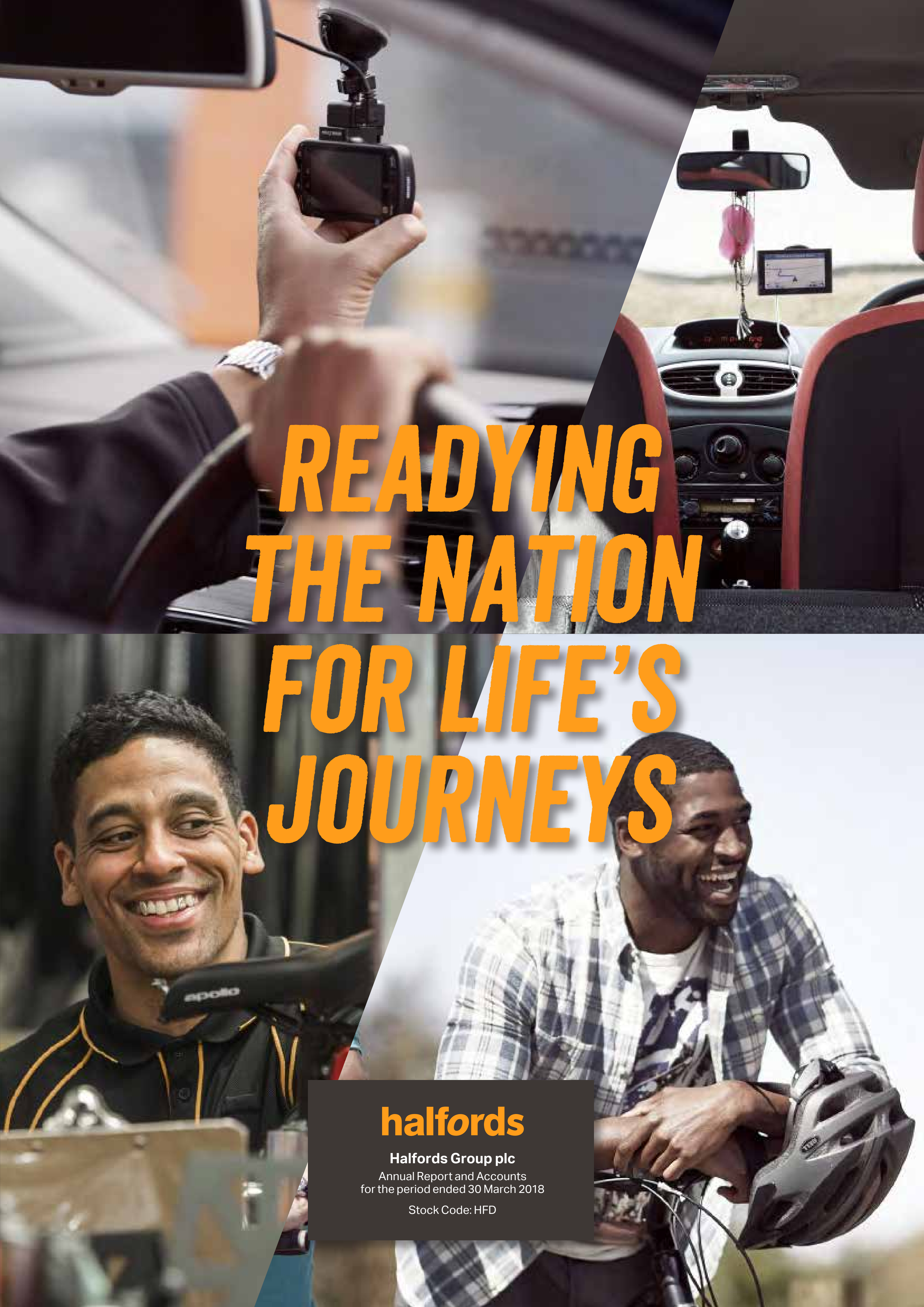


READYING THE NATION FOR LIFE'S JOURNEYS

halfords

Halfords Group plc

Annual Report and Accounts
for the period ended 30 March 2018

Stock Code: HFD

Halfords is a specialist service-led retailer, differentiating us from our competition.

Halfords is the UK's leading retailer of motoring, cycling and leisure products and services. Through Halfords Autocentres, it is also one of the UK's leading independent operators in vehicle, servicing, maintenance and repairs.

Our Vision

Our vision is clear:

- To be first choice for customers' life on the move
- We will achieve this by being Committed to Making Customers' Journeys Better

Online Annual Report

Read our Annual Report online, including a link to the full Remuneration Policy

halfords.annualreport2018.com

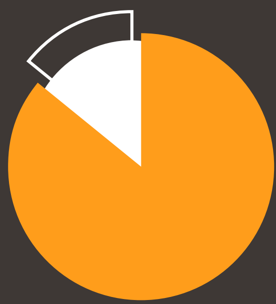
Corporate Website

Catch up with our latest news and learn more about Halfords on our corporate website

www.halfordscompany.com

Halfords is divided into two business segments: Retail and Autocentres

Category split of Halfords Group revenue (between Retail and Autocentres)



Retail	**86%**
Autocentres	**14%**

Category split of Halfords Group revenue (between motoring and cycling)

Motoring	**67%**
Cycling	**33%**

A little direction for your journey through our report

This icon signposts the reader to other sections in this report

This icon signposts the reader to more information that can be found online

This icon accompanies 'fast facts' with figures that relate to 1 April 2017 – 30 March 2018

Our Integrated Report

This is our fourth integrated report and is designed to provide a concise overview of how we generate value for all stakeholders. By following an integrated reporting model, we aim to show how our competitive advantage is sustainable in the short, medium, and long term. While this report focuses on value generation for our shareholders, it also demonstrates how we interact with all of our stakeholders.

Our Approach

In producing this report we have: built upon the key changes introduced previously; and developed it in line with the evolving practices in integrated reporting. Our future reports will seek to keep up with these new developments and achieve our aim of continually improving our stakeholder communications.

The steps we have taken in this report:

- Our business model continues to evolve to provide greater clarity on how we create value in the short, medium and long term. We have provided more detail on the outputs of our business model.
- We have increased the signposting and consistency between sections to show how they connect and interact.
- We have ensured that we discussed material matters both positive and negative in a fair, balanced and understandable way.

STAKEHOLDER ENGAGEMENT

Read more about **Stakeholder Engagement** on pages 16 and 17

CORPORATE SOCIAL RESPONSIBILITY

Read more about **Corporate Social Responsibility** on pages 24 to 32

Our Strategy

The Group Strategy is described using these five pillars:

- **Putting Customers in the Driving Seat**
- **Service in Our DNA**
- **Building on Our Uniqueness**
- **Better Shopping Experience**
- **Fit for Future Infrastructure**

Read more on **Our Strategy** on pages 18 to 19

Business Model

The outputs of our business model - Financial Resources, Colleagues, Brand, Physical and IT Infrastructure, Community and Environment - are detailed throughout the report.

This icon is used to indicate content on the outputs of the Business Model

Read more on **Our Business Model** on pages 14 and 15

Contents

Group Highlights

This is an exciting time to be a part of Halfords. We have a clear plan aimed at driving sustainable long-term growth.

Revenue
£m

+3.7%

Underlying profit before tax* £m

-5.0%

Profit before tax, after non-recurring items £m

-6.0%

Dividend per ordinary share
pence

+3.0%

Underlying basic earnings per share* pence

-2.3%

Basic earnings per share, after non-recurring items pence

-3.1%

59%
of Retail transactions matched to customers

14%
Service-related Retail sales growth

85%
of Halfords.com online orders click & collected

over 70
In-store Retail services across motoring and cycling

0.8x
Net debt to Underlying EBITDA ratio*

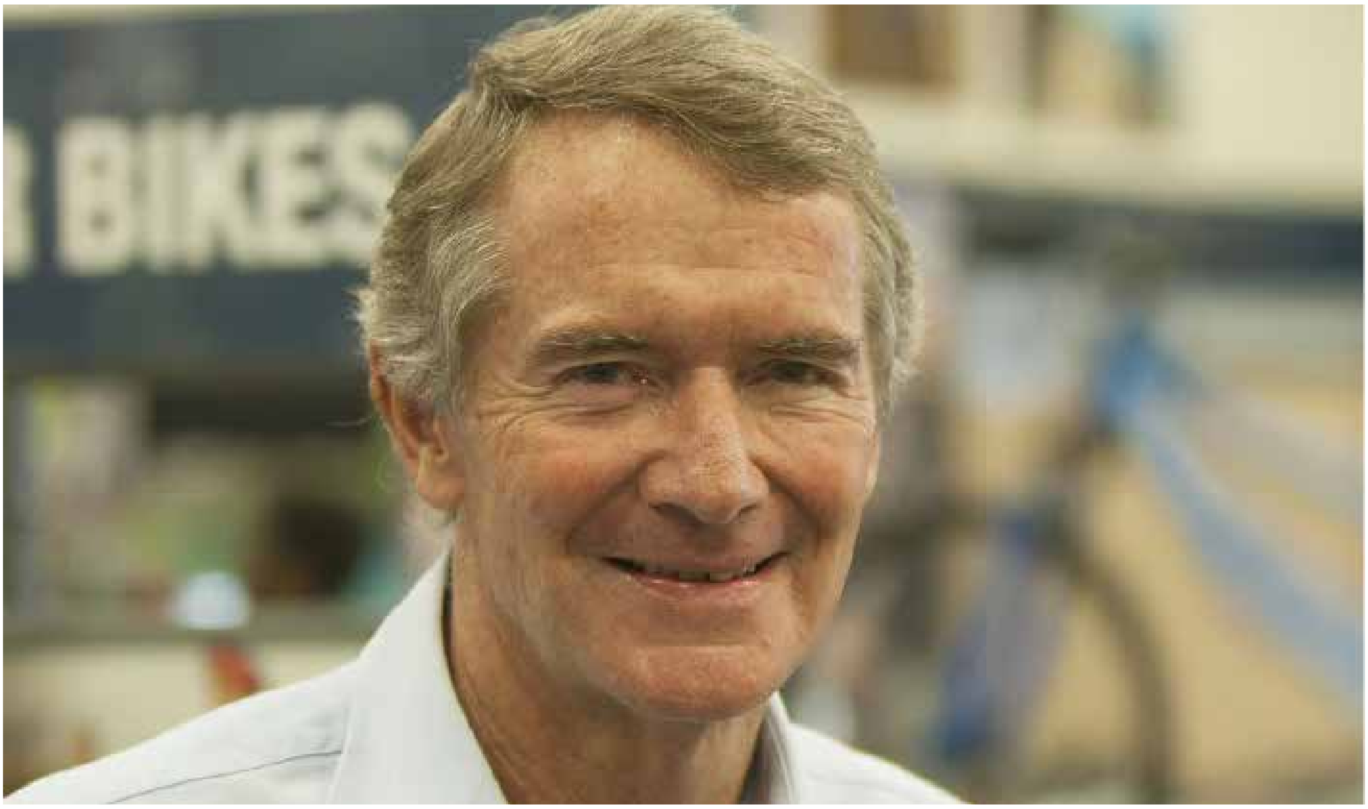
12%
Group online sales growth

* Alternative performance measures are defined in the glossary on page 151.


wiper blades now.
click & collect
halfords
BANK HOLIDAY DEALS
Extra 10% off
ALL bikes

halfords

Chairman's Statement



This will be my last Chairman's statement as I will be standing down at the conclusion of the Annual General Meeting having been privileged to serve Halfords for nine wonderful years.

Halfords is a much-changed business from that at the start of the decade, as is the retail landscape. The digital revolution, which now encompasses every aspect of our lives, has transformed the way we do business and we at Halfords have embraced that change. However, we have not lost sight of Halfords' key differentiator: our people.

I am so proud of the progress we have made to lift our service ethic, customer centricity and services focus. To this end, and on behalf of my Board colleagues, I would like to thank each and every colleague throughout the Group for making this a reality.

This year we have seen a change in executive leadership, with our CEO Jill McDonald leaving the business in September 2017 and Jonny Mason taking over as interim CEO prior to the arrival in January 2018 of Graham Stapleton, our new CEO. Graham is an outstanding business leader with credentials spanning across the retail, digital and services spaces. He is an ideal fit for Halfords and I am confident that he will successfully lead Halfords through its next phase of growth.

I would like to thank Jill for her significant contribution to Halfords, some of which I have summarised below. Jonny Mason will also be leaving us in a few months and I would also like to thank him for the positive impact he has made over the last three years. We wish both Jill and Jonny all the best for the future.

FY18 performance

Against the background of a challenging retail environment , we have achieved good sales growth, introduced new in-store services and continued to improve our product ranges, colleague training and service delivery. We also grew service-related retail sales by 14%.

Underlying Profit Before Tax was down some £4m but this was in the context of an additional c.£25m year-on-year cost of imported goods as a result of the weaker pound against the US dollar. Our actions to mitigate the impact of this headwind, both this and last year, have worked well and, at current exchange rates, there is virtually no further foreign exchange headwind to come.

Whilst earnings in the year were naturally adversely impacted by currency and other cost headwinds, particularly from increased labour costs, the underlying business performance was positive and cash flow was robust.

Accordingly, the Board has recommended a final dividend of 12.03 pence per share, payable on 31 August 2018, which would result in a dividend per share for the year of 18.03p, up 3.0% year-on-year and consistent with our policy of paying an increasing ordinary dividend. Gearing remains within our debt target.

Summary of strategic progress over recent years

In the report that follows, we have set out our progress against the objectives and milestones in our Moving up a Gear strategy that was set out in November 2015.

The strategy was investment led with a focus on continued colleague development, infrastructure to drive the business forward digitally and to better understand and serve our customers.

Some of the highlights, which illustrate the positive impact of investments we have made, are:

- 59% of Retail transactions can now be matched to customers (up from 3% in 2015);
- Service-related Retail sales up 46%;
- Group online sales up 55%;
- over 70% of Retail colleagues trained to "Gear 2" level, up from 46% three years ago;
- Colleague turnover much improved from three years ago; and
- 9th in the Sunday Times Best Big Companies To Work For (from 18th in 2015).

The business cannot stand still and the time for refreshing our strategy is upon us. The timing of Graham joining as CEO is thus opportune and he and his team are currently working with the Board to develop the next phase of strategic development to set Halfords on a path to profitable growth.

The intention is to set this out to shareholders in September.

The year ahead

With changes to the executive management team and the Board, Halfords is entering a new phase. We have a talented group of engaged colleagues who remain focused on growing the business and driving sustainable long-term growth. I am confident that Halfords will continue to prosper in the coming years under the capable leadership of Graham and his wider team.

Lastly, I welcome to Halfords my successor, Keith Williams, who brings a wealth of experience. I trust that Keith will enjoy working, as much as I have, with such a talented and engaged Board and such wonderful colleagues throughout the Group.

Dennis Millard
Chairman
22 May 2018

Chief Executive's Statement

Summary of Group Results

Group revenue of £1,135.1m was up 3.7%, with like-for-like ("LFL")* sales growth of 2.0%. Group gross margin of 50.2% was 78 basis points lower than the prior year, predominantly due to the impact on the cost of imported goods as a result of the weaker pound against the US dollar, partially offset by gross margin improvements in Autocentres. Group operating costs before non-recurring items rose by 2.9% reflecting continued investments in our colleagues, our online and offline infrastructure and also more convenient fulfilment solutions for customers.

The increase in cost of goods from the weaker pound against the US dollar amounted to c.£25m year-on-year, of which a significant proportion was mitigated in the year. Underlying EBITDA* was up 0.7% to £109.5m and Underlying EBIT* was £74.6m, which compares with £77.1m in the prior year. Underlying Profit Before Tax* was £71.6m and Underlying Basic Earnings Per Share* was 29.6 pence, down 5.0% and 2.3% respectively. Profit after tax for the year was £54.7m (FY17: £56.4m).

Cash generation remained robust, with Free Cash Flow* of £41.5m. Net Debt* at the end of the year was broadly flat against the prior year-end, despite planned follow-on M&A payments and the working capital impact of VAT payment timing. Net debt:Underlying EBITDA* at the year end was 0.8 times on a rolling 12 month basis (FY17: 0.8 times).

The Board has recommended a final ordinary dividend of 12.03 pence per share (FY17: 11.68 pence) which, if approved, would take the full-year ordinary dividend to 18.03 pence per share, an increase of 3.0% on the prior year. If approved, this will be paid on 31 August 2018 to shareholders on the register at the close of business on 27 July 2018. We continue to target dividend coverage of around 2 times on average over time and once the impact of adverse FX has been fully mitigated.

Our capital allocation priorities and debt target remain unchanged. We are currently in the process of developing plans for the next phase of business growth and look forward to presenting these to the market in September.

Retail Operational Review

Halfords Retail sales were up 4.1% to £977.2m. LFL* growth of 2.3% reflected Motoring LFL* of 1.9% and Cycling LFL* of 2.9%. Our service-related sales grew by 14.2% as we continued to increase our service-led retail proposition, training our colleagues and introducing new services across both motoring and cycling categories.

Within Motoring, Car Maintenance revenues increased by 3.7% on a LFL* basis, driven by growth in car parts and associated fitting services. Nearly 42% of the bulbs, blades and batteries ("3B's") sold were fitted to customers' cars by our colleagues, which was up 175 basis points year-on-year. This reflects the increasing relevance of our services proposition to the growing proportion of 'do-it-for-me' customers. The LFL* growth also came from strong sales of workshop and hand-tools, which continued to benefit from the strong credentials of our 'Halfords Advanced' ranges.

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures (APMs). These are denoted with an asterisk (*) in this report. Further detail on these APMs, including definitions, can be found in the glossary on page 151.

Car Enhancement LFL* revenues were -2.2%, principally reflecting the continued market decline in Sat Nav sales. Despite this, we gained share in Sat Navs year-on-year as others exited the market. Dash-cam sales grew strongly in the period, as we continued to invest in colleague training to support our market-leading fitting proposition. Shortly after the year end we launched our own Halfords branded range of dash-cams.

Travel Solutions LFL* revenues increased 3.6%, driven by good growth in roof bars / boxes, cycle carriers and camping equipment, as we supported customers with their 'staycation' journeys throughout the period. The category also benefited from improved fitting capability, with colleagues receiving refreshed training to support an enhanced service proposition. Child car seat sales were down year-on-year, as a result of annualising the legislative tailwind of last year.

Cycling sales improved by 2.9% on a LFL* basis despite the unfavourable weather in the fourth quarter and not repeating the volume-driving summer promotion of the previous year. Whilst our bike volumes declined year-on-year as expected, this was more than offset by an increase in sales value. Parts, Accessories and Clothing ("PACs") sales continued to grow, supported by improved attachment rates.

Sales of electric bikes ("e-bikes") were strong, reflecting the popularity of our new own-brand ranges launched in the year. We also rolled out colleague training so that our trusted, expert colleagues were able to advise on the features and benefits for the customer. Our cycle repair services and 'cycle to work' business also performed strongly.

Tredz and Cycle Republic continued to perform well and deliver good LFL* sales growth. Four new Cycle Republic stores were opened in the year, with one shortly after the year end, taking the total to 20 stores. Last month we opened the Boardman Performance Centre, a state-of-the-art facility to enhance the Boardman brand and provide a destination for cycling enthusiasts.

Service-related Retail sales, which consist of the revenue generated from paid in-store fitting and repair services plus the associated product attached to the transaction, grew by 14.2%, with particularly good performances from our 3B's fitting, dash cam fitting and cycle repair services. This is a reflection of our continued focus in growing awareness of our services and enhancing the delivery of them through regular colleague training.

Retail online sales were up 6.0% on a like-for-like* basis. The importance of our store network and service overlay continued to be highlighted by the strength of click & collect, with around 85% of Halfords.com online orders picked up in store. This high proportion continues to differentiate us from other retailers. Instead of cannibalising our bricks and mortar operation, online sales have driven store footfall; both our online and store sales were in growth for the year.

FX mitigation

The impact of the weaker pound has played out as guided. We have now experienced a cumulative additional £40m of input costs compared to FY16. Our plans to offset the impact (through supplier negotiations, operational efficiencies and pricing) have worked well and we have now recovered over half of the gross impact. At current exchange rates we do not anticipate any further FX headwind in FY19 or FY20 and we continue to anticipate fully recovering the impact over time - see outlook commentary on page 08.

Autocentres Operational Review

Total Autocentres revenues were up 0.8% and 0.2% on a LFL* basis. As previously guided, we took the decision to exit low-margin affiliate tyre business at the start of the year and instead focused on direct tyre sales and on service, maintenance and repair work. As a result of this decision, gross margin and EBIT have increased year-on-year. We opened 3 Autocentres in the year. Online booking revenues grew 15% and contributed 28% of total Autocentre sales.

As previously noted, we undertook an operational review of Autocentres during the year and identified that there are good opportunities for profit improvement by implementing better systems and consistent application of best practice. This includes improving visibility and control in centres and improving the systems infrastructure. A proportion of our centres have good profit margins and there is an opportunity to share the best practices in these high-performing centres with the rest of the estate. The programme to transform the operating model will take some time, but is well underway and the early progress is encouraging as indicated by improved year-on-year profit, particularly in the second half.

Chief Executive's Statement

Summary of strategic progress over recent years

The Group has made good progress in recent years. A few of the key improvements are noted as follows:

- Continued investment in our colleagues. We launched the 'Gears' training programme in 2014 and this is now well-embedded in the Retail business and is integral to providing enhanced product knowledge to our customers and our ability to efficiently and effectively deliver our services. Over 70% of Retail colleagues are now trained to "Gear 2" level, up from 46% three years ago.
- Improved colleague engagement. This is evidenced by our own internal surveys and also by the Sunday Times Best Big Companies To Work For in which Halfords came 9th in the year, up from 18th in 2015.
- Better customer insights. We know our customers better than we did before. A single customer view has been implemented across all of our Retail businesses and Autocentres, with a database containing details of millions of customers. We can now match 59% of transactions to customers in Retail, up from 3% in November 2015. The foundations are there to leverage this to be more relevant for our customers in the future.
- Solid foundations have been laid for the services business. These include building the comprehensive suite of services and training our colleagues to deliver them. We now have over 70 in-store services in the Retail business and service-related Retail sales have grown by 46% over the last three years. Investment in colleague headsets across the estate has supported increased colleague knowledge and specialist support for customers.
- Enhanced presence in the cycling market. In recent years we have launched Cycle Republic and acquired Tredz. Through these investments we can now service all segments of the cycling market from a child's first bike to the enthusiast with multiple bikes.
- Selective store refreshes underway. A store refresh programme was launched in 2013 and updated in 2016, focused on the look and feel of stores. Around a third of stores have been refreshed during this period.
- Ongoing improvements to our infrastructure. After a number of years of under-investment, investments have been made in a more resilient IT infrastructure, the embedding of a new delivery-to-store model in 2015, improvements towards a more agile approach to website development, the launch of a single view of stock and the implementation of the 'Dayforce' colleague resource planning system.

Initial thoughts on joining Halfords

I have been with Halfords for four months now. During this time I have been learning about the business and our markets, customers and competitors, visiting our facilities, meeting with colleagues and have also started to work with the team to identify opportunities for the next phase of growth.

This is a business that has good foundations. As set out above, there has been progress in previous years firstly in colleague development and customer service, and then latterly in becoming more customer-focused.

The business has some key visible strengths:

- strong heritage and brand awareness;
- market leader in many of its categories;
- trained and engaged colleagues with a "can do" attitude; and,
- cash generative with a resilient financial position.

There are also a few hidden gems, which Halfords has not yet leveraged to their full potential:

- services businesses; a key differentiating factor, but many people aren't aware of what we can do;
- group-wide customer database; and,
- established B2B business, across both our motoring and cycling specialisms.

However, the world of retail is ever changing; customers are becoming more demanding and new entrants continue to disrupt the market. This brings its own challenges but it also brings real opportunities for those who can truly position themselves as service-led specialists.

In summary, Halfords is a good business with a great future. By focusing more on our specialisms and our services, ensuring that we always provide great value to our customers and presenting a more seamless and inspirational omni-channel experience, we have an exciting future of growth ahead of us. I will provide further operational and financial detail on our plans in September 2018.

Summary and Outlook

We anticipate the motoring market will remain robust and we continue to see good growth prospects for the cycling market over time. Last year the cycling market was challenging, exacerbated by poor weather in the fourth quarter. We do not now expect to see price rises in cycling this year, like we saw in the previous year. We now anticipate the remainder of FX mitigation to arise from an improved pound/US dollar exchange rate, which will be mostly in FY20 due to the timing of our hedging programme. We also plan to accelerate investments in the current year in further developing our services proposition and in customer relationships and data. In light of the above, we currently anticipate FY19 Profit Before Tax to be broadly in line with FY18.

