECUTIVE DIRECTORS

### SINGLE REMUNERATION FIGURE FOR 2013/14 (AUDITED)

| | Base Salary | Bonus (due in respect of 2013/14)[1] | Benefits | Pension | PSP (due in respect of performance period ended 2013/14)[2] | Total 'Single Figure' 2014 |
|---|---|---|---|---|---|---|
| Matt Davies | 503,750 | 736,734 | 31,212 | 100,375 | n/a | 1,372,071 |
| Andrew Findlay | 302,750 | 295,181 | 17,050 | 45,000 | — | 660,011 |
| **Totals** | 806,500 | 1,031,915 | 48,262 | 142,250 | 0 | 2,028,957 |

1. The calculation of the bonus payable in respect of the period ended 28 March 2014 is given on page 104.
2. Shares were awarded in August 2011 under the Performance Share Plan based on performance in the period April 2011 to March 2014. In May 2014 the performance conditions for these shares were measured and the Committee determined that awards would not vest. Further detail is given on page 104. Matt Davies did not receive a PSP award in 2011 as this was prior to him joining the Company.

### SINGLE REMUNERATION FIGURE FOR 2012/13 (AUDITED)

| | Base Salary | Bonus (due in respect of 2012/13) | Benefits | Pension | PSP (due in respect of performance period ended 2012/13) | Total 'Single Figure' 2013 |
|---|---|---|---|---|---|---|
| Matt Davies[3] | 246,795 | 187,500 | 14,318 | 50,000 | n/a | 498,613 |
| Andrew Findlay | 280,500 | 56,100 | 16,335 | 41,250 | — | 394,185 |
| **Totals** | 527,295 | 243,600 | 30,653 | 91,250 | — | 892,798 |

3. Matt Davies was appointed to the Board on 4 October 2012.

### SALARY

In keeping with its usual cycle of reviewing Company-wide salaries in September/October the Committee considered an executive pay report compiled for them by Towers Watson. The Committee concluded that the salary for the CEO was competitive and decided to increase his salary by 1.5% to £507,500 in line with the average increase awarded to colleagues across the business. In reviewing the Executive Directors' responsibilities the Committee determined that the Group's CFO, Andrew Findlay, had assumed Board responsibility for a number of additional areas of the business, most importantly that of IT. This was considered by the Board to be a vital role in the delivery of the Company's *Getting Into Gear* programme.

The Committee considered that Andrew Findlay's salary did not appropriately reflect the scope and responsibilities of his increased role and as such the Committee considered it appropriate that he receive an increased salary from 1 October 2013 of £325,000 (16% increase).

### 2013/14 ANNUAL BONUS

Annual Bonuses for 2013/14 for Executive Directors were based 75% on Group PBT and 25% on the delivery of key strategic initiatives crucial to the delivery of the Company's strategy. These initiatives included improving the retention rate of colleagues who had been with the business for three months; increasing the 'value-added' service sales; increasing the range of parts, accessories and clothing on offer in the Company's Cycling category; improving both colleague and customer engagement with the Halfords brand; and the development of new 50:39 store formats.

GOVERNANCE > REMUNERATON COMMITTEE REPORT

# ANNUAL REMUNERATION REPORT CONTINUED

Annual Bonuses reported in the above table and payable in May 2014 for the financial period ended 28 March 2014 were calculated as follows.

| | | Performance | | | | |
|---|---|---|---|---|---|---|
| **Measure** | **Bonus Opportunity (% of total award)** | **Threshold** | **Target** | **Stretch** | **Performance delivered** | **Bonus awarded (% of total award)** |
| **PBT** | 75% | 92% of budget | 100% of budget | 106% of budget | Underlying PBT for year as £72.8m was in excess of 106% of target and therefore this proportion of the annual bonus is payable in full. | 75.0% |
| The Remuneration Committee has discretion to determine the extent to which these initiatives have been achieved. In determining the outcome in relation to each initiative the Committee considered the following achievements: | | | | | | |
| **— Retention of Store Colleagues;** | Reducing the number of colleagues who leave the business, as a percentage, within three months of their start date. | | | | Achieved | 5% |
| **— Value Added Sales;** | Increasing the total incremental sales in the financial year of 3Bs fitting, other auto fitting, cycle repair, Sat Nav attachment and cycle accessories. | | | | The initiatives included in this project led to sales increasing in a range in the lower half of the target. | 2.5% |
| **— Net Promoter Score Formats;** | As measured by the Empathica mechanism in stores – increasing the average score over the final three months of the year. | | | | Achieved | 5% |
| **— Engagement Index;** | Increasing the year on year engagement index based on the annual survey. | | | | Achieved | 5% |
| **— 50:39 Store Delivery.** | 15 stores refurbished and a blueprint established for roll out. | | | | Achieved | 5% |
| | | | | | **Total Bonus** | **97.5%** |

The Committee reviewed the annual bonus payout in the context of the performance of the underlying business during the year and the delivery against strategy and determined that the level of bonus paid was appropriate in this context.

Bonus targets are considered by the Board to be commercially sensitive as they could reveal information about Halfords' business plan and budgeting process to competitors which could be damaging to Halfords' business interests and therefore to shareholders. The Committee will look to disclose targets when they are considered to no longer be commercially sensitive.

### 2011 PERFORMANCE SHARE PLAN AWARD

Awards granted in 2011 under the PSP were subject to the following performance conditions:

| | | **TSR Performance Element (50% of award)** | **EPS Performance Element (50% of award)** |
|---|---|---|---|
| **Award "Multiplier"** (up to 1.5 x initial award) i.e. 225% of salary. | 1.5 x initial award vesting | Upper Decile performance | 16% growth p.a. above RPI |
| | Straight-line vesting | Between Upper Quartile and Upper Decile performance | Between 11% growth p.a. and 16% growth p.a. above RPI |
| **Core Award** (150% of salary) | 100% Vesting | Upper Quartile performance | 11% growth p.a. above RPI |
| | Straight-line vesting | Between Median and Upper Quartile performance | Between 4% growth p.a. and 11% growth p.a. above RPI |
| | 30% Vesting | Median performance | 4% growth p.a. above RPI |
| | 0% Vesting | Below Median performance | Below 4% growth p.a. above RPI |

TSR and EPS performance are assessed on an independent basis. However, to ensure that the PSP continues to support sustainable performance, the multiplier for one measure is only applied if performance is at least at the threshold level for the other measure.

The companies included in the TSR comparator group are based on the FTSE 350 general retail and food retail companies on the date of grant. For awards granted in 2011 these are as follows:

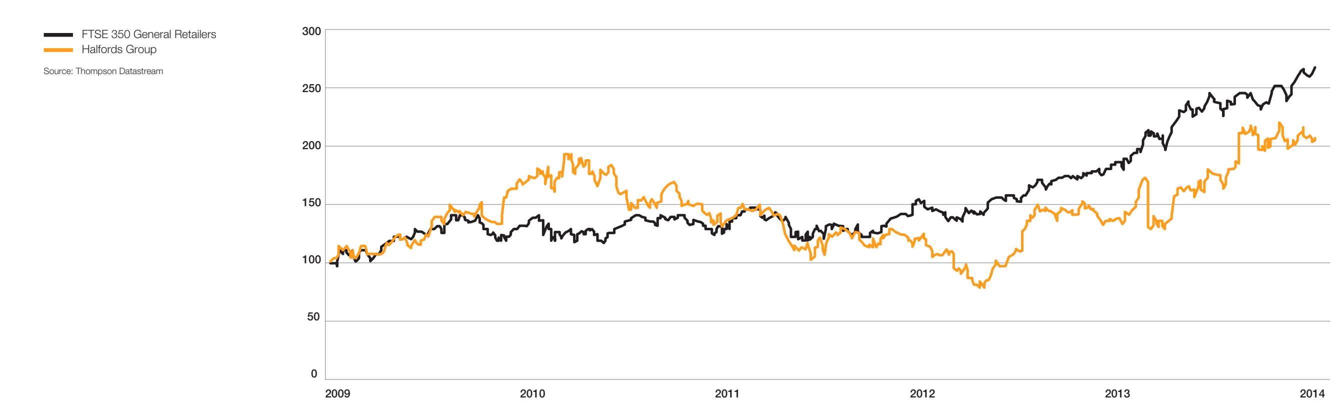
Brown Group; Carpetright; Debenhams; Dignity; Dixons Retail plc (formerly DSG International); Dunelm Group; Greggs; Home Retail Group; JD Sports Fashion plc; Darty (formerly Kesa Electricals); Kingfisher International; Marks & Spencer Group; Morrison (WM); Mothercare; Next; Sainsbury (J); Sports Direct; Tesco; WH Smith.

Based on TSR performance between 2 April 2011 and 28 March 2014, Halfords' TSR was just below median against the comparator group and therefore 0% of the portion of the TSR element of the award will vest. EPS growth between FY11 and FY14 was below RPI and therefore 0% of the EPS element of the award will vest.

### TSR Performance Graph

The following graph shows the TSR performance of the Company since April 2009, against the FTSE 350 General Retailers (which was chosen because it represents a broad equity market index of which the Company is a constituent).

TSR was calculated by reference to the growth in share price, as adjusted for reinvested dividends.




The following table shows the history of PSP award vesting over the last 5 five years.

| | FY10 | FY11 | FY12 | FY13 | FY14 |
|---|---|---|---|---|---|
| PSP vestings (% of maximum) | 100% | 99% | 0% | 0% | 0% |

### STANDARD BENEFITS

Standard benefits include payments made in relation to life assurance, private health insurance and the provision of a company car or equivalent cash allowance and the use of a chauffuer when appropriate.

### PENSION

Pension payments represent contributions made either to defined contribution pension schemes or as a cash allowance. The CEO received a contribution of 20% of base salary and the CFO received contribution of 15% of base salary.

## SHARE AWARDS GRANTED DURING THE YEAR (AUDITED)

### PERFORMANCE SHARE PLAN

During the year the Committee approved awards to the Executive Directors under the Performance Share Plan as follows;

| | Date of award | Type of award | Number of shares | Maximum face value of award (1.5x the number of awards granted)** | Threshold vesting (% of target award) | Performance period |
|---|---|---|---|---|---|---|
| **Matt Davies** | 7 August 2013 | Nil cost option (0p exercise price) | 200,588* | £1,124,998 | 30% | 30 March 2013 to 25 March 2016 |
| **Andrew Findlay** | | | 112,530* | £631,125 | | |

* These awards were based on 150% of salary.

** Based on the mid-market price on the date of the awards of £3.739.

### Performance Conditions

Awards granted in 2013 are subject to the following performance conditions:

| | | Group Revenue Growth — CAGR (25% of the award) | Group EBTIDA Growth - CAGR (75% of the award) |
|---|---|---|---|
| **Award "Multiplier"** (up to 1.5 x initial award) i.e. 225% of salary. | 1.5 x initial award vesting | 8.00% | 6.50% |
| | Straight-line vesting | Between 4.75% and 8.00% | Between 3.25% and 6.50% |
| **Core Award** (150% of salary) | 100% Vesting | 4.75% | 3.25% |
| | Straight-line vesting | Between 4.00% and 4.75% | Between 2.50% and 3.25% |
| | 30% Vesting | 4.00% | 2.50% |
| | 0% Vesting | Below 4.00% | Below 2.50% |

In addition to achieving these targets, the vesting of awards will be subject to meeting an underpin of net debt to EBITDA ratio no greater than 1.5x throughout the three-year performance period. This will ensure that net debt remains at appropriate levels and management is not incentivised to invest in new activities that are not profitable thereby increasing net debt levels to meet targets; the focus is to maximise the return on cash investments. The Core Award shares that vest will become exercisable in August 2016. To the extent that awards vest in line with the performance multiplier outlined above, these shares will only become exercisable in August 2018, following a retention period of two years.

# ANNUAL REMUNERATION REPORT CONTINUED

### Deferred Bonus Plan

Matt Davies received a bonus of £187,500 in respect of 2012/13, of which one-third (£62,500) was deferred into 18,997 shares under the Deferred Bonus Plan on 31 May 2013 at a price of £3.29 per share. These shares vest, subject to the clawback provisions referred to on page 94, on 31 May 2016.

## OUTSTANDING SHARE AWARDS (AUDITED)

### Performance Share Plan

The following summarises outstanding awards under the PSP:

| | Award Date | Mid-market price on date of awards | Awards held 29 March 2013 | Awarded during the period | Dividend Reinvestment[1] | Forfeited during the period | Lapsed during the period | Exercised during the year | Awards held 28 March 2014 | Performance period 3 years to |
|---|---|---|---|---|---|---|---|---|---|---|
| **Matt Davies** | 7 August 2013 | 3.74 | — | 200,588 | 2,220 | — | — | — | **202,808** | 1 April 2016 |
| **Andrew Findlay** | 8 August 2011[2] | 3.17 | 230,692 | — | 8,275 | — | — | — | **238,967** | 28 March 2014 |
| | 3 August 2012 | 2.20 | 195,866 | — | 7,026 | — | — | — | **202,892** | 3 April 2015 |
| | 7 August 2013 | 3.74 | — | 112,530 | 1,246 | — | — | — | **113,776** | 1 April 2016 |

1. Interim and final dividends have been reinvested in shares at prices between £3.7100 and £4.6974.
2. The Remuneration Committee has reviewed the performance conditions attached to 2011 Performance Share Plan award and determined that the performance conditions have not been met. The award will therefore lapse on 8 August 2014.

The performance conditions for awards are summarised above. The performance conditions for 2012 awards are the same as for 2011 awards.

### Co-Investment Plan

| | Award Date | Awards held 30 March 2012 | Awarded during the period | Dividend Reinvestment | Lapsed during the period | Exercised during the year | Awards held 29 March 2013 | Performance period 3–5 years |
|---|---|---|---|---|---|---|---|---|
| **Matt Davies** | 28 January 2013 | — | 574,196[1] | 20,470[2] | — | — | **594,666** | November 2015 - November 2017 |

1. This award represents 3.5 times Matt Davies' initial investment of 164,056 shares purchased at a price of £3.02 on 4 October 2012.
2. Interim and final dividends have been reinvested in shares at prices between £3.7100 and £4.6974.

On appointment, the Company made the CEO a one-off Co-Investment Award. This Award was designed to allow the Company to recruit and retain an executive of the calibre required to run the business and to incentivise the CEO to deliver exceptional shareholder value creation through the achievement of share price performance targets. This plan was adopted for the sole purpose of making a one-off award to the Group's new CEO. It is not anticipated that any further awards will be made under this Plan to either the Group's CEO or other executives.

## PERFORMANCE CONDITIONS

Under the Plan the CEO invested £500,000 into Halfords shares, acquiring 164,056 shares at 302.22p per share. The CEO was then awarded a maximum matching award of 3.5x the number of invested shares (574,196 shares). Subject to continued employment these shares may vest up to a third in November 2015, up to two thirds in November 2016 and in full in November 2017, depending on the following Threshold (30% vesting) and Maximum (100% vesting) share price performance targets of Halfords:

| November | Threshold | Maximum |
|---|---|---|
| **2015** | 350p | 400p |
| **2016** | 385p | 440p |
| **2017** | 425p | 485p |

Share price performance will be assessed using the average mid-market closing share price for the 30 days following the announcement of the Interim results for the relevant year (normally November). At each relevant vesting date the CEO may decide to either exercise any portion of the award that has vested at that time (in which case any unvested shares in that tranche in respect of which the share price target has not been met will lapse) or roll forward that tranche in full to be subject to performance testing at the next vesting date. In the latter case ("roll-forward") the CEO will forfeit the right to exercise any awards that had become capable of vesting at the earlier vesting date.

