Remuneration Committee Report

Claudia Arney – Chairman of the Remuneration Committee

Dear Shareholder

On behalf of the Remuneration Committee, I am pleased to present the Remuneration Report for the financial period ended 30 March 2018.

The Report consists of three sections:

- Annual Statement – A summary of the key messages on pay for FY18, and our plans for FY19.
- Summary Remuneration Policy Report – The Company's Remuneration Policy (the "Policy") was approved at the 2017 AGM. No changes have been made to the Policy and accordingly, we are not seeking approval for a new Policy this year. This section is for information only and a copy of our full Policy is available on our website.
- Annual Directors' Remuneration Report – This summarises the remuneration outcomes for FY18 and explains how we intend to apply the Remuneration Policy in FY19.

> Our remuneration philosophy is aimed at providing Executive Directors with incentive opportunities strongly aligned to growth, profitability and shareholder returns.

FY18 business context

The Group achieved a good sales performance in a challenging retail environment with sales up 3.7% in total and 2.0% on a like-for-like basis. Underlying Profit Before Tax was down £3.8m but this was after absorbing circa £25m of additional input costs as a result of the weaker pound against the US dollar. Cash generation remains robust and there were continued operational improvements including enhancing customer data capabilities and strong growth of 14% in service-related Retail sales as the Group builds its credentials as a service-led specialist retailer.

Remuneration outcomes for FY18

The annual bonus for Executive Directors is based on the achievement of Group PBT targets (80%), and key strategic initiatives (20%) with the latter based on specific targets; these are NPS, Engagement Index, Service Related Sales Growth and Digital Sales.

This year we achieved Group PBT of £71.6m, which resulted in a bonus payment of 40.1% of the maximum. Our service related sales growth was above maximum and our digital sales growth was above threshold. The Engagement Index progressed to meet the threshold level, whilst NPS did not achieve any of the targets. As a result the performance was 10.25% out of the 20% maximum for KPIs.

As a result of this performance, annual bonus out-turns for Graham Stapleton and Jonny Mason were 70% and 42.3% of maximum, respectively. As set out in more detail in the following section, Graham Stapleton's out-turn was prorated to reflect the period worked during the year, while Jonny Mason was only eligible for the cash element (two thirds) of his annual bonus as a result of his resignation in March 2018. Jill McDonald was not eligible for an FY18 annual bonus following her resignation in September 2017.

No Executive Director had outstanding 2015 Performance Share Plan ("PSP") awards, so no vesting events occurred in respect of the FY16-FY18 performance period.

The 2017 PSP award granted during the year is subject to underlying Group EPS (75%) and Group Revenue targets (25%), with a net debt to EBITDA ratio underpin. Performance against these measures will be assessed at the end of FY20.

Remuneration for FY19

In FY19 we will continue to operate our remuneration arrangements in line with the Policy approved by shareholders at the 2017 AGM. A summary of this Policy is set out on pages 80 to 81.

No other material changes are being made to the Executive Directors' remuneration arrangements in FY19, aside from the transition to the new PSP holding period now being complete, such that the full 2018 PSP award will be subject to a two-year holding period.

Executive Director changes

During the year there were several changes in our Executive Directors. In considering the appointment and departure terms for these individuals, we have sought to act fairly and not pay any more than is necessary, while wishing to ensure a successful transition between individuals for the benefit of Halfords and our shareholders.

Graham Stapleton

Graham was appointed as Chief Executive Officer ("CEO") on an annual basic salary of £535,000. This is considered to be reasonable in light of his retail, digital, services and category credentials. Graham's package is fully aligned with our Policy.

Graham's maximum annual bonus opportunity is 150% of salary, in line with Policy, and this was prorated for the period of 2017/18 that he served. One-third of his annual bonus was deferred into Halfords shares for a period of three years. In line with our Policy, Graham has a maximum opportunity under the PSP of 200% of salary, and an award at this level was made under the 2017/18 PSP cycle upon appointment.

Graham received a buy-out of 185,872 shares to compensate for awards forfeited when leaving his previous employer, Dixons Carphone plc, which will vest in January 2021, subject to him not having resigned before that date. This matches the release profile of the forfeited award.

In addition, a contribution will be made towards the Dixons Carphone plc annual bonus he forfeited upon leaving, prorated for the portion of the year he worked there. This will be paid following the Dixons Carphone plc year end, and will be based upon the actual out-turn as disclosed in their Report and Accounts. The Committee considers that his treatment is appropriate as it directly matches what he would have received had he remained at this previous employer.

An additional payment will be made to Graham to compensate him for the loss of a cash entitlement of £695,617 under the 2013 Carphone Warehouse scheme. This payment is subject to clawback provisions, should he resign before July 2021.

Graham will be eligible for reimbursement of certain, capped costs of up to £15,000 should he relocate within 2 years of joining.

Leaving Arrangements for Jonny Mason

In March 2018, it was announced that Jonny Mason had resigned from his role as Chief Financial Officer ("CFO"), and will remain as CFO until the end of his notice period in September 2018. Jonny will forfeit the deferred element of his FY18 annual bonus, together with all other unvested DBP, PSP, and SAYE awards.

Leaving Arrangements for Jill McDonald

In May 2017 Jill McDonald resigned as CEO and subsequently left the business in September 2017. She did not receive a bonus in respect of FY18, and all of her unvested DBP and PSP awards lapsed in full upon her leaving date. The unvested portion of awards made as compensation for awards forfeited when leaving her previous employer have also been forfeited.

I hope that you find the Report clear, transparent and informative. The Committee has sought to promote a remuneration environment that strongly aligns the commercial direction of the Group with the interests of shareholders, whilst reflecting best practice developments and market trends. I look forward to your support at the Company's Annual General Meeting.

Claudia Arney
Chairman of the Remuneration Committee
22 May 2018