On 22 May 2018, the Board announced the appointment of Keith Williams as Non-Executive Chairman with effect from 24 July 2018. He will succeed Dennis Millard who will retire from the Board on that date.

I would like to thank all colleagues for the warm welcome they have given me and for their enthusiasm. I am excited about Halfords' future and look forward to working with our colleagues and the Board to drive the next phase of growth.

Graham Stapleton
Chief Executive Officer
22 May 2018

STRATEGIC REPORT

Our Marketplace

Competitive landscape

Halfords principally operates in two broad markets: Motoring and Cycling. Around 67% of Group sales are generated from products and services that are principally Motoring related with the remaining 33% coming from Cycling.

Motoring Market

Within Motoring, the Halfords Group operates in two segments:

- Car parts, accessories, consumables and technology; and
- Car servicing and aftercare

There is no single equivalent competitor of Halfords in the UK and these motoring markets are highly fragmented. There are over 30,000 garages in the UK of which two-thirds are estimated to be independents.

Market Trends

After a record year for new car registrations in 2016, the Society of Motor Manufacturers and Traders ("SMMT") reported a decline in new car registrations of around 6% in the 2017 calendar year and circa 12% in the year to March 2018.

A reduction in new car registrations typically results in used cars being held onto for a longer time period. Combined with a strong pipeline of cars feeding into the used car category, this means that we anticipate the used car parc to continue to grow in the years ahead. This will be a positive trend for Halfords given that we predominantly support cars that are over three years old.

Cars are also becoming more complex and customers increasingly need support for small as well as large maintenance jobs. We are seeing an ongoing trend from 'do it yourself' to 'do it for me'. In the year we continued to invest in equipment and in our colleagues to remain at the forefront of technological changes, to give us a competitive advantage in a fragmented market of independent operators. We have made significant progress in training Autocentres colleagues in hybrid and electric training, which is accredited by a leading industry body.

Cycling Market

In recent years Halfords has developed Cycle Republic and acquired Tredz. This means that the Group can now service the needs of all cyclists from mainstream to commuter to enthusiast. The majority of bikes sold by Halfords are own-brand. These brands include Apollo, Carrera and Boardman. Alongside these brands, our Pendleton and Wiggins ranges, which have been developed together with the respective athletes, have also resonated well with customers. We support our ranges with other selected third party bike brands, such as Specialized, Giant, Cannondale, Cube, Haibike, Basso and Lapierre, available at either Tredz or Cycle Republic.

The cycling market is highly fragmented. There are an estimated 2,500 bike shops in the UK. Other than Halfords and a handful of other much smaller chains, the vast majority of the market is represented by independent bike distributors. As the market leader, we conduct extensive research into customer behaviour and trends, as well as the competitive landscape.

Market Trends

The majority of bikes for the UK market are sourced in US dollars from the Far East markets. In 2017, bike prices in the market rose significantly due to the weaker pound, which increased the cost of imported bikes. We anticipated a year ago that this would lead to temporarily lower bike volumes and this has been the case. However, we still believe that volumes will recover in line with their longer term growth trends, over time. This trend was observed over the last significant depreciation in the value of the pound in the late 2000s.

Looking ahead we continue to see good growth prospects for the cycling market for several reasons:

- participation levels in the UK remain lower than in many other European countries;
- the level of female participation in the UK also remains very low;
- the health and wellbeing benefits associated with cycling;
- government infrastructure investment in London and other UK cities;
- the rapidly growing e-bike segment, which makes cycling more accessible to both commuters and older generations; and
- we are seeing existing participants in the cycling market spending more as they increase the amount they use their bikes.

The weather will continue to have an impact on the timing of customer purchases, but overall trends are positive.

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Our Business Model

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

Our resources and relationships form the inputs to our business model, which are utilised and transformed in the process of value creation. The outputs of our business model are detailed on the opposite page and throughout the report.

Through the expertise of our partners and well-trained colleagues . . .

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

We are able to leverage the Halfords brand . . .

Halfords is the nation's go-to-retailer for motorists and cyclists. We have a range of exclusive and highly-regarded brands including *Apollo, Carrera* and *Boardman* in Cycling, as well as our *Halfords Advanced* ranges in Motoring.

. . . to delight our customers every time

We aim to grow our business by attracting more customers, encouraging them to buy more products and services, and persuading them to visit our stores and Autocentres more often. To do this we make four promises:

Prices you can trust	**Quality you can trust**
Range you can rely on	**Service that wows**

Through our portfolio of convenient Retail stores and Autocentres, efficient distribution network and agile, user-friendly websites . . .

We want to create a compelling shopping experience that excites customers, improves their knowledge of our products and services, and engages them emotionally with our brand. Our ambition is to create a service-led, fully integrated digital proposition which will maintain our ongoing relevance.

Our model is underpinned by our financial discipline, astute purchasing and strategic reinvestments.

We are a cash generative business and are well supported by our banking syndicate, having amended and extended our debt facility in the year.

Our integrated approach to sustainability keeps economic, social and environmental considerations in mind, as well as the material issues of our stakeholder groups to inform our model and operations.

Outputs

Financial Resources

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

Read the **Chief Financial Officer's Report** on pages 34 to 39

Brand

Developing our brand through innovation and expertise.

Colleagues

Developing, rewarding and retaining our circa 10,000 colleagues so that they are engaged and driving our long-term sustainable growth ambitions.

Read more about the **"3 Gears training programme"** on page 29

Physical and IT Infrastructure

Maintaining and developing our infrastructure and sales channels to strengthen competitive advantages.

Community

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

Read more in the **Corporate Social Responsibility** section on pages 24 to 32

Environment

The environmental resources that Halfords utilises in its operations.

Read more in the **Corporate Social Responsibility** section on pages 24 to 32

This icon is used to indicate content on the outputs of the business model.

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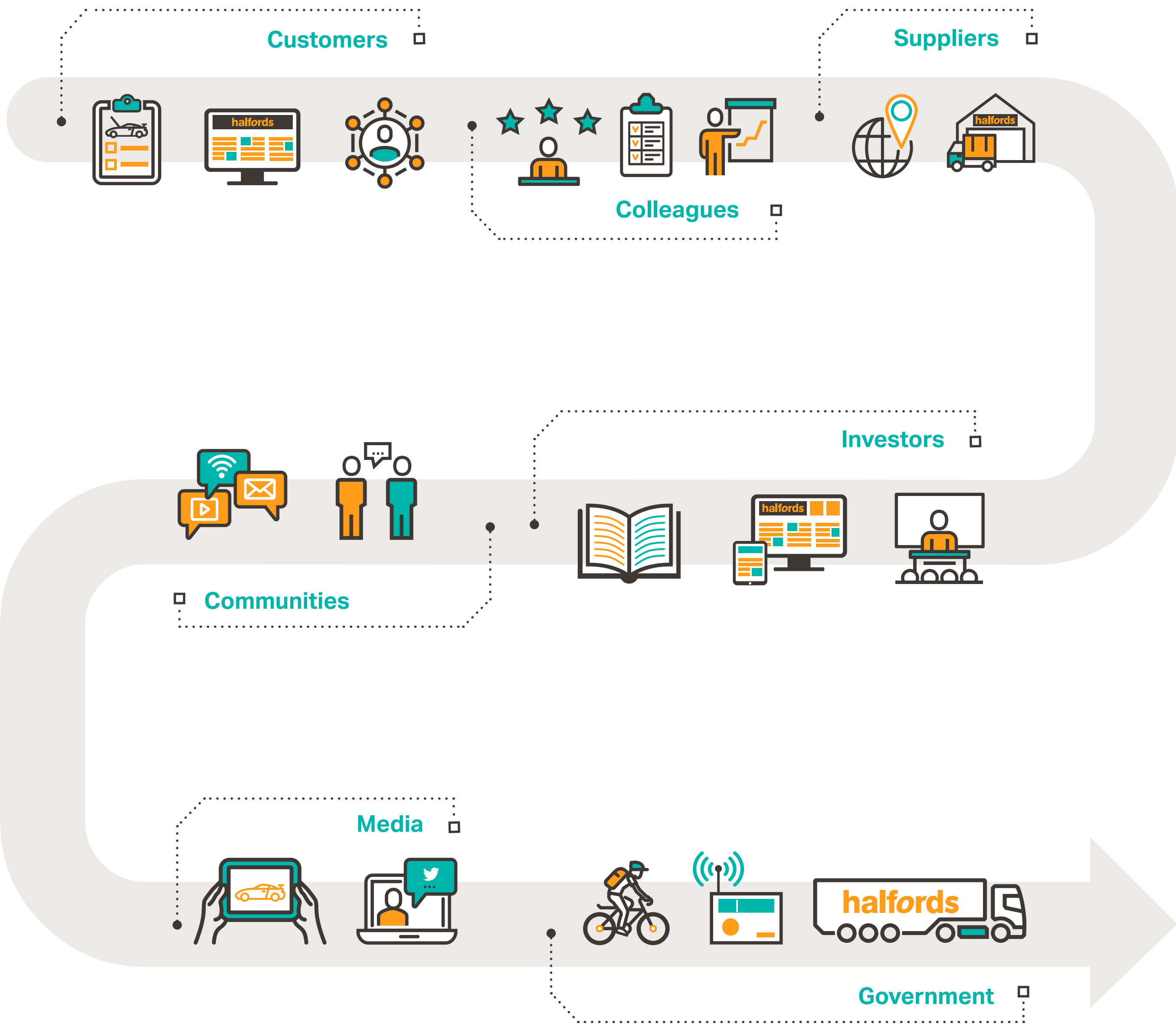
Stakeholder Engagement

We have set out over the next two pages the nature and quality of our key stakeholder relationships.

We have provided details of: how we engage with these groups; how we address the issues that affect them; and how each contributes to deliver value.



Stakeholder	Why it is important to engage	Ways we engage	Stakeholders' key interests
Customers	Understanding our customers' needs and behaviours allows us to deliver relevant products and services, retain customers and also attract new ones. It also identifies opportunities for growth.	• Satisfaction surveys • Rewards • Commercial website • Social media engagement	• Availability of services • Customer service • Convenience • Ranges
Colleagues	Interactions with our colleagues are the main ways that customers experience the brand of the Company. Our colleagues are fundamental to the achievement of our customer experience ambitions and are the cornerstone of our service and services proposition.	• '3-Gears' training programme • Listening: surveys and colleague groups • 'Aspire' store management development courses • Recognition and reward • Apprenticeship programme	• Career opportunities • Wellbeing • Training and development • Pay and conditions • Colleague engagement
Suppliers	Engaging with our supply chain means that we can ensure security of supply and speed to market. Our brand relies heavily on the high standards of our carefully selected suppliers, in order for us to deliver market-leading products and services.	• Far East trading office developing mutually beneficial relationships • Logistics efficiencies and environmental management • Supplier conferences • Infrastructure	• Quality management • Cost efficiency • Ethical Trading policy • Long-term relationships
Investors	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.	• Annual reports • RNS announcements • Annual General Meetings • Investor presentations • Corporate website • One-on-one meetings	• Future-oriented information • Risk information • Operating and financial performance • Dividend • Access to Management
Communities	Ensures continued viability of the business into the long-term. We aim to contribute positively to the communities and environment in which we operate.	• Community investment initiatives • Media channels • Re-cycle initiatives • Prison initiatives	• Impact of Group activities on the wider community • CSR agenda
Media	Ensures transparency of information on the business. As a business-to-consumer company, we need strong multi-channel exposure to connect with customers and our wider stakeholder audience.	• Product videos and peer reviews • TV and radio advertising campaign • Email and PR customer engagement • Improving Twitter, Facebook and Youtube content	• Reliable range, product and pricing information • Transparency of reliable and timely Group information
Government	Policies and regulatory changes may provide opportunities and pose risk to our operations. Working closely with the Government ensures that our products and services evolve.	• Cycle to Work policy campaigning • DAB Radio working groups • Driver training and vehicle safety enhancements • Engaging with VOSA, DVLA, TSI, ASA and HSE	• Transport policies and schemes • CO_2 reduction strategies

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Our Strategy

Recap on past 3 years' achievements

In November 2015 we launched the 'Moving Up a Gear' strategy.

This strategy was an evolution from the previous 'Getting into Gear' strategy and comprised five pillars.

We have set-out below a description and the objectives of each strategic pillar, together with achievements over the last 3 years.

Putting *Customers* in the *Driving Seat*

Description

Investing in customer data and insight capabilities to maximise the lifetime customer value

Objectives

- Improve understanding of our customers
- Combine our pools of customer data into a single view
- Leverage customer data to gain insights and tailor offers
- Refresh brand positioning to create a more emotional connection
- Address areas where we may be underperforming

Achievements

- % of sales matched to customers in Retail improved from 3% to 59%; foundations built to increase relevance to customers
- More personalised email marketing, including product recommendations
- Utilising data for customer insight
- Mix of eReceipts, tokenisation and improved data matching powering our 'single customer view' database
- Colleague headsets rolled-out across the store estate supporting better customer service and colleague knowledge sharing

Service in Our *DNA*

Description

Halfords has been through a service revolution and now we need to embed it in how we do business. Our ability to offer great service is one of our key differentiators

Objectives

- Maintain 3-Gears training programme and increase emphasis on service and selling skills
- Develop talent throughout the Group, including through our Aspire and Apprenticeship programmes
- Reward skills through enhanced pay
- Grow service-related sales

Achievements

- 10 new Retail services launched taking the total to over 70 in-store services
- Over 70% of colleagues trained to 'Gear 2' level, up from 46% three years ago
- An average of eight 'Gear 2' trained fitters per Retail store, to meet customers' servicing and repair requirements
- Service-related Retail sales +46%
- Significant increase in colleague retention across Group
- Received 9th place in the 'Best big companies to work for 2018' up 9 places in 3 years
- Colleague training in dash cam fitting and e-bike maintenance

Building on Our *Uniqueness*

Description

Exclusive products, relevant innovation, unique partnerships and collaborations

Objectives

- Maintain and develop a pipeline of relevant innovation
- Nurture and complement our partnerships and collaborations
- Exclusive product ranges

Achievements

- Launch of own-brand ranges including Carerra electric bike and Halfords dash-cam
- Acquisition of Tredz enabling the group to cater for all types of cycling customer
- Growth in trade sales supported by an enhanced central support team and ability to use trade cards online
- Launch of Boardman Performance Centre

Better *Shopping* Experience

Description
A seamless customer experience, online as well as in store

Objectives

- Update stores using our evolved store refresh concept
- Continual improvement of our online and fulfilment propositions
- Launch a transactional website for Cycle Republic
- Continue to target growth in areas where we have relatively low market share

Achievements

- 78 stores refreshed in various formats, including development of 'high street' and 'light' versions of the latest refresh format
- We have started to take a more agile approach to web development; recent improvements include 'personalised shopping' or 'frequently bought together with' tools
- Increased mobile participation in FY18 with traffic up 14% and order values up 30%
- Halfords Mobile Expert trial launched, as we trial and learn about how we may offer fitting services on a mobile basis
- We now have 20 Cycle Republic stores and in Summer 2016 launched a transactional website

Fit for *Future* Infrastructure

Description

Moving from fixing the basics to improving efficiency and fulfilment

Objectives

- Maintain short-term stability of our supply chain operations through peak periods
- Review and identify the long-term requirements for our supply chain
- Turn our IT investment focus to developing value-adding colleague and customer-facing IT applications
- Continue our strategy of right-sizing, relocating and renegotiating leases upon expiry

Achievements

- 3 distribution centres (Daventry, Coventry and Washford) well embedded and operating to plan, coupled with a change from 5-day to 3-day a week delivery
- Efficiency improvement programme 'we operate for less' delivering efficiency saving across the Group
- Electric / hybrid vehicle maintenance training in Autocentres
- More 'store-friendly' deliveries introduced to optimise unpacking of stock by store colleagues
- Single view of stock supporting customer visibility of stock availability

Fast fact

46%

increase in service related Retail sales over three years

Fast fact

20

Cycle Republic stores now operational

Our Key Performance Indicators

Shareholder KPIs

KPI	Definition	Commitment	Performance	Historic Performance
Underlying profit before tax	Profit before income tax and non-recurring items as shown in the Group Income Statement.	The Board considers that this measurement of profitability provides stakeholders with information on trends and performance, before the effect of non-recurring items.	Underlying profit before tax declined by 5.0% year-on-year, primarily due to the impact of the weaker pound on the cost of imported goods.	2018 £71.6m 2017 £75.4m 2016 £81.5m
Underlying earnings per share	Profit after income tax and before non-recurring items as shown in the Group Income Statement, divided by the number of shares in issue.	EPS is a measure of our investment thesis and as such we aim to manage revenues, margins and invest in long term growth.	Underlying earnings per share declined by 2.3% year-on-year. See above for explanation.	2018 29.6p 2017 30.3p 2016 33.2p
Underlying EBIT & Underlying EBITDA	Underlying EBIT is results from operating activities before non-recurring items. Underlying EBITDA further removes Depreciation and Amortisation.	The Board considers that these measurements of profitability are a viable alternative to underlying profit and uses these measures to incentivise Management.	Underlying EBIT declined by 3.2% year-on-year. See above for explanation. Underlying EBITDA increased by 0.7% year-on-year. The reason for the improved EBITDA result compared to PBT and EPS is because it is before an additional year-on-year £1.3m of interest costs and £3.3m of depreciation and amortisation.	2018 £109.5m 2017 £108.7m 2016 £114.6m The above numbers represent Underlying EBITDA
Dividend per Ordinary Share	Cash returned to shareholders as a return on their investment in the Company.	Our prevailing policy is to grow the dividend every year with cover of around 2x underlying earnings on average over time. The impact of adverse FX movements will reduce cover temporarily until fully mitigated, which will take some time.	The Board has recommended a final ordinary dividend of 12.03 pence per share (FY17: 11.68 pence), which if approved would take the full-year ordinary dividend to 18.03 pence per share, an increase of 3.0% on the prior year.	2018 18.03p 2017 17.5p 2016 17.0p

KPI	Definition	Commitment	Performance	Historic Performance
Net Debt	Current and non-current borrowings less cash and cash equivalents both in-hand and at bank as shown in the Consolidated Statement of Financial Position.	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. This measure helps to understand the financing structure of the Group.	Net Debt has remained broadly flat on FY17 levels, despite planned follow-on M&A payments and the working capital impact of VAT payment timing.	2018 £87.8m 2017 £85.9m 2016 £47.9m
Net Debt to Underlying EBITDA ratio	Represented by the ratio of Net Debt to Underlying EBITDA, both of which are defined above.	We currently continue to target a ratio of 1.0x, with a range of up to 1.5x to allow for appropriate M&A. We will arrive at the debt target over time. This ratio helps to compare the financial result for the year to debt levels.	The Group had a Net debt to underlying EBITDA ratio of 0.8 times at the end of FY18.	2018 0.8x 2017 0.8x 2016 0.4x
Like for like sales	Revenues from stores, Autocentres and websites that have been trading for at least a year (but excluding prior year sales of stores and Autocentres closed during the year) at constant foreign exchange rates.	Like for like sales is a widely used indicator of a retailer's trading performance, and is a comparable measure of our year-on-year sales performance.	A balanced result across both Retail and Autocentres.	**FY18 LFL revenue movement** **Halfords Group +2.0%** Retail +2.3% Motoring +1.9% Car Maintenance +3.7% Car Enhancement -2.2% Travel Solutions +3.6% Cycling +2.9% Autocentres +0.2%

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Our Key Performance Indicators

Operational KPIs

KPI	Definition	Commitment	Performance	Historic Performance
Proportion of trained Retail colleagues	Measures the progress of our colleagues through the 3-Gears training programme.	We aim to have the majority of our colleagues trained to Gear 2 plus around two colleagues per store trained to the Gear 3 "guru" level.	By the end of the year over 70% of our eligible Retail store colleagues were qualified at Gear 2 level.	2018 71% 2017 67% 2016 72% The above numbers represent the proportion of colleagues qualified at Gear 2 level
Service-related Retail sales growth	Service-related Retail sales is the income derived from the fitting or repair services themselves along with the associated product sold within the same transaction.	To grow service-related Retail sales faster than total Retail sales growth.	Service-related Retail sales grew by 14% in the year. We also added new services, taking the total in-store offering to over 70 services across motoring and cycling.	2018 14.2% 2017 11.1% 2016 8.5%
Proportion of Retail transactions matched to a customer	The proportion of transactions in Halfords Retail that can be matched to a specific customer in our database.	To increase our understanding of who our customers are. We will do this by adding to our customer databases and combing them to create a single customer view.	We can match 59% of Retail transactions to customers, up from 46% at the end of last year. Understanding our customers even better means that we can continue to become more relevant to them.	2018 59% 2017 46% 2016 15%
Cycle Republic stores (cumulative)	The number of Cycle Republic stores that are trading.	We do not have a fixed store rollout target.	We opened 4 stores in FY18, in Reading, Derby, Cheltenham and Canary Wharf, with Glasgow following shortly after the year end. This takes the total to 20 stores as of May 2018.	2018 20 2017 15 2016 10
Store and Autocentre refreshes	The number of Retail stores and Autocentres refreshed in the year.	We are committed to refreshing the design of our physical portfolio in order to improve the customer experience.	During the year we refreshed 36 Retail stores and 6 Autocentres in the latest format.	2018 36 2017 17 2016 25 The above numbers represent the number of Retail stores refreshed
Online sales as a proportion of total Retail sales	Online sales as a proportion of total Retail sales.	We are committed to improving our online shopping experience for customers.	Our online sales represented around 16% of total Retail sales.	2018 15.7% 2017 14.8% 2016 12.1%


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Motion XL
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Corporate Social Responsibility

Our Corporate Social Responsibility ("CSR") strategy centres on four key areas:

Colleagues: finding, supporting and developing great people throughout their Halfords journey

Community: helping to keep families safer on their journeys and encouraging an active lifestyle

Environmental Management: managing our impact on the environment in a responsible and ethical manner

Responsible Trading: building and maintaining the highest standards amongst our suppliers

The CSR Policy is available at **www.halfordscompany.com/investors/governance**

FTSE4Good

10,000
Number of colleagues

85%
Colleague engagement score (2017: 80%)

33%
Halfords Retail Turnover

Awards

Sunday Times #9

Developing Potential Award

FTSE4GOOD Index

Colleagues

Developing, rewarding and retaining our colleagues, ensuring they are fully engaged to drive our long term sustainable growth ambitions

A great and improving place to work

Last year, we celebrated our position at number 13 in 'The Sunday Times 25 Best Big Companies To Work For'. This year, we were absolutely delighted to improve further and to take 9th place as one of three retailers in the Top 10.

In addition, we were delighted to win the Developing Potential award presented by Department for Work and Pensions for a second time. The award recognises the work Halfords provides to support Prisoner Rehabilitation, the Gears Apprenticeship programme, the Traineeship scheme and the Aspire programmes to accelerate career progression into management roles.

Finding, supporting and developing great people throughout their Halfords journey

As indicated last year, we aim to be an inclusive employer of choice, giving colleagues equal opportunities to prosper within rewarding and inspiring teams. We strive to ensure all colleagues enjoy their work and have opportunities to consistently amaze our customers through their friendly expertise. To achieve this, we continue to invest heavily in our 'Gears in Retail', apprenticeship and leadership development programmes and actively look for ways in which we can promote and increase the diversity of our workforce.

We aim to meet business objectives by motivating and encouraging all colleagues to be responsive to the needs of our customers and continually improve operational performance. This aim is delivered through a range of structured training and development programmes, such as 'Gears in Retail', where Retail colleagues progress through a structured series of e-learning, technical workshops, one-on-one coaching and shop floor experience modules and are then recognised for their success through certification, career progression and increased pay awards. Our Performance Cycling division, which trades as Tredz and Wheelies, is undertaking a series of colleague training and development programmes. These include; customer focused training for retail and call centre colleagues; offering apprenticeships for colleagues in business, administration, customer service, management and team leading. Those colleagues who complete these programmes achieve nationally recognised qualifications. In addition, those colleagues who work in our Cycle Republic stores also undertake store supplier training which is provided by various major cycling brands.

Halfords Autocentres runs, in conjunction with the Institute of Motor Industry ("IMI"), a number of Technical Training Courses that are designed to develop colleagues' skills. Similar to Retail, it has its own version of the 'Gears in Retail' programme which supports colleagues' development and rewards via a pay matrix. Autocentres has become the first organisation in 50 years to be authorised by the DVSA to train MOT Testers in-house. Autocentres has embarked on training its technicians in the latest Hybrid technology and has worked with the IMI to train 392 technicians in the IMI Hybrid Level 2 in Servicing.

We also run a series of Leadership Development programmes, called Aspire, to identify, nurture and develop colleagues across the Group. This continues our drive to develop and therefore promote, from within.