Matching shares were granted in the form of nil cost options. Vested options can be exercised until the 10th anniversary of the date of grant. Matching shares accrue additional shares related to dividends.

Prior to vesting the Committee will satisfy themselves that the achievement of the Share Price Target is a genuine reflection of the Company's underlying financial performance and may adjust the level of vesting accordingly. The Committee may determine that Matching Shares can be scaled back before exercise for circumstances such as material misstatement, the individual being responsible for serious reputational damage to the Company, or in circumstances where the Company suffers serious losses.

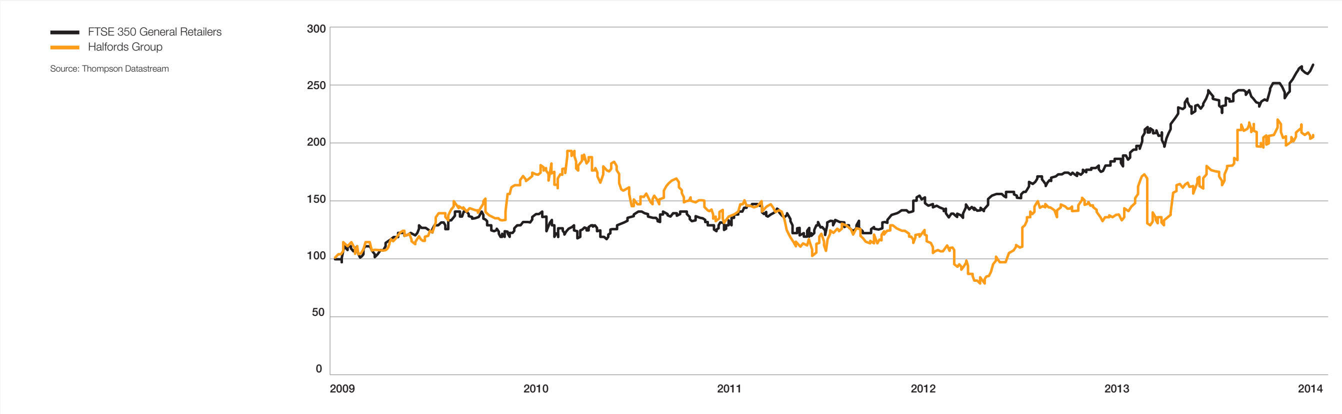
### Halfords Group plc Deferred Bonus Plan

| | Award Date | Awards held 29 March 2013 | Awarded during the period | Dividend Reinvestment | Lapsed during the period | Exercised during the year | Awards held 28 March 2014 |
|---|---|---|---|---|---|---|---|
| Matt Davies | 31 May 2013 | — | 18,997[1] | 681 | — | — | **19,678** |

1. Matt Davies received a bonus of £187,500 of which one-third was deferred into shares under the Halfords Deferred Bonus Plan at a price of £3.29 per share.

### CEO PAY COMPARED TO PERFORMANCE

The following tables compares the Company's TSR performance with the CEO remuneration for the past 5 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.




| | | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|---|---|---|---|---|---|---|
| **CEO salary, benefits and pensions** | Matt Davies[1] | n/a | n/a | n/a | 311 | 635 |
| | David Wild[2] | 605 | 606 | 617 | 198 | — |
| **Annual bonus (% of maximum)** | Matt Davies | n/a | n/a | n/a | 50% | 97.5% |
| | David Wild | 100% | 0% | 0% | n/a | n/a |
| **PSP vesting (% of maximum)** | Matt Davies | n/a | n/a | n/a | n/a[4] | n/a[6] |
| | David Wild | n/a[3] | 99% | 0% | n/a[5] | — |

1. Matt Davies was appointed on 4 October 2012.
2. David Wild stepped down as CEO on 19 July 2012.
3. David Wild did not receive a PSP award in 2007 as this was before he was appointed. The 2007 PSP awards vested in full.
4. Matt Davies did not receive a PSP award in 2010 as this was before he was appointed. The 2010 PSP awards lapsed in full.
5. David Wild's 2010 PSP award lapsed on leaving.
6. Matt Davies did not receive a PSP award in 2011 as this was before he was appointed.

## EXECUTIVE DIRECTOR SHAREHOLDING (AUDITED)

| | Matt Davies | Andrew Findlay |
|---|---|---|
| Shareholding Requirement | 100% | 100% |
| Current Shareholding | 174,056 | 19,108 |
| Current Value (based on share price on 28 March 2014) | £802,572 | £88,107 |
| Current % of Salary | 158% | 27% |
| Date by which guideline should be met | 4 October 2017 | 1 February 2016 |

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 28 March 2014 and 22 May 2014.

### 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 Matt Davies received fees of £41,250 as a Non-Executive Director of Dunelm Group plc.

GOVERNANCE > REMUNERATON COMMITTEE REPORT

# ANNUAL REMUNERATION REPORT CONTINUED

### LOSS OF OFFICE PAYMENTS (AUDITED)

Paul McClenaghan left the business on 12 April 2013. The Committee determined that it was appropriate to treat him as a Good Leaver and therefore allowed him to retain his PSP awards granted in 2011 and 2012 which will vest on a pro-rata basis in relation to the elapsed time of the performance period at his leaving date and subject to performance at the normal testing date. Paul McClenaghan was also paid a lump sum of £218,025, being equivalent to nine months' salary, in full and final settlement of any contractual obligations. This sum was less than the amount he was due under the termination provisions of his service agreement.

### PAYMENTS TO FORMER DIRECTORS (AUDITED)

There were no payments to former directors during the year.

### HOW WAS THE REMUNERATION POLICY IMPLEMENTED IN 2013/2014 — NON-EXECUTIVE DIRECTORS

#### Non-Executive Director Single Figure Comparison (audited)

| Director | Role | Board Fees[3] | Senior Independent Director[1] | Committee Chairman Fees[2] | Total 'Single Figure' 2014 | Total 'Single Figure' 2013 |
|---|---|---|---|---|---|---|
| Dennis Millard | Chairman | 165,916 | – | – | **165,916** | 215,000 |
| Bill Ronald | Senior Independent Director | 45,250 | 13,750 | – | **59,000** | 60,000 |
| David Adams | Audit Committee Chairman | 45,250 | 1,250 | 5,000 | **51,500** | 50,000 |
| Claudia Arney | NED | 45,250 | | 417 | **45,667** | 45,000 |
| Keith Harris | Remuneration Committee Chairman | 45,250 | – | 4,583 | **49,833** | 50,000 |
| **TOTALS** | | 346,000 | 15,000 | 10,000 | **371,000** | 420,000 |

1. On 1 March 2014 David Adams took over from Bill Ronald as Senior Independent Director.
2. On 1 March 2014 Claudia Arney took over from Keith Harris as Chairman of the Remuneration Committee.
3. On 1 March 2014 the fees for Non-Executive Directors were increased from £45,000 to £48,000, and the Chairman's fees were increased from £165,000 to £176,000 see page 110.

#### Non-Executive Director Shareholding

| Director | 2014 | 2013 |
|---|---|---|
| Dennis Millard | **50,000** | 40,000 |
| Bill Ronald | **11,538** | 11,538 |
| David Adams | **6,000** | 6,000 |
| Claudia Arney | **21,052** | 21,052 |
| Keith Harris | **3,386** | 3,386 |
| Helen Jones | **–** | n/a |

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 28 March 2014 and 22 May 2014.

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

### HOW REMUNERATION POLICY WILL BE IMPLEMENTED FOR 2014/15 – EXECUTIVE DIRECTORS

#### Salary

Base salaries were last reviewed with effect from 1 October 2013 and increases were made as per the details on page 103. Current salaries for the Executive Directors are as follows:

| | |
|---|---|
| CEO | £507,500 |
| CFO | £325,000 |

Salaries will next be reviewed with effect from 1 October 2014.

#### Annual Bonus

The annual bonus opportunity for 2014/15 will remain unchanged as follows:

| | |
|---|---|
| CEO | ■ Maximum opportunity of 150% of base salary<br>■ 2/3rd paid in cash<br>■ 1/3rd paid in Halfords shares deferred for three years |
| CFO | ■ Maximum opportunity of 100% of base salary<br>■ Paid in cash |

The annual bonus for 2014/15 will be based 80% on Profit Before Tax ('PBT') performance and 20% based on performance against strategic objectives. PBT targets are calibrated with reference to prior year performance and the Group's business plan and zero payment will be made for threshold performance with maximum payment being made for a stretch target and intermediate payments being made on a straight-line basis.

The Committee reviews the goals included in the strategic objectives portion of the bonus to ensure that they remain appropriate. For 2014/15 the Committee determined that the strategic objectives would be linked to the delivery of the Company's goal of delivering growth in top line revenues. The Remuneration Committee have identified measures that it considers will measure the successful delivery of each objective and these also represent the non-financial strategic measures that will form part of the Executive Director's 2014/15 annual bonus plan.

These are detailed below:

| Measure | Definition |
|---|---|
| Net Promoter Score ("NPS") | Improved NPS as measured by the Empathica mechanism in store. Average score over the final 3 months of the year. |
| Engagement Scores | Improved colleague engagement scores as measured by the index achieved in the survey planned to take place in 2015. |
| Value Added Sales | Increasing the total incremental sales in the financial year of 3Bs fitting, other auto fitting, cycle repair, Sat Nav attachment and cycle accessories. |
| Delivering an effective economic model for retail stores through the 50:39 project | If the increase in the incremental sales for at least 50% of the refreshed stores collectively is in excess of 1.5% the threshold has been met, whilst ensuring that the balance of the portfolio also maintains postitive growth in sales. If the incremental sales for at least 50% of the refreshed stores collectively is in excess of 3% the maximum has been met. |
| Colleague Retention | Reducing the number of colleagues who leave the business as a percentage within 3 months of their start date. |

In determining whether any bonuses are payable the Committee retains the discretionary authority to increase or decrease the bonus to ensure that the level of bonus paid is appropriate in the context of performance.

The details of bonus targets is considered by the Board to be commercially sensitive as they could reveal information about Halfords' business plan and budgeting process to competitors which could be damaging to Halfords' business interests and therefore to shareholders.

## SHARE PLANS

The Company has adopted four share plans: The Halfords Sharesave Scheme; the Halfords Company Share Option Scheme ("CSOS"), a market value share option plan; the Halfords Performance Share Plan ("PSP"); and the Halfords Co-Investment Plan (it is intended that no further awards will be made under this plan). Executive Directors do not particiapte in the CSOS.

For the Executive Directors' the Committee intends to continue granting awards under the Performance share plan of 150% of base salary.  If exceptional performance is achieved up to 1.5x the core award can be earned ('performance multiplier').  The vesting of awards will be subject to meeting the following performance conditions:

| | | Group Revenue Growth – CAGR (25% of the award) | Group EBTIDA Growth (75% of the award) |
|---|---|---|---|
| **Award "Multiplier"** (up to 1.5 x initial award i.e. 225% of salary.) | 1.5 x initial award vesting | 7.5% | 9.0% |
| | Straight-line vesting | Between 6.5% and 7.5% | Between 7.5% and 9.0% |
| **Core Award** (150% of salary) | 100% Vesting | 6.5% | 7.5% |
| | Straight-line vesting | Between 5.0% and 6.5% | Between 5.0% and 7.5% |
| | 30% Vesting | 5.0% | 5.0%% |
| | 0% Vesting | Below 5.0% | Below 5.0% |

In addition to achieving these targets, the vesting of awards will be subject to meeting an underpin of net debt to EBITDA ratio no greater than 1.5x throughout the three-year performance period. This will ensure that net debt remains at appropriate levels and management is not incentivised to increase net debt levels to meet targets; the focus is to maximise the return on cash investments. The Core Award shares that vest will become exercisable in August 2017. To the extent that awards vest in line with the performance multiplier outlined above, these shares will only become exercisable in August 2019, following a retention period of two years.

While committed to the use of equity-based performance-related remuneration as a means of aligning Executive Directors' interests with those of shareholders, the Committee is aware of shareholders' concerns on dilution through the issue of new shares to satisfy such awards. Therefore, when reviewing remuneration arrangements, the Committee takes into account the effects such arrangements may have on dilution. Halfords intends to comply with the ABI guidelines relating to the issue of new shares for equity incentive plans.

## BENEFITS

The Company will continue to provide a car plus fuel or cash allowance, private health insurance and life assurance as standard benefits.

## PENSIONS

The Company will continue to makes contributions to the Halfords Pension Plan 2009 or make payments into a personal fund, the purpose of which is to provide additional benefits. Contribution rates will remain at 20% for the CFO and 15% for the Finance Director.

GOVERNANCE > REMUNERATON COMMITTEE REPORT

# ANNUAL REMUNERATION REPORT CONTINUED

## HOW REMUNERATION POLICY WILL BE IMPLEMENTED FOR 2013/14 – NON-EXECUTIVE DIRECTORS

### FEES

The fees of Non-Executive Directors shall normally be reviewed every two years to ensure that they are in line with market norms so that the Company can attract and retain individuals of the highest calibre and any changes to said fees will be approved by the Board as a whole following a recommendation from the Chief Executive. The base fee for Non-Executive Directors was increased by 6.6% as from 1 March 2014. At the same time following a recommendation by the CEO, the Remuneration Committee approved an increase of 6.6% in the Chairman's fees. This was the first increase in these fees since April 2009. Current fees for Non-Executive Directors are as follows:

| | 2014 | 2013 |
|---|---|---|
| Chairman | **£176,000** | £165,000 |
| Base fee | **£48,000** | £45,000 |
| Additional fees | **—** | — |
| Senior Independent Director | **£15,000** | £15,000 |
| Committee Chairman (Audit and Remuneration) | **£5,000** | £5,000 |

### SPEND ON PAY

The Committee is aware of the importance of pay across the Group in delivering the Group's strategy and of shareholders' views on executive remuneration.

#### Change in Remuneration of Chief Executive compared to Group Employees

The table below sets out the increase in total remuneration of the Chief Executive and that of all colleagues:

| | % change in base salary FY13 to FY14 | % change in bonus earned FY13 to FY14[1] | % change in benefits FY13 to FY14 |
|---|---|---|---|
| Chief Executive | 1.50 | 196.5% | No Change |
| All Colleagues | 1.94 | 270.2% | No Change |

1. In FY13 the bonuses earned were based on the achievement of personal objectives and/or sales incentives. In FY14 the bonuses earned were based on the achievement of personal objectives and/or sales incentives and the achievement of the Group's underlying EBITDA target.

#### 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.

| | 2014 | 2013 |
|---|---|---|
| **EBITDA** | £101.1m | £103.4m |
| **PBT (underlying)** | £72.8m | £72.0m |
| **Returned to Shareholders:** | | |
| Dividend | £27.7m | £42.7m |
| Share Buyback | - | £0.9m |
| **Payments to Employees:** | | |
| Wages & Salaries | £173.0m | £153.5m |
| Including Directors[1] | £2.0m | £1.51m |

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

# DIRECTORS' RESPONSIBILITIES

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards.

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 parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the Annual Report and Accounts taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy; and
- the Annual Report and Accounts includes a fair review of the development and performance of the business and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by order of the Board.

**Dennis Millard**
Chairman
21 May 2014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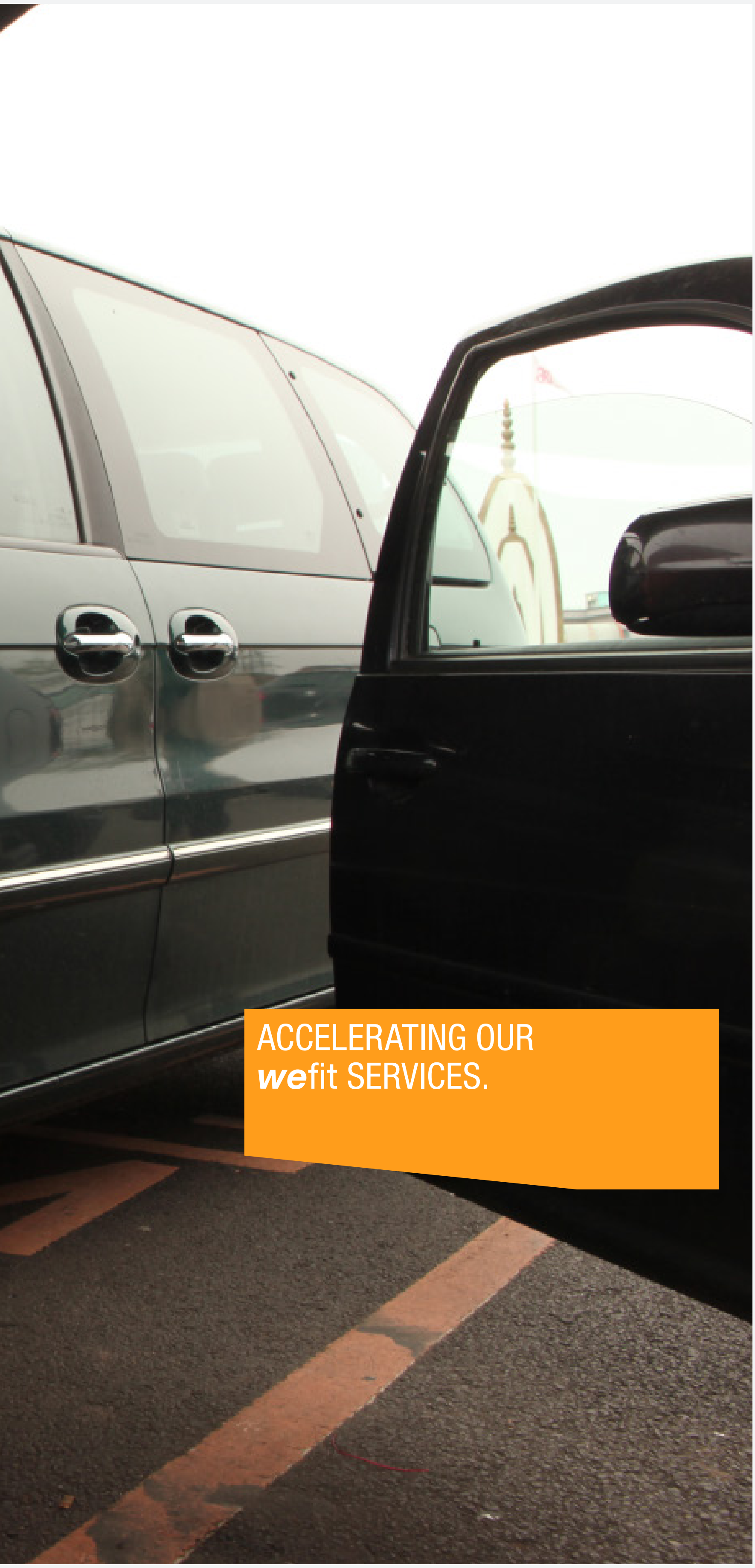
we go the extra mile




# FINANCIALS AND SHAREHOLDER INFORMATION



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# AUDITORS' REPORT

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HALFORDS GROUP PLC ONLY

## OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

### 1. OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED

We have audited the financial statements of Halfords Group plc ("the Group") for the year ended 28 March 2014 set out on pages 117 to 155. 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 28 March 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Parent Company financial statements have been properly prepared in accordance with UK Accounting standards; 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.

### 2. OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows.

#### Valuation of Inventory within the Retail division (£150.2m)

Refer to pages 86 to 89 (Audit Committee Report), page 126 to 127 (accounting policy) and page 138 (financial disclosures).

- **The risk** – The Group holds a significant amount of inventory across a broad and diverse product range. Changes in consumer tastes and demands may mean that they cannot be sold or sales prices are discounted to less than the current carrying value. Estimating the future demand for, and hence the recoverable amount of, these products is inherently subjective.
- **Our response** – Our audit procedures in this area included, amongst others, testing the design and effectiveness of controls over identifying slow moving or discontinued products and obtaining an understanding of the Group's process for measuring the amount of provision required. These controls are designed to identify product lines where current sales prices do not exceed cost. The Group also makes provision for product lines where future sales prices are expected to be below current carrying value due to changes in customer tastes and demand. We critically assessed the Group's provision for those product lines identified as slow moving, or potentially slow moving, by obtaining an understanding of the Group's sales and purchasing plans for 2014/5 and the new product launches therein as well as the level of expected discounting. This included considering the historical accuracy of these plans and the level of discounting activity in previous years compared to the current inventory levels and committed purchases. We compared post year-end sales data to items within the Group's provision and to information provided by Category Managers responsible for each product category.

We also considered the adequacy of the Group's disclosures (see page 127 and Note 12) about the degree of estimation involved in arriving at the provision.

#### Valuation of Goodwill associated with the Nationwide Autocentres acquisition (£69.7 m)

Refer to pages 86 to 89 (Audit Committee Report), page 127 to 128 (accounting policy) and page 136 (financial disclosures).

- **The risk** – Following the acquisition of Nationwide Autocentres in 2010, the Group has held significant goodwill in the business. The business operates in a competitive market and difficulties commercially; such as loss of a significant customer, may lead to a risk that the business does not meet the growth projections necessary to support the carrying value of the intangible asset. Due to the inherent uncertainty involved in forecasting these cashflows, this is one of the key judgemental areas that our audit is concentrated on.
- **Our response** – Our audit procedures included, amongst others, critically assessing the assumptions used around prospective trading levels through discussion with the Group, in light of market information around the size and age of the UK car market and comparison of the historical forecasting accuracy for newly opened Autocentres, given the proportion which have recently been opened. We also assessed the Group's performance against budget in the current and prior periods to evaluate the historical accuracy of forecasts. We used break even analysis to determine the key sensitivities within the budgeting model, which we considered to be the discount rate and the growth rate. Our internal valuation specialists assessed the discount rate, which included an adjustment for forecasting risk, by benchmarking the rate against external market data and the Group's financial position. We have assessed the continuing improvement in customer retention, a key factor in the growth rate, through the externally generated Net Promoter Score (NPS) and the operational focus on customer service within the business.

We considered the adequacy of the Group's disclosures (see Note 10) about the sensitivity of the outcome of the impairment assessment to changes in key assumptions.

### 3. OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

The materiality for the Group financial statements as a whole was set at £5.0m. This has been determined with reference to a benchmark of Group profit before taxation (of which it represents 6.9%) which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £0.3m in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

The Group audit team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality levels set out above and covered 100% of total Group revenue, Group profit before taxation, and total Group assets.

**4. OUR OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006 IS UNMODIFIED**

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- 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.

**5. WE HAVE NOTHING TO REPORT IN RESPECT OF THE MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the Audit Committee report, as set out on pages 86 to 89 does not appropriately address matters communicated by us to the Audit and Risk Committee.

Under the Companies Act 2006 we are required 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.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 74, in relation to going concern;
- the part of the Corporate Governance Statement on pages 76 to 85 relating to the Company's compliance with the ten provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

## SCOPE OF REPORT AND RESPONSIBILITIES

As explained more fully in the Directors' Responsibilities Statement set out on page 111, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

**Greg Watts** (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
21 May 2014

# INDEX TO FINANCIALS

# CONSOLIDATED INCOME STATEMENT

| | | **52 weeks to 28 March 2014** | | | 52 weeks to 29 March 2013 | | |
|---|---|---|---|---|---|---|---|
| For the period | Notes | **Before Non-recurring Items £m** | **Non-recurring items (note 5) £m** | **Total £m** | Before Non-recurring items £m | Non-recurring items (note 5) £m | Total £m |
| **Revenue** | 1 | **939.7** | **–** | **939.7** | 871.3 | – | 871.3 |
| Cost of sales | | **(435.5)** | **–** | **(435.5)** | (394.2) | – | (394.2) |
| **Gross profit** | | **504.2** | **–** | **504.2** | 477.1 | – | 477.1 |
| Operating expenses | 2 | **(426.4)** | **(0.2)** | **(426.6)** | (399.0) | (1.0) | (400.0) |
| **Results from operating activities** | 3 | **77.8** | **(0.2)** | **77.6** | 78.1 | (1.0) | 77.1 |
| Finance costs | 6 | **(5.2)** | **–** | **(5.2)** | (6.3) | – | (6.3) |
| Finance income | 6 | **0.2** | **–** | **0.2** | 0.2 | – | 0.2 |
| **Net finance expense** | | **(5.0)** | **–** | **(5.0)** | (6.1) | – | (6.1) |
| **Profit before income tax** | | **72.8** | **(0.2)** | **72.6** | 72.0 | (1.0) | 71.0 |
| Income tax expense | 7 | **(17.0)** | **(0.1)** | **(17.1)** | (18.2) | (0.1) | (18.3) |
| **Profit for the financial period attributable to equity shareholders** | | **55.8** | **(0.3)** | **55.5** | 53.8 | (1.1) | 52.7 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Earnings per share** | | | | | | | |
| Basic | 9 | **28.8p** | | **28.6p** | 27.7p | | 27.2p |
| Diluted | 9 | **28.4p** | | **28.2p** | 27.5p | | 26.9p |

All results relate to continuing operations of the Group.

The notes on pages 129 to 155 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Notes | **52 weeks to 28 March 2014 £m** | 52 weeks to 29 March 2013 £m |
|---|---|---|---|
| **Profit for the period** | | **55.5** | 52.7 |
| Other comprehensive income | | | |
| **Cash flow hedges:** | | | |
| Fair value changes in the period | | **(3.0)** | 2.8 |
| Transfers to inventory | | **1.1** | (0.7) |
| **Transfers to net profit:** | | | |
| Cost of sales | | **(0.1)** | (0.1) |
| Income tax on other comprehensive income | 7 | **0.8** | (0.7) |
| **Other comprehensive income for the period, net of income tax** | | **(1.2)** | 1.3 |
| **Total comprehensive income for the period attributable to equity shareholders** | | **54.3** | 54.0 |

All items within the consolidated statement of comprehensive income are classified as items that are or may be recycled to the income statement.

The notes on pages 129 to 155 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | **28 March 2014 £m** | 29 March 2013 £m |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | 10 | **342.2** | 342.2 |
| Property, plant and equipment | 11 | **95.2** | 90.6 |
| Deferred tax asset | 18 | **4.4** | 0.3 |
| **Total non-current assets** | | **441.8** | 433.1 |
| **Current assets** | | | |
| Inventories | 12 | **150.2** | 133.2 |
| Trade and other receivables | 13 | **52.8** | 53.8 |
| Derivative financial instruments | 19 | **—** | 1.9 |
| Cash and cash equivalents | 14 | **5.3** | 7.9 |
| **Total current assets** | | **208.3** | 196.8 |
| **Total assets** | | **650.1** | 629.9 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Borrowings | 15 | **(10.3)** | (4.3) |
| Derivative financial instruments | 19 | **(2.1)** | (0.2) |
| Trade and other payables | 16 | **(159.5)** | (144.9) |
| Current tax liabilities | | **(10.4)** | (26.3) |
| Provisions | 17 | **(9.0)** | (7.4) |
| **Total current liabilities** | | **(191.3)** | (183.1) |
| **Net current assets** | | **17.0** | 13.7 |
| **Non-current liabilities** | | | |
| Borrowings | 15 | **(94.6)** | (114.2) |
| Accruals and deferred income — lease incentives | 16 | **(28.8)** | (29.7) |
| Provisions | 17 | **(9.3)** | (4.2) |
| **Total non-current liabilities** | | **(132.7)** | (148.1) |
| **Total liabilities** | | **(324.0)** | (331.2) |
| **Net assets** | | **326.1** | 298.7 |
| **Shareholders' equity** | | | |
| Share capital | 20 | **2.0** | 2.0 |
| Share premium | 20 | **151.0** | 151.0 |
| Investment in own shares | 20 | **(14.3)** | (13.2) |
| Other reserves | 20 | **(0.3)** | 0.9 |
| Retained earnings | | **187.7** | 158.0 |
| **Total equity attributable to equity holders of the Company** | | **326.1** | 298.7 |

The notes on pages 129 to 155 are an integral part of these consolidated financial statements.

The financial statements on pages 117 to 122 were approved by the Board of Directors on 21 May 2014 and were signed on its behalf by:

**Matt Davies**
Chief Executive

**Andrew Findlay**
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 |
| **Balance at 30 March 2012** | 2.0 | 151.0 | (14.0) | 0.3 | (0.7) | 148.5 | **287.1** |
| **Total comprehensive income for the period** | | | | | | | |
| Profit for the period | — | — | — | — | — | 52.7 | **52.7** |
| **Other comprehensive income** | | | | | | | |
| Cash flow hedges: | | | | | | | |
| Fair value changes in the period | — | — | — | — | 2.8 | — | **2.8** |
| Transfers to inventory | — | — | — | — | (0.7) | — | **(0.7)** |
| Transfers to net profit: | | | | | | | |
| Cost of sales | — | — | — | — | (0.1) | — | **(0.1)** |
| Income tax on other comprehensive income | — | — | — | — | (0.7) | — | **(0.7)** |
| **Total other comprehensive income for the period net of tax** | — | — | — | — | 1.3 | — | **1.3** |
| **Total comprehensive income for the period** | — | — | — | — | 1.3 | 52.7 | **54.0** |
| **Transactions with owners** | | | | | | | |
| Share options exercised | — | — | 0.8 | — | — | — | **0.8** |
| Share-based payment transactions | — | — | — | — | — | 0.1 | **0.1** |
| Purchase of own shares | — | — | — | — | — | (0.9) | **(0.9)** |
| Income tax on share-based payment transactions | — | — | — | — | — | 0.3 | **0.3** |
| Dividends to equity holders | — | — | — | — | — | (42.7) | **(42.7)** |
| **Total transactions with owners** | — | — | 0.8 | — | — | (43.2) | **(42.4)** |
| **Balance at 29 March 2013** | 2.0 | 151.0 | (13.2) | 0.3 | 0.6 | 158.0 | **298.7** |
| **Total comprehensive income for the period** | | | | | | | |
| Profit for the period | — | — | — | —- | — | 55.5 | **55.5** |
| **Other comprehensive income** | | | | | | | |
| Cash flow hedges: | | | | | | | |
| Fair value changes in the period | — | — | — | — | (3.0) | — | **(3.0)** |
| Transfers to inventory | — | — | — | — | 1.1 | — | **1.1** |
| Transfers to net profit: | | | | | | | |
| Cost of sales | — | — | — | — | (0.1) | — | **(0.1)** |
| Income tax on other comprehensive income | — | — | — | — | 0.8 | — | **0.8** |
| **Total other comprehensive income for the period net of tax** | — | — | — | — | (1.2) | — | **(1.2)** |
| **Total comprehensive income for the period** | — | — | — | — | (1.2) | 55.5 | **54.3** |
| **Transactions with owners** | | | | | | | |
| Share options exercised | — | — | 2.1 | — | — | — | **2.1** |
| Share-based payment transactions | — | — | — | — | — | 1.0 | **1.0** |
| Purchase of own shares | — | — | (3.2) | — | — | — | **(3.2)** |
| Income tax on share-based payment transactions | — | — | — | — | — | 0.9 | **0.9** |
| Dividends to equity holders | — | — | — | — | — | (27.7) | **(27.7)** |
| **Total transactions with owners** | — | — | (1.1) | — | — | (25.8) | **(26.9)** |
| **Balance at 28 March 2014** | **2.0** | **151.0** | **(14.3)** | **0.3** | **(0.6)** | **187.7** | **326.1** |