We continue to invest in our apprenticeship programme in both our Retail and Autocentres businesses. In our Retail business, this continued investment has meant that since June 2017 all new starters in our shops are enrolled onto our Retail Level 2 Gears Apprenticeship Programme. And at Halfords Autocentres we have one of the largest apprenticeship schemes in light vehicle maintenance in the UK. We currently have 193 apprentices at differing stages of our three-year programme, and expect a further 100 to join in 2018.

We are committed to providing equality of opportunity to colleagues and potential colleagues. This applies to recruitment, training, career development and promotion for all colleagues, regardless of physical ability, gender, sexual orientation or gender reassignment, pregnancy and maternity, race, religious beliefs, age, nationality or ethnic origin. Full and fair consideration is given to employment applications by people with disabilities wherever suitable opportunities exist, having regard to their particular aptitudes and abilities. There is a Group Diversity Policy which is reviewed annually by the Board and 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, with retraining being provided if necessary.

We have an established framework of communications, which provides colleagues with information on matters of concern to them and on overall business performance. We seek to encourage the engagement of every colleague to ensure the delivery of the Board's commitment to high standards of customer care and service provision. This includes a programme of regular conferences to share progress, strategy and direction, a monthly magazine for all Group colleagues, team meetings known as 'huddles', a weekly blog from the Chief Executive Officer, as well as channels to share operational information.

A Whistleblowing Policy and supporting procedures enable colleagues to report concerns on matters affecting the Group or their employment, without fear of recrimination. In addition, we do not tolerate discrimination, harassment or bullying in any aspects of our business operations. Appropriate and robust policies and procedures are in place for reporting and dealing with such matters.

Friendly expertise

As a business, one of our central strategies is to offer great products that are delivered with great service. This is one of the five key strategic pillars of our business. We refer to it as 'Service in Our DNA'. To achieve the highest possible levels of service we invest heavily in training our colleagues. As part of this investment we have developed a qualification programme called 'Gears in Retail'. This plays a key role in enabling retail colleagues to achieve industry recognised qualifications. They are rewarded as they progress 'through the gears' by gaining experience and qualifications.

All colleagues complete Gear 1 within three months of starting. Gear 2 involves a nine-month programme leading to an expert level of knowledge with a specialism in either Auto & Leisure or Cycling. By the end of FY18, over 70% of the eligible headcount were trained to Gear 2 level. Colleagues can also complete Gear 3 if nominated which gives them 'technician' status in either Auto or Cycling and enables them to complete complex fits and repairs. So far, we have around 10% of eligible colleagues trained to Gear 3 level.

We continually enhance and update our training programmes. This year we delivered additional training following new car seat legislation and the colleagues who work in our in-store 'Bikehuts' benefited from specialist training on electric bikes (e-bikes).

In accordance with our aim to lead the way in the repair of electric and hybrid cars, we also began a programme to have a trained mechanic at each of our Autocentres in 2018. As mentioned above we were one of the first to deliver a new Institute of Motor Industry ("IMI") Level 2 Award and our aim is to train more than 300 colleagues to become MOT testers every year.

We have a policy of continuous improvement to support ongoing development. We use a blended learning approach which encourages colleagues to attain more skills and progress their career throughout their Halfords journey. In 2017, thousands of colleagues took advantage of our ongoing development programmes. We operate a programme named 'Aspire', which is a guided learning suite that offers individuals the opportunity to

Corporate Social Responsibility

take their careers further and become leaders. Since it began, 420 colleagues have benefited from the Aspire programme to graduate to new roles as an Assistant Manager or a Store Manager. One of the additional benefits of Aspire is that over 80% of store manager vacancies are filled internally.

Right job, right person, right time

We recognise the value that diversity brings and we continue on our journey to address the balance in some inherently male-dominated areas. We understand that this will take time but in recent years we have made great progress on our gender strategy. As an example, 27% of our total population of employees are female (which is an increase from 23% in 2017). We have also introduced development resources aimed specifically at supporting women.

In our Retail business, we continue to invest in our apprenticeship programme and will be launching the new apprenticeship standards this academic year. In addition, our traineeship programme for NEETS (not in education, employment or training) has resulted in the placing of 159 trainees to date.

Our work at Onley Prison where we train inmates to build and repair bikes, with a view to offering future employment for those who successfully pass our qualifying criteria, has been a great success. We are very proud that this programme won Retail Week's 2017 'CSR Initiative of the Year'. We have built on this success and during the year opened a second Cycle Academy at Drake Hall Women's Prison. Upon release, one of the graduates of our Cycle Academy started as a bike technician at one of our stores and is now training to be an Assistant Manager.

A commitment to reducing our Gender Pay Gap

The Gender Pay Gap Report highlighted that across the Halfords Group of companies, our mean and median hourly pay gap is less than the national average, with a women's mean hourly rate being 6.12% lower than men's and the median hourly rate 2.83% lower than men's.

But our focus remains on two areas, firstly increasing the overall number of women at Halfords and secondly increasing the number of women appointed into and promoted into more senior roles, with the number of women in senior management roles continuing to grow.

This has seen us enhance our recruitment process to ensure more females are appointed, and managers have been retrained to support this.

Our internal progression programmes are reviewed and monitored to ensure increasing levels of female applicants and we have also enhanced our maternity pay package, whilst additionally providing flexible work patterns to match the needs of a broad range of colleagues.

Our Gender Pay Metrics can be found online at **www.halfordscompany.com/media/388689/2017-Gender-Pay-Metrics.pdf**

Diversity

Total Women

Female	**27%** (2017: 23%)
Male	**73%**

Women on the Board

Female	**33%** (2017: 50%)
Male	**67%**

Women in Senior Management Team

Female	**26%** (2017: 40%)
Male	**74%**

Case Study

Halfords helps women offenders get their lives back on track

Halfords now works across two locations at Onley Prison near Rugby and Drake Hall, Staffordshire. As the UK continues to battle high reoffending rates, with 83% of former prisoners remaining jobless a year after release, the UK's biggest cycling retailer is encouraging other businesses to follow suit and open up to the possibilities of an increase in the talent pool, lowering the cost of reoffending and contributing to safer communities for all.

The Halfords Academy at HMP Drake Hall was launched one year ago with the support of Justice Minister Phillip Lee. The Halfords Academy offers participants the opportunity to train as Cycle Mechanics, creating the prospect of steady employment and a chance to put their past firmly behind them. The programme can be tailored for each participant with an added focus on mechanics, customer services or retail.

Within a year of launch, the Halfords Academy has been a huge success and is currently training nine female offenders. Two graduates have already joined Halfords as full-time Cycle Mechanics following their release, and another two graduates are due to start employment soon following their release from HMP Drake Hall on temporary licence.

Fully supported by Halfords colleagues, participants are subject to the same high standards of training as colleagues in Halfords shops. The training programme is thorough and comprehensive. It is designed to challenge participants and raise their aspirations. The programme provides offenders with the opportunity to be trained and work on bicycles that are being reconditioned. The majority of these fully refurbished bikes are then donated to primary schools in disadvantaged areas which helps children access cycling through the Halfords school bike donation scheme.

Even though women only constitute approximately 5% of the total prison population, research has shown that a gender-sensitive approach with a focused and targeted effort can lead to a significant reduction in their reoffending rates. At Halfords we were delighted to be involved with this project which offers potentially life transforming opportunities to participants.

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Corporate Social Responsibility

>30,000

People benefited from free workshops

Community

Using our knowledge and expertise to benefit the communities around us

Helping to keep families safer on their journeys and encouraging an active lifestyle

We continue to believe that we have a key role to play in encouraging people to cycle more as part of an active lifestyle. To this end, we have continued with our school bike workshops, focused on primary school children. We have increased our investment by 44% and added an additional 715 schools to our database to help drive attendance. Pleasingly, Customer feedback has improved +5% Year on Year.

In June, we supported Bike Week 2017 with Cycling UK and continue to grow our relationship with Bikeability. We are currently looking at how we can increase our focus in this area next year.

Case Study

Journey of a Lifetime

Last year we created our 'Journey of a Lifetime' competition. This enables the winners to undertake an epic journey with their fellow colleagues. It not only provides a great experience for them but is also used to raise funds for the NSPCC which is our nominated charity as it was selected by a vote of our colleagues.

Following the success of the first trip in February 2017, when a team of colleagues raised funds, collected bikes, loaded a container and followed it over to Gambia, where they met with partners on the ground and delivered bike workshops to local children, we have repeated this competition this year. The 2018 winners trekked to Everest Base Camp where they built a bike and hung pennants which had been created specially by children who have benefited from holidays provided by NSPCC. The team raised £25,233.94 for NSPCC. It was a tough but hugely beneficial trip and the winning colleagues really did experience a 'Journey of Lifetime'.

Case Study

3-Gears training

In 2013 we launched '3-Gears', a qualification programme that trains and rewards colleagues for gaining expertise.

The programme is now well embedded and is absolutely core to our customer-centric, service-led proposition.

80% of our customers want some form of assistance with their purchases and so it is imperative that we have a team of engaged friendly experts.

The three Gears represent the different stages of qualification:

GEAR 1 – Gear 1 applies to all colleagues and is completed over their first three-month period with Halfords. We use structured e-learning modules that cover health & safety, processes & policies, retail skills and customer service. The outcome is that all store colleagues will be qualified to serve customers confidently and receive a pay award.

GEAR 2 – Gear 2 involves a nine-month training programme which leads to an expert level of product knowledge, with a specialism in either motoring or cycling. Learning is through e-learning, in-store practical and face-to-face training programmes. There are regular refresher courses for Gear 2 colleagues and a pay award for those who attain this level.

GEAR 3 – Gear 3 colleagues are our Technicians. They are product experts who are qualified to perform more advanced services. They keep their skills and knowledge current and market leading - through workshops, attending product and trade shows and by linking with and visiting suppliers. Our Technicians also receive industry recognised qualifications, continuous professional development and a pay award.

At the end of FY18, over 70% of our colleagues had qualified for Gear 2 and we had over 700 Gear 3 level colleagues. There are many benefits of this investment in training. We have more multi-skilled colleagues; an average of eight 'Gear 2' trained fitters per store, up from only a handful three years ago. The benefits of this training are demonstrated by our improved colleague engagement score and 9th placing in the Sunday Times Best Big Companies To Work For.

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Corporate Social Responsibility

96%

Retail waste diverted from landfill (2017: 94%)

94%

Autocentres waste diverted from landfill (2017: 91%)

226,260

Batteries recycled by Retail and Autocentres (2017: 274,000)

Environment

The environmental resources Halfords uses in its operations.

Managing our impact on the environment in a responsible and ethical manner

We know that our work has an impact on the environment and that we have a duty to manage that impact in a responsible and ethical manner. We do this through identifying all significant environmental impacts and putting processes into place to prevent, reduce and mitigate them. To meet our commitment of protecting the environment, we aim to:

- comply with all relevant environmental legislation;
- operate our business in a way that protects the environment;
- promote environmental awareness to colleagues and enlist their support in improving the Company's performance with training and instruction;
- minimise waste by making sure processes are as efficient as possible;
- look to reduce energy and water usage;
- promote recycling internally and with our suppliers and customers;
- minimise the environmental impact of our logistics activities; and
- continually develop our environmental management system.

Additionally, we already ensure that our suppliers give preference to the use of recycled materials in the manufacturing and packaging of our goods and to help achieve this we have a clause in our standard terms of business with the suppliers who provide the goods that are sold in our stores which requires them to: i) use reasonable endeavours to minimise the packaging use; and ii) conduct an annual review of their packaging to make sure they are using recycled or recyclable materials wherever possible.

Global Greenhouse Gas Emissions

Global Greenhouse Gas Emissions	2016 tCO2E	2017 tCO2E	**2018 tCO2E**
Retail inc Cycle Republic Directly Purchased Electricity	28,507.45	18,448.01	**19,638.34**
Autocentres Directly Purchased Electricity	4,648.26	3,379.41	**2,790.05**
Tredz and Wheelies Directly Purchased Electricity	N/A	N/A	**88.27**
Halfords Group Directly Purchased Electricity	N/A	N/A	**22,516.66**
Retail inc Cycle Republic Combustion of Gas	6,488.28	7,035.65	**6,187.43**
Autocentres Combustion of Gas	3,329.25	3,339.91	**3,483.44**
Tredz and Wheelies Combustion of Gas	N/A	N/A	**17.84**
Halfords Group Combustion of Gas	N/A	N/A	**9,688.71**
Cars on Company Business	889.22	911.45	**1,080.00**
TOTAL	43,862.46	33,114.43	**33,285.37**
Company's Chosen Intensity Measurement: tCO2 E per £1m Group Revenue	42.90	33.10	**29.32**

Corporate Social Responsibility

41,965

Bikes recycled to date

Responsible Management

Building and maintaining the highest standards amongst our suppliers

Responsible Trading

We are committed to maintaining the highest standards amongst our suppliers. We are strongly opposed to 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 accept human trafficking or the exploitation of children and young people in our business and undertake all possible steps to ensure that these high standards are maintained. We regularly review related policies to ensure that they remain up-to-date and fit-for-purpose.

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

As required by applicable regulation we have set out our Modern Slavery Statement on our website and are conducting an audit of our supply chain. While this audit is not yet fully complete the data and response received so far has been extremely positive and no instances of unacceptable conduct have been reported.

Read more online at
www.halfordscompany.com/investors/governance


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Chief Financial Officer's Report

Jonny Mason

Financial Resources

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

> Group revenue in FY18, at £1,135.1m, was up 3.7% and comprised Retail revenue of £977.2m and Autocentres revenue of £157.9m.

Alternative Performance Measures

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures (APMs). These are denoted with an asterisk (*) in this report. Further detail on these APMs, including definitions, can be found in the glossary on page 151.

Reportable Segments

Halfords Group operates through two reportable business segments:

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

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

The "FY18" accounting period represents trading for the 52 weeks to 30 March 2018 ("the financial year"). The comparative period "FY17" represents trading for the 52 weeks to 31 March 2017 ("the prior year").

£1,135.1m GROUP REVENUE	£71.6m UNDERLYING GROUP PBT*	29.6p UNDERLYING BASIC EPS*

Group Financial Results

	FY18 £m	FY17 £m	Change
Group Revenue	**1,135.1**	1,095.0	+3.7%
Group Gross Profit	**570.2**	558.6	+2.1%
Underlying EBIT*	**74.6**	77.1	-3.2%
Underlying EBITDA*	**109.5**	108.7	+0.7%
Net Finance Costs before non-recurring items	**(3.0)**	(1.7)	
Underlying Profit Before Tax*	**71.6**	75.4	-5.0%
Profit Before Tax, after non-recurring items	**67.1**	71.4	-6.0%
Underlying Basic Earnings per Share*	**29.6p**	30.3p	-2.3%

* Alternative performance measures are defined in the glossary on page 151.

Group revenue in FY18, at £1,135.1m, was up 3.7% and comprised Retail revenue of £977.2m and Autocentres revenue of £157.9m. This compared to FY17 Group revenue of £1,095.0m, which comprised Retail revenue of £938.4m and Autocentres revenue of £156.6m. Group gross profit at £570.2m (FY17: £558.6m) represented 50.2% of Group revenue (FY17: 51.0%), reflecting a decrease in the Retail gross margin of 123 basis points ("bps") to 47.4% and increase in the Autocentres gross margin of 238 bps to 67.5%.

Total operating costs before non-recurring items increased to £495.6m (FY17: £481.5m) of which Retail comprised £391.0m (FY17: £379.8m), Autocentres £102.5m (FY17: £99.8m) and unallocated costs £2.1m (FY17: £1.9m). Unallocated costs represent amortisation charges in respect of intangible assets acquired through business combinations, namely the acquisition of Autocentres in February 2010, Boardman Bikes in June 2014, and Tredz and Wheelies in May 2016, which arise on consolidation of the Group.

Group Underlying EBITDA* increased 0.7% to £109.5m (FY17: £108.7m), whilst net finance costs before non-recurring items were £3.0m (FY17: £1.7m).

Underlying Profit Before Tax* for the year was down 5.0% at £71.6m (FY17: £75.4m). Net non-recurring items of £4.5m in the year (FY17: £4.0m) related predominantly to organisational restructure costs and the Autocentres operational review. After non-recurring items, Group Profit Before Tax was £67.1m (FY17: £71.4m).

Retail

	FY18 £m	FY17 £m	Change
Revenue	**977.2**	938.4	+4.1%
Gross Profit	**463.6**	456.6	+1.5%
Gross Margin	**47.4%**	48.6%	-123 bps
Operating Costs	**(391.0)**	(379.8)	+2.9%
Underlying EBIT*	**72.6**	76.8	-5.5%
Non-recurring items	**(4.8)**	(3.1)	
EBIT after non-recurring items	**67.8**	73.7	-8.0%
Underlying EBITDA*	**99.0**	101.1	-2.1%

* Alternative performance measures are defined in the glossary on page 151.

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Chief Financial Officer's Report

Revenue for the Retail business of £977.2m reflected, on a constant-currency basis, a like-for-like ("LFL")* sales increase of 2.3%. Non LFL revenue in the year included sales from the Tredz and Wheelies businesses prior to the annualisation of the acquisition date, alongside the contribution from Cycle Republic stores that have been open for less than 12 months.

Please refer to the Retail Operational Review in the Chief Executive's Statement for further commentary on the trading performance in the year. Like-for-like revenues and total sales revenue mix for the Retail business are split by category below:

	FY18 LFL (%)	**FY18 Total sales mix (%)**	FY17 Total sales mix (%)
Motoring	**+1.9**	**61.0**	62.0
Car Maintenance	**+3.7**	**31.6**	31.4
Car Enhancement	**-2.2**	**18.2**	19.0
Travel Solutions	**+3.6**	**11.2**	11.6
Cycling	**+2.9**	**39.0**	38.0

Gross profit for the Retail business at £463.6m (FY17: £456.6m) represented 47.4% of sales, 123bps down on the prior year (FY17: 48.6%). This movement is explained as follows:

Gross impact of the weaker pound against the US dollar (pre-mitigation)	-270 bps
First time inclusion of Tredz and Wheelies for the period prior to annualisation of the acquisition in May 2016	-20 bps
The mix effect of relatively faster cycling sales growth, partially offset by Sat Nav sales decline and higher margin service sales growth	-30 bps
Mitigation of FX impact and other	+197 bps
Total Retail gross margin movement	**-123 bps**

As previously guided, in the first half of FY18 the impact of the depreciation of the pound against the US dollar, pre-mitigation, reached its highest level of any half year period since the EU referendum. If exchange rates remain at around current levels, we do not anticipate further adverse impact in FY19. The table below shows the average exchange rate reflected in cost of sales along with the year-on-year movement.

	FY18 full year $	FY17 full year $
Average USD:GBP rate reflected in cost of sales	**$1.29**	$1.47
Year-on-year movement in rate	**$(0.18)**	$(0.12)

Operating Costs before non-recurring items were £391.0m (FY17: £379.8m). The breakdown is set out below:

	FY18 £m	FY17* £m	Change
Store Colleagues	**115.5**	111.2	+3.9%
Store Occupancy	**142.4**	138.6	+2.7%
Warehouse & Distribution	**51.6**	48.9	+5.5%
Support Costs	**81.5**	81.1	+0.5%
Total Operating Costs before non-recurring items	**391.0**	379.8	+2.9%

* The prior year costs have been restated from those disclosed in the prior year, in order to allocate the costs of the Tredz & Wheelies business to the respective cost categories.

Store Colleague costs increased by 3.9% and reflected the continued inflation in the living and minimum wage rates, additional labour hours, the impact of additional Cycle Republic stores and also the first-time inclusion of a full-year of Tredz & Wheelies costs.

Store Occupancy costs increased by 2.7%, principally driven by the write-off of assets no longer required, increased utility costs driven by the cold weather in the early Spring and additional costs associated with the store refreshes and new Cycle Republic stores. Rent and rates on the existing estate were broadly flat.

Warehouse & Distribution costs increased by 5.5%, driven by a combination of wage inflation, an increase in storage costs and also additional courier costs, resulting from our improved home delivery proposition. There was also an impact of greater demand for more bulky items, such as roof boxes, cycle carriers, camping products and metal storage.

Support Costs increased by 0.5%, reflecting the impact of pay rises and increased depreciation, partially offset by savings elsewhere as costs were tightly controlled.

Autocentres

	FY18 £m	FY17 £m	Change
Revenue	**157.9**	156.6	+0.8%
Gross Profit	**106.6**	102.0	+4.5%
Gross Margin	**67.5%**	65.1%	+238 bps
Operating Costs	**(102.5)**	(99.8)	+2.7%
Underlying EBIT*	**4.1**	2.2	+86.4%
Non-recurring items	**—**	(0.3)	
EBIT after non-recurring items	**4.1**	1.9	+115.8%
Underlying EBITDA*	**10.5**	7.6	+38.2%

* Alternative performance measures are defined in the glossary on page 151.

Autocentres generated total revenues of £157.9m (FY17: £156.6m), an increase of 0.8% on the prior year with a LFL* increase of 0.2%.

This sales performance reflected the successful transition away from low-margin third party affiliate tyre sales, towards direct tyre sales, and service, maintenance and repair work, which, along with improved purchasing, resulted in an improvement in gross margin.

Gross profit at £106.6m (FY17: £102.0m) represented a gross margin of 67.5%; an increase of 238 bps on the prior year.

Autocentres' Underlying EBITDA* of £10.5m (FY17: £7.6m), was 38.2% higher than FY17, and Underlying EBIT* was £1.9m higher than FY17 at £4.1m (FY17: £2.2m).

Portfolio Management

The Retail store portfolio at 30 March 2018 comprised 480 stores (end of FY17: 479).

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

	Number
Relocations	5
Leases re-negotiated	32
Rightsized	1
Openings	4
Closed	3

36 Retail stores were refreshed in the year (FY17: 17). Management currently anticipates continuing to refresh stores and to open new Cycle Republic stores in FY19; further guidance to be provided later in the year.

Three Autocentres were opened in the year, taking the total number of Autocentre locations to 316 as at 30 March 2018 (end of FY17: 313). Six Autocentres were refreshed in the year (FY17: 16).

With the exception of eight long leasehold and two freehold properties within Autocentres, the Group's operating sites are occupied under operating leases, the majority of which are on standard lease terms, typically with a 5 to 15-year term at inception and with an average lease length of just less than 6 years.

Net Non-Recurring items

The following table outlines the components of the non-recurring items recognised in the year:

	FY18 £m	FY17 £m
Organisational restructure costs	**4.3**	0.6
Autocentres operational review	**0.6**	—
Acquisition and investment related fees	**0.2**	1.7
Operating lease obligation	**(0.3)**	0.3
Costs in relation to a historic legal case	**—**	0.8
Net non-recurring operating costs	**4.8**	3.4
Acquisition related interest (credit)/charge	**(0.3)**	0.6
Net non-recurring items	**4.5**	4.0

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Chief Financial Officer's Report

In the current and prior year, separate and unrelated organisational restructuring activities were undertaken. These comprised:

- Redundancy costs of £0.7m (FY17: £0.6m);
- £1.0m provision for compensation to the new CEO on joining for foregoing entitlements from a previous employer, as outlined at the time of announcement of his appointment;
- £1.5m in relation to a restructure of the Boardman business. Boardman has stopped selling directly to customers through the Boardman website. The website will be maintained as a 'brand' website, with customers being directed to purchase bikes predominantly through Cycle Republic; and
- £1.1m in relation to asset write-offs, principally resulting from the strategic decision to close the marketplace offer on Halfords.com.

Costs of £0.6m were incurred in FY18 in relation to the review of the operating model of the Autocentres business.

Explanations of the remaining non-recurring items are included in Note 5 to the Group financial statements later in this report.

Finance Expense

The net finance expense (before non-recurring items) for the year was £3.0m (FY17: £1.7m). The increase was due to the non-repeat of £1.4m income from forward foreign exchange contracts. The interest costs on bank borrowings were slightly down on the previous year, reflecting the improved terms negotiated in the amendment of the revolving credit facility.

Taxation

The taxation charge on profit for the financial year was £12.4m (FY17: £15.0m), including a £0.8m credit (FY17: £0.9m credit) in respect of non-recurring items. The effective tax rate of 18.5% (FY17: 21.0%) differs from the UK corporation tax rate (19%) principally due to non-deductible depreciation charged on capital expenditure, overseas tax rates and the impact of share options accounting.

Earnings Per Share ("EPS")

Underlying Basic EPS* was 29.6 pence and after non-recurring items 27.8 pence (FY17: 30.3 pence, 28.7 pence after non-recurring items), a 2.3% and 3.1% decrease on the prior year. Basic weighted-average shares in issue during the year were 197.0m (FY17: 196.6m).

Dividend ("DPS")

The Board has recommended a final dividend of 12.03 pence per share (FY17: 11.68 pence), taking the full year ordinary dividend to 18.03 pence per share, an increase of 3.0%. If approved the final dividend will be paid on 31 August 2018 to shareholders on the register at the close of business on 27 July 2018.

We continue to target coverage of around 2 times on average over time. However, the impact of adverse FX movements will reduce cover initially until fully mitigated, which will take some time.

Capital Expenditure

Capital investment in the year totalled £37.3m (FY17: £36.1m) comprising £30.3m in Retail and £7.0m in Autocentres.

Within Retail, £12.8m (FY17: £11.5m) was invested in stores, including store relocations and refreshes, and the opening of four Cycle Republic stores. Additional investments in Retail infrastructure included a £12.2m investment in IT systems, including development of the till hardware and software upgrade. The balance of £5.3m was invested in warehousing and logistics upgrades, trading initiatives and Tredz & Wheelies infrastructure improvements.

The £7.0m (FY17: £6.6m) capital expenditure in Autocentres principally related to the replacement of garage equipment and replacement of fixtures and fittings, and development of new till hardware and software.

On a cash basis, total capital expenditure in the year was £37.0m (FY17: £34.4m).

Inventories

Group inventory held as at the year end was £195.5m (FY17: £191.1m). Retail inventory increased to £194.1m (FY17: £189.8m), reflecting increased stock in transit, higher Tredz and Wheelies stock and the impact of the weaker pound, which increased the cost of imported goods.

Autocentres' inventory was £1.4m (FY17: £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.

Cashflow and Borrowings

Adjusted Operating Cash Flow* during the year was £95.4m (FY17: £90.0m). After acquisitions, taxation, capital expenditure and net finance costs, Free Cash Flow* of £41.5m (FY17: £37.7m) was generated in the year. Group Net Debt* was £87.8m (FY17: £85.9m), with the Underlying EBITDA ratio* at 0.8:1. During the year there were £8.6m of planned follow-on payments in respect of the Tredz acquisition and Tyres on the Drive investment, and c.£9m working capital impact from timing of VAT payments. The latter is anticipated to reverse out over the medium-term, but not in FY19.

Brexit

As we have previously explained, the decision of the UK to leave the European Union ("Brexit") presents significant uncertainties to the Group as a result of the impact on the wider UK economy. We have previously set out the main areas in which we considered Brexit was likely to impact the Group. We reaffirm and update our assessment of these below:

1. Impact on exchange rates. The Group buys a significant proportion of its goods in US dollars; between $250m and $300m a year. As previously guided, the majority of our US dollar sourcing is for cycling products, and, in 2017, bike prices rose across the cycling market, both from suppliers into retailers and then onto customers. We have also increased some of our bike prices, but we maintained good value against the competition. Our bike volumes declined, but this was more than offset by the increase in average selling prices.

   We have now experienced a cumulative additional £40m of input costs compared to FY16, in respect of the weaker pound against the US dollar. Our plans to offset the gross impact (through supplier negotiations, operational efficiencies and pricing) have worked well and the net impact on Retail gross margin visibly improved over the year with a year-on-year movement in gross margin of -182bps in H1 and -48bps in H2. We have now recovered over half of the gross impact and at current exchange rates we do not anticipate any further FX headwind in FY19 or FY20.

   As explained in the CEO statement, we now expect the remaining unmitigated amount to be recovered through the improved exchange rates rather than through further price rises. Given our hedging policy, this benefit will be mostly felt in FY20 rather than in FY19.

2. Prolonged uncertainty over exit terms and continued weakness in Sterling could lead to a slowdown in the UK economy, and consequent loss of consumer confidence, impacting trading conditions for the Group. However, Halfords has strong positions in fragmented Motoring and Cycling markets, and a service-led offer that differentiates us from our competitors, physical and online. Much of our sales are in needs-based categories that are more resilient to macro-economic cycles and our discretionary categories, such as cycling, camping and travel solutions, could benefit from an increase in the number of people choosing to stay at home rather than holidaying abroad; a trend that we observed in 2009.

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 the Strategic Report on page 40 of the 2018 Annual Report and Accounts. These include:

- Economic risks; including market risks
- Business strategy risks
- Competitive risks
- Compliance
- Supply chain disruption
- 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.

Jonny Mason
Chief Financial Officer
22 May 2018

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Our Principal 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.

Our corporate risk register is maintained by the Internal Audit team and is regularly updated following discussions with executives and senior management. It is subject to an annual in-depth review by the Audit Committee. The Audit Committee is also alerted to any material changes to the register at each of its meetings. The Board is regularly updated on Audit Committee proceedings.

The Directors have therefore carried out a robust assessment of the principal risks facing the Company, including those that would threaten the business model, future performance, solvency or liquidity. The Corporate Governance Report on pages 56 to 68 further discusses the Board's responsibilities in relation to risk management and internal control systems.

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 objectives. Responsibility for taking the necessary actions to manage risk is delegated to appropriate colleagues in the business, with executive manager sponsor involvement.

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 could be compromised by any of the risks set out below. Individual 'Moving Up A Gear' initiatives are reliant on some of the mitigations identified. For example, 'Service in Our DNA' delivery is reliant on full utilisation of our online training system and on our ability to attract and retain good colleagues. 'Better Shopping Experience' is reliant on our continuing investment in modernisation of our stores.

The Group ensures that it has cover to help to mitigate significant risks where practicable and cost-effective.

Specific financial risks (e.g. liquidity, foreign currency) are detailed in note 21 to the Financial Statements on page 129.

Key Risk and Uncertainty	Mitigation	Risk Movement
1. 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) may also affect our customers' ability to benefit from our products and services. Withdrawal from the EU may have an impact on consumer spending, please refer to page 39 for further information.	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. Advanced econometric modelling is used to understand the effect of weather conditions on our business and we ensure that marketing and merchandising can be revised quickly. We also ensure that we have representation with Governmental decision-makers in the areas supporting our core categories, both directly and through membership of trade bodies.	→

Key to risk movement

↑ Risk increasing

→ No risk movement

↓ Risk decreasing

Key Risk and Uncertainty	Mitigation	Risk Movement
2. 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. Key investments and acquisitions could fail to deliver sufficient returns. The Autocentres, Cycle Republic and Tredz & Wheelies businesses could fail to meet growth expectations.	The Group set out the 'Moving Up A Gear' strategy in November 2015. Strategic issues 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. In January 2018 we welcomed our new CEO, Graham Stapleton, who is reviewing the strategy in close liaison with the Board with a view to communicating this externally later in the year. The Group has delegated authorities processes to approve significant investments, including review by an Investment Committee and the Board. Our Business Transformation Director, an executive level role with a Group-wide remit, oversees strategic project management. Autocentres, Cycle Republic and Tredz & Wheelies have dedicated, experienced management teams supported by appropriate infrastructure and allocated resources. The businesses have their own websites. The performances of these businesses are closely monitored by the Board.	→
3. 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 shops and online, as well as international operators. The car 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-shop and online, and from the national car-servicing networks and smaller independents. We have a significant investment programme to support 'Moving up A Gear'. The investment programme is allowing us to improve the service we provide to customers by improving the quality of our shops, IT infrastructure, training and website (including optimisation for mobile and tablet devices). Excellent service is fundamental to differentiating ourselves from our competitors. We are increasing the number of sales that we are able to associate with individual customers. The national geographical coverage of our shops underpins our 'Click & Collect' offering. Our WeFit service is a key differentiator. Our Cycle Repair and extended Parts, Accessories and Clothing range offer confirm our credibility within the Cycling market. The Group seeks to continually strengthen its 'own-brand' retail offer and develop opportunities to differentiate the Halfords brand, including TV, radio, press and social media advertising. We also have high profile partnerships to market brands like 'Pendleton', 'Wiggins' and 'Boardman'. Our Autocentres business continually seeks to provide innovative solutions for their customers, such as 'brakes4life'. Particular attention is given to the changes to our marketplace that are driven by the 'connected car'. The retail motoring team, digital team, and Autocentres management are working collaboratively to respond to opportunities and threats.	→

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Our Principal Risks and Uncertainties

Key Risk and Uncertainty	Mitigation	Risk Movement
4. Compliance		
The Group operates in an environment governed by legislation and codes in areas including, but not limited to, Listing Rules, trading standards, advertising, product quality, health and safety, hazardous substances, Bribery Act and data protection. The Group recognises that failure to comply with ethical standards could expose the business to reputational risk and loss of goodwill.	Regulatory requirements are closely monitored by our Company Secretarial team which includes colleagues with relevant professional qualifications and experience. 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. Retail margin erosions are minimised by a dedicated profit protection team. A General Data Protection Regulation (GDPR) Steering Group is overseeing the introduction of the compliant GDPR arrangements. Colleagues and management are trained to identify and handle in-shop regulatory issues using Gears training modules on our online Learning Management System. We have a Whistleblowing hotline that allows colleagues to raise concerns in confidence. 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, and training on anti-competitive behaviours have been delivered through face-to-face and online training sessions. The Group has a dedicated Investor Relations Team which ensures that there is frequent and appropriate communication with investors and the wider financial community. The Group has a dedicated Corporate Social Responsibility Committee, which calls upon cross-functional support as required. The Group has a comprehensive record of community engagement through events such as children's bike workshops, and support of the Re~Cycle charity. Our training programme at HMP Onley was judged 'CSR Initiative of the Year' at the 2017 Retail Week awards.	→
5. Supply Chain Disruption		
Halfords sources a significant proportion of the merchandise it sells in its shops 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. UK withdrawal from the EU is likely to impact on our supply chain, although it is currently very difficult to predict how, pending ongoing government negotiations. The Group could also be impacted in the event of disruption to domestic logistic arrangements; for example, unavailability of distribution centres or road transport problems.	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 blends expatriate and local colleagues. It 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. We work with suppliers in a number of territories to reduce the risks of disruption, and we monitor sourcing opportunities nearer to the UK. We maintain firm security and protection measures at our distribution centres. We have business continuity plans to manage any incidents that may occur. Our logistics are overseen by an experienced, dedicated warehouse and logistics team who maintain contacts with a range of logistics businesses who could be utilised if necessary. We are closely monitoring Brexit developments and preparing contingency plans for any changes in the nature of the border between the UK and the Republic of Ireland.	→

Key Risk and Uncertainty	Mitigation	Risk Movement
6. Product and Service Quality and Brand Reputation		
The Board recognises that the quality and safety of both our products and services in our shops and Autocentres are of critical importance 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 shops and individual centres.	The Group constantly seeks to enhance its position as the shop or centre of first choice in each of the markets that it serves. Our 3-Gears training programme uses online modules to ensure that colleagues are consistently knowledgeable about our products and able to deliver quality services to customers. This online training is reinforced by face-to-face learning and assessments. Shops use an accreditation matrix to ensure that all building and fitting is undertaken by competent colleagues. Product knowledge among colleagues is promoted through specialist conferences for selected staff (e.g. BikeHut managers). We have also implemented measures to ensure that we attract and retain the best colleagues; for example, engagement surveys aim to identify opportunities to reduce colleague turnover, which is at its lowest for several years. We have again been recognised as one of the Sunday Times "Best Big Companies to Work For". Our recruitment processes are now centralised to improve efficiency and consistency. Our products are risk assessed and rigorously tested for quality and safety by qualified engineers in our dedicated quality team. We monitor customer comments and complaints and, when necessary, we have established recall processes. We work closely with suppliers and frequently visit factories to ensure manufacturing standards are maintained. Our Autocentres utilise a comprehensive quality assurance process with checks by regional and centre managers. Technicians are regularly checked to ensure quality of workmanship, and the priority status allocated to individual jobs is reviewed to ensure safety and prevent overselling. There is a dedicated Operations Quality team. We utilise mystery shoppers.	→

Our Principal Risks and Uncertainties

Key Risk and Uncertainty	Mitigation	Risk Movement
7. 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 cyberattack) could potentially compromise our operational capability for a period of time, impacting on shops, 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. Commercial data could be lost or stolen through cyberattack, sabotage, or other security breaches. Press reports and professional advisors indicate that cyberattacks are becoming more sophisticated and common.	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 and patching strategy, and a hotlink secure data centre hosted in a different location. IT recovery processes are tested regularly. We review our IT security processes and risk assessments on an ongoing basis and our IT team has dedicated IT security and continuity experts. We utilise appropriate firewalls and we have undertaken network penetration testing. The Audit Committee is briefed by senior IT management on the business' IT security framework and continues to closely monitor this area.	↑
8. 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 shops and Autocentres, including the appropriate training of in-shop and centre colleagues, and the design, procurement and allocation of merchandise.	Our Remuneration Policy summarised on pages 80 to 81 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 and apprenticeship programmes and shop and Autocentre colleague training and development.	→

Dennis Millard
Chairman
22 May 2018


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OUR GOVERNANCE

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Board of Directors

Dennis Millard N R

Chairman

Dennis has been Chairman of the Group since 28 May 2009. Dennis is also Non-Executive Deputy Chairman and Senior Independent Director of Pets at Home Group Plc, and Senior Independent Director of Superdry Plc. In addition, Dennis is a Trustee of the Holy Cross Children's Trust.

His former board appointments include Chairman of Connect Group plc, Non-Executive Director and Senior Independent Director of Debenhams plc, Non-Executive Director and Senior Independent Director of Premier Farnell plc, Chief Financial Officer of Cookson Group plc, Finance Director of Medeva plc and a member of the Economics Affairs Committee CBI.

Graham Stapleton C

Chief Executive Officer

Graham was appointed Chief Executive Officer on 15 January 2018.

Previously, Graham was Chief Executive Officer ("CEO") of Dixons Carphone plc's software business, Honeybee. Prior to that he was CEO of Dixons Carphone's Connected World Services Division from 2015 to 2017 and CEO of Carphone Warehouse UK & Ireland from 2013 to 2015. Graham's early career covered senior leadership roles in Kingfisher plc from 2001 to 2005 and Marks and Spencer plc from 1994 to 2001. Prior to which Graham set up and ran his own business for several years. Graham was a Trustee of the Make-A-Wish charity.

Jonny Mason

Chief Financial Officer

Jonny has been Group Chief Financial Officer ("CFO") since 12 October 2015. Jonny was Interim Chief Executive Officer between September 2017 and January 2018.

Previously, Jonny was CFO of Scandi Standard AB, a Scandinavian company that successfully listed in Stockholm in June 2014. Prior to this, he was CFO at Odeon and UCI Cinemas and Finance Director of Sainsbury's Supermarkets. His early career was at Shell and Hanson PLC. Jonny was also a Director of the charity Dimensions (UK) Limited.

David Adams A N R

Senior Independent Director

David has been a Non-Executive Director since 1 March 2011 and Senior Independent Director since 1 March 2014. David currently holds Non-Executive Director roles at Debenhams plc and Thinksmart plc. He chairs the Audit Committee at Debenhams and Thinksmart. In addition, David is a Trustee of the charity Walk the Walk.

Previously, David was Finance Director and Deputy Chief Executive of House of Fraser plc, Non-Executive Chairman of Conviviality plc becoming Executive Chairman, a Non-Executive Director of Hornby plc, a Non-Executive Director of Elegant Hotels plc, a Non-Executive Director at Fevertree Drinks plc and Executive Chairman of Jessops plc, becoming Non-Executive Chairman. His former board appointments include Chairman at Moss Bros plc and Alexon plc. In addition he has held several Executive and Non-Executive roles in 30 years in retailing including ten years as a plc Finance Director.

Claudia Arney A N R

Independent Non-Executive Director

Claudia joined the Board as a Non-Executive Director on 25 January 2011 and became Remuneration Committee Chairman in March 2014. Claudia is currently a Non-Executive Director of Aviva plc, Derwent London plc and the Premier League.

Claudia was previously Chairman of The Public Data Group, Deputy Chairman and Senior Independent Non-Executive Director of TelecityGroup, and a Board Member of the Shareholder Executive. In her executive career she was Group Managing Director, Digital at EMAP, Director of the Enterprise and Growth Unit at HM Treasury and Managing Director of TheStreet.co.uk. Claudia has also worked at Goldman Sachs, FT.com and Mckinsey.

Helen Jones A C N R

Independent Non-Executive Director

Helen joined the Board as a Non-Executive Director on 1 March 2014 and became Chairman of the Corporate Social Responsibility Committee in January 2016.

Helen held a senior executive role at Caffè Nero until June 2017, and was the CEO of the Zizzi Restaurants group and was also responsible for successfully launching the Ben & Jerry's brand in the UK and Europe.

Helen is currently a member of the Supervisory Board of Directors of Ben and Jerry's and Viapiano SE.

Committee Membership

- A Audit Committee
- C Corporate Social Responsibility Committee
- N Nomination Committee
- R Remuneration Committee

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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 30 March 2018.

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

Statutory Information

The Company has chosen in accordance with the Companies Act 2006 to provide disclosures and information in relation to a number of matters which are covered elsewhere in this Annual Report. These matters, together with those required under the 2013 Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, are cross referenced in the following table:

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Auditor	Directors' Report	55
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Board of Directors	Directors' Report	52
Board Effectiveness and Leadership: Role and Composition of the Board and Committees; Meeting Attendance; Skills and Experience; Independence; Diversity; Induction and Development; Evaluation; Directors and their Other Interests; and Board Committees	Corporate Governance Report	56-68
Branches outside of the UK	Directors' Report	55
Charitable Donations	Strategic Report: Corporate Social Responsibility	24
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Disclosures Required by the Financial Conduct Authority's ("FCA") Listing Rule 9.8.4R

The information required by Listing Rule 9.8.4R is disclosed on the following pages:

Disclosure	Page
Long-term incentive schemes (Performance Share Plan and Restricted Share Plan)	79, 81, 83, 85, 86
Waiver of Dividends	52

Directors' Report

Principal Activities

The principal activities of the Group are: the retailing of motoring, cycling and leisure products and services; and garage servicing and auto repair. The principal activity of the Company is that of a holding company. The Company's registrar is Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

Profits and Dividends

The Group's results for the year are set out in the Consolidated Income Statement on page 100. The profit before tax on ordinary activities was £67.1m (2017: £71.4m) and the profit after tax amounted to £54.7m (2017: £56.4m). The Board proposes that a final dividend of 12.03 pence per ordinary share be paid on 31 August 2018 to shareholders whose names are on the register of members at the close of business on 27 July 2018. This payment, together with the interim dividend of 6 pence per ordinary share paid on 19 January 2018, makes a total for the year of 18.03 pence per ordinary share. The total final dividend payable to shareholders for the year is estimated to be £35.5m.

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

Performance Monitoring

The delivery of the Group's strategic objectives is monitored by the Board through Key Performance Indicators ("KPIs") and periodic review of various aspects of the Group's operations. The Group considers that the KPIs listed on pages 20 to 22 are appropriate measures to assess the delivery of the Group's strategy.

Directors

The following were Directors of the Company during the period ended 30 March 2018 and at the date of this Annual Report:

- Dennis Millard
- Graham Stapleton (appointed 15 January 2018)
- Jonny Mason
- David Adams
- Claudia Arney
- Helen Jones
- Jill McDonald (resigned 29 September 2017)

In accordance with the Company's Articles of Association and the UK Corporate Governance Code guidelines, all those persons holding office as a Director of the Company on 30 March 2018 will retire and offer themselves for re-election at the 2018 Annual General Meeting ("AGM"), with the exception of Dennis Millard who will be stepping down at the date of the AGM. Graham Stapleton, who was appointed on 15 January 2018, together with Keith Williams, the new Chairman, will stand for election for the first time at the 2018 AGM.

On 27 March 2018, it was announced that Jonny Mason, Chief Financial Officer resigned from the business to take up the position as Group Finance Director at Dixons Carphone plc. Jonny will remain as Chief Financial Officer until the end of his notice period in September 2018. The process for the appointment of his successor is under way.

Appointment and Removal of a Director

A Director may be appointed by an ordinary resolution of shareholders in a general meeting following recommendation by the Nomination Committee in accordance with its Terms of Reference as approved by the Board or by a member (or members) entitled to vote at such a meeting, or following retirement by rotation if the Director chooses to seek re-election at a general meeting. In addition, the Directors may appoint a Director to fill a vacancy or as an additional Director, provided that the individual retires at the next Annual General Meeting: if they are to continue, they offer themselves for election. A Director may be removed by the Company in certain circumstances set out in the Company's Articles of Association or by a special resolution of the Company.

Powers of the Directors

Subject to the Articles, the Companies Act and any directions given by the Company by special resolution and any relevant statutes and regulations, the business of the Company will be managed by the Board who may exercise all the powers of the Company. Specific powers relating to the allotment and issuance of ordinary shares and the ability of the Company to purchase its own securities are also included within the Articles, and such authorities are submitted for approval by the shareholders at the Annual General Meeting each year. The authorities conferred on the Directors at the 2017 Annual General Meeting, held on 26 July 2017, will expire on the date of the 2018 Annual General Meeting. Since the date of the 2017 Annual General Meeting, the Directors have not exercised any of their powers to issue, or purchase, ordinary shares in the share capital of the Company.

Directors' Interests

The Directors' interests in, and options over, ordinary shares in the Company are shown in the Annual Remuneration Report on page 88.

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

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

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

Directors' Indemnities

Directors' and Officers' insurance has been established for all Directors and Officers to provide cover against their reasonable actions on behalf of the Company. The Directors of the Company and the Company's subsidiaries have the benefit of a third-party indemnity provision, as defined by section 236 of the Companies Act 2006, pursuant to the Company's Articles of Association.

Colleague Involvement

The Group places significant emphasis upon colleague engagement at all levels and has an established framework of colleague communications providing colleagues with regular information on business performance and other relevant matters. This framework facilitates and encourages the engagement of every colleague through a programme of regular conferences, monthly magazines, team meetings and huddles and a weekly blog from the CEO. In addition, the Group undertakes its own annual colleague engagement survey and participates in the external 'Best Companies' survey which is published by the Sunday Times. Further information on colleague engagement is included in the CSR Report on page 25.

Colleague Training and Development

The Group strives to meet its business objectives by motivating and encouraging all colleagues to be responsive to the needs of its customers and continually improve operational performance. This is delivered through a range of structured training and development programmes, across the Group, in Retail, Autocentres, Performance Cycling, Boardman and Cycle Republic. The Group also continues to invest in its apprenticeship programme. Further information on colleague training and development, and the apprenticeship programme can be found on page 25 of the CSR Report.

In addition, the Group runs a Leadership Development programme, called Aspire, to identify and develop colleagues across the Group, with potential to be our leaders of the future. This continues our drive to develop and therefore, possibly promote from within.

Colleague Diversity and Disabled Persons

There is a Group Diversity Policy which is reviewed annually by the Board. The Group is committed to providing equal opportunities in recruitment, training, career development and promotion for all colleagues, potential colleagues or contractors. This commitment to equality of opportunity applies regardless of anyone's physical ability, gender, sexual orientation or gender reassignment, pregnancy and maternity, race, religious beliefs, age, nationality or ethnic origin.

Full and fair consideration is given to employment applications from people with disabilities wherever suitable opportunities exist, having regard to their particular aptitudes and abilities. Should a colleague become disabled, efforts are made to ensure their continued employment with the Group, with retraining being provided if necessary.

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

Whistleblowing

The Group is committed to conducting its business with honesty and integrity, and it expects all colleagues to maintain high standards in accordance with its corporate culture. An understanding of openness and accountability is essential in order to prevent illegal or unethical conduct or malpractice and to enable any such situations to be addressed should they ever occur. The Group Whistleblowing Policy and Procedure (the "Whistleblowing Policy") is annually reviewed and communicated to all colleagues around the Group and enables colleagues to report concerns on matters affecting the Group or their employment, without fear of recrimination. The Whistleblowing Policy sets out how concerns may be raised and when response can be expected from the Company.

Share Capital and Shareholder Voting Rights

Details of the Company's share capital and of the rights attaching to the Company's ordinary shares are set out in note 22 on page 136. 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, appoint proxies, receive any dividends, exercise voting rights and transfer shares without restriction. On a show of hands at a general meeting every member present in person shall have one vote, and on a poll, every member present in person or by proxy shall have one vote for every ordinary share held. There are no known arrangements that may restrict the transfer of shares or voting rights.

The Company has revolving credit facilities that require the Company in the event of a change of control to notify the facility agent and, if required by the majority lenders, these facilities may be cancelled. The Company does not have agreements with any Director or colleague that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share schemes and Deferred Bonus Plan may cause options and awards granted to Directors and colleagues under such schemes and plans to vest on a takeover.

Details of employee share schemes are provided in note 23 on pages 136 to 139.