The notes on pages 129 to 155 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | Notes | 52 weeks to 28 March 2014 £m | 52 weeks to 29 March 2013 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit after tax for the period, before non-recurring items | | **55.8** | 53.8 |
| Non-recurring items | | **(0.3)** | (1.1) |
| Profit after tax for the period | | **55.5** | 52.7 |
| Depreciation — property, plant and equipment | | **18.0** | 19.9 |
| Impairment charge | | **0.4** | 0.8 |
| Amortisation — intangible assets | | **5.3** | 5.4 |
| Net finance costs | | **5.0** | 6.1 |
| Loss on disposal of property, plant and equipment | | **2.1** | 1.7 |
| Equity-settled share based payment transactions | | **1.0** | 0.1 |
| Fair value loss/(gain) on derivative financial instruments | | **1.4** | (0.9) |
| Income tax expense | | **17.1** | 18.3 |
| (Increase)/decrease in inventories | | **(17.0)** | 13.5 |
| Decrease/(increase) in trade and other receivables | | **1.0** | (8.9) |
| Increase in trade and other payables | | **10.7** | 6.6 |
| Increase in provisions | | **6.7** | 0.3 |
| Finance income received | | **0.2** | 0.3 |
| Finance costs paid | | **(4.6)** | (4.2) |
| Income tax paid | | **(35.3)** | (18.2) |
| **Net cash from operating activities** | | **67.5** | 93.5 |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of intangible assets | | **(5.3)** | (3.7) |
| Purchase of property, plant and equipment | | **(21.4)** | (16.7) |
| **Net cash used in investing activities** | | **(26.7)** | (20.4) |
| | | | |
| **Cash flows from financing activities** | | | |
| Net proceeds from exercise of share options | | **2.1** | 0.8 |
| Purchase of own shares | | **(3.2)** | (0.9) |
| Proceeds from loans, net of transaction costs | | **305.7** | 202.0 |
| Repayment of borrowings | | **(326.0)** | (239.0) |
| Payment of finance lease liabilities | | **(0.3)** | (0.3) |
| Dividends paid | | **(27.7)** | (42.7) |
| **Net cash used in financing activities** | | **(49.4)** | (80.1) |
| | | | |
| Net decrease in cash and bank overdrafts | I. | **(8.6)** | (7.0) |
| Cash and cash equivalents at the beginning of the period | | **3.9** | 10.9 |
| **Cash and cash equivalents at the end of the period** | I. | **(4.7)** | 3.9 |

The notes on pages 129 to 155 are an integral part of these consolidated financial statements.

# NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

## I. ANALYSIS OF MOVEMENTS IN THE GROUP'S NET DEBT IN THE PERIOD

| | At 29 March 2013 £m | Cash flow £m | Other non-cash changes £m | **At 28 March 2014 £m** |
|---|---|---|---|---|
| Cash and cash equivalents at bank and in hand | 3.9 | (8.6) | — | **(4.7)** |
| Debt due after one year | (103.3) | 20.3 | (1.0) | **(84.0)** |
| Total net debt excluding finance leases | (99.4) | 11.7 | (1.0) | **(88.7)** |
| | | | | |
| Finance leases due within one year | (0.3) | 0.3 | (0.3) | **(0.3)** |
| Finance lease due after one year | (10.9) | — | 0.3 | **(10.6)** |
| Total finance leases | (11.2) | 0.3 | — | **(10.9)** |
| **Total net debt** | (110.6) | 12.0 | (1.0) | **(99.6)** |

Non-cash changes comprise finance costs in relation to the amortisation of capitalised debt issue costs of £1.0m (2013: £1.7m) and changes in classification between amounts due within and after one year.

Cash and cash equivalents at the period end consist of £5.3m (2013: £7.9m) of liquid assets and £10.0m (2013: £4.0m) of bank overdrafts.

# ACCOUNTING POLICIES

## GENERAL INFORMATION

Halfords Group plc is a company domiciled in the United Kingdom. The consolidated financial statements of the Company as at and for the period ended 28 March 2014 comprise the Company and its subsidiary undertakings.

## STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRSs").

## BASIS OF PREPARATION

The consolidated financial statements of Halfords Group plc and its subsidiary undertakings (together "the Group") are prepared on a going concern basis for the reasons set out in the Directors' Report on page 74, and under the historical cost convention, except where adopted IFRSs require an alternative treatment. The principal variations relate to financial instruments (IAS 39 "Financial instruments: recognition and measurement") and share based payments (IFRS 2 "Share-based payment").

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 28 March 2014, whilst the comparative period covered the 52 weeks to 29 March 2013.

## BASIS OF CONSOLIDATION

### SUBSIDIARY UNDERTAKINGS

Subsidiary undertakings are fully consolidated from the date on which control is transferred to the Group. They cease to be consolidated from the date that the Group no longer has control. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

The financial statements of all subsidiary undertakings are prepared to the same reporting date as the Company. All subsidiary undertakings have been consolidated.

The principal subsidiary undertakings of the Company at 28 March 2014 are detailed in note 4 to the Company balance sheet on page 153.

### 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

### RETAIL

Retail revenue comprises the fair value of the sale of goods and services to external customers, net of value added tax, rebates, promotions and returns. Revenue is recognised on the sale of goods when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue on goods delivered is recognised when the customer accepts delivery and on services when those services have been rendered.

### CAR SERVICING

Car Servicing revenue comprises the provision of servicing to external customers, net of value added tax, rebates and promotions. Revenue is recognised at the point at which those services have been rendered.

### PROMOTIONS AND RETURNS

The Group operates a variety of sales promotion schemes that give rise to goods and services being sold at a discount to standard retail price. Revenue is adjusted to show sales net of all related discounts. A provision for estimated returns is made representing the profit on goods sold during the year which are expected to be returned and refunded after the year end based on past experience. Revenue is reduced by the value of sales returns provided for during the year.

## 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-RECURRING ITEMS

Non-recurring items are those items that are unusual because of their size, nature or incidence. The Group's management consider that these items should be separately identified within their relevant income statement category to enable a full understanding of the Group's results.

# ACCOUNTING POLICIES CONTINUED

## 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-recurring 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, except where it is deemed relevant to disclose the amounts to the nearest pound. Items included in the financial statements of the Group's entities are measured using 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.

## DIVIDENDS

Final dividends are recognised in the Group's financial statements in the period in which the dividends are approved by shareholders. Interim equity dividends are recognised in the period they are paid.

## INTANGIBLE ASSETS

### I) GOODWILL

Goodwill is initially recognised as an asset at cost and is reviewed for impairment at least annually. Goodwill is subsequently measured at cost less any accumulated impairment losses. An impairment charge is recognised in profit or loss for any amount by which the carrying value of goodwill exceeds its recoverable amount.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

For acquisitions prior to 3 April 2010 costs directly attributable to business combinations formed part of the consideration payable when calculating goodwill. Adjustments to contingent consideration, and therefore the consideration payable and goodwill, are made at each reporting date until the consideration is finally determined.

Acquisitions after this date fall under the provisions of 'Revised IFRS 3 Business Combinations (2009)'. For these acquisitions transaction costs, other than share and debt issue costs, will be expensed as incurred and subsequent adjustments to the fair value of consideration payable will be recognised in profit or loss.

### II) COMPUTER SOFTWARE

Costs that are directly associated with identifiable and unique software products controlled by the Group, and that will generate economic benefits beyond one year are recognised as intangible assets. These intangible assets are stated at cost less accumulated amortisation and impairment losses. Software is amortised over three to five years depending on the estimated useful economic life.

### III) ACQUIRED INTANGIBLE ASSETS

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

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

- Brand names and trademarks 2 years;
- Customer relationships 5 to 15 years; and
- Favourable leases over the term of the lease.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is held at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of property, plant and equipment is provided to write off the cost, less residual value, on a straight-line basis over their useful economic lives as follows:

- Leasehold premises with lease terms of 50 years or less are depreciated over the remaining period of the lease;
- Leasehold improvements are depreciated over the period of the lease to a maximum of 25 years;
- Motor vehicles are depreciated over 3 years;
- Fixtures, fittings and equipment are depreciated over 4 to 10 years according to the estimated life of the asset;
- Computer equipment is depreciated over 3 years; and
- Land is not depreciated.

Depreciation is expensed to the income statement within operating expenses.

Residual values, remaining useful economic lives and depreciation periods and methods are reviewed annually and adjusted if appropriate.

## IMPAIRMENT OF ASSETS

Tangible and intangible assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). For goodwill, an annual impairment review is performed at each balance sheet date.

# ACCOUNTING POLICIES CONTINUED

## LEASES

### FINANCE LEASES

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the rental is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

### OPERATING LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. The benefit of incentives from lessors is recognised on a straight-line basis over the term of the lease.

### LANDLORD SURRENDER PAYMENTS

Payments received from landlords in respect of the surrender of all or part of units previously occupied by the Group that do not represent an incentive for future rental commitments are recognised in the income statement on the exchange of contracts, where there are no further substantial acts to complete.

### SUBLEASE INCOME

The Group leases properties from which it no longer trades. These properties are often sublet to third parties. Rents receivable are recognised by offsetting the income against rental costs accounted for within selling and distribution costs in the income statement.

### 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 expenditure incurred in inventories, 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 finance cost.

Details of the provisions recognised and the significant estimates and judgements can be seen in note 17.

Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset when the reimbursement is certain.

A provision for vacant properties is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract. The main uncertainty is the timing of the amounts payable, and the time value of money has been incorporated in to the provision amount to take account of this sensitivity.

Provision is also made for loss-making stores and autocentres which management does not expect to become profitable.

A rent review provision is recognised when there is expected to be additional obligations as a result of the rent review, which forms part of the Group's unavoidable cost of meeting its obligations under the lease contracts. The provision is based on managements' best estimate of the rent payable after the review. Key uncertainties are the estimate of the rent payable after the review has occurred.

A dilapidations provision is recognised when there is future obligation relating to the maintenance of leasehold properties. The provision is based on managements' 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.

## FINANCIAL INSTRUMENTS

### FINANCIAL ASSETS

The Group's financial assets include cash and cash equivalents and trade and other receivables. All financial assets are recognised when the Group becomes party to the contractual provisions of the instrument.

#### i) Trade receivables

Trade receivables are recognised and carried at original invoice amount less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, and is recognised in the income statement in operating expenses.

#### ii) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents includes bank overdrafts in addition to the definition above.

### FINANCIAL LIABILITIES AND EQUITY

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

The Group's financial liabilities comprise trade and other payables and borrowings. All financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

#### i) Bank borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowing. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Finance cost comprises interest expense on borrowings, unwinding of the discount on provisions and the cost of forward foreign exchange contracts.

#### ii) Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### iii) Equity instruments

Equity instruments issued by the Company are recorded as the proceeds are received, net of direct issue costs. Own shares consist of shares held within an employee benefit trust and are recognised at cost as a deduction from shareholders' equity. Subsequent consideration received for the sale of such shares is also recognised in equity, with any difference between the sale proceeds from the original cost being taken to revenue reserves. No gain or loss is recognised in the Group Income Statement on transactions in own shares held.

#### iv) Derivative financial instruments and hedge accounting

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 designated as cash flow hedges.

Derivatives are recognised at fair value on the date a contract is entered into and are subsequently remeasured at their fair value. The effective element of any gain or loss from remeasuring the derivative instrument is recognised directly in the hedging reserve.

The associated cumulative gain or loss is reclassified from the Group Statement of Changes in Equity and recognised in the Group Income Statement in the same period or periods during which the hedged transaction affects the Group Income Statement. 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 finance income or costs.

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.

## 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 judgement and key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are detailed below:

### IMPAIRMENT OF ASSETS

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 10.

### 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 judgements 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.

Sensitivities to the assumptions for specific product lines are not expected by management to result in a material change in the overall allowances.

# ACCOUNTING POLICIES CONTINUED

#### INTANGIBLE ASSET VALUATIONS

The measurement of fair values on a business combination requires the recognition and measurement of the identifiable assets, liabilities and contingent liabilities. The key judgements involved are the identification of which intangible assets meet the recognition criteria as set out in IAS 38, the fair values attributable to those intangible assets, excluding any buyer-specific synergies, and the useful lives of individual intangible assets. The useful lives of intangibles assets relating to customer relationships involves judgement as to customer retention rates applicable.

The carrying amount of these assets and liabilities can be seen in the notes to the financial statements on pages 129 to 155.

### ADOPTION OF NEW AND REVISED STANDARDS

The following standards and interpretations are applicable to the Group and have been adopted in the current period as they are mandatory for the year ended 28 March 2014 but either have no material impact on the result or net assets of the Group or are not applicable.

- IFRS 13 'Fair Value Measurement' — provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs.
- IAS 1 'Presentation of Financial Statements' (Amendment) — the amendments introduce a grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time now have to be presented separately from items that will never be reclassified.

### NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following standards and interpretations have been published, endorsed by the EU, and are available for early adoption, but have not yet been applied by the Group in these financial statements. The Group does not believe the adoption of these standards or interpretations would have a material impact on the consolidated results or financial position of the Group.

- IFRS 10 'Consolidated financial statements' replaces the guidance of control and consolidation in IAS 27 and SIC 32: Consolidation – special purpose entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they were a single entity remains unchanged, as do the mechanics of the consolidation.
- IFRS 11 'Joint arrangements' requires joint arrangements to be accounted for as a joint operation or as a joint venture depending on the rights and obligation of each party to the arrangement. Proportionate consolidation for joint ventures will be eliminated and equity accounting will be mandatory.
- IFRS 12 'Disclosure of interests in other entities' requires enhanced disclosures of the nature, risks and financial effects associated with the Group's interests in subsidiaries, associates, joint arrangements and unconsolidated structures entities.
- IAS 32 'Financial instruments – presentation' (Amendment) — the amendment clarifies the offsetting criteria, specifically: when an entity currently has a legal right of set-off; and when gross settlement is equivalent to net settlement.
- IAS 34 'Interim Financial Reporting' (Amendment) — the amendment clarifies the requirements of IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 'Operating Segments'.
- IAS 36 'Impairment of assets' (Amendment) — the amendments reverse the unintended requirement in IFRS 13 to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed.

In addition to the above, amendments to a number of standards under the annual improvements project to IFRS have been endorsed by the EU but not yet adopted. None of these amendments are expected to have a material impact on the Group's financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. OPERATING SEGMENTS

The Group has two reportable segments, Retail and Car Servicing, which are the Group's strategic business units. Car Servicing became a reporting segment of the Group as a result of the acquisition of Nationwide Autocentres on 17 February 2010. The strategic business units offer different products and services, and are managed separately because they require different operational, technological and marketing strategies.

The operations of the Retail reporting segment comprise the retailing of automotive, leisure and cycling products through retail stores. The operations of the Car Servicing reporting segment comprise car servicing and repair performed from autocentres.