Directors' Report

Significant Shareholders

As at 30 April 2018, this being the latest practicable date, the Company has been notified pursuant to Disclosure Guidance and Transparency Rule 5 of the following interests representing 3% or more of the Company's issued ordinary share capital.

Holder	Number of shares	% of issued shares
Jupiter Asset Management Limited (UK)	20,549,795	10.32
Schroders Plc	17,310,181	8.69
Wise Investments Ltd (UK)	10,797,000	5.42
J O Hambro Capital Management (UK)	10,731,015	5.39
Rathbones	8,904,014	4.47
Norges Bank Investment Management	7,978,058	4.01
Dimensional Fund Advisors	7,772,290	3.90
HSBC Global Asset Management	7,513,337	3.77
Wellington Management Company	7,161,795	3.60
Aberforth Partners LLP (SC)	6,818,647	3.42
BlackRock Inc	6,279,367	3.15

Authority to Purchase Shares

At the 2017 Annual General Meeting, shareholders approved a special resolution authorising the Company to purchase a maximum of 19,911,663 shares, representing not greater than 10% of the Company's issued share capital at 1 June 2017, such authority expiring at the conclusion of the Annual General Meeting to be held in 2018 or, if earlier, on 30 September 2018.

Transactions with Related Parties

During the period, the Company did not enter into any material transactions with any related parties.

Articles of Association

In accordance with the Companies Act 2006, the Articles of Association may only be amended by a special resolution of the Company's shareholders in a general meeting.

Political Donations

The Group made no political donations and incurred no political expenditure during the year (FY17: nil). It remains the Company's policy not to make political donations or to incur political expenditure. However, the application of the relevant provisions of the Companies Act 2006 is potentially very broad in nature and, as last year, the Board is seeking shareholder authority to ensure that the Group does not inadvertently breach these provisions as a result of the breadth of its business activities, although the Board has no intention of using this authority.

Going Concern

The Group has a £200m revolving credit facility, ending in September 2021 with a one-year extension option to September 2022. At the year end, the Group had undrawn borrowing facilities of £116m (2017: £97m). The Group's 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. 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.

Viability Statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Directors have assessed the viability of the Company over a three-year period to 2 April 2021. The Directors believe this period to be appropriate as the Company's strategic planning encompasses this period, and because it is a reasonable period over which the impact of key risks can be assessed within a fast-moving retail business.

The Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due at least until 2 April 2021. As is customary when dealing with longer term debt facilities, the Board would expect these to be renewed well in advance of their next term.

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

- a robust assessment of the impact, likelihood and management of principal risks facing the Group, including consideration of those risks that could threaten its business model, future performance, solvency or liquidity or sustainability. The assessment of viability has specifically considered risks that could threaten the Group's day-to-day operations and existence. The assessment considered how risks could affect the business now, and how they may develop over three years; and
- financial analysis and forecasts showing current financial position and performance, cash flow projections, dividend strategy, funding requirements and funding facilities.

More details of key risks, mitigations and assessment processes are set out on pages 40 to 44.

Modern Slavery Statement

The Group operates retail stores across the UK and Ireland and garages throughout the UK. The products the Group sells are sourced from a broad range of national and international suppliers. Many of those international supplier relationships are sourced and managed by a dedicated Halfords Global Sourcing ("HGS") team based in Hong Kong, Taiwan and Shanghai

During the financial year, the Group updated its Ethical Trading Statement, which details how its complies with the legislation which is applicable to Ethical Trading, and sets out the standards expected of its suppliers. This is particularly in regard to conditions of employment, wages and benefits, child labour, human trafficking, as well as health and safety and environmental policy. To ensure that policies and standards are communicated as effectively as possible, the Group follows a dual strategy:

1. requiring suppliers to confirm compliance with relevant legislation, which includes the Modern Slavery Act 2015 (via an annual 'Supplier Compliance Declaration'); and
2. the establishment of a specific Code of Conduct which primarily applies to the organisations that supply the goods sold by the Group. These suppliers are the ones that deal mainly with the Global Sourcing Operation, HGS.

Furthermore, the Group has amended its terms of business when purchasing Goods For Resale so that the contracts now oblige suppliers to comply with their obligations under the Modern Slavery Act 2015 Act. The responses from suppliers to the audit of the supply chain have been positive and the completed replies have identified good levels of compliance and have not unearthed any adverse findings.

The Modern Slavery Statement is annually reviewed by the Board of Directors and was last approved on 29 September 2017.

Creditor Payment Policy

The Group does not follow any formal Code of Practice on payment. Instead it agrees terms and conditions for transactions when orders for goods or services are placed, and includes relevant terms in contracts, as appropriate. These arrangements are adhered to when making payments, subject to the terms and conditions being met by suppliers. The number of trade creditor days outstanding as at 30 March 2018 for the Group was 66 days (2017: 59 days). The Company is a holding company and has no trade creditors.

Branches

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

Auditor

The Company's Auditor is KPMG LLP. A resolution proposing the reappointment of KPMG LLP is expected to be in the Notice of the Annual General Meeting and will be put to shareholders at the meeting.

Disclosure of Information to the Auditor

In accordance with Section 418(2) of the Companies Act 2006, each Director in office at the date the Directors' Report is approved confirms that:

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

ii. he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Important Events Since Year End

On 22 May 2018, it was announced that Keith Williams will be joining Halfords as Chairman on 24 July 2018.

Annual General Meeting ("AGM")

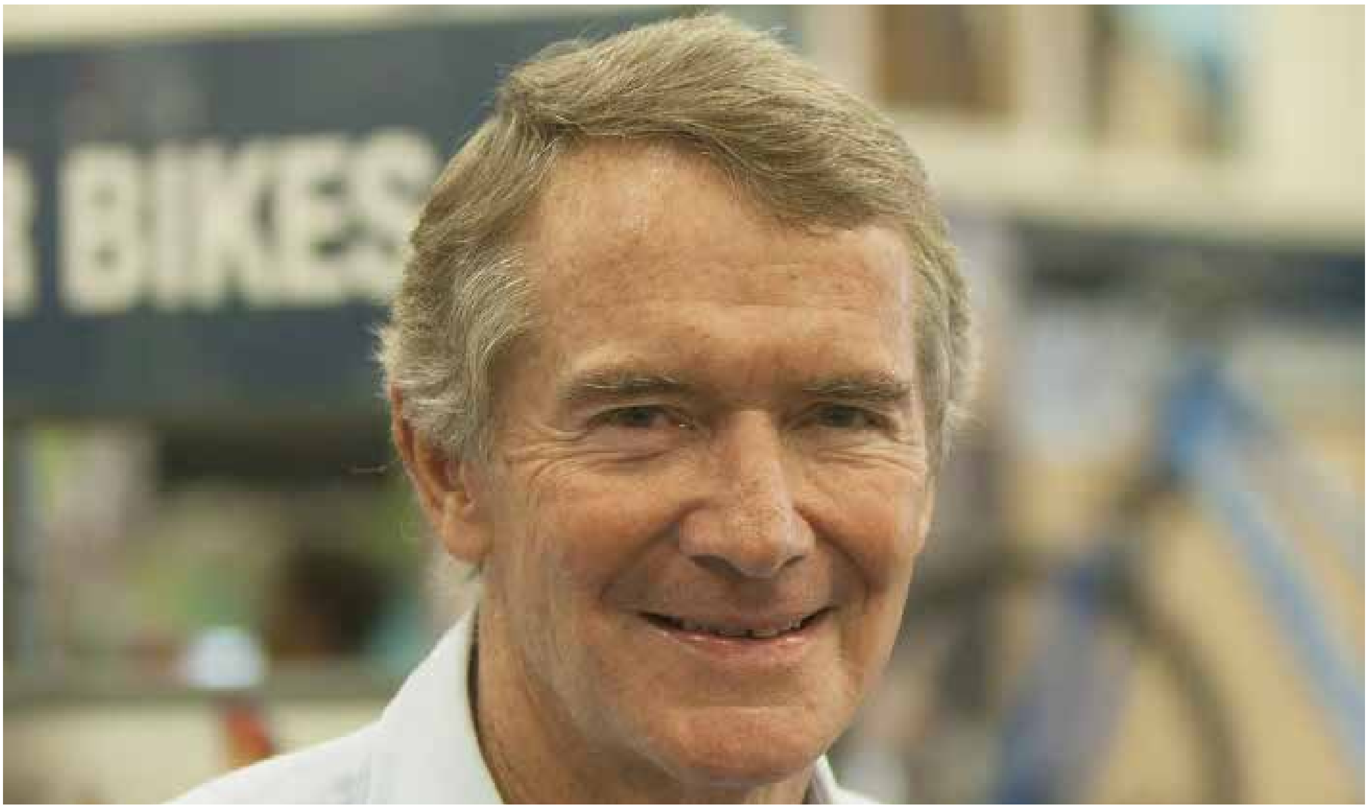
The AGM will be held at the Hilton Garden Inn, 1 Brunswick Square, Brindleyplace, Birmingham, B1 2HW on Tuesday 24 July 2018. The Notice of the AGM and explanatory notes regarding the ordinary and special business to be put to the meeting will be set out in a separate circular to shareholders.

By order of the Board

Tim O'Gorman
Group Company Secretary
22 May 2018

Corporate Governance Report

Dennis Millard – Chairman



Chairman's Introduction

As Chairman my role is to lead the Board, ensure it operates effectively and contains the right balance of skills, diversity and experience. The Board is collectively responsible for the long-term success of the Company and for setting and executing the business strategy.

Good corporate governance is a key element of our business success and we have in place a strong and effective governance framework and practices to ensure that high standards of governance, values and behaviours are consistently applied throughout the Group. These elements are critical to business integrity and maintaining the trust of all stakeholders in Halfords.

The following Corporate Governance Report contains a summary of the Company's governance arrangements and the regulatory assurances required under the UK Corporate Governance Code 2016.

I would encourage you to attend this year's Annual General Meeting where you can meet me and my Board colleagues.

Dennis Millard
Chairman
22 May 2018

> Good corporate governance is a key element of our business success and we have in place a strong and effective governance framework and practices to ensure that high standards of governance, values and behaviours are consistently applied throughout the Group.

Corporate Governance Statement

The Board confirms that during the year ended 30 March 2018, and as at the date of this report, the Company has fully complied, without exception, with the provisions of the UK Corporate Governance Code 2016 (the "Code"), and will continue to do so. A copy of the Code is available on the Financial Reporting Council's website at www.frc.org.uk.

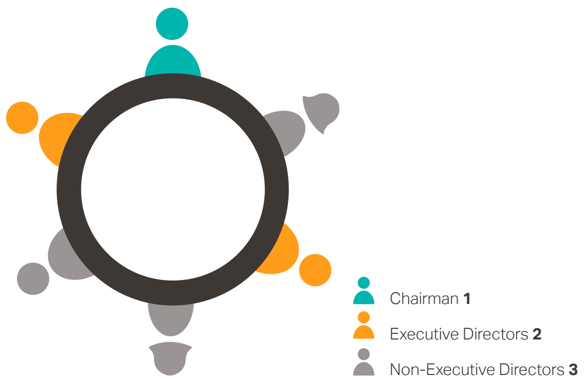
This report, together with the other statutory disclosures and reports from the Audit, Nomination and Remuneration Committees, provides details of how the Company has applied the principles of good governance set out in the Code during the period under review.

The Company has also complied with the requirements under the Disclosure Guidance and Transparency Rules, the Listing Rules and the BIS Directors' Remuneration Reporting regulations and narrative reporting requirements.

Board Composition

As at the date of this report, the Board of Directors comprised of six members; the Non-Executive Chairman, three other Non-Executive Directors and two Executive Directors. The composition of the Board is as set out on page 52 and the biographies of individual Directors, including any other business commitments, are available on pages 48 to 49. The Board believes it has an appropriate balance of Executive and independent Non-Executive Directors having regard to the size and nature of the business.

During the year, on 1 February 2018, our Chairman was appointed as Senior Independent Director of Superdry plc.



Board Changes

In May 2017, Jill McDonald tendered her resignation as Chief Executive Officer in order to take up a senior position at Marks and Spencer plc. Jill was appointed in May 2015, and made a positive impact across the business. Jill left Halfords on 29 September 2017 with a strong team and clear strategy to drive future growth. On 13 September 2017, we completed our search for a new Chief Executive Officer and welcomed Graham Stapleton to the business on 15 January 2018. In the period between Jill McDonald leaving the Company and Graham Stapleton joining, Jonny Mason, Chief Financial Officer, acted as Interim Chief Executive Officer.

As announced on 27 March 2018, Jonny Mason resigned from the position of Chief Financial Officer to take up the position of Group Finance Director at Dixons Carphone plc. Jonny will remain as Chief Financial Officer until the end of his notice period in September 2018. The process is under way by the Nomination Committee to find his replacement.

On 22 May 2018, it was announced that Keith Williams will be joining Halfords as Chairman on 24 July 2018. As mentioned in last year's annual report, Dennis Millard will have been in office for nine years this year, and so in accordance with the Code and best practice, Dennis will stand down at the conclusion of the Annual General Meeting ("AGM") on 24 July 2018.

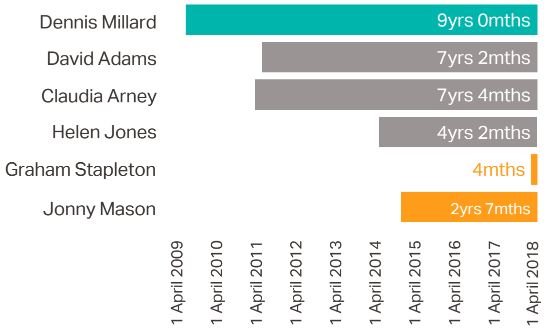
Board Independence

The Company recognises the importance of its Non-Executive Directors remaining independent and the Code recommends that, at least half of the Board of Directors, excluding the Chairman should comprise of Non-Executive Directors, determined by the board to be independent in character and judgement and free from relationships or circumstances which may affect or could appear to affect the Director's judgement. Following a rigorous review, the Board considers David Adams, Claudia Arney and Helen Jones to be independent in character and judgement in accordance with the Code. As a result, in compliance with the Code, at least half of the Board, excluding the Chairman, are deemed to be independent. In accordance with the Code, the Chairman, Dennis Millard, was considered independent upon his appointment.

Corporate Governance Report

Director Tenure and Board Succession

Succession planning for the Board continues to be ongoing and will be considered in more detail during the annual evaluation of the Board performance. It is also expected that, following the appointment of the new Chairman and Chief Financial Officer, the new Chairman will review the composition, skills and experience of the Board. This is especially relevant given that both David Adams and Claudia Arney have already served several years and will both be due to stand down in the next two years.



Re-election

In compliance with the Code and the Company's Articles of Association, the majority of the Directors on the Board as at 22 May 2018, will seek re-election at the 2018 Annual General Meeting ("AGM"), these being, David Adams, Helen Jones, Claudia Arney and Jonny Mason. Graham Stapleton and Keith Williams will be elected for the first time at the 2018 AGM.

Board Responsibilities

The Board is committed to ensuring that it provides leadership to the business as a whole, having regard to the interests and views of its shareholders and other stakeholders. It is also responsible for setting the Group's strategy, values and standards. Details of the Group's business model and strategy can be found on pages 14 to 19 .

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

The Chairman is responsible for the effective leadership, operation and governance of the Board and its Committees. He ensures that all Directors contribute effectively in the development and implementation of the Company's strategy whilst ensuring that the nature and extent of the significant risks the Company is willing to embrace in the implementation of its strategy are determined and challenged.

The Chief Executive Officer is responsible for the management of the Group's business and for implementing the Group's strategy.

Further details and the definitions of the roles are available at **www.halfordscompany.com/investors/governance/division-of-responsibilities-between-the-chairman-and-chief-executive-officer**

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

Shareholders

The Chairman – Key Responsibilities

- Manages and provides leadership to the Board
- Builds an effective and complementary Board
- Sets the agenda, style and tone of Board discussions
- Facilitates and encourages active engagement in meetings, promoting effective relationships and open communication
- Ensures effective communication with shareholders and other stakeholders
- Acts as an advisor to the Chief Executive Officer
- Meets with the Non-Executive Directors without Executive Directors being present

The Halfords Board – Key Responsibilities

The Board is the principal decision-making forum for the Group, setting the strategic direction and ensuring that the Group manages risk effectively. The Board is accountable to shareholders for financial and operational performance.

See page 61 for examples of Matters Reserved for the Board. A complete list is available on the Company's website **www.halfordscompany.com/investors/governance/matters-reserved-for-the-board**

Chief Executive Officer

Key Responsibilities:

- Responsible for the day-to-day management of the Company
- Develops the Group objectives and strategy for Board approval
- Creates and recommends to the Board an annual budget and financial plan
- Delivers the annual budget and plan and other objectives and executes the agreed Group strategy
- Identifies and executes new business opportunities and potential acquisitions or disposals
- Manages the Group's risks in line with the Board approved risk profile

Senior Independent Director

Key Responsibilities:

- Provides a sounding board for the Chairman
- Holds meetings with the other Non-Executive Directors without the Chairman at least once a year to appraise the Chairman's performance
- Acts as an intermediary for the other Directors
- Available to other Directors and shareholders with concerns that cannot be addressed through the normal channels

Non-Executive Directors

Key Responsibilities:

- Evaluate and appraise the performance of Executive Directors and Senior Management against agreed targets
- Participate in the development of the strategy of the Group
- Monitor the financial information, risk management and controls processes of the Group to make sure that they are sufficiently robust
- Meet regularly with senior management
- Periodically visit Halfords, Cycle Republic and Performance Cycling retail stores, Autocentres outlets and distribution centres
- Meet together without the Executive Directors present
- Participate in a training programme including store visits and updates from management
- Formulate Executive Director remuneration and succession planning

Company Secretary

Key Responsibilities:

- Works closely with the Chairman, Group Chief Executive Officer and Board Committee Chairmen in setting the rolling calendar of agenda items for the meetings of the Board and its Committees
- Ensures accurate, timely and appropriate information flows within the Board, the Committees and between the Directors and senior management
- Provides advice on Board matters, legal and regulatory issues, corporate governance, Listing Rules compliance and best practice

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Corporate Governance Report

Nomination Committee

Key Objectives:

To ensure that the Board has the skills, knowledge and experience to be effective in discharging its responsibilities and to have oversight of all governance matters.

Main Responsibilities

The Nomination Committee's responsibilities include:

- making appropriate recommendations to maintain the balance of skills and experience of the Board by:
  - considering the size, structure and composition of the Board;
  - considering senior management succession plans; and
  - identifying and making recommendations to the Board on potential candidates for the Board.

More information on **Diversity in the Group** can be found on page 64

Read more within the **Nomination Committee Report** on pages 70 to 71

Chair:
Dennis Millard

Members:
David Adams
Claudia Arney
Helen Jones

Audit Committee

Key Objectives:

To provide effective governance over the Group's financial reporting processes. These include the internal audit function and external Auditor. The Committee maintains oversight of the Group's systems of internal control and risk management activities.

Main Responsibilities

The Audit Committee's responsibilities include:

- making recommendations to the Board on the appointment/removal of the external Auditor, the terms of engagement and fees;
- reviewing and monitoring the integrity of the Company's financial statements, including its annual and interim reports and preliminary results announcements and any other formal announcement relating to its financial performance, and recommending the same to the Board;
- assisting the Board in achieving its obligations under the Code in areas of risk management and internal control; and
- focusing particularly on compliance with legal requirements, accounting standards and the Listing Rules.

Read more within the **Audit Committee Report** on pages 74 to 77

Chair:
David Adams

Members:
Claudia Arney
Helen Jones

Remuneration Committee

Key Objectives:

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

Main Responsibilities

The Remuneration Committee's responsibilities include:

- recommending to the Board the total individual remuneration package of Executive Directors and members of the executive management;
- consideration of senior executive remuneration and oversight of remuneration matters generally;
- recommending the design of the Company share incentive plans to the Board, approving any awards to Executive Directors and other executive managers under those plans and defining any performance conditions attached to those awards;
- determining the Chairman's fee, following a proposal from the CEO; and
- maintaining an active dialogue with institutional investors and shareholder representatives.

Read more within the **Remuneration Committee Report** on pages 78 to 90

Chair:
Claudia Arney

Members:
David Adams
Dennis Millard
Helen Jones

The Nomination, Audit and Remuneration Committees' full Terms of Reference are available on the Company's website at **www.halfordscompany.com/investors/governance/our-committees** or on request from the Company Secretary.

Board Responsibilities

The key responsibilities of Board members are set out in the chart on page 59.

A formal schedule of matters reserved for the Board is in place and regularly reviewed.

This is available at **www.halfordscompany.com/investors/governance/ matters-reserved-for-the-board**

To discharge these responsibilities effectively, the Board has additionally implemented a system of delegated authorities, which is described on page 59. This enables the effective day-to-day operation of the business and ensures that significant matters are brought to the attention of management and the Board as appropriate. It is through this system that the Board is able to provide oversight and direction to the Executive Directors, the Senior Management Team and the wider business.

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

Board Meetings and Attendance

Board Member	Board Meetings Scheduled: 8	Audit Committee Meetings Scheduled: 3	Remuneration Committee Meetings Scheduled: 5	Nomination Committee Meetings Scheduled: 3
Executive Directors				
Graham Stapleton (appointed 15 January 2018)	3/3	n/a	n/a	n/a
Jonny Mason	8/8	n/a	n/a	n/a
Jill McDonald (resigned 29 September 2017)	3/3	n/a	n/a	0/1[1]
Non-Executive Directors				
Dennis Millard	8/8	n/a	5/5	3/3
David Adams[2]	7/8	2/3	4/5	2/3
Claudia Arney	8/8	3/3	5/5	3/3
Helen Jones	8/8	3/3	5/5	3/3

1 Until Jill McDonald's resignation in September 2017, she was a member of the Nomination Committee. In November 2017, the Terms of Reference of the Nomination Committee were amended, in accordance with best practice, to reflect that no Executive Director be allowed to become a member of the Nomination Committee.

2 David Adams was unable to attend the Board meeting, the Audit Committee Meeting, the, Remuneration Committee meeting and the Nomination Committee meeting on 22 March 2018 due to an unexpected and pressing commitment in relation to another company.

The table above shows the attendance of Directors at the meetings of the Board and of the Audit, Remuneration and Nomination Committees during the year ended 30 March 2018. In addition to those scheduled meetings, three further unscheduled Board and Remuneration Committee meetings were convened to discuss and approve the exit remuneration arrangements for Jill McDonald and Jonny Mason, and to approve the appointment of Graham Stapleton as Chief Executive Officer and his associated remuneration package. Furthermore, two additional Board calls were held during the period to review and approve the 20 week and Q3 trading statements. These additional meetings were all quorate, and all directors received the relevant papers and provided the required approval.

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

At each Board meeting, the Chief Executive Officer delivers a high level update on the business, and the Board considers specific reports, reviews business and financial performance, key initiatives, risks 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.

Corporate Governance Report

Board Activity in FY18

Key Board discussions and actions during the period

May 2017

- Review of trading performance
- Review of the Group's annual colleague engagement survey
- Review of Autocentres
- Review of Cycling
- Review of cyber attack actions
- Amendment and extension to Bank Debt Facility
- 5 Year Plan Update
- Review of the preliminary results announcement
- Final review of the FY17 Annual Report and Financial Statements
- Approval to recommend the FY17 final dividend
- Update on Financial Control Process
- Review of Board Evaluation results
- Approval of Directors' Appointment and Directors' Conflicts of Interest Register
- Approval of Risk Register
- Approval of Notice of Meeting and Proxy Form for FY17 AGM

July 2017

- Review of trading performance
- Review of Autocentres
- Q1 Forecast
- Approval of role of Chairman, role of Chief Executive Officer and role of Senior Independent Director
- Approval of Halfords Group plc Share Dealing Policy and Share Dealing Code
- Review of 2017 proxy voting figures and shareholder feedback
- Met with shareholders at the 2017 AGM

Aug 2017

- Review of trading performance
- Investor Relations Update

Sept 2017

- Review of trading performance
- Update on Cycling Performance and Market
- Update on Digital and Autocentres
- Review and approval of Halfords' Modern Slavery Statement
- Review and approval of Sanctions Policy
- Review of 20 week trading results

Nov 2017

- Review of trading performance
- Review of Infrastructure
- Update on Group Cycling Strategy
- Update on Autocentres plan
- Review of draft interim results announcement and proposed messaging
- Approval of interim dividend and dividend policy
- Approval of Data Protection Policy

Dec 2017

- Review of trading performance
- Discussion of Halfords Autocentres Transformation Programme
- Update on Tyres On The Drive – 1 year on
- Review of planned projects for FY19
- Update on potential M&A
- Investor Relations Update

Jan 2018

- Review of trading performance
- Update on Boardman Performance Centre
- GDPR Update
- Discussion of Gender Pay Gap Report
- Implemented the induction process for the new Chief Executive Officer Graham Stapleton
- Review of Q3 results

March 2018

- Review of trading performance
- CEO's Interim Review of the Business
- Review of FY19 budget
- Review and approve Environmental Policy and Health and Safety Policy
- Review and approve Matters Reserved for the Board
- Review the proposal on the election and re-election of Directors at the FY18 AGM
- Review NED programme for FY19
- Review of draft reports for inclusion in the FY18 Annual Report and Financial Statements

Board Committees

The Board's principal Committees are the Audit Committee, the Nomination Committee and the Remuneration Committee, as detailed in the chart on page 60. A Corporate Social Responsibility ("CSR") Committee was established in December 2015, comprising of Directors and senior management and chaired by a Non-Executive Director. Each Committee has its Terms of Reference approved and regularly reviewed by the Board.

The Terms of Reference for the Committees are available at **www.halfordscompany.com/investors/governance**

On the following pages each Committee Chairman reports how the Committee he/she chairs discharged its responsibilities in FY18 and the material matters that were considered.

Following each meeting of a Committee, the Committee Chairman reports to the Board. Whilst not entitled to attend, other Directors, professional advisors and members of senior management attend when invited to do so. The Auditor attends Audit Committee meetings by invitation. No person is present at Nomination Committee meetings or Remuneration Committee meetings during discussions pertinent to them. The Company Secretary acts as the secretary to each Committee.

A Disclosure Committee, made up of a minimum of two Directors, approves the final wording of market announcements prior to release. There were six Disclosure Committee meetings during the period.

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

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

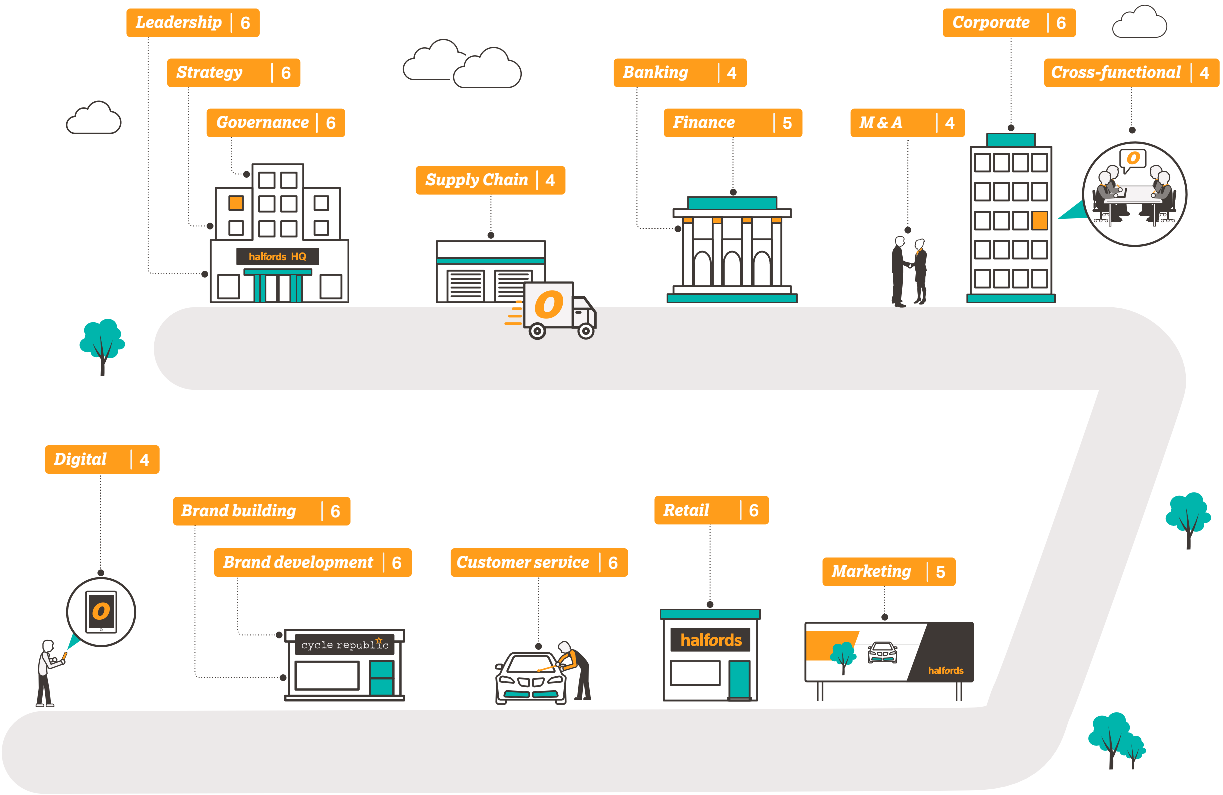
Concerns

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

Skills and Experience of the Board

DELIVERING THE JOURNEY

The below graphic illustrates the number of Directors on the Board who have the relevant skills and experience.



OVERVIEW
STRATEGIC REPORT
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FINANCIAL STATEMENTS
SHAREHOLDER INFORMATION

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Corporate Governance Report

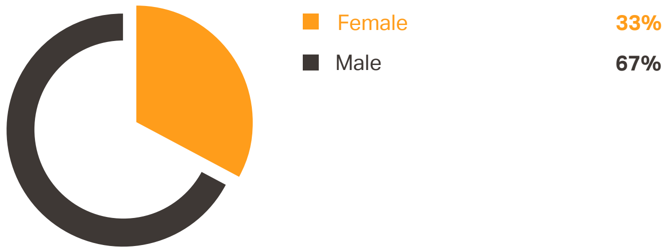
Diversity

The Group recognises the importance of diversity, including gender diversity, at all levels of the organisation. The Group's Diversity Policy (the "Policy") is reviewed annually and sets out our commitment to eliminating unlawful discrimination and promoting equality of opportunity. The Policy is applied to the Group including the Board and it is considered that the background and experience brought to the Board by each individual demonstrates the Board's diversity and commitment to its Diversity Policy.

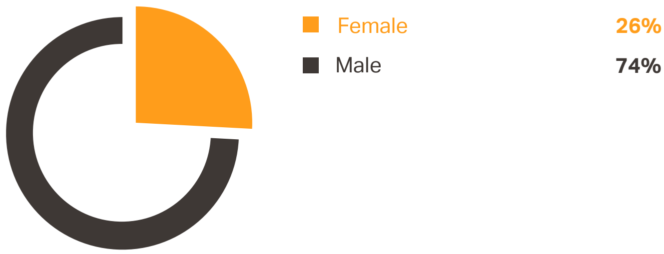
The Group does not apply a fixed quota on diversity to decisions regarding recruitment. The Nomination Committee considers the Policy and ensures we have a sufficiently diverse Board in terms of age, gender and educational and professional background.

The Nomination Committee also keeps under review the structure, size and composition of the Board and considers capability and capacity to commit the necessary time to the role in its recommendations to the Board. The intention is to ensure the appointment of the most suitably qualified candidate to complement and balance the current skills, knowledge, experience and diversity on the Board. Those appointed are deemed to be the best able to help lead the Company in its long-term strategy. At Halfords a third of the Board is female, which is in line with the recommended target as published by the Hampton-Alexander Review ("Improving Gender Balance in FTSE Leadership") in November 2017. The charts below demonstrate the gender split at Board level, within senior management and across the workforce as a whole.

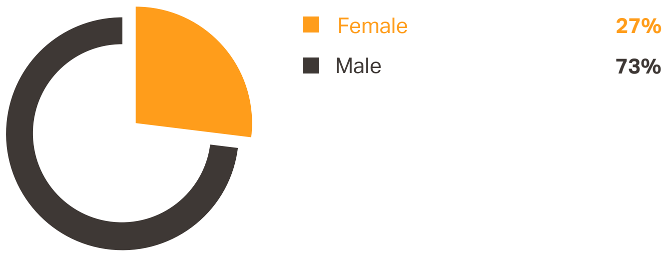
Board Level



Senior Management Level



All Colleagues



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.

Effectiveness

Directors' Induction

New Directors receive a full, formal and personally tailored induction on joining the Board. This includes meeting with the Directors, the executive team, and other key personnel, together with visiting the Group's stores, Autocentres and other operational and distribution sites. The induction also includes training on governance and the Group's corporate social responsibility strategy, which focuses on four key areas, these being colleagues, community, environmental management and responsible trading. The induction programme facilitates their understanding of the Group and the key drivers of the business' performance. Graham Stapleton, received a full tailored induction following his appointment in January 2018. The new Chairman, Keith Williams, and the new Chief Financial Officer will receive the same upon their appointment.

Directors' Training and Development

All Directors have various opportunities for ongoing development and support via:

- a programme of Support Centre, distribution centre, Halfords, Cycle Republic and Tredz and Wheelies retail stores and Autocentres outlet visits;
- reviews with the Chairman to identify any training and development needs;
- advice on governance, regulatory and legislative changes affecting the business or their duties as Directors from the Company Secretary;
- access to independent professional advice at the Company's expense; and
- membership of the Deloitte Academy, a training and guidance resource for boards and directors.

Board Evaluation

In accordance with the Code, the Board is responsible for undertaking a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors. In FY18 the process was facilitated externally by the Board, with the assistance of Oliver Ziehn of Lintstock. Neither, Mr Ziehn nor Lintstock has any other connection with the Company. This external review satisfied the Code's recommendation that an external review should be undertaken externally at least every third year, the previous one was undertaken in 2015.

Progress on FY17 evaluation (internal review)

The outcomes of the internal Board evaluation for FY17 were reported in the 2017 Annual Report. Details of progress made on these areas are set out below:

	Succession planning	Corporate governance and NED programme	Strategy Day
FY17 outcomes	Improved succession planning required	More corporate governance updates to be provided Ensuring continuation of NED training programme	More focus on Board Strategy Day
Progress made in FY18	Although the succession plans for the Board have been considered during the year, they will need to be fully reviewed again, following the appointment of the new Chairman in succession to Dennis Millard. It is expected that the new Chairman will work with the Chief Executive Officer and will review the overall Board structure particularly as part of the ongoing process of appointing a new Chief Financial Officer.	During the period, the Non-Executive Directors have undertaken a comprehensive programme of visits to the major locations where the business operates. These structured meetings have enabled them to spend time with the Executive Directors, the senior management team and numerous colleagues in retail stores and Autocentres. This programme will continue and improvements will be incorporated wherever necessary. To ensure that the Directors are kept informed of ongoing developments in corporate governance, they have been provided during the year with reports and updates both on proposed new changes to the UK Corporate Governance Code and on the voting guidelines or recommendations from shareholders (such as Aviva) and shareholder bodies (such as ISS).	Following his appointment in January 2018, Graham Stapleton has organised a comprehensive review of the strategy of the business. This work is currently ongoing but it is expected that once completed it will replace the current strategy known as 'Moving Up A Gear' which was introduced as a three year plan in 2015 by Graham's predecessor, Jill McDonald.

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Corporate Governance Report

FY18 Board Performance Evaluation (externally facilitated review)

The responses to the external evaluation surveys were submitted by the Directors and then collated by Lintstock. Many areas were positively or highly rated such as: Board Dynamics, Management of Meetings; Board Support; Focus of Meetings; Strategic Oversight; Risk Management and Internal Control. The responses also indicated various areas on which the Board should focus in the coming year. The priorities for the incoming Chairman in their first year included: supporting the new Chief Executive; addressing strategic issues; developing relationships with stakeholders; understanding the business and markets; and reviewing the Board composition. The priorities for the Board for the coming year included: supporting the Chief Executive (particularly in regard to strategy); focussing on strategy; completing recruitment; and addressing talent and succession. These matters will be considered, developed and monitored throughout the coming year.

Directors and their Other Interests

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 78 to 90.

In line with the requirement of the Companies Act 2006, each Director has notified the Company of any situation in which he or she has, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company (a situational conflict), and a register of these is maintained by the Company Secretary.

During the period Claudia Arney notified the Company of her interest in Aviva plc, of which she is a director, following Aviva plc's appointment as underwriter for the Group's main liability insurance policies (property, motor, employee and product). Claudia did not take part in any discussions or negotiations relating to either the insurance renewal or the contract in particular.

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

Internal Control and Risk Management

Overall responsibility for the system of internal control and reviewing its effectiveness rests with the Board. This involves 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.

The Board has conducted an annual review of the effectiveness of the systems of internal control during the year, under the auspices of the Audit Committee. The Audit Committee provides the Board with an independent assessment of the Group's financial position, accounting affairs and control systems. In addition, the Board receives regular reports on how specific risks that are assessed as material to the Group are being managed. For further information on the Company's compliance with the Code provisions relating to the Audit Committee and Auditor please refer to pages 74 to 77.

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 Board's policy on internal control is implemented by management through a clearly defined operating structure with lines of responsibility and delegated authority.

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 Group's corporate risk register is maintained by the Internal Audit function. It records key risks, with impact and likelihood assessments, mitigations and ongoing developments. It is updated regularly, following structured interviews with managers and executives across the Group. The accuracy of the register is validated through a rolling programme of independent internal audits. The register is scrutinised in detail annually by the Audit Committee. Any material change in the register is flagged to the Audit Committee by the Internal Audit function within regular internal audit progress reports. The process has been in place throughout the period ended 30 March 2018, and up to the date of approving the Annual Report and Financial Statements.

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 that it has determined to be material or significant. Among the routine areas for improvement, the Board has considered certain control enhancements in areas such as cash recording in stores, supplier master file amendments, and user access rights to IT systems.

The Board considered its appetite in relation to the Group's top risks, determining that the risks and mitigating actions were appropriate to the level of risk that was both acceptable to, and incumbent within, a listed business. More information on the Company's key risks and uncertainties, and its risk assessment methodology, is shown on pages 40 to 44.

Shareholder Engagement

The Board is committed to effective communications with its shareholders and, accordingly, has a strong Investor Relations ("IR") programme that seeks to actively engage with shareholders.

This programme includes formal presentations of full year and interim results. These presentations, along with the Annual Report and Accounts, are the primary means of shareholder communication during the year. Additionally, the Chief Executive Officer, Chief Financial Officer and IR Director have met with analysts and institutional shareholders during the period to keep them informed of significant developments and help maintain a balanced understanding of their issues and concerns. The IR Director and Company Secretary bring to the attention of the Board any material matters of concern raised by the Company's shareholders, including private investors.

KEY THEMES DISCUSSED WITH SHAREHOLDERS IN FY18

- Progress in the execution of the *Moving Up A Gear* strategy;
- The dynamics of the Motoring and Cycling markets, including the growth prospects, competitive environment and future trends;
- The impact of foreign exchange volatility following the EU referendum;
- Gross and operating margin performance;
- Board and Management changes and succession planning; and
- Capital allocation priorities; in particular, the trends and preferences surrounding internal investment, M&A and returns to shareholders.

The Chairman is responsible for ensuring that appropriate channels of communication are established between Directors and shareholders and that all Directors are aware of any issues or concerns that major shareholders may have. Regular engagement provides investors with an opportunity to discuss any areas of interest and raise concerns. The Group is eager to make sure that it understands shareholders' views and that it is able to effectively communicate its strategy. The Group engages effectively through its regular communications, the Annual General Meeting and other IR activity.

IR PROGRAMME

The Group has a comprehensive IR programme through which the Chief Executive Officer, Chief Financial Officer and IR Director regularly engage with the Company's largest shareholders on a one-to-one basis, to discuss strategic issues and give presentations on the Group's results. Further communication is achieved through the Annual Report and Accounts, corporate website and investor meetings.

- Annual Report and Accounts – this is the most significant communication tool, ensuring that investors are kept fully informed regarding Group developments. Management continually strives to produce a clear and transparent Annual Report and Accounts, which provides a complete picture;
- The corporate website – provides investors with timely information on the Group's performance as well as details of corporate social responsibility activities;
- Management roadshow – allows key investors to access management, usually attended by the Chief Executive Officer, Chief Financial Officer and IR Director;
- Attending broker conferences – Management regularly attends and presents at various conferences hosted by a variety of brokers to ensure a wide variety of existing shareholders and potential shareholders, including those from different geographies, also have access to management; and
- Responding promptly – the Group is committed to responding to any investor-related queries within a short time frame.

Corporate Governance Report

IR calendar for FY19

May 2018	• FY18 Prelim Results • UK Management Roadshow
July 2018	• Annual General Meeting
Sept 2018	• FY19 20 Week Trading Update • Strategy Presentation • UK Management Roadshow
Nov 2018	• FY19 Interim Results • UK Management Roadshow
Jan 2019	• FY19 Q3 Trading Statement

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

The Annual General Meeting gives all shareholders the opportunity to communicate directly with the Board and their participation is welcomed. The Chairmen of the Remuneration, Nomination, Audit and CSR 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 Annual General Meeting. The Chairman will advise shareholders on the proxy voting details at the meeting.

By order of the Board

Tim O'Gorman
Company Secretary
22 May 2018


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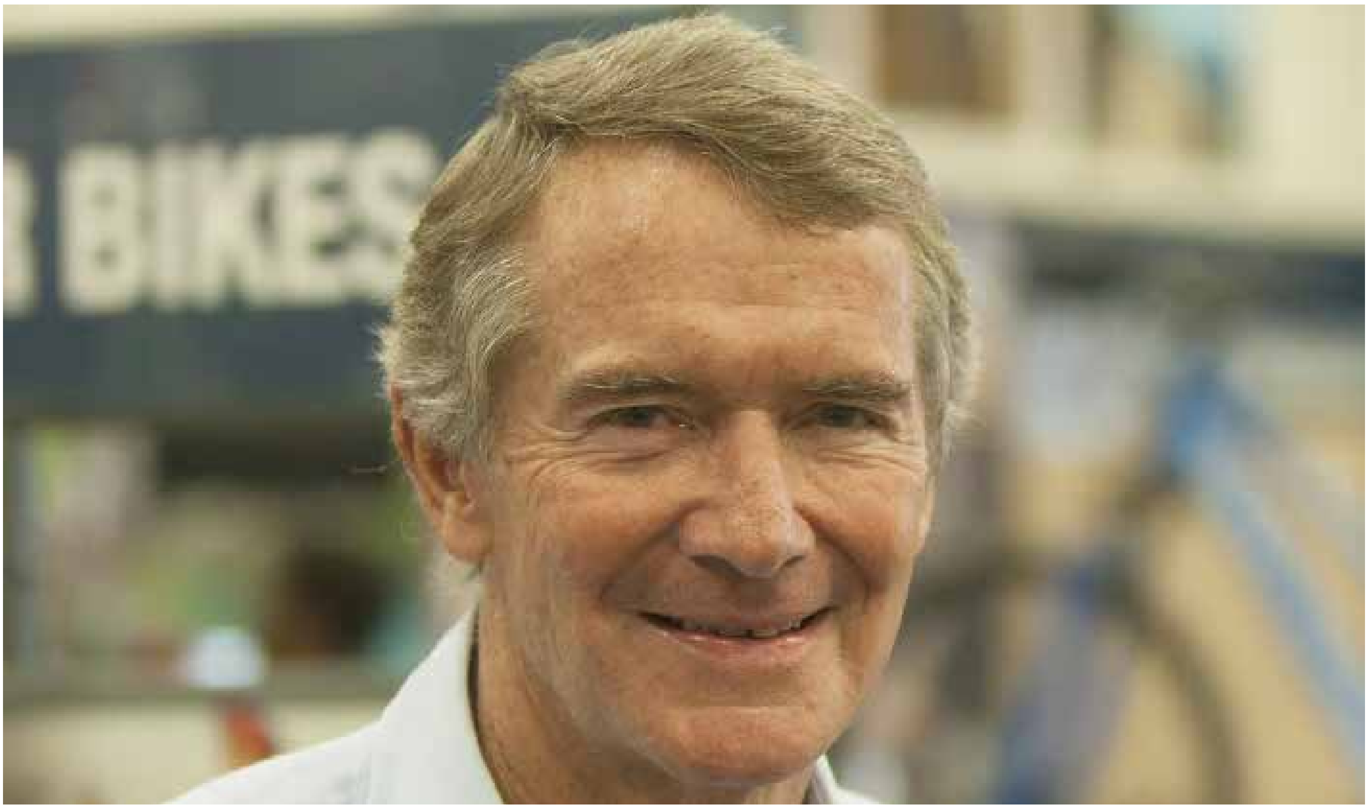
Nomination Committee Report

Dennis Millard – Chairman of the Nomination Committee



Chairman's Letter

The Committee's role is to:

- review the size, structure and composition of the Board;
- consider succession planning; and
- identify and make recommendations to the Board on potential candidates for the Board.

The Committee's key objective is to ensure that the Board comprises individuals with the necessary skills, knowledge, experience and diversity to ensure that the Board is effective in discharging its responsibilities. During the year, the Committee oversaw the process for the appointment of the Group's new Chief Executive Officer, Graham Stapleton, and my successor Keith Williams.

> "The Committee's key objective is to ensure that the Board comprises individuals with the necessary skills, knowledge, experience and diversity to ensure that the Board is effective in discharging its responsibilities.

Committee Composition

During the year, the Committee comprised:

- Dennis Millard (Chairman)
- David Adams
- Claudia Arney
- Helen Jones
- Jill McDonald (resigned 29 September 2017)

Three Committee meetings were held during the year, attended by all members, with the exception of David Adams who was unable to attend the Committee meeting on 22 March 2018 due to an unexpected and pressing commitment in relation to another company. After each Committee meeting, I reported to the Board on the key issues that we had discussed. A number of informal discussions, particularly relating to the appointment of a new Chief Executive Officer, were also held between Committee members and me throughout the year as the need arose.

Activities During the Year

During the year, the Committee's main focus was on the search for a new Chief Executive Officer and a new Chairman as detailed on page 71.

During the year, the Committee also:

- considered the terms of reference regarding the appointments and roles of the new Chief Executive Officer and Chairman;
- reviewed the composition of the Board and its succession plan with particular reference to the succession of the new Chairman;

- carried out an annual review of the Committee's Terms of Reference;
- recommended re-election of the Board at the forthcoming Annual General Meeting; and
- reviewed the results of the Board performance evaluation process.

Board Appointments

The search for a Group Chief Executive Officer was concluded in September 2017 with the announcement of the appointment of Graham Stapleton with effect from 15 January 2018. MWM Consulting was appointed as advisor to the Committee in the search for external candidates and this process was led by myself, as Chairman, together with the Committee. MWM Consulting does not have any other connection with the Company. The Committee also considered and appointed Jonny Mason, Chief Financial Officer as Interim Chief Executive Officer with effect from September 2017 until Graham Stapleton joined the Company in January 2018.

As announced last year, I will be stepping down as Chairman at the Annual General Meeting in July, and so in November 2017 the Committee began the process of identifying suitable candidates. Odgers Berndston was appointed as an advisor, and the process was led by David Adams, as Senior Independent Director, together with the Committee but excluding myself. Odgers Berndston does not have any other connection with the Company. On 22 May 2018 it was announced that Keith Williams will be appointed as my successor, as Chairman on 24 July 2018.

Diversity

The Group's Diversity Policy ("Diversity Policy") sets out our commitment to eliminate discrimination and to encourage diversity and equality across the Board of Directors and amongst all our colleagues, irrespective of their gender, race, ethnic origin, disability, age, nationality, national origin, sexual orientation, gender reassignment, marital or civil partnership status, pregnancy or maternity, religion, beliefs and social class. This year, the Board has not considered it necessary to set a formal target for including diversity on the Board, this is because one third of our Board is female and we are in excess of the recommended target as published by the Hampton-Alexander Review in November 2017.

The Diversity Policy applies to all our activities, including our role as an employer and as a provider of services, ensuring that no colleague, potential colleague, customer, visitor or contractor will receive less favourable treatment on the grounds of gender, race, ethnic origin, disability, age, nationality, national origin, sexual orientation, gender reassignment, marital or civil partnership status, pregnancy or maternity, religion, beliefs and social class. The Company does not currently publish specific diversity targets but in practice, we have created a more balanced and diverse Board and Senior Management Team. We continue to work to monitor these issues across the entire business, in particular in relation to gender diversity.

Further information regarding Board diversity can be found on page 64 and gender diversity in the Group as a whole on page 26.

Looking Ahead

It was announced on 27 March 2018, in the year ahead, that Jonny Mason will resign from the position of Chief Financial Officer to take up the position of Group Finance Director at Dixons Carphone plc. Jonny will remain as Chief Financial Officer until the end of his notice period in September 2018. The process is under way by the Committee to find his replacement.

The Committee will also continue to assess the Board and Senior Management Team composition and how they both may be enhanced.