The Chief Operating Decision Maker is the Executive Directors. Internal management reports for each of the segments are reviewed by the Executive Directors on a monthly basis. Key measures used to evaluate performance are Revenue and Operating Profit. Management believes that these measures are the most relevant in evaluating the performance of the segment and for making resource allocation decisions.

The following summary describes the operations in each of the Group's reportable segments. Performance is measured based on segment operating profit, as included in the management reports that are reviewed by the Executive Directors. These internal reports are prepared in accordance with IFRS accounting policies consistent with these Group Financial Statements.

All material operations of the reportable segments are carried out in the UK and all material non-current assets are located in the UK. The Group's revenue is driven by the consolidation of individual small value transactions and as a result Group revenue is not reliant on a major customer or group of customers. All revenue is from external customers.

| Income statement | Retail £m | Car Servicing £m | 52 weeks to 28 March 2014 Total £m |
|---|---|---|---|
| **Revenue** | **803.1** | **136.6** | **939.7** |
| Segment result before non-recurring items | **75.2** | **4.3** | **79.5** |
| Non-recurring items | **(0.2)** | **—** | **(0.2)** |
| **Segment result** | **75.0** | **4.3** | **79.3** |
| Unallocated expenses[1] | | | **(1.7)** |
| **Operating profit** | | | **77.6** |
| Net financing expense | | | **(5.0)** |
| **Profit before tax** | | | **72.6** |
| Taxation | | | **(17.1)** |
| **Profit for the year** | | | **55.5** |

| Income statement | Retail £m | Car Servicing £m | 52 weeks to 29 March 2013 Total £m |
|---|---|---|---|
| **Revenue** | 745.5 | 125.8 | 871.3 |
| Segment result before non-recurring items | 73.6 | 6.3 | 79.9 |
| Non-recurring items | (1.0) | — | (1.0) |
| **Segment result** | 72.6 | 6.3 | 78.9 |
| Unallocated expenses[1] | | | (1.8) |
| **Operating profit** | | | 77.1 |
| Net financing expense | | | (6.1) |
| **Profit before tax** | | | 71.0 |
| Taxation | | | (18.3) |
| **Profit for the year** | | | 52.7 |

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 £1.7m in respect of assets acquired through business combinations (2013: £1.8m).

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 1. OPERATING SEGMENTS CONTINUED

| Other segment items: | Retail £m | Car Servicing £m | 52 weeks to 28 March 2014 Total £m |
|---|---|---|---|
| Capital expenditure | **24.4** | **6.0** | **30.4** |
| Depreciation expense | **14.8** | **3.2** | **18.0** |
| Impairment charge (non-recurring) | **0.4** | **—** | **0.4** |
| Amortisation expense | **3.6** | **—** | **3.6** |

| Other segment items: | Retail £m | Car Servicing £m | 52 weeks to 29 March 2013 Total £m |
|---|---|---|---|
| Capital expenditure | 13.2 | 5.6 | 18.8 |
| Depreciation expense | 17.4 | 2.5 | 19.9 |
| Impairment charge (non-recurring) | 0.8 | — | 0.8 |
| Amortisation expense | 3.6 | — | 3.6 |

There have been no significant transactions between segments in the 52 weeks ended 28 March 2014 (2013: £nil).

## 2. OPERATING EXPENSES

| For the period | 52 weeks to 28 March 2014 £m | 52 weeks to 29 March 2013 £m |
|---|---|---|
| Selling and distribution costs | **359.1** | 336.1 |
| | **359.1** | 336.1 |
| Administrative expenses, before non-recurring items | **67.3** | 62.9 |
| Non-recurring administrative expenses | **0.2** | 1.0 |
| | **67.5** | 63.9 |
| | **426.6** | 400.0 |

## 3. OPERATING PROFIT

| For the period | **52 weeks to 28 March 2014 £m** | 52 weeks to 29 March 2013 £m |
|---|---|---|
| **Operating profit is arrived at after charging/(crediting) the following expenses/(incomes) as categorised by nature:** | | |
| Operating lease rentals: | | |
| — plant and machinery | **1.8** | 1.7 |
| — property rents | **90.0** | 91.0 |
| — rentals receivable under operating leases | **(5.0)** | (5.5) |
| Landlord surrender payments | **(3.4)** | (0.9) |
| Loss on disposal of property, plant and equipment | **2.1** | 1.7 |
| Amortisation of intangible assets | **5.3** | 5.4 |
| Depreciation of: | | |
| — owned property, plant and equipment | **17.5** | 19.4 |
| — assets held under finance leases | **0.5** | 0.5 |
| Impairment of property, plant and equipment | **0.4** | 0.8 |
| Trade receivables impairment | **0.3** | 0.2 |
| Staff costs (see note 4) | **189.2** | 166.8 |
| Cost of inventories consumed in cost of sales | **422.2** | 384.1 |

The total fees payable by the Group to KPMG LLP and their associates during the period was £0.2m (2013: £0.3m), in respect of the services detailed below:

| For the period | **52 weeks to 28 March 2014 £'000** | 52 weeks to 29 March 2013 £'000 |
|---|---|---|
| Fees payable for the audit of the Company's accounts | **30** | 30 |
| Fees payable to KPMG LLP and their associates for other services: | | |
| The audit of the Company's subsidiary undertakings, pursuant to legislation | **144** | 205 |
| Other services supplied pursuant to such legislation | **15** | 15 |
| Internal audit services | **—** | 21 |
| | **189** | 271 |

Included within "fees payable to the Company's Auditors for the audit of the Company's subsidiary undertakings in the prior year, pursuant to legislation" are amounts payable to KPMG LLP and its associates incurred in respect of the audit work undertaken on financial controls. This work may include an element, which goes beyond that strictly required by relevant Auditing Standards. The amount payable in the current year is nil (2013: £0.1m).

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 4. STAFF COSTS

| For the period | **52 weeks to 28 March 2014 £m** | 52 weeks to 29 March 2013 £m |
|---|---|---|
| The aggregated remuneration of all employees including Directors comprised: | | |
| Wages and salaries | **173.0** | 153.5 |
| Social security costs | **11.6** | 10.2 |
| Equity-settled share based payment transactions (note 21) | **1.0** | 0.1 |
| Contributions to defined contribution plans (note 23) | **3.6** | 3.0 |
| | **189.2** | 166.8 |

| | **Number** | Number |
|---|---|---|
| Average number of persons employed by the Group, including directors, during the period: | | |
| Stores/Autocentres | **10,697** | 11,535 |
| Central warehousing | **313** | 211 |
| Head office | **684** | 651 |
| | **11,694** | 12,397 |

Full details of Directors' remuneration and interests are set out in the Remuneration Committee Report on pages 90 to 110 which form part of these financial statements.

### KEY MANAGEMENT COMPENSATION

| For the period | **52 weeks to 28 March 2014 £m** | 52 weeks to 29 March 2013 £m |
|---|---|---|
| Salaries and short-term benefits | **2.5** | 2.1 |
| Compensation for loss of office | **0.2** | 0.8 |
| Social security costs | **0.6** | 0.4 |
| Pensions | **0.3** | 0.3 |
| Share based payment charge | **0.5** | 0.1 |
| | **4.1** | 3.7 |

Key management compensation includes the emoluments of the Board of Directors and the emoluments of the Halfords Limited and Halfords Autocentres management boards.

There were no outstanding balances at the year-end (2013: £0.9m).

## 5. NON-RECURRING ITEMS

| For the period | **52 weeks to 28 March 2014 £m** | 52 weeks to 29 March 2013 £m |
|---|---|---|
| **Non-recurring operating expenses:** | | |
| Lease guarantee provision (a) | **(0.2)** | (1.0) |
| Onerous lease provision (b) | **–** | 1.2 |
| Impairment of Property, Plant and Equipment (c) | **0.4** | 0.8 |
| **Non-recurring items before tax** | **0.2** | 1.0 |
| Tax on non-recurring items (d) | **0.1** | 0.1 |
| **Non-recurring items after tax** | **0.3** | 1.1 |

(a) A non-recurring expense of £7.5m was incurred in 2011. This expense related to the creation of a provision for the potential liabilities arising from lease guarantees provided by Halfords prior to July 1989. The guarantees were provided to landlords of properties leased by Payless DIY (now part of Focus DIY) when both Halfords and Payless DIY were under ownership of the Ward White Group. Focus DIY entered into administration in May 2011. In the current year the continued settlement of the Group's guarantor obligations has resulted in a release of £0.2m (2013: £1.0m) of the original amounts provided.

## 5. NON-RECURRING ITEMS CONTINUED

(b) A charge incurred in the prior period relating to stores where the present value of expected future cash flows is deemed to be insufficient to cover the lower of cost of exit or value in use.

(c) Impairment charge in respect of property, plant and equipment where the carrying amount of these assets has been deemed to exceed the recoverable amount.

(d) The tax charge of £0.1m represents a tax rate of 23% applied to non-recurring items after adjusting for the non-deductibility of the asset impairment charge and settlements to release Halfords from its guarantor obligations under the leases. The prior period represents a tax charge at 24% on all current year non-recurring items adjusted for the non-deductibility of the asset impairment charge and settlements to release Halfords from its guarantor obligations under the leases.

## 6. FINANCE INCOME AND COSTS

| Recognised in profit or loss for the period | **52 weeks to 28 March 2014 £m** | 52 weeks to 29 March 2013 £m |
|---|---|---|
| **Finance costs:** | | |
| Bank borrowings | **(1.3)** | (2.1) |
| Amortisation of issue costs on loans | **(1.0)** | (1.7) |
| Commitment and guarantee fees | **(1.1)** | (1.2) |
| Costs of forward foreign exchange contracts | **(0.3)** | (0.1) |
| Interest payable on finance leases | **(0.7)** | (0.7) |
| Other interest payable | **(0.8)** | (0.5) |
| **Finance costs** | **(5.2)** | (6.3) |
| **Finance income:** | | |
| Bank and similar interest | **0.2** | 0.2 |
| **Finance income** | **0.2** | 0.2 |
| **Net finance costs** | **(5.0)** | (6.1) |

## 7. TAXATION

| For the period | **52 weeks to 28 March 2014 £m** | 52 weeks to 29 March 2013 £m |
|---|---|---|
| **Current taxation** | | |
| UK corporation tax charge for the period | **20.1** | 21.5 |
| Adjustment in respect of prior periods | **(0.7)** | (1.8) |
| | **19.4** | 19.7 |
| **Deferred taxation** | | |
| Origination and reversal of temporary differences | **(1.8)** | (1.8) |
| Adjustment in respect of prior periods | **(0.5)** | 0.4 |
| | **(2.3)** | (1.4) |
| Total tax charge for the period | **17.1** | 18.3 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 7. TAXATION CONTINUED

The tax charge is reconciled with the standard rate of UK corporation tax as follows:

| For the period | 52 weeks to 28 March 2014 £m | 52 weeks to 29 March 2013 £m |
|---|---|---|
| Profit before tax | **72.6** | 71.0 |
| UK corporation tax at standard rate of 23% (2013: 24%) | **16.7** | 17.1 |
| Factors affecting the charge for the period: | | |
| Depreciation on expenditure not eligible for tax relief | **1.5** | 1.2 |
| Employee share options | **(0.5)** | (0.2) |
| Other disallowable expenses | **0.4** | 1.9 |
| Adjustment in respect of prior periods | **(1.2)** | (1.4) |
| Impact of overseas tax rates | **(0.5)** | (0.4) |
| Impact of change in tax rate on deferred tax balance | **0.7** | 0.1 |
| Total tax charge for the period | **17.1** | 18.3 |

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 28 March 2014 has been calculated based on the rates of 20% and 21% substantively enacted at the balance sheet date.

In this financial period, the UK corporation tax standard rate was 23% (2013: 24%).

The effective tax rate of 23.5% (2013: 25.7%) is higher than the UK corporation tax rate principally due to the non-deductibility of depreciation charged on capital expenditure and other permanent differences arising in the period.

The tax charge of £17.1m (2013: £18.3m) includes a charge of £0.1m (2013: £0.1m charge) in respect of tax on non-recurring items, as detailed in note 5.

An Income tax credit of £0.8m (2013: £0.7m charge) on other comprehensive income relates to the movement in fair value of 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 Group is fully committed to complying with all of its tax payment reporting obligations thoughout the business.

In FY14 the contribution to the UK Exchequer from both taxes paid and collected exceeded £157.9m with the main taxes including corporation tax £35.3m, net VAT £49.8m, PAYE £17.1m, Employees National Insurance Contributions £8.8m, Employers National Insurance Contributions £11.2m and Business Rates £35.6m.

## 8. DIVIDENDS

| For the period | 52 weeks to 28 March 2014 £m | 52 weeks to 29 March 2013 £m |
|---|---|---|
| Equity — ordinary shares | | |
| Final for the 52 weeks to 29 March 2013 — paid 9.10p per share (2013: 14.00p) | **17.6** | 27.2 |
| Interim for the 52 weeks to 28 March 2014 — paid 5.20p per share (2013: 8.00p) | **10.1** | 15.5 |
| | **27.7** | 42.7 |

In addition, the Directors are proposing a final dividend in respect of the financial period ended 28 March 2014 of 9.1p per share (2013: 9.10p per share), which will absorb an estimated £18.1m (2013: £17.6m) of shareholders' funds. It will be paid on 1 August 2014 to shareholders who are on the register of members on 4 July 2014.

## 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 20) 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 28 March 2014.

The Group has also chosen to present an alternative earnings per share measure, with profit adjusted for non-recurring items because it better reflects the Group's underlying performance.

| For the period | 52 weeks to 28 March 2014 Number of shares m | 52 weeks to 29 March 2013 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) | **(5.1)** | (4.8) |
| Weighted average number of shares for calculating basic earnings per share | **194.0** | 194.3 |
| Weighted average number of dilutive shares | **2.9** | 1.5 |
| Total number of shares for calculating diluted earnings per share | **196.9** | 195.8 |

| For the period | 52 weeks to 28 March 2014 £m | 52 weeks to 29 March 2013 £m |
|---|---|---|
| Basic earnings attributable to equity shareholders | **55.5** | 52.7 |
| Non-recurring items (see note 5): | | |
| Operating expenses | **0.2** | 1.0 |
| Tax on non-recurring items | **0.1** | 0.1 |
| Underlying earnings before non-recurring items | **55.8** | 53.8 |

Earnings per share is calculated as follows:

| For the period | 52 weeks to 28 March 2014 | 52 weeks to 29 March 2013 |
|---|---|---|
| Basic earnings per ordinary share | **28.6p** | 27.2p |
| Diluted earnings per ordinary share | **28.2p** | 26.9p |
| Basic earnings per ordinary share before non-recurring items | **28.8p** | 27.7p |
| Diluted earnings per ordinary share before non-recurring items | **28.4p** | 27.5p |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 10. INTANGIBLE ASSETS

| | Brand names and trademarks £m | Customer relationships £m | Favourable leases £m | Computer software £m | Goodwill £m | Total £m |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 30 March 2012 | 1.1 | 14.9 | 2.3 | 24.4 | 344.5 | 387.2 |
| Additions | — | — | — | 3.7 | — | 3.7 |
| Disposals | — | — | — | (12.6) | — | (12.6) |
| At 29 March 2013 | 1.1 | 14.9 | 2.3 | 15.5 | 344.5 | 378.3 |
| Additions | — | — | — | 5.3 | — | 5.3 |
| Disposals | — | — | — | (1.9) | — | (1.9) |
| **At 28 March 2014** | **1.1** | **14.9** | **2.3** | **18.9** | **344.5** | **381.7** |
| **Amortisation** | | | | | | |
| At 30 March 2012 | 1.1 | 3.6 | 0.1 | 16.8 | 21.7 | 43.3 |
| Charge for the period | — | 1.7 | 0.1 | 3.6 | — | 5.4 |
| Disposals | — | — | — | (12.6) | — | (12.6) |
| At 29 March 2013 | 1.1 | 5.3 | 0.2 | 7.8 | 21.7 | 36.1 |
| Charge for the period | — | 1.6 | 0.1 | 3.6 | — | 5.3 |
| Disposals | — | — | — | (1.9) | — | (1.9) |
| **At 28 March 2014** | **1.1** | **6.9** | **0.3** | **9.5** | **21.7** | **39.5** |
| **Net book value at 28 March 2014** | **—** | **8.0** | **2.0** | **9.4** | **322.8** | **342.2** |
| Net book value at 29 March 2013 | — | 9.6 | 2.1 | 7.7 | 322.8 | 342.2 |

No intangible assets are held as security for external borrowings.

Included in computer software are internally generated assets of £0.3m (2013: £0.3m). Product rights of £0.2m, which are fully amortised, have been included within Brand names and trademarks.

Goodwill of £253.1m (2013: £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. 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.

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 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. These calculations use cash flow projections based on financial budgets approved by management covering a three-year period with growth no higher than past experience and after consideration of all available information, incorporating the strategies and risks of each segment.

The key assumptions, to which the Group of cash-generating units recoverable amounts are most sensitive, used to determine value-in-use of goodwill held at 28 March 2014 and 29 March 2013 are as follows:

| | | Retail | | Car Servicing | |
|---|---|---|---|---|---|
| | Note | **2014** | 2013 | **2014** | 2013 |
| Discount rate | 1 | **7.9%** | 8.1% | **10.3%** | 9.0% |
| Growth rate | 2 | **0.0%** | 0.0% | **1.0%** | 1.0% |

Notes:

1. Pre-tax discount rate applied to the cash flow projections.
2. Growth rate used to extrapolate cash flows beyond the three year budget period.

The Directors are confident that a reasonably possible change in the key assumptions, including a +/- 1.0% change in the discount rate, would not cause the carrying amounts to exceed the recoverable amounts.

## 11. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings £m | Fixtures, fittings and equipment £m | Payments on account and assets in course of construction £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| At 30 March 2012 | 60.2 | 320.7 | — | 380.9 |
| Additions | 4.2 | 9.9 | 1.0 | 15.1 |
| Disposals | (5.2) | (84.5) | — | (89.7) |
| Reclassifications | — | — | — | — |
| At 29 March 2013 | 59.2 | 246.1 | 1.0 | 306.3 |
| Additions | 4.5 | 19.4 | 1.2 | 25.1 |
| Disposals | (0.7) | (100.3) | — | (101.0) |
| Reclassifications | — | 0.7 | (0.7) | — |
| **At 28 March 2014** | **63.0** | **165.9** | **1.5** | **230.4** |
| **Depreciation** | | | | |
| At 30 March 2012 | 28.9 | 254.1 | — | 283.0 |
| Depreciation for the period | 3.8 | 16.1 | — | 19.9 |
| Impairment charge | — | 0.8 | — | 0.8 |
| Disposals | (4.7) | (83.3) | — | (88.0) |
| At 29 March 2013 | 28.0 | 187.7 | — | 215.7 |
| Depreciation for the period | 4.2 | 13.8 | — | 18.0 |
| Impairment charge | — | 0.4 | — | 0.4 |
| Disposals | (0.5) | (98.4) | — | (98.9) |
| **At 28 March 2014** | **31.7** | **103.5** | **—** | **135.2** |
| **Net book value at 28 March 2014** | **31.3** | **62.4** | **1.5** | **95.2** |
| Net book value at 29 March 2013 | 31.2 | 58.4 | 1.0 | 90.6 |

No fixed assets are held as security for external borrowings.

Included in the above are assets held under finance leases as follows:

| | Land and buildings[1] £m | Fixtures, fittings and equipment £m | Total £m |
|---|---|---|---|
| **As at 28 March 2014** | | | |
| **Cost** | 12.7 | 0.8 | 13.5 |
| Accumulated depreciation | (5.1) | (0.8) | (5.9) |
| **Net book value** | **7.6** | **—** | **7.6** |
| As at 29 March 2013 | | | |
| Cost | 12.7 | 0.8 | 13.5 |
| Accumulated depreciation | (4.6) | (0.8) | (5.4) |
| Net book value | 8.1 | — | 8.1 |

1. Relates to the Halfords head office building lease, which expires in 2028.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 11. PROPERTY, PLANT AND EQUIPMENT CONTINUED

Finance lease liabilities are payable as follows:

| | **Minimum lease payments 2014 £m** | **Interest 2014 £m** | **Principal 2014 £m** | Minimum lease payments 2013 £m | Interest 2013 £m | Principal 2013 £m |
|---|---|---|---|---|---|---|
| Less than one year | **1.1** | **0.8** | **0.3** | 1.0 | 0.7 | 0.3 |
| Between one and five years | **4.5** | **2.4** | **2.1** | 4.5 | 2.6 | 1.9 |
| More than five years | **11.3** | **2.8** | **8.5** | 12.4 | 3.4 | 9.0 |
| | **16.9** | **6.0** | **10.9** | 17.9 | 6.7 | 11.2 |

## 12. INVENTORIES

| | **2014 £m** | 2013 £m |
|---|---|---|
| Finished goods for resale | **150.2** | 133.2 |

Finished goods inventories include £19.6m (2013: £16.7m) of provisions to carry inventories at fair value less costs to sell where such value is lower than cost. The Group did not reverse any unutilised provisions during the period.

During the period £11.2m was recognised as an expense in respect of the write-down of inventories (2013: £15.0m) to net realisable value. No inventories are held as security for external borrowings.

## 13. TRADE AND OTHER RECEIVABLES

| | **2014 £m** | 2013 £m |
|---|---|---|
| **Falling due within one year:** | | |
| Trade receivables | **16.5** | 16.6 |
| Less: provision for impairment of receivables | **(0.2)** | (0.5) |
| Trade receivables — net | **16.3** | 16.1 |
| Other receivables | **5.6** | 7.7 |
| Prepayments and accrued income | **30.9** | 30.0 |
| | **52.8** | 53.8 |

During the period the Group charged the provision with £0.3m (2013: £0.2m) for the impairment of trade receivables and utilised £0.6m (2013: £nil).

The following table shows the age of financial assets that are past due and for which no provision for bad or doubtful debts has been raised:

| | **2014 £m** | 2013 £m |
|---|---|---|
| Neither past due nor impaired | **16.7** | 18.3 |
| Past due by 1–30 days | **1.5** | 1.5 |
| Past due by 31–90 days | **0.8** | 1.8 |
| Past due by 91–180 days | **1.4** | 0.6 |
| Past due by more than180 days | **0.2** | 0.1 |
| | **20.6** | 22.3 |

The Group does not have any individually significant customers and so no significant concentration of credit risk.

Based on historic default rates and extensive analysis of the underlying customers' credit ratings, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 30 days.

The directors consider that the carrying amount of trade and other receivables approximates their fair value. Financial assets in the scope of IAS 39 include all trade receivables and £4.3m (2013: £6.2m) of other receivables.

## 14. CASH AND CASH EQUIVALENTS

| | **2014 £m** | 2013 £m |
|---|---|---|
| Cash at bank and in hand | **5.3** | 7.9 |

The Group's banking arrangements are subject to a netting facility whereby credit balances may be offset against the indebtedness of other Group companies.

## 15. BORROWINGS

| **Current** | **2014 £m** | 2013 £m |
|---|---|---|
| Unsecured bank overdraft | **10.0** | 4.0 |
| Finance lease liabilities | **0.3** | 0.3 |
| | **10.3** | 4.3 |
| **Non-current** | | |
| Unsecured bank loan and other borrowings[1] | **84.0** | 103.3 |
| Finance lease liabilities | **10.6** | 10.9 |
| | **94.6** | 114.2 |

1. The above borrowings are stated net of unamortised issue costs of £2.0m (2013: £0.7m).

The Group's current debt facility came into effect from 11 September 2013 and is a four-year £200m revolving credit facility starting from that date (with an option to extend by a further year). The facility carries an interest rate of LIBOR plus a margin which is variable based on gearing measures as set out in the facility covenant certificate and which is currently 150 basis points. Both utilisation and non-utilisation fees are also applicable being charged when utilisation of the facility 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 as mentioned below.

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:

| | **2014 £m** | 2013 £m |
|---|---|---|
| Expiring within 1 year | **1.0** | 1.0 |
| Expiring between 1 and 2 years | **—** | 196.0 |
| Expiring between 2 and 5 years | **114.0** | — |
| | **115.0** | 197.0 |

The overdraft facility expiring within one year is an annual facility subject to review at various dates during the period. The facility of £114.0m (2013: £196.0m) relates to the Group's revolving credit facility. All these facilities incurred commitment fees at market rates.

## 16. TRADE AND OTHER PAYABLES

| | **2014 £m** | 2013 £m |
|---|---|---|
| **Current liabilities** | | |
| Trade payables | **79.4** | 84.9 |
| Other taxation and social security payable | **13.4** | 10.6 |
| Other payables | **15.0** | 6.1 |
| Deferred income — lease incentives | **3.7** | 3.5 |
| Accruals and other deferred income | **48.0** | 39.8 |
| | **159.5** | 144.9 |
| **Non-current liabilities** | | |
| Deferred income — lease incentives | **28.8** | 29.7 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 17. PROVISIONS

| | Property related £m | Other trading £m | Total £m |
|---|---|---|---|
| At 29 March 2013 | 9.6 | 2.0 | 11.6 |
| Charged during the period | 2.6 | 1.0 | 3.6 |
| Transferred during the period | — | 6.6 | 6.6 |
| Utilised during the period | (2.1) | (1.0) | (3.1) |
| Released during the period | (0.4) | — | (0.4) |
| **At 28 March 2014** | **9.7** | **8.6** | **18.3** |
| Analysed as: | | | |
| Current liabilities | 6.2 | 2.8 | 9.0 |
| Non-current liabilities | 3.5 | 5.8 | 9.3 |

Property related provisions consist of costs associated with vacant property, rent reviews and dilapidations. Also included are prior period non-recurring costs (note 5) relating to liabilities in respect of previous assignments of leases where the lessee has entered into administration subsequent to the period end. In the current year a change in approach to settling the Group's guarantor obligations has resulted in a release of £0.2m (2013: £1.0m) of the original amounts provided.

Other trading provisions comprise a sales returns provision, a provision for the costs associated with the cessation of the stand-alone cycle concept, including closure of stores where necessary, an employer/product liability provision and provision for unused gift vouchers.

Provisions have been transferred out of accruals in the year where the nature of the liability has changed due to less certainty over the timing and amount likely to be settled.

## 18. DEFERRED TAX

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon in the current and prior reporting periods.

| | Property related items £m | Short-term timing differences £m | Share based payments £m | Intangible assets £m | Total £m |
|---|---|---|---|---|---|
| At 30 March 2012 | (2.5) | 4.9 | 0.2 | (3.3) | (0.7) |
| Credit/(charge) to the income statement | 1.5 | (0.6) | 0.1 | 0.4 | 1.4 |
| Charge to other comprehensive income | — | (0.7) | — | — | (0.7) |
| Credit to equity | — | — | 0.3 | — | 0.3 |
| At 29 March 2013 | (1.0) | 3.6 | 0.6 | (2.9) | 0.3 |
| Credit to the income statement | 0.9 | 0.3 | 0.5 | 0.7 | 2.4 |
| Credit to other comprehensive income | — | 0.8 | — | — | 0.8 |
| Credit to equity | — | — | 0.9 | — | 0.9 |
| **At 28 March 2014** | **(0.1)** | **4.7** | **2.0** | **(2.2)** | **4.4** |

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:

| | **28 March 2014 £m** | 29 March 2013 £m |
|---|---|---|
| Deferred tax assets | **6.7** | 4.2 |
| Deferred tax liabilities | **(2.3)** | (3.9) |
| | **4.4** | 0.3 |

## 19. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### 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 ("FD"). The FD 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 15.

The key risks that the Group faces from a treasury perspective are as follows:

### 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.

### 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 £0.6m (2013: £1.0m).

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 balance sheet.

### 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 debt ratios. These ratios are net debt to Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") and fixed charge cover. Fixed charge cover is calculated as being EBITDA plus operating lease charges as a multiple of interest and operating lease charges. The Group also uses a ratio of lease adjusted net debt to EBITDA; this is calculated as being net debt and leases capitalised at eight times, as a multiple of EBITDA plus operating lease charges.

### FAIR VALUE DISCLOSURES

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 finance lease obligations, short-term deposits and borrowings | The fair value approximates to the carrying amount because of the short maturity of these instruments, using an interest rate of 7.1% for long-term finance lease obligations. |
| Long-term borrowings | The fair value of bank loans and other loans approximates to the carrying value reported in the balance sheet as the majority are floating rate where payments are reset to market rates at intervals of less than one year. |
| Forward currency contracts | The fair value is determined using the market forward rates at the reporting date and the outright contract rate. |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 19. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES CONTINUED

### 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.

The fair value of financial assets and liabilities are as follows:

| | 2014 £m | 2013 £m |
|---|---|---|
| Cash and cash equivalents | **5.3** | 7.9 |
| Loans and receivables | **20.6** | 22.3 |
| Forward exchange contracts used for hedging (assets) | **–** | 1.9 |
| **Total financial assets** | **25.9** | 32.1 |
| Trade and other payables — held at amortised cost | **(135.7)** | (121.6) |
| Borrowings at amortised cost | **(86.0)** | (104.0) |
| Finance leases | **(10.9)** | (11.2) |
| Forward exchange contracts used for hedging (liabilities) | **(2.1)** | (0.2) |
| **Total financial liabilities** | **(234.7)** | (237.0) |

Trade and other payables within the scope of IAS 39 include all trade payables, all other payables and £41.3m (2013: £30.6m) of accruals and deferred income.

### CREDIT RISK

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was £25.9m (2013: £32.1m) as detailed in the table above.

### FOREIGN CURRENCY RISK

The Group has a significant transaction exposure with increasing, direct sourced purchases from its suppliers in the Far East, with most of the trade being in US dollars. The Group's policy is to manage the foreign exchange transaction exposures of the business to ensure the actual costs do not exceed the budget costs by more than 10% (excluding increases in the base cost of the product).

The Group does not hedge either economic exposure or the translation exposure arising from the profits, assets and liabilities of non-sterling businesses whilst they remain immaterial.

During the 52 weeks to 28 March 2014, the foreign exchange management policy was to hedge via forward contract purchase between 75% and 80% of the material foreign exchange transaction exposures on a rolling 12-month basis. Hedging is performed through the use of foreign currency bank accounts and forward foreign exchange contracts.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

| | 28 March 2014 | | 29 March 2013 | |
|---|---|---|---|---|
| | USD £m | Other £m | USD £m | Other £m |
| Cash and cash equivalents | **0.3** | **0.5** | – | 0.4 |
| Trade and other payables | **(19.3)** | **–** | (15.9) | (0.5) |
| | **(19.0)** | **0.5** | (15.9) | (0.1) |

## 19. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES CONTINUED

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.

| | **2014 Increase/ (decrease) in equity £m** | 2013 Increase/ (decrease) in equity £m |
|---|---|---|
| 10% appreciation of the US dollar | **9.2** | 4.1 |
| 10% depreciation of the US dollar | **(7.6)** | (3.3) |

A strengthening/weakening of sterling, as indicated, against the USD at 28 March 2014 would have increased/(decreased) equity and profit or loss by the amounts shown above. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

There are no material movements in the income statement. The movements in equity relates to the fair value movements on the Group's forward contracts that are used to hedge future stock purchases.