The Terms of Reference for the Committees are available at **www.halfordscompany.com/investors/governance**

Dennis Millard
Chairman of the Nomination Committee
22 May 2018

Corporate Social Responsibility Committee Report

Helen Jones – CSR Committee Chairman

Chairman's Letter

In the last year we have continued to make great progress on our Corporate Social Responsibility ("CSR") initiatives.

We have four CSR pillars which we focus on:

- Colleagues;
- Community:
- Environmental Management: and
- Responsible Trading

During the year, the Committee ensured that:

- short and long-term objectives for the Company's CSR activities are in place;
- key metrics are reported on; and
- all related policies are regularly reviewed and updated.

> We consider that these four pillars are the right areas of focus and we are constantly seeking to ensure that our Corporate Social Responsibility Strategy is aligned to our Company goals and values.

Fast fact

4

CSR Pillars

We consider that these four pillars are the right areas of focus and we are constantly seeking to ensure that our Corporate Social Responsibility Strategy is aligned to our Company goals and values.

Committee Composition and Meetings

The Committee consisted of:

- Helen Jones (Chairman)
- Graham Stapleton (appointed 15 January 2018)
- Jonathan Crookall
- Andy Randall
- Ian Carter (appointed 22 March 2018)
- Richard Street (resigned 22 March 2018)
- Jill McDonald (resigned 29 September 2017)

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

Activities undertaken

During the year the Committee:

- agreed internal priorities and metrics to track and deliver CSR progress;
- reviewed and agreed the Company's approach to charitable support;
- approved an additional charity partner, voted for by colleagues;
- approved internal and external policies on Environment;
- carried out our annual review of the CSR Policy;
- carried out our annual review of the Committee's Terms of Reference; and
- reviewed proposed changes in forthcoming CSR related regulations and governance.

Further information on corporate social responsibility in the Group, including environmental details on emissions, can be found on pages 24 to 32 of the Strategic Report.

Looking Ahead

Once again, we have identified our work on Environmental Management as a key area of focus in the year ahead. We have reprioritised our resources to support this including the appointment of a new external agency to assess us in this regard. They will help us in agreeing detailed benchmarks for measuring our performance and the development of our strategy.

The Terms of Reference for the Committees are available at **www.halfordscompany.com/investors/governance**

Helen Jones
Chairman of the CSR Committee
22 May 2018

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Audit Committee Report

David Adams – Chairman of the Audit Committee

Chairman's Introduction

I am pleased to present the report of the Audit Committee for the financial year ended 30 March 2018.

Throughout the year, the Audit Committee has continued 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. The Committee monitors risk and internal control through engagement with external auditors, internal auditors and executive management who regularly present management briefings to the Committee, explaining in detail how selected key areas of business risk are managed. During the year, the Committee reviewed presentations on cash-in-store fraud risks, GDPR and tax strategy.

This report explains in detail how the Committee undertook its duties.

> The Audit Committee has continued 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.

Fast fact

3

Committee meetings held

The Audit Committee has continued 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.

Membership and Remit of the Audit Committee

a. Membership

All the members of the Audit Committee are independent Non-Executive Directors. Having been the Deputy Chief Executive and Finance Director of House of Fraser Plc, and currently chairing two other listed companies' Audit Committees, 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. The Audit Committee as a whole is considered to have competence relevant to the sector in which the Company operates. The effectiveness of the Audit Committee is reviewed at least annually through discussions at the Board and Audit Committee.

The Chairman of the Company's Board, Executive Directors, senior managers and key advisors are invited to attend meetings as appropriate in order to ensure that the Committee maintains a current and well-informed view of events within the business, and to reinforce a strong risk management culture. The Audit Committee meets according to the requirements of the Company's financial calendar. The meetings of the Audit Committee also provide the opportunity for the independent Non-Executive Directors to meet without the Executive Directors present and to raise any issues of concern with the Auditor. There have been three such meetings in the period ended 30 March 2018 and nothing of note was reported.

b. Remit

The Audit Committee's responsibilities include:

- making recommendations to the Board on the appointment of the external Auditor, 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 UK Corporate Governance Code in areas of risk management and internal control, focusing particularly on compliance with legal requirements, accounting standards and the Listing Rules;
- reviewing of corporate risk register and regular Internal Audit reports on developments in the internal control framework to ensure that an effective system of internal financial and non-financial controls is maintained on an ongoing basis;
- approving a formal Whistleblowing Policy whereby colleagues may, in confidence, disclose issues of concern about possible malpractice or wrongdoings by any of the Group's businesses or any of its employees without fear of reprisal, and includes arrangements to investigate and respond to any issues raised;
- approving the Company's systems and controls for the prevention of bribery and corruption, including the receipt of any reports on non-compliance;
- listening to and reviewing presentations on key topics or salient risk areas, which in the last two years has included GDPR, cash-in-stores controls, tax strategy, supplier rebates and contributions, cyber security and global sourcing.
- approving the Group's Tax Policy, and for the first time this year, the externally published tax strategy; and
- approving the Group's Treasury Policy, including foreign currency and interest rate exposure.

The Audit Committee has reviewed its Terms of Reference and its composition during the year and believes that both are appropriate. Copies of the full Terms of Reference are available on the Company's website or on request from the Company Secretary.

Principal Activities During the Year

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

May 2017

- Review of Year End Chief Financial Officer's Report
- Review of External Auditor's Report
- Review of Statement of External Auditor's Independence
- Review of Internal Audit Full-Year Report, including update on the Company's risk management and internal control systems
- Approval of Internal Audit Charter

Nov 2017

- Review of Half-Year Chief Financial Officer's Report
- Recommend the Interim Statement to the Board for Approval
- Review of External Auditor's Half-Year Report
- Review of Internal Audit Progress Report including update on the Company's risk management and internal control systems
- Review of External Auditor Non-Audit Fee Policy
- Management presentation on GDPR readiness
- Review of anti-bribery and corruption risk assessment and approval of Anti-Bribery and Corruption Policy
- Review of Committee's Terms of Reference

March 2018

- Review of External Auditor's annual strategy and fees
- Review of Internal Audit Progress Report including update on the Company's internal control systems
- Review of Group Register of Risks and Controls
- Update on new Accounting Standards: IFRS9, IFRS15 and IFRS16
- Review of Whistleblowing Policy
- Review and approval of Tax Strategy, Tax Policy and Treasury Policy

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Audit Committee Report

Significant Issues in Relation to the Financial Statements

In order to discharge its responsibility to consider accounting integrity, the Committee carefully considers key judgements applied in the preparation of the consolidated financial statements which are set out on pages 100 to 105. The Committee's review included consideration of the following key accounting judgements:

- Impairment of Goodwill associated with Autocentres (Car Servicing);
  - Following the acquisition of Nationwide Autocentres in 2010, the Group holds significant goodwill in the Halfords Autocentres business. There are a number of factors that could impact on the future profitability of the business (e.g. loss of key customers, change in market behaviour) and there is therefore a risk that the business may not meet the growth projections necessary to support the carrying value of the intangible asset (see note 11 on page 124 of the Financial Statements); and
  - The Audit Committee has received detailed reports from Halfords' finance team and reports from the External Auditor addressing this issue. The finance team has undertaken detailed work to consider the impairment of goodwill associated with Autocentres. Consideration has been given to ensuring that cash flow models, discount rates, sensitivity analysis and centre profitability are all reasonable. The Committee concluded that it is satisfied with the accounting treatment of impairment of goodwill.
- Valuation of inventory within the Retail division;
  - With the business holding a wide range of stock, it is likely that changing consumer demands will mean that some lines cannot be sold, or will be sold at below the carrying value. Provisions are made to reflect this. Given the difficulties in forecasting market trends, there is a risk that inventory provisions made will be inappropriate or incomplete (see note 14 on page 127 of the Financial Statements). Management has an established methodology for assessing inventory provisions. Range reviews are regularly undertaken to ensure that all discontinued inventory is identified; and
  - The Audit Committee has received detailed reports from Halfords' finance team and reports from the External Auditor addressing this issue. The finance team has undertaken detailed work around the valuation of inventory within the Retail division. After consideration of the accuracy of the provisioning model, the completeness and accuracy of range reviews, and the reflection of these reviews within the provisions, the Committee concluded that it is satisfied with the accounting treatment of the valuation of inventory.

External Auditor

a. Effectiveness of external audit

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

In addition, at its meeting in March 2018, 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.

b. Approach to appointment or reappointment

KPMG LLP (formerly KPMG Audit plc) was appointed as External Auditor to the Group in 2009 following a formal tender process. Since that time, KPMG LLP has complied with the partner rotation requirement set out in Ethical Standards for Auditors. The most recent rotation took place this year with Michael Froom becoming our audit partner.

The Audit Committee considers that the relationship with the Auditor is working well and is satisfied with its independence, objectivity and effectiveness and has not considered it necessary to require KPMG LLP to re-tender for external audit work this year. The Audit Committee has recommended to the Board, for approval by shareholders at the Annual General Meeting on 24 July 2018, the reappointment of KPMG LLP as External Auditor. The Audit Committee monitors, and will continue to comply with best practice and external guidance in respect of the frequency of audit tenders.

c. Approach to safeguarding objectivity and independence if non-audit services are provided

The Audit Committee has established a policy to ensure that any non-audit services delivered by the External Auditor will not jeopardise objectivity and independence. The policy is consistent with Ethical Standards for Auditors.

The policy specifies:

'The External Auditor can be used to provide non-audit services subject to any non-audit engagement proposal provided by the External Auditor being formally approved by the Audit Committee before contractual arrangements are entered into, except for activities set out in a list of prohibited activities. Other than for these, for each separate service proposed to be provided by the Auditor, the Group Chief Financial Officer will prepare a note either to be tabled and minuted at an Audit Committee meeting or to be circulated via email to the Audit Committee members and the Chief Executive Officer giving a description of the work to be undertaken, the reasons why the Auditor is involved in the proposal and how objectivity and independence has, and is seen to be, safeguarded.

In addition, the fees for any proposal for non-audit services will not exceed 70% of the three year average statutory audit fees when taken into consideration with total fees for non-audit services already committed in the financial year.

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

In addition, the External Auditor follows its own ethical guidelines and continually reviews its audit team to ensure that its independence is not compromised.

An analysis of the fees earned by the External Auditor is disclosed in note 3 on page 119 to the Financial Statements.

Role and Effectiveness of Internal Audit

The Company has a dedicated in-house Internal Audit team, which is able to obtain advice from external specialists if necessary. This team maintains an audit universe that lists all of the potential areas of audit, from which the annual programme is derived. The team 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 and revises it from time to time according to changing business circumstances and requirements. The Audit Committee also ensures that there are sufficient resources to undertake the audit programme.

Our Internal Audit programme features reviews covering financial and commercial processes, governance issues and key risk safeguards. The executive summaries of all internal audit reports are circulated to Audit Committee members and discussed at meetings where appropriate.

The Audit Committee is satisfied that the Internal Audit team has the quality, experience and expertise appropriate for the business.

Other than a period of a few months during the year when the Chief Financial Officer was interim Chief Executive Officer, Internal Audit reports on a day-to-day basis to 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. The internal audit reports are distributed to the External Auditor as and when they are completed during the year.

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 the Support Centre.

The 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 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 40 to 44.

David Adams
Chairman of the Audit Committee
22 May 2018

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

Directors' Remuneration Policy Summary Report

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. The Committee considers market data at appropriate intervals to inform the positioning of executives' pay relative to the companies of a similar size and in similar sectors, 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 with 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.

Our Directors' Remuneration Policy was approved by shareholders at the 2017 AGM. The full Policy is available on the Company's website, but as context for the rest of this report, the main elements of the Policy, as well as how the Policy was implemented during the year, are summarised below:

Elements	Objective	Key features	Implementation in FY18	Implementation in FY19
Base salary	Attract and retain talent of an appropriate calibre.	Reviewed annually, with changes typically effective from October. Maximum salary increases generally in line with wider employees.	Graham Stapleton (appointed CEO in January 2018) – £535,000 Jonny Mason – £364,140 (increased to £500,000 while acting as Interim CEO) Jill McDonald (left the business September 2017) – £520,200	Graham Stapleton – £535,000, no change. Chief Financial Officer – £364,140, no change.
Benefits	Provide market competitive benefits consistent with the role.	Set at an appropriate level taking into account the individual's circumstances and market practice.	Executive Directors received benefits including life assurance, private health insurance and a company car or equivalent allowance, to the following total values: Graham Stapleton – £15,908 p.a. Jonny Mason – £18,348 p.a. Jill McDonald – £10,026 p.a.	No changes proposed.
Pension	To provide individuals with retirement arrangements.	Contributions made either to defined contribution pension schemes or as an equivalent cash allowance. Total contribution capped at 15% of salary.	All Executive Directors received cash allowances of 15% of salary.	Executive Directors will receive cash allowances of 15% of salary.
Annual bonus	Incentivise the achievement of annual financial targets and key strategic objectives.	Maximum opportunity of 150% of salary. One-year performance period. One-third of any award is deferred into shares for three years. Malus and clawback provisions apply.	Based on performance against Group PBT targets and key strategic objectives, the annual bonus paid out at 70% of maximum for Graham Stapleton and 42.3% of maximum for Jonny Mason. Individual awards were: Graham Stapleton – £115,802 (includes prorating for service) Jonny Mason – £176,971 (only eligible for the cash element due to resignation) Jill McDonald – £nil (not eligible due to resignation)	Executive Directors will have a maximum opportunity of 150% of base salary. 80% will be based on Group PBT, 20% on key strategic objectives. One-third will be deferred into shares for three years.
Performance Share Plan	Align interests with those of shareholders by incentivising individuals to deliver the strategy, create a sustainable business and maximise shareholder returns.	Maximum opportunity of 200% of salary. Three-year performance period. Two-year holding period after vesting (for 2018 awards onwards). Malus and clawback provisions apply.	No Executive Director had outstanding 2015 PSP awards so there were no vesting events in respect of FY18. Graham Stapleton and Jonny Mason were granted 2017 PSP awards over 200% of salary (the latter's award subsequently lapsed upon resignation). Vesting dependent on performance against underlying EPS (75%) and revenue (25%) targets, with a net debt to EBITDA ratio underpin. 50% of any shares vesting subject to a one-year holding period, 50% a two-year holding period.	Executive Directors will have a maximum opportunity of 200% of salary for the 2018 PSP award. Performance based on underlying EPS (75%) and revenue (25%) targets, with a net debt to EBITDA ratio underpin. All shares vesting subject to a two-year holding period.
Shareholding guidelines	Align individuals with shareholders.	Executive Directors are encouraged to acquire and retain shares equal to a value of at least 200% of their salary. Expectation that 75% of any post-tax shares that vest from incentive plans are retained until the guideline is met.	Both Executive Directors were subject to a 200% of salary shareholding guideline. Executive Directors are expected to retain 75% of any post-tax shares that vest under any share incentive plans until this shareholding guideline is reached. There have not been any share incentive plan vestings this financial year.	Executive Directors remain subject to a 200% of salary shareholding guideline.

Annual Remuneration Report

Structure and content of the Remuneration Report

This Remuneration Report has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Group (Accounts and Reports) (Amendment) Regulations 2013 (the "Regulations"). This Report meets the requirements of the UK Listing Rules and the Disclosure Guidance and Transparency Rules.

The information set out below represents auditable disclosures referred to in the Auditor's Report on pages 94 to 99, as specified by the UK Listing Authority and the Regulations.

Committee Composition

During the year, the Committee comprised:

- Claudia Arney (Chair)
- Dennis Millard
- David Adams
- Helen Jones

There were five Committee meetings held during the year, attended by all members; details are shown in the table on page 61. In addition three further unscheduled meetings were called to discuss and approve the exit remuneration arrangements of Jill McDonald and Jonny Mason, and the remuneration package of Graham Stapleton, as new Chief Executive Officer. These additional meetings were quorate and all Committee members received the relevant papers and provided the required approval. The Chairman of the Remuneration Committee reported to the Board on the key issues discussed. A number of informal discussions were also held between the Committee Chairman and Committee members throughout the year as the need arose.

All members are considered to be independent for the purposes of the UK Corporate Governance Code. The Company Secretary acts as secretary to the Committee.

Activities during the Year

During the year, the Committee has

- discussed feedback received from shareholder bodies on the Directors' Remuneration Policy which was approved at the Annual General Meeting in July 2017;
- reviewed and approved the Directors' Remuneration Report in the FY17 Annual Report and Accounts;
- discussed and reviewed attainment against the performance conditions for the Performance Share Plan ("PSP") and Company Share Option Scheme ("CSOS") due to vest during the period;
- discussed and approved FY18 executive bonus payments;
- discussed and approved both financial and strategic annual bonus metrics and targets;
- approved grants under the Performance Share Plan, Company Share Option Scheme (to senior managers below Board) and the Sharesave Scheme;
- discussed and approved the introduction of the Restricted Share Plan ("RSP") (to senior managers below Board);
- discussed outline of share scheme approvals across all discretionary and all employee share plans, and approved grants under the Performance Share Plan, Restricted Share Plan (to senior managers below Board) and the Save As You Earn (Sharesave) Scheme;
- reviewed and approved the updated plan rules for the Deferred Bonus Plan, Performance Share Plan, Save As You Earn (Sharesave) Scheme and Company Share Option Scheme;
- reviewed the Terms of Reference of the Committee;
- reviewed the mechanics and assets of the Employee Benefit Trust and hedging arrangements;
- discussed and recommended, to the Halfords Group plc Board, the terms of the remuneration package for the new Chief Executive Officer ("CEO"), the temporary increase in the remuneration for the Chief Financial Officer as interim CEO and the Non-Executive Directors' fees;
- reviewed the Executive Remuneration Policy; and
- reviewed and approved appointment of remuneration advisors.

Advisors and Other Attendees

During the year, the Committee has been supported by Jonathan Crookall, People Director, and Tim O'Gorman, Company Secretary. The Chief Executive Officer and Chief Financial Officer also attend Committee meetings on occasion, at the request of the Committee; they are never present when their own remuneration is discussed. In carrying out its responsibilities, the Committee is authorised to obtain the advice of external independent remuneration consultants and is solely responsible for their appointment, retention and termination. During the year, the Committee has taken advice from Deloitte LLP ("Deloitte"), which advised on performance measures for the PSP, remuneration reporting and other remuneration matters. Deloitte also provided unrelated tax advice during the year. Total fees paid to Deloitte were £88,300, charged on a time and materials basis.

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

Willis Towers Watson also provided the Committee with executive salary market data. Willis Towers Watson is also a signatory of the Remuneration Consultants Group Code of Conduct. Fees paid to Willis Towers Watson for this advice were £4,041. Willis Towers Watson also provide insurance broking services and employee benefits services to the Group.

Shareholder Dialogue

The voting outcome from the 2017 Annual General Meeting reflected very strong individual and institutional shareholder support for both our Directors' Remuneration Report and our new Directors' Remuneration Policy (the "Policy"). We consulted extensively with shareholders prior to introducing the new Policy and we would like to thank shareholders for their time and constructive feedback.

We continue to be mindful of the views of our shareholders and other stakeholders and are open to discussion with shareholders on any issue related to executive remuneration. In the event of a substantial vote against a resolution in relation to Directors' remuneration, we would seek to understand the reasons for any such vote, determine appropriate actions and detail any such actions in response to it in the Directors' Remuneration Report.

The following table sets out the votes cast at the 2017 AGM in respect of the previous Directors' Remuneration Report and Directors' Remuneration Policy.

	% of votes For	% of votes Against
FY17 Directors' Remuneration Report (2017 AGM)*	99.93%	0.07%
FY17 Directors' Remuneration Policy (2017 AGM)†	99.04%	0.96%

* 1.04% votes were withheld in relation to this resolution.
† 0.27% votes were withheld in relation to this resolution.

How the Remuneration Policy was Implemented in FY18– Executive Directors

Single remuneration figure (audited)

2017/2018	Base Salary	Bonus	Benefits	Pension	PSP[6]	Other	Total 'Single Figure'
Graham Stapleton[1]	115,917	115,802[2]	15,908	17,387	—	1,553,337[1]	1,818,351
Jonny Mason[3]	399,752	176,971[4]	18,348	59,479	—	—	654,550
Jill McDonald[5]	247,095	—	10,026	38,250	—	—	295,371
2016/2017							
Jill McDonald[5]	515,100	—[5]	10,262	76,500	—	139,550	741,412
Jonny Mason	353,500	175,463	17,699	52,500	—	—	599,162

1 Graham Stapleton was appointed on 15 January 2018. To compensate Graham for remuneration forfeited when leaving his previous employer, Dixons Carphone plc, he will receive the following: a compensation bonus equal to £695,617 in July 2018 (the first £100,000 of which will be satisfied by the issue and allotment of shares and the balance as cash); a replacement cash bonus of £269,026 in July 2018; and he will be granted an award of 185,872 shares equating to £588,694 in January 2021.

2 Graham Stapleton's bonus was prorated from date of joining on 15 January 2018 to 30 March 2018. One third of this bonus was deferred into the Deferred Bonus Plan, this will be paid on 31 May 2018.

3 Jonny Mason was interim Chief Executive Officer from September 2017 until Graham Stapleton joined in January 2018. Jonny's salary increased from the current level of £364,140 to £500,000 p.a. to which bonus and pension were applied for that period.

4 Jonny Mason announced his resignation as Chief Financial Officer on 27 March 2018. Jonny will be eligible to receive only the cash element of his annual bonus for the year ended 30 March 2018.

5 Jill McDonald left the business in September 2017. She did not receive a bonus for the period.

6 No Executive Director received any vesting under the PSP granted in 2015. Jonny Mason was granted a PSP award in 2015, however, this lapsed upon his resignation. The following table shows the history of PSP award vesting over the last five years.

	FY14	FY15	FY16	FY17	**FY18**
PSP vestings (% of maximum)	0%	15%	102.5%	0%	**0%**

FY18 Annual Bonus

The annual bonuses for FY18 for the Executive Directors were based as follows:

Chief Executive Officer	Graham Stapleton	50% PBT and 50% personal objectives
Chief Financial Officer	Jonny Mason	80% PBT and 20% delivery of key strategic initiatives

The PBT performance for FY18 was £71.6m which generated 40.1% achievement of the profit target.

Annual Remuneration Report

The table below sets out the key strategic initiatives which made up the remainder of the annual bonus for the Chief Financial Officer, along with performance and resulting out-turn against each measure.

KPI	Definition	FY18 out-turn	Threshold	Maximum	% achieved (out of 5%)
NPS	Combined NPS of Retail and Autocentres (weighted)	69.4%	71%	73%	0%
Engagement Index	Index achieved for Group in April 2018	81%	81%	83%	2.5%
Service Related Sales Growth	Growth in total service related sales including product (Retail)	14%	8%	12%	5.0%
Digital Sales Growth	Total digital sales orders through website or app.	9%	8%	15%	2.75%

The annual bonus out-turn was reviewed in the context of the performance of the underlying business during the year and delivery against strategy, with the final out-turn set out below.

Name of Executive	PBT	Strategic Measures	Total
Graham Stapleton[1]	£33,146 (40.1% of maximum)	£82,656 (100% of maximum)	£115,802 (70% of maximum)
Jonny Mason[2]	£134,118 (40.1% of maximum)	£42,853 (51% of maximum)	£176,971 (42.3% of maximum)

1 Graham Stapleton was appointed on 15 January 2018 and his bonus was prorated accordingly.

2 Jonny Mason resigned from his role as Chief Financial Officer, as announced on 27 March 2018. Jonny will be eligible to receive only the cash element of his annual bonus for the year ended 30 March 2018. Jonny's bonus has been based on the higher salary for the period that he acted as interim Chief Executive Officer.

Benefits

Benefits include payments made in relation to life assurance, private health insurance and the provision of a fully expensed company car or equivalent cash allowance or chauffeur and fuel card.

Pension

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

Appointment terms for Graham Stapleton

Regular package

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 will receive a pension contribution of 15% of basic salary and standard benefits, in line with our Remuneration Policy (the "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.

Buy-out arrangements

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 this 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 two years of joining.

Leaving Arrangements for Jonny Mason

Jonny Mason resigned from his role as Chief Financial Officer ("CFO"), as announced on 27 March 2018, to take up a position of Group Finance Director at Dixons Carphone plc. Jonny will remain as CFO until the end of his notice period in September 2018 and will continue to receive his normal salary and associated benefits, until his leaving date. Jonny will receive the cash element of his annual bonus for the year ended 30 March 2018, but all annual bonus deferred share awards will lapse. Jonny's long-term incentive arrangements in respect of his awards under the PSP and SAYE schemes will also lapse.

Leaving Arrangements for Jill McDonald

In May 2017 Jill McDonald resigned as CEO in order to take up a position at Marks and Spencer plc and she subsequently left the business in September 2017. Jill did not receive a bonus in respect of 2017/18 and all of her unvested DBP and PSP awards lapsed in full upon her leaving date.