### PENSION LIABILITY RISK

The Group has no association with any defined-benefit pension scheme and therefore carries no deferred, current or future liabilities in respect of such a scheme. The Group operates a number of Group Personal Pension Plans for colleagues.

### LIQUIDITY RISK

The Group ensures that it has sufficient cash or loan facilities to meet all its commitments when they fall due by ensuring that there is sufficient cash or working capital facilities to meet the cash requirements of the Group for the current Business Plan. The minimum liquidity level is currently set at £30m, such that under Treasury Policy the maximum drawings would be £170m of the £200m available facility.

The process to manage the risk is to ensure there are contracts in place for key suppliers, detailing the payment terms, and for providers of debt, the Group ensured that such counterparties used for credit transactions held at least an 'A-' credit rating at the time of refinancing (September 2013). Ancillary business is currently being tendered with the five banks within the new club banking group. Following the completion of the refinancing, at the year-end the banks within this new group maintained a credit rating of A- or above, in line with Treasury policy. The counterparty credit risk is reviewed in the Treasury report, which is forwarded to the Treasury Committee and the Treasurer reviews credit exposure on a daily basis.

The risk is measured through review of forecast liquidity each month by the Treasurer 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 bi-annually to the club bank agent. There have been no breaches of covenants during the reported periods.

The contractual maturities of finance leases are disclosed in note 11. 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:

| | **28 March 2014 Bank borrowings £m** | 29 March 2013 Bank borrowings £m |
|---|---|---|
| Due less than one year | **2.4** | 3.6 |
| Expiring between 1 and 2 years | **2.2** | 106.3 |
| Expiring between 2 and 5 years | **89.6** | — |
| Expiring after 5 years | **—** | — |
| Contractual cash flows | **94.2** | 109.9 |
| Carrying amount | **84.0** | 103.3 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 19. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES CONTINUED

The following table provides an analysis of the anticipated contractual cash flows for the Group's forward currency contracts. Cash flows receivable in foreign currencies are translated using spot rates as at 28 March 2014 (29 March 2013).

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | **Receivables £m** | **Payables £m** | Receivables £m | Payables £m |
| Due less than one year | **83.2** | **(85.3)** | 36.7 | (34.9) |
| Due between 1 and 2 years | **–** | **–** | – | – |
| Contractual cash flows | **83.2** | **(85.3)** | 36.7 | (34.9) |
| Fair value | **–** | **(2.1)** | 1.9 | (0.2) |

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

## 20. CAPITAL AND RESERVES

| **Ordinary shares of 1p each:** | **2014 Number of shares** | **2014 £000** | 2013 Number of shares | 2013 £000 |
|---|---|---|---|---|
| Allotted, called up and fully paid | **199,063,222** | **1,991** | 199,063,222 | 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.

During the current period there has been no movement in the Company's share capital (2013: decreased by 320,000 shares). Share premium has remained at £151.0m (2013: £151.0m) as a result of there being no transactions.

In total the Company received proceeds of £2.1m (2013: £0.8m) from the exercise of share options.

### INVESTMENT IN OWN SHARES

At 28 March 2014 the Company held in Trust 5,017,202 (2013: 4,651,810) of its own shares with a nominal value of £50,172 (2013: £46,518). 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 28 March 2014 was £23.1m (2013: £15.0m). In the current period 1,014,456 (2013: nil shares) were repurchased and transferred into the Trust, with 649,064 (2013: 280,199) 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.

## 21. SHARE BASED PAYMENTS

The Group has four share award plans, all of which are equity-settled schemes:

### 1. HALFORDS COMPANY SHARE OPTION SCHEME

The CSOS was introduced in June 2004 and the Company has made annual grants since. Options are 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 10 years.

Options granted will become 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.

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. HALFORDS SHARESAVE SCHEME

The SAYE is open to all employees with eligible employment service. Options may be exercised under the scheme if the option holder completes his 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.

### 3. 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.

The extent to which such rights vest will depend upon the Company's performance over the three-year period following the award date. The vesting of 50% of the awards will be determined by the Company's relative total shareholder return ("TSR") performance and the vesting of the other 50% by the Company's absolute EPS performance against RPI. The Company's TSR performance will be measured against the FTSE 350 general retailers as a comparator group. No retesting will be permitted.

The TSR element of the options granted under the schemes has been valued using a model developed by Deloitte. The Deloitte model uses the Group's share price volatility, the correlation between comparator companies and the vesting schedule attaching to the PSP tranche rather than generating a large number of simulations of share price and TSR performance to determine the fair value of the award using a Monte Carlo model.

For 2009 awards onwards, the Committee has recommended the reinvestment of dividends earned on award shares, such shares to invest in proportion to the vesting of the original award shares. This is in line with best practice as contained in the ABI guidelines on executive remuneration. Following this recommendation the shares awarded in 2010, 2011 and 2012 under the Performance Share Plan earned final dividends of 9.1p per share and were reinvested in shares at a cost of £3.71 per share. Shares awarded in 2011, 2012 and 2013 under the PSP earned interim dividends of 5.2p per share and were reinvested in shares at a cost of £4.70 per share.

Changes to the performance criteria of the PSP in relation to the awards granted during the 28 March 2014 year have been made by the Remuneration Committee. These changes have been made in order to create better alignment with the Company's three-year strategic priorities following the Getting Into Gear programme. The awards are weighted 25% towards Group revenue growth targets and 75% towards Group EBITDA growth targets. The core award remains at 150% of base salary with a multiplier being introduced of 1.5x the core award if exceptional levels of performance are achieved. The shares vesting as part of this multiplier calculation will attract a retention period of two years. In order to focus management the awards will be underpinned by a minimum Group EBITDA, and a net debt to EBITDA ratio no greater than 1.5x throughout the three-year performance period.

### 4. CO-INVESTMENT SHARE PLAN

In 2012 the Company adopted the Halfords Group plc 2012 Co-Investment Plan. This plan was adopted for the sole purpose of making a one-off award to the Group's new CEO. No further awards either to the Group's CEO or other executives will be made under this plan.

On 4 October 2012 the new CEO purchased 164,056 Halfords Group plc shares at a price of 302.22 pence per share and will be entitled to receive Matching Shares equivalent to a maximum of 3.5 times this investment. Subject to continued employment these shares may vest up to a third in November 2015, up to two-thirds in November 2016 and in full in November 2017, depending on the following Threshold (30% vesting) and Maximum (100% vesting) share price performance by Halfords:

| November | Threshold | Maximum |
|---|---|---|
| 2015 | 350p | 400p |
| 2016 | 385p | 440p |
| 2017 | 425p | 485p |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 21. SHARE BASED PAYMENTS CONTINUED

Matching Shares have been granted in the form of nil cost options, with the participant having until the tenth anniversary of the date of grant to exercise the options, and will lapse on a pro rata basis if the required number of Investment Shares is not retained to the final vesting date.

At each relevant vesting date the participant may decide to exercise any portion of the award that has vested based on the performance at that time (in which case any unvested shares in that tranche in respect of which the share price target has not been met will lapse) or roll forward that tranche in full subject to performance testing at the next vesting date. In the latter case the participant will forfeit the right to exercise any awards that had become capable of vesting at the earlier vesting date.

The Participant will be entitled to receive an amount equivalent to the dividends that would have been paid either in cash or on a reinvested basis in shares during the period from grant to exercise in respect of the number of Matching Shares that vest.

The Barrier Black–Scholes Model is an adapted Black–Scholes Model and is used to calculate the estimated fair values of the Co-Investment Plan Options to include the impact of the share price based performance conditions. Using this method the fair value of the options at the time of grant was estimated to be £1.35 per share.

The Group Income Statement charge recognised in respect of share-based payments for the current period is £1.0m (2013: £0.1m).

The following tables reconcile the number of share options outstanding and the weighted average exercise price (WAEP) for all share award plans except for the Co-Investment Plan, details of which are covered above.

**FOR THE PERIOD ENDED 28 MARCH 2014**

| | CSOS | | SAYE | | PSP | |
|---|---|---|---|---|---|---|
| | **Number ('000)** | **WAEP (£)** | **Number ('000)** | **WAEP (£)** | **Number ('000)** | **WAEP (£)** |
| Outstanding at start of year | **5,191** | **3.10** | **2,351** | **1.76** | **1,216** | **0.00** |
| Granted | **1,780** | **3.71** | **543** | **2.54** | **748** | **0.00** |
| Shares representing dividends reinvested | **—** | **—** | **—** | **—** | **58** | **0.00** |
| Forfeited | **—** | **—** | **(65)** | **2.27** | **(144)** | **0.00** |
| Exercised | **(614)** | **3.22** | **(35)** | **2.37** | **—** | **0.00** |
| Lapsed | **(1,592)** | **4.35** | **(315)** | **1.90** | **—** | **0.00** |
| Outstanding at end of year | **4,765** | **2.96** | **2,479** | **1.88** | **1,878** | **0.00** |
| Exercisable at end of year | **485** | **3.25** | **62** | **4.15** | **—** | **0.00** |
| Exercise price range (£) | | **2.20 to 5.03** | | **1.56 to 4.15** | | **0.00** |
| Weighted average remaining contractual life (years) | | **8.0** | | **1.4** | | **1.5** |

**FOR THE PERIOD ENDED 29 MARCH 2013**

| | CSOS | | SAYE | | PSP | |
|---|---|---|---|---|---|---|
| | Number ('000) | WAEP (£) | Number ('000) | WAEP (£) | Number ('000) | WAEP (£) |
| Outstanding at start of year | 3,858 | 3.68 | 908 | 3.05 | 1,615 | 0.00 |
| Granted | 2,176 | 2.20 | 2,166 | 1.56 | 631 | 0.00 |
| Shares representing dividends reinvested | — | — | — | — | 133 | 0.00 |
| Forfeited | — | — | (69) | 2.27 | — | 0.00 |
| Exercised | (209) | 3.07 | (73) | 2.60 | — | 0.00 |
| Lapsed | (634) | 3.42 | (581) | 2.83 | (1,163) | 0.00 |
| Outstanding at end of year | 5,191 | 3.10 | 2,351 | 1.76 | 1,216 | 0.00 |
| Exercisable at end of year | 1,127 | 3.25 | 67 | 2.60 | — | 0.00 |
| Exercise price range (£) | | 2.20 to 5.03 | | 1.56 to 4.15 | | 0.00 |
| Weighted average remaining contractual life (years) | | 7.8 | | 2.1 | | 1.8 |

## 21. SHARE BASED PAYMENTS CONTINUED

The following table gives the assumptions applied to the options granted in the respective periods shown:

| | 52 weeks to 28 March 2014 | | | 52 weeks to 29 March 2013 | | |
|---|---|---|---|---|---|---|
| **Grant date** | **CSOS** | **SAYE** | **PSP** | CSOS | SAYE | PSP |
| Share price at grant date | **3.66** | **3.70** | **3.66** | £2.25 | £2.20 | £2.25 |
| Exercise price | **3.71** | **2.54** | **0.00** | £2.20 | £1.56 | £0.00 |
| Expected volatility | **36%** | **35%** | **36%** | 35% | 31% | 31% |
| Option life (years) | **10** | **3** | **3** | 10 | 3 | 3 |
| Expected life (years) | **4.85** | **3.5** | **3** | 4.85 | 3.5 | 3 |
| Risk free rate | **1.34%** | **0.81%** | **–** | 0.66% | 0.31% | – |
| Expected dividend yield | **4.67%** | **4.63%** | **–** | 9.80% | 9.88% | 9.80% |
| Probability of forfeiture | **33%** | **44%** | **30%** | 33% | 44% | 30% |
| Weighted average fair value of options granted | **£0.72** | **£1.11** | **£3.66** | £0.24 | £0.36 | £1.64 |

As the PSP 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.

## 22. COMMITMENTS

| | **2014 £m** | 2013 £m |
|---|---|---|
| Capital expenditure: Contracted but not provided | **0.4** | 1.3 |

At 28 March 2014, the Group was committed to making payments in respect of non-cancellable operating leases in the following periods:

| | **Land and buildings 2014 £m** | **Other assets 2014 £m** | Land and buildings 2013 £m | Other assets 2013 £m |
|---|---|---|---|---|
| Within one year | **81.2** | **2.1** | 84.5 | 2.1 |
| Later than one year and less than five years | **271.6** | **3.7** | 274.0 | 3.9 |
| After five years | **266.1** | **–** | 299.1 | 0.3 |
| | **618.9** | **5.8** | 657.6 | 6.3 |

The Group leases a number of stores and warehouses under operating leases of varying length for which incentives/premiums are received/paid under the relevant lease agreements. Land and buildings have been considered separately for lease classification. The operating lease commitments are shown before total future minimum receipts of sublet income, which totalled £5.0m (2013: £5.5m).

## 23. 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 £3.6m (2013: £3.0m).

In accordance with Government initiatives Halfords has implemented 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 will be 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.

## 24. 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 28 March 2014 amounted to £5.3m (2013: £4.1m).

The Group's banking arrangements are subject to a netting facility whereby credit balances may be offset against the indebtedness of other Group companies.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 25. RELATED PARTY TRANSACTIONS

### SUBSIDIARY UNDERTAKINGS

The Group's ultimate parent company is Halfords Group plc. A listing of all principal trading subsidiary undertakings is shown within the financial statements of the Company on pages 149 to 155.

### TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

The key management personnel of the Group comprise the Executive and Non-Executive directors and the Halfords Limited and Halfords Autocentres management boards. The details of the remuneration, long-term incentive plans, shareholdings and share option entitlements of individual Directors are included in the Directors' Remuneration Report on pages 92 to 110. Key management compensation is disclosed in note 4.

Directors of the Company control 0.14% of the ordinary shares of the Company.

## 26. OFF BALANCE SHEET ARRANGEMENTS

The Group has no off balance sheet arrangements to disclose as required by S410A of the Companies Act 2006.

# COMPANY BALANCE SHEET

| | Notes | 28 March 2014 £m | 29 March 2013 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 4 | **295.4** | 573.0 |
| **Current assets** | | | |
| Debtors falling due within one year | 5 | **78.3** | 51.6 |
| Debtors falling due after one year | 5 | **278.6** | — |
| Cash and cash equivalents | | **1.8** | 2.9 |
| | | **358.7** | 54.5 |
| Creditors: amounts falling due within one year | 6 | **(0.2)** | (0.3) |
| **Net current assets** | | **358.5** | 54.2 |
| Creditors: amounts falling due after more than one year | 6 | **(326.4)** | (293.1) |
| **Net assets** | | **327.5** | 334.1 |
| **Capital and reserves** | | | |
| Called up share capital | 8 | **2.0** | 2.0 |
| Share premium account | 9 | **151.0** | 151.0 |
| Investment in own shares | 9 | **(14.3)** | (13.2) |
| Capital redemption reserve | 9 | **0.3** | 0.3 |
| Profit and loss account | 9 | **188.5** | 194.0 |
| **Total shareholders' funds** | | **327.5** | 334.1 |

The notes on pages 129 to 155 are an integral part of the Company's financial statements.

The Company has elected to prepare its financial statements under UK GAAP and the accounting policies are outlined on page 151.

The financial statements on pages 117 to 122 were approved by the Board of Directors on 21 May 2014 and were signed on its behalf by:

**Matt Davies**
Chief Executive

**Andrew Findlay**
Chief Financial Officer

Company number: 04457314

# RECONCILIATION OF MOVEMENTS IN TOTAL SHAREHOLDERS' FUNDS

| For the period | **52 weeks to 28 March 2014 £m** | 52 weeks to 29 March 2013 £m |
|---|---|---|
| Profit for the period | **21.2** | 9.3 |
| Share options exercised | **2.1** | 0.8 |
| Purchase of own shares | **(3.2)** | (0.9) |
| Employee share options | **1.0** | 0.1 |
| Dividends | **(27.7)** | (42.7) |
| Net decrease in total shareholders' funds | **(6.6)** | (33.4) |
| Opening total shareholders' funds | **334.1** | 367.5 |
| **Closing total shareholders' funds** | **327.5** | 334.1 |

# ACCOUNTING POLICIES

## BASIS OF PREPARATION

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 28 March 2014, whilst the comparative period covered the 52 weeks to 29 March 2013. The accounts are prepared under the historical cost convention, except where Financial Reporting Standards require 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

A consolidated cash flow statement has been included in the Halfords Group plc consolidated accounts. The Company has therefore taken advantage of the exemption under FRS 1 (revised 1996) "Cash flow statements" not to produce a cash flow statement.

EBTs are accounted for under UITF 32 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.

The Company has taken the available exemption not to provide disclosures required by FRS 29 "Financial instruments: disclosures".

## 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 UITF Abstract 44 'FRS 20 (IFRS 2) — Group and treasury share transactions' the fair value of the employee services received under such schemes is recognised as an expense in the subsidiary undertaking's financial statements, which benefit from the employee services. The Company has recognised the fair value of the share based payments as an increase to equity with a corresponding adjustment to investments.

Fair values are determined using appropriate option pricing models. The total fair value recognised is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

At each balance sheet date, the Company revises its estimates of the number of share incentives that are expected to vest. The impact of the revision of original estimates, if any, is recognised as an adjustment to equity, with a corresponding adjustment to investments, over the remaining vesting period.

## INVESTMENTS

Investments in subsidiary undertakings are stated at the original cost of the investments. Provision is made against cost where, in the opinion of the directors, the value of the investments has been impaired.

## DIVIDENDS

Final dividends are recognised in the Company's financial statements in the period in which the dividends are approved by shareholders. Interim equity dividends are recognised in the period they are paid.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. PROFIT AND LOSS ACCOUNT

The Company made a profit before dividends paid for the financial period of £21.2m (52 week period to 29 March 2013: £9.3m). 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 KPMG LLP and their associates during the period are detailed in note 3 to the Group financial statements. In the 52 weeks to 28 March 2014 the Company expensed £nil (2013: £nil) in fees relating to KPMG Audit Plc.

## 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 92 to 110 which forms part of the audited information.

## 4. INVESTMENTS

| | £m |
|---|---|
| **Shares in Group undertaking** | |
| **Cost** | |
| As at 29 March 2013 | 573.0 |
| Additions — share based payments | 1.0 |
| Impairment in Jersey companies (a) | (278.6) |
| **At 28 March 2014** | **295.4** |

(a) The impairment in Jersey companies has occurred as a result of Group restructuring as explained below. This impairment relates to the distribution in specie of loans that had previously been issued by Halfords Finco (Jersey) Limited to Halfords Group plc. Halfords Group plc therefore now records the £278.6m as an intercompany receivable as shown in note 5.

During the year the Group began an exercise in order to restructure the underlying companies of the Group. This exercise led to a delisting of the Eurobonds issued by Halfords Finco (Jersey) Limited to Halfords Holdings (2006) Limited and Halfords Finance Limited and a distribution in specie of these loans up to Halfords Group plc, as well as the winding up of Halfords Finance UK LLP. Subsequent to the year end the intention of the Group is to wind up the two Ireco companies as well as the Jersey companies.

The investments represent shares in the following subsidiary undertakings as at 28 March 2014 and the fair value of share based compensation plans that are awarded to employees of the Company's subsidiary undertakings. The Company has taken advantage of Section 410(2) of the Companies Act 2006 to list only its principal subsidiary and associated undertakings at 28 March 2014. All of these are wholly owned by the Company or its subsidiary undertakings, registered in England and Wales, and operate predominanlty in the United Kingdom unless otherwise stated.

| Subsidiary undertaking | Incorporated in | Ordinary shares percentage owned % | Principal Activities |
|---|---|---|---|
| Halfords Holdings (2006) Limited | Great Britain* | 100 | Intermediate holding company |
| Halfords Holdings (Jersey) 1 Limited | Jersey | 100 | Intermediate holding company |
| Halfords Holdings (Jersey) 2 Limited | Jersey | 100 | Intermediate holding company |
| Halfords Ireco 1 Limited | Gibraltar | 100 | Intermediate holding company |

* Registered in England and Wales.

In the opinion of the Directors the value of the investments in the subsidiary undertakings is not less than the amount shown above.

## 4. INVESTMENTS (CONTINUED)

### PRINCIPAL SUBSIDIARY UNDERTAKINGS

The principal subsidiary undertakings of the Company at 28 March 2014 are as follows:

| Subsidiary undertaking | Principal activity | % Ownership of ordinary equity shares |
|---|---|---|
| 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 Investments (2010) LP† | Intermediate holding partnership | — |
| Halfords Autocentres Holdings Limited* | Intermediate holding company | 100 |
| Halfords Autocentres Limited* | Car servicing | 100 |
| Halfords Holdings (Jersey) 1 Limited | Intermediate holding company | 100 |
| Halfords Holdings (Jersey) 2 Limited | Intermediate holding company | 100 |
| Halfords Ireco 1 Limited* | Intermediate holding company | 100 |
| Halfords Ireco 2 Limited* | Intermediate holding company | 100 |

* Shares held indirectly through subsidiary undertakings.

† Wholly owned indirectly through subsidiary undertakings.

Halfords Holdings (Jersey) 1 Limited and Halfords Holdings (Jersey) 2 Limited are incorporated and registered in Jersey. Halfords Ireco 1 Limited and Halfords Ireco 2 Limited are incorporated and registered in Gibraltar. All other subsidiary undertakings are incorporated in Great Britain and registered in England and Wales. The only subsidiaries to trade during the year were Halfords Limited and Halfords Autocentres Limited.

## 5. DEBTORS

| | 2014 £m | 2013 £m |
|---|---|---|
| **Falling due within one year:** | | |
| Amounts owed by Group undertakings | **78.3** | 51.6 |
| | **78.3** | 51.6 |
| **Falling due after more than one year:** | | |
| Amounts owed by Group undertakings | **278.6** | — |

Amounts owed by Group undertakings are subject to interest. At 28 March 2014 the amounts bear interest at a rate of 4.83% (2013: 4.83%).

## 6. CREDITORS

| | 2014 £m | 2013 £m |
|---|---|---|
| **Falling due within one year:** | | |
| Accruals and deferred income | **0.2** | 0.3 |
| | **0.2** | 0.3 |
| **Falling due after more than one year:** | | |
| Bank borrowings (note 7) | **84.0** | 103.3 |
| Amounts owed to Group undertakings: | **242.4** | 189.8 |
| | **326.4** | 293.1 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 7. BORROWINGS

| | 2014 £m | 2013 £m |
|---|---|---|
| **Maturity of debt — bank loans** | | |
| Expiring between one and two years | **—** | 103.3 |
| Expiring between two and five years | **84.0** | — |
| | **84.0** | 103.3 |

The above borrowings are stated net of unamortised issue costs of £2.0m (2013: £0.7m).

Details of the Company's borrowing facilities are in note 15 of the Group's financial statements.

## 8. EQUITY SHARE CAPITAL

| **Ordinary shares of 1p each:** | 2014 Number of shares | 2014 £000 | 2013 Number of shares | 2013 £000 |
|---|---|---|---|---|
| Allotted, called up and fully paid | **199,063,222** | **1,991** | 199,063,222 | 1,991 |

During the current period there has been no movement in the Company's share capital (2013: decreased by 320,000 shares). Share premium has remained at £151.0m (2013: £151.0m) as a result of there being no transactions.

In total the Company received proceeds of £2.1m (2013: £0.8m) from the exercise of share options.

### POTENTIAL ISSUE OF ORDINARY SHARES

The Company has three employee share option schemes, which were set up following the Company's flotation. Further information regarding these schemes can be found in note 21 of the Group's financial statements.

### INTEREST IN OWN SHARES

At 28 March 2014 the Company held in Trust 5,017,202 (2013: 4,651,810) of its own shares with a nominal value of £50,172 (2013: £46,518). The Trust has waived any entitlement to the receipt of dividends in respect of its holding of the Company's ordinary shares. The value of these shares at 28 March 2014 was £23.1m (2013: £15.0m).

## 9. RESERVES

| | Share premium account £m | Investment in own shares £m | Capital redemption reserve £m | Profit and loss account £m | Total £m |
|---|---|---|---|---|---|
| At 29 March 2013 | 151.0 | (13.2) | 0.3 | 194.0 | 332.1 |
| Profit for the financial period | — | — | — | 21.2 | 21.2 |
| Share options exercised | — | 2.1 | — | — | 2.1 |
| Share based payment transactions | — | — | — | 1.0 | 1.0 |
| Purchase of own shares | — | (3.2) | — | — | (3.2) |
| Dividends | — | — | — | (27.7) | (27.7) |
| **At 28 March 2014** | **151.0** | **(14.3)** | **0.3** | **188.5** | **325.5** |

The Company settled dividends of £27.7m (2013: £42.7m) in the period, as detailed in note 8 to the Group's financial statements.

Included in the profit and loss account is £118m of reserves that are not distributable (2013: £118m).

## 10. RELATED PARTY DISCLOSURES

Under FRS 8 "Related party disclosures" the Company is exempt from disclosing related party transactions with entities which it wholly owns.

## 11. CONTINGENT LIABILITIES

The Group's banking arrangements include the facility for the bank to provide a number of guarantees in respect of liabilities owed by the Group during the course of its trading. In the event of any amount being immediately payable under the guarantee, the bank has the right to recover the sum in full from the Group. The total amount of guarantees in place at 28 March 2014 amounted to £5.3m (2013: £4.1m).

The Company's banking arrangements are subject to a netting facility whereby credit balances may be offset against the indebtedness of other Group companies.

## 12. OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements to disclose as required by S410A of the Companies Act 2006.

## 13. POST BALANCE SHEET EVENTS

During the year the structure of the Group companies has been assessed and a restructuring exercise undertaken. This exercise continues to be addressed post year end and has led to the winding up of the following companies:

Halfords Finco (Jersey) Limited

Halfords Holdings (Jersey) 1 Limited

Halfords Holdings (Jersey) 2 Limited

Halfords Holdings (Jersey) 3 Limited

Halfords Ireco 1 Limited

Halfords Ireco 2 Limited

FINANCIALS > FIVE YEAR RECORD

# FIVE YEAR RECORD

| | 52 weeks to 2 April 2010 £m | 52 weeks to 1 April 2011 £m | 52 weeks to 30 March 2012 £m | 52 weeks to 29 March 2013 £m | **52 weeks to 28 March 2014 £m** |
|---|---|---|---|---|---|
| **Revenue** | 831.6 | 869.7 | 863.1 | 871.3 | **939.7** |
| Cost of sales | (378.9) | (384.7) | (390.3) | (394.2) | **(435.5)** |
| **Gross profit** | 452.7 | 485.0 | 472.8 | 477.1 | **504.2** |
| Operating expenses | (340.4) | (364.4) | (373.7) | (400.0) | **(426.4)** |
| Operating profit before non-recurring items | 119.7 | 128.1 | 97.2 | 78.1 | **77.8** |
| Non-recurring operating expenses | (7.4) | (7.5) | 1.9 | (1.0) | **(0.2)** |
| **Operating profit** | 112.3 | 120.6 | 99.1 | 77.1 | **77.6** |
| Net finance costs | (2.6) | (2.5) | (5.0) | (6.1) | **(5.0)** |
| Profit before tax and non-recurring items | 117.1 | 125.6 | 92.2 | 72.0 | **72.8** |
| Non-recurring operating expenses | (7.4) | (7.5) | 1.9 | (1.0) | **(0.2)** |
| **Profit before tax** | 109.7 | 118.1 | 94.1 | 71.0 | **72.6** |
| Taxation | (34.1) | (34.7) | (24.8) | (18.2) | **(17.0)** |
| Taxation on non-recurring items | 1.4 | 2.1 | (0.9) | (0.1) | **(0.1)** |
| **Profit attributable to equity shareholders** | 77.0 | 85.5 | 68.4 | 52.7 | **(55.5)** |
| Basic earnings per share | 36.8p | 40.7p | 34.2p | 27.2p | **28.6p** |
| Basic earnings per share before non-recurring items | 39.7p | 43.2p | 33.7p | 27.7p | **28.8p** |
| Weighted average number of shares | 209.1m | 210.4m | 199.9m | 194.3m | **194.0m** |

FINANCIALS > KEY PERFORMANCE INDICATORS

# KEY PERFORMANCE INDICATORS

| | 52 weeks to 2 April 2010 | 52 weeks to 1 April 2011 | 52 weeks to 30 March 2012 | 52 weeks to 29 March 2013 | **52 weeks to 28 March 2014** |
|---|---|---|---|---|---|
| Revenue growth | +2.7% | +4.6% | -0.8% | +1.0% | **+7.9%** |
| Gross margin | 54.4% | 55.8% | 54.8% | 54.8% | **53.7%** |
| Operating margin | 13.5% | 13.9% | 11.5% | 8.8% | **8.3%** |
| Underlying Group EBITDA | £143.8m | £153.2m | £123.6m | £103.4m | **£101.1m** |
| Net debt | (£155.5m) | (£103.2m) | (139.2m) | (£110.6m) | **(£99.6m)** |

# COMPANY INFORMATION

## FINANCIAL CALENDAR

4 July 2014 Final Dividend Record Date

10 July 2014 Q1 Interim Management Statement

29 July 2014 Annual General Meeting

1 August 2014 Final Dividend Payment Date

6 November 2014 Interim Results

19 December 2014 Interim Dividend Record Date

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## SOLICITORS

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London
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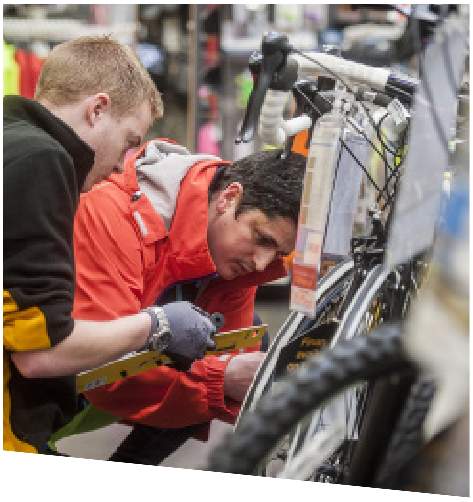
# SHAREHOLDER NOTES





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**Corporate and IR website**
www.halfordscompany.com

**Commercial website**
www.halfords.com

**Online Annual Report 2014**
halfords.annualreport2014.com

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halfords.annualreport2013.com