Upon her appointment in 2015, it was agreed that awards with a total value £529,819 would be made as compensation for awards forfeited when leaving her previous employer. The final two tranches of this award, which were due to vest in 2018 and 2019 and had a value at her leaving date of £130,016, have lapsed in full (previous tranches has already vested prior to her departure).

Share Awards Granted During the Year (Audited)

Performance Share Plan

During the period we approved awards to the Executive Directors under the Performance Share Plan as follows:

	Date of award	Type of award	Number of shares[1]	Maximum face value of award[2]	Threshold vesting (% of target award)	Performance period
Graham Stapleton[3]	24 January 2018	Nil cost option (0p exercise price)	304,207	£1,089,061	25%	1 April 2017 to 3 April 2020
Jonny Mason	13 September 2017	Nil cost option (0p exercise price)	230,496	£735,282	25%	1 April 2017 to 3 April 2020

1 These awards were based on 200% of salary.

2 Based on the mid-market price on the date of the awards of £3.58 on 24 January 2018 for Graham Stapleton's award and £3.19 on 13 September 2017 for Jonny Mason's award.

3 Graham Stapleton was appointed on 15 January 2018 and became eligible to receive a PSP award following his appointment, as set out in the announcement made by the Company on 13 September 2017.

Performance Conditions

Awards granted in FY18 are subject to the following performance conditions:

		Group Revenue Growth – CAGR (25% of the award)	Underlying EPS Growth – CAGR (75% of the award)
Award (200% of salary)	100% vesting	7.0%	6.0%
	Straight-line vesting	Between 3.5% and 7.0%	Between 1.5% and 6.0%
	25% vesting	3.5%	1.5%
	0% vesting	Below 3.5%	Below 1.5%

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 1.5× 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 Award shares that vest will become exercisable in August 2020. Fifty percent of the shares that vest will be subject to a one-year holding period with the remaining 50% subject to a two-year holding period.

Deferred Bonus Plan

Awards granted during the year:

	Award date	Mid-market price on date of awards £	Awards held 1 April 2017	Awarded during the period	Dividend Reinvestment[1]	Forfeited during the period	Lapsed during the period	Exercised during the year	Awards held 30 March 2018	Vesting
Jonny Mason	30 June 2017	3.420	—	17,101	931	—	—	—	18,032	29 June 2020 – 30 June 2021

1 Interim and final dividends have been reinvested in shares at prices between £3.171 and £3.522.

On 30 June 2017, one-third of Jonny Mason's FY17 bonus was deferred into shares for a period of three years. Following the announcement made on 27 March 2018 regarding Jonny's resignation, these awards will lapse.

Annual Remuneration Report

Outstanding Share Awards (Audited)

Performance Share Plan ("PSP")

The following summarises outstanding awards under the PSP:

	Award date	Mid-market price on date of awards £	Awards held 1 April 2017	Awarded during the period	Dividend Reinvestment[1]	Forfeited during the period	Lapsed during the period	Exercised during the year	Awards held 30 March 2018	Performance period 3 years to
Graham Stapleton[2]	24 January 2018	3.58	—	304,207	—	—	—	—	304,207	3 April 2020
Jonny Mason[3]	12 November 2015	3.95	133,322	—	7,264	—	—	—	140,586	30 March 2018
	11 August 2016	3.60	158,380	—	8,630	—	—	—	167,010	29 March 2019
	13 September 2017	3.19	—	230,496	3,926	—	—	—	234,422	3 April 2020
Jill McDonald[4]	1 August 2015	5.34	153,703	—	5,661	—	159,364	—	—	N/A
	11 August 2016	3.60	230,783	—	8,500	—	239,283	—	—	N/A

1 Interim and final dividends have been reinvested in shares at prices between £3.171 and £3.522.

2 Graham Stapleton was appointed on 15 January 2018.

3 As announced on 27 March 2018, Jonny's outstanding PSP awards will lapse upon him leaving the business in September 2018.

4 Jill McDonald left the business in September 2017, to take up a senior role at Marks and Spencer plc. Jill's unvested PSP awards lapsed in full upon her leaving.

Deferred Bonus Plan ("DPB")

	Award date	Mid-market price on date of awards £	Awards held 1 April 2017	Awarded during the period	Dividend Reinvestment[1]	Forfeited during the period	Lapsed during the period	Exercised during the year	Awards held 30 March 2018	Vesting
Jonny Mason	30 June 2017	3.420	—	17,101	931	—	—	—	18,032	29 June 2020 – 30 June 2021

1 Interim and final dividends have been reinvested in shares at prices between £3.171 and £3.522.

As announced on 27 March 2018, and as detailed on page 85, Jonny Mason's outstanding DBP award will lapse upon him leaving the business in September 2018.

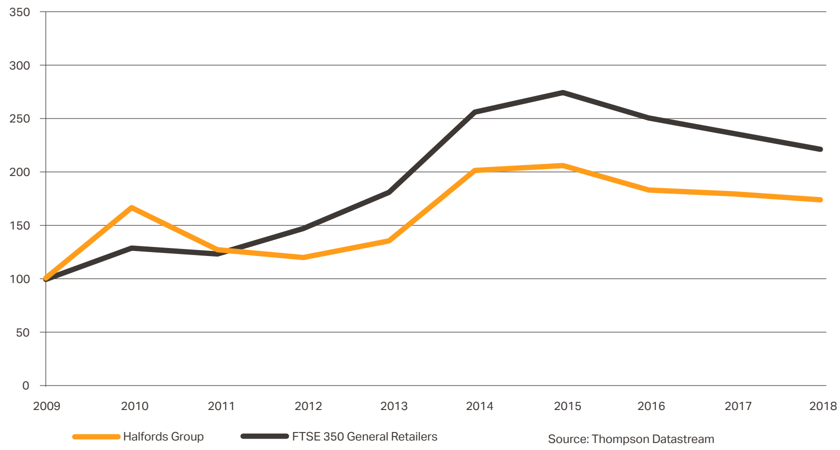
Save As You Earn ("SAYE")

	Award date	Mid-market price on date of awards £	Awards held 1 April 2017	Awarded during the period	Forfeited during the period	Lapsed during the period	Exercised during the year	Awards held 30 March 2018	Exercisable Date
Jonny Mason	30 December 2015	2.979	6,042	—	—	—	—	6,042	1 February 2019 – 1 August 2019

As announced on 27 March 2018, Jonny Mason's outstanding SAYE award will lapse upon him leaving the business in September 2018.

CEO Pay Compared to Performance

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).



The following table summarises the CEO single figure for the past nine 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.

		FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
CEO single figure (£000)	Graham Stapleton[1]	—	—	—	—	—	—	—	—	1,818
	Jonny Mason[2]	—	—	—	—	—	—	—	—	236
	Jill McDonald[3]	—	—	—	—	—	—	851	741	295
	Matt Davies[4]	—	—	—	499	1,372	645	54	—	—
	David Wild[5]	1,134	531	617	198	—	—	—	—	—
Annual bonus (% of maximum)	Graham Stapleton	—	—	—	—	—	—	—	—	70%
	Jonny Mason[2]	—	—	—	—	—	—	—	—	42.3%
	Jill McDonald	—	—	—	—	—	—	23.5%	—	—
	Matt Davies	—	—	—	50%	97.5%	—	—	—	—
	David Wild	80%	—	0%	—	—	—	—	—	—
PSP vesting (% of maximum)	Graham Stapleton	—	—	—	—	—	—	—	—	—
	Jonny Mason[2]	—	—	—	—	—	—	—	—	—
	Jill McDonald	—	—	—	—	—	—	—	—	—
	Matt Davies	—	—	—	—	—	—	—	—	—
	David Wild	—	—	99%	—	—	—	—	—	—

1 Graham Stapleton was appointed in January 2018.

2 Jonny Mason was appointed as interim Chief Executive Officer for the period from September 2017 to the date of Graham Stapleton joining in January 2018, and the figures represent prorated amounts of his bonus and overall remuneration for FY18.

3 Jill McDonald was appointed in May 2015 and resigned as CEO in September 2017.

4 Matt Davies was appointed in October 2012 and resigned as CEO in April 2015.

5 David Wild resigned as CEO in July 2012.

Annual Remuneration Report

Shareholding Guidelines

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

	Graham Stapleton	Jonny Mason
Shareholding guideline	200%	200%
Shareholding as at 29 March 2018*	0	75,000
Current value (based on share price on 29 March 2018*)	£0	£244,500
Current % of salary	0%	67%

* This being the last trading day of the Financial Year ended 30 March 2018.

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 30 March 2018 and 22 May 2018.

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, between 1 April 2017 and 29 September 2017, Jill McDonald received fees of £43,500 as a non-executive director of Inter Continental Hotels Group plc.

Loss of Office Payments (Audited)

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

Payments to Former Directors (Audited)

No payments were made to former Directors during the year.

How the Remuneration Policy was Implemented in FY18 – Non-Executive Directors

Non-Executive Director single figure comparison (audited)

Director	Role	Board Fees	Senior Independent Director	Committee Chairman Fees	Total 'Single Figure' 2018	Total 'Single Figure' 2017
Dennis Millard	Chairman	185,000	—	—	**185,000**	185,000
David Adams	Senior Independent Director and Audit Committee Chairman	50,000	10,000	10,000	**70,000**	70,000
Claudia Arney	Remuneration Committee Chairman	50,000	—	10,000	**60,000**	60,000
Helen Jones	CSR Committee Chairman	50,000	—	5,000	**55,000**	55,000
Totals		335,000	10,000	25,000	**370,000**	370,000

Non-Executive Director Shareholding

Director	2018	2017
Dennis Millard	**70,000**	70,000
David Adams	**7,675**	7,284
Claudia Arney	**21,052**	21,052
Helen Jones	**3,000**	3,000

These figures include those of their spouses, civil partners and infant children, or stepchildren, as required by Section 822 of the Companies Act 2006. There was no change in these beneficial interests between 30 March 2018 and 22 May 2018.

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

How the Remuneration Policy will be Implemented for FY19 — Executive Directors

Salary

Current salaries for the Executive Directors are as follows:

Chief Executive Officer	£535,000
Chief Financial Officer	£364,140

Salaries will next be reviewed with effect from 1 October 2018.

Annual Bonus

The annual bonus opportunity for 2018/2019 will be as follows:

Chief Executive Officer and Chief Financial Officer	Maximum opportunity of 150% of base salary 2/3 paid in cash 1/3 paid in Halfords shares deferred for three years

The annual bonus will continue to be based 80% on Profit Before Tax ("PBT") performance and 20% based on performance against strategic objectives. PBT targets range from 95% of budget, where payment is 15% to 110% of budget for maximum payment. The Committee reviews the goals included in the strategic objectives portion of the bonus to ensure that they remain appropriate. These objectives include metrics in relation to customer service, colleague engagement, digital and service sales growth.

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. Bonus targets are released retrospectively as they 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.

Performance Share Plan ("PSP")

As outlined in the Remuneration Committee Chair's letter, it is important that the performance targets attached to the FY19 LTIP awards are fully aligned with Halfords' strategy over the next three years. As we set out elsewhere in the annual report, it is anticipated that our strategic review will be finalised and the outcome communicated to the market in September 2018. Immediately following this, the Committee will consider and set the performance targets, which is currently expected to be in September 2018. Full details of the targets will be disclosed to shareholders at that time, and also in next year's Remuneration Report.

Annual Remuneration Report

How the Remuneration Policy will be Implemented for FY19 — Non-Executive Directors

Fees

The fees of Non-Executive Directors are normally reviewed every two years. Any changes to these fees will be approved by the Board as a whole following a recommendation from the Chief Executive Officer. In March 2018, the fees of Non-Executive Directors were reviewed, as the previous review was in April 2016.

Following this review, the basic fee of the Chairman and the Non-Executive Directors was increased by 4% with effect from 1 April 2018. Current fees for Non-Executive Directors are as follows:

	2019	2018
Chairman	£192,400	£185,000
Base fee	£52,000	£50,000
Additional fees		
Senior Independent Director	£10,000	£10,000
Committee Chairman (Audit and Remuneration)	£10,000	£10,000
Committee Chairman (CSR)	£5,000	£5,000

Change in Remuneration of Chief Executive Officer Compared to Group Employees

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

	% change in base salary FY17 to FY18	**% change in bonus earned FY17 to FY18**	**% change in benefits FY17 to FY18**
Chief Executive Officer	2%[1]	No change	No change
All colleagues	2.37%	45%[2]	No change

1 The budget across the business was 3% and the application awarded to all colleagues was 2% with an additional 1% merit pot.

2 Based on all colleagues in receipt of bonus in both years.

Gender Pay Gap Report

Details of the Group's Gender Pay Gap Report for 5 April 2017 can be found in the CSR Report on page 26.

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.

	2018	2017
EBITDA (underlying)	**£109.5m**	£108.7m
PBT (underlying)	**£71.6m**	£75.4m
Returned to shareholders:		
Dividend	**N/A**	£53.5m
Payments to employees:		
Wages and salaries	**£210.5m**	£195.5m
Executive Directors[1]	**£2.8m**	£1.3m

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 International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("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 accounting 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, 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 comply 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 Group website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility Statement

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; and
- the Annual Report and Accounts include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Approved by order of the Board.

Dennis Millard
Chairman
22 May 2018

FINANCIAL STATEMENTS

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

1. Our opinion is unmodified

We have audited the financial statements of Halfords Group plc for the year ended 30 March 2018 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Company Balance Sheet, Consolidated Statement of Cash Flows, Consolidated and Company Statements of Changes in Shareholders' Equity, and the related notes, including the accounting policies on pages 100 to 147.

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 30 March 2018 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, including FRS 101 Reduced Disclosure Framework; 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders on 29 July 2009. The period of total uninterrupted engagement is for the 9 financial years ended 30 March 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: group financial statements as a whole		£3.2m (2017: £3.3m) 4.7% (2017: 4.7%) of normalised profit before tax
Coverage		100% (2017:100%) of group profit before tax
Risks of material misstatement		**vs 2017**
Recurring risks	Carrying amount of Autocentres Goodwill	←→
	Carrying value of Retail division inventory	←→
Parent company	Recoverability of parent company's debtor balance	←→

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarize below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Carrying amount of Autocentres (Car Servicing) Goodwill (£69.7 million; FY17: £69.7 million) Refer to page 76 (Audit Committee Report), page 108 (accounting policy) and page 124 (financial disclosures).	**Forecast-based estimate** Following the acquisition of Nationwide Autocentres in 2010, the Group holds significant goodwill in the Autocentres division. The business operates in a competitive market, and commercial factors, changes to market share or changes to the frequency with which customers replace their cars, may lead to a risk that the business does not meet the growth projections. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting these cash flows and therefore, this is considered to be one of the key judgemental areas that our audit is concentrated on.	**Our procedures included:** • **Benchmarking assumptions**: Comparing the Group's assumptions, in particular those relating to forecast long term growth rates and discount rates, to externally derived data and budgeted growth rate to industry forecasts and assessing the historical forecasting accuracy; • **Historical comparisons**: Assessing the Group's performance against budget in the current and prior periods to evaluate the historical accuracy of the Group's forecasts; • **Sensitivity analysis**: Performing sensitivity analysis on the assumptions, including budgeted growth rates, discount rate and terminal growth rate; • **Comparing valuations**: Comparing the sum of the discounted cash flows to the Group's market capitalisation to assess the reasonableness of those cash flows; and • **Assessing transparency**: Assessing whether the group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill. **Our result** We have found the carrying amount of Autocentres (Car Servicing) goodwill to be acceptable.

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

	The risk	Our response
Carrying value of Retail division inventory (£186.8 million; FY17: £181.4 million) Refer to page 76 (Audit Committee Report), page 110 (accounting policy) and page 127 (financial disclosures).	**Subjective estimate**: Inventories are carried at the lower of cost and net realisable value. The estimated net realisable value of inventory and associated provisions are subjective due to the inherent uncertainty in predicting consumer demand. The obsolete stock provision is based on a model which includes consideration of each inventory line, recent sales of those lines and the product's position in its lifecycle. The Group further overlays specific provisions to account for other matters not captured in the model, such as known stock losses and faulty goods. There is a risk that the Group's assessment of the level of these provisions is insufficient or inaccurate.	**Our procedures included**: • **Assessing methodology**: Assessing the adequacy of the Group's inventory provision methodology based on our knowledge of the industry and factors specific to the Group; • **Assessing assumptions:** Assessing and challenging the directors assumptions behind the changes to the provision methodology against our own knowledge of the industry and factors specific to the Group; • **Tests of detail**: Testing the key inputs to the provisioning model, including recent sales data and inventory costing; • **Historical comparisons**: Assessing the accuracy of inventory provisioning by checking the historical accuracy of the level of inventory provisions in prior periods; and • **Assessing transparency**: Assessing the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the provision. **Our result** As a result, we consider the carrying value of retail division inventory to be acceptable.
Recoverability of parent's debt due from group entities (£485.8 million; FY17: £478.5 million) Refer to page 146 (financial disclosures).	**Low risk, high value** The carrying amount of the group undertakings represents 95% of the parent company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	**Our procedures included**: • **Tests of detail**: Assessing 100% of group debtors balance to identify, with reference to the relevant debtors net assets, both individually and collectively with their own subsidiaries where relevant, to consider whether they have a positive net asset value and therefore coverage of the debt owed. We considered the results of our audit work over those net assets. **Our result** We found the group's assessment of the recoverability of the group debtor balance to be acceptable.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £3.2 million (FY17: £3.3 million), determined with reference to a benchmark of group profit before tax normalised to exclude one off Directors' remuneration (see note 5), of £68.1 million, of which it represents 4.7% (FY17: with reference to a benchmark of group profit before tax, of which it represented 4.7%).

Materiality for the parent company financial statements as a whole was set at £2.8 million (FY17: £ 3.0 million), determined with reference to a benchmark of total assets, of which it represents 0.6% (FY17: 0.6%).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.16 million (FY17: £0.17 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 4 (FY17: 5) components, we subjected 4 (FY17: 5) to full scope audits for group purposes. Cycle Republic was split out as a separate component in FY17 but this year has been included within Halfords Retail. All components are located in the UK.

The components within the scope of our work accounted for the percentages illustrated opposite.

The group team approved the component materialities, which ranged from £0.5 million to £2.9 million (FY17: £0.1 million to £3.0 million), having regard to the mix of size and risk profile of the Group across the components. The work, including the audit of the parent Company, was performed by the group team. The group team also performed procedures on the items excluded from normalised group profit before tax.

4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement on page 91 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under Listing Rules set out on page 56 is materially inconsistent with our audit knowledge

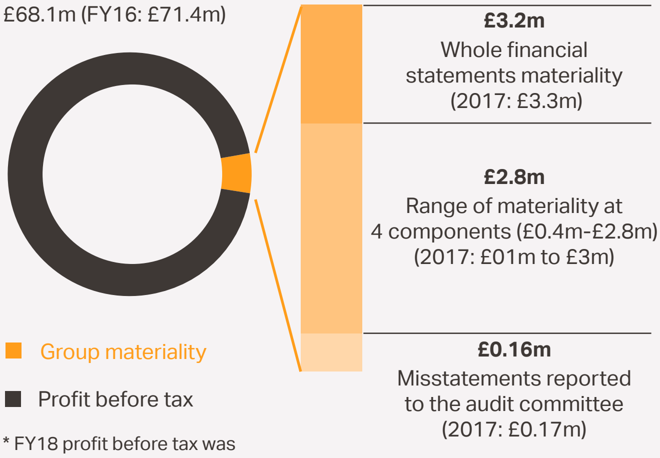
We have nothing to report in these respects.

Normalised profit before tax*

£68.1m (FY16: £71.4m)

Materiality

£3.2m (2017: £3.3m)



■ Group materiality

■ Profit before tax

* FY18 profit before tax was normalised to exclude one off Directors' remuneration (see note 5)

Group revenue

■ FY2017	100%
■ FY2018	100%

Group profit before tax

■ FY2017	100%
■ FY2018	100%

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

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement on page 55 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements 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 position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 91, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience through discussion with the directors and other management (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations, irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Michael Froom (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway Birmingham
B4 6GH
22 May 2018

Consolidated Income Statement

For the period	Notes	52 weeks to 30 March 2018 Before Non-recurring items £m	Non-recurring items (note 5) £m	Total £m	52 weeks to 31 March 2017 Before Non-recurring items £m	Non-recurring items (note 5) £m	Total £m
Revenue		**1,135.1**	**—**	**1,135.1**	1,095.0	—	1,095.0
Cost of sales		**(564.9)**	**—**	**(564.9)**	(536.4)	—	(536.4)
Gross profit		**570.2**	**—**	**570.2**	558.6	—	558.6
Operating expenses	2	**(495.6)**	**(4.8)**	**(500.4)**	(481.5)	(3.4)	(484.9)
Results from operating activities	3	**74.6**	**(4.8)**	**69.8**	77.1	(3.4)	73.7
Finance costs	6	**(3.1)**	**0.3**	**(2.8)**	(3.2)	(0.6)	(3.8)
Finance income	6	**0.1**	**—**	**0.1**	1.5	—	1.5
Net finance expense		**(3.0)**	**0.3**	**(2.7)**	(1.7)	(0.6)	(2.3)
Profit before income tax		**71.6**	**(4.5)**	**67.1**	75.4	(4.0)	71.4
Income tax expense	7	**(13.2)**	**0.8**	**(12.4)**	(15.9)	0.9	(15.0)
Profit for the financial period attributable to equity shareholders		**58.4**	**(3.7)**	**54.7**	59.5	(3.1)	56.4
Earnings per share							
Basic	9	**29.6p**		**27.8p**	30.3p		28.7p
Diluted	9	**29.4p**		**27.5p**	30.2p		28.6p

All results relate to continuing operations of the Group.

The notes on pages 117 to 141 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Notes	**52 weeks to 30 March 2018 £m**	52 weeks to 31 March 2017 £m
Profit for the period		**54.7**	56.4
Other comprehensive income			
Cash flow hedges:			
Fair value changes in the period		**(11.0)**	14.8
Transfers to inventory		**—**	(12.8)
Transfers to net profit:			
Cost of sales		**1.3**	(5.1)
Income tax on other comprehensive income	7	**0.2**	0.5
Other comprehensive income for the period, net of income tax		**(9.5)**	(2.6)
Total comprehensive income for the period attributable to equity shareholders		**45.2**	53.8

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 117 to 141 are an integral part of these consolidated financial statements.

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Consolidated Statement of Financial Position

	Notes	30 March 2018 £m	31 March 2017 £m
Assets			
Non-current assets			
Intangible assets	11	**393.9**	394.1
Property, plant and equipment	12	**101.3**	102.8
Investments	13	**8.1**	8.1
Total non-current assets		**503.3**	505.0
Current assets			
Inventories	14	**195.5**	191.1
Trade and other receivables	15	**56.0**	58.4
Derivative financial instruments	21	**0.3**	5.2
Cash and cash equivalents	16	**27.0**	16.5
Total current assets		**278.8**	271.2
Total assets		**782.1**	776.2
Liabilities			
Current liabilities			
Borrowings	17	**(20.8)**	(19.8)
Derivative financial instruments	21	**(5.4)**	(1.5)
Trade and other payables	18	**(187.0)**	(206.2)
Current tax liabilities		**(3.3)**	(8.7)
Provisions	19	**(11.9)**	(11.0)
Total current liabilities		**(228.4)**	(247.2)
Net current assets		**50.4**	24.0
Non-current liabilities			
Borrowings	17	**(94.0)**	(82.6)
Accruals and deferred income – lease incentives	18	**(31.2)**	(31.9)
Deferred tax liability	20	**(2.7)**	(0.8)
Provisions	19	**(3.9)**	(6.2)
Total non-current liabilities		**(131.8)**	(121.5)
Total liabilities		**(360.2)**	(368.7)
Net assets		**421.9**	407.5
Shareholders' equity			
Share capital	22	**2.0**	2.0
Share premium	22	**151.0**	151.0
Investment in own shares	22	**(9.4)**	(9.5)
Other reserves	22	**(2.9)**	0.6
Retained earnings		**281.2**	263.4
Total equity attributable to equity holders of the Company		**421.9**	407.5

The notes on pages 117 to 141 are an integral part of these consolidated financial statements.

The financial statements on pages 100 to 141 were approved by the Board of Directors on 22 May 2018 and were signed on its behalf by:

Jonny Mason
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 1 April 2016	2.0	151.0	(10.9)	0.3	2.9	260.1	**405.4**
Total comprehensive income for the period							
Profit for the period	—	—	—	—	—	56.4	**56.4**
Other comprehensive income							
Cash flow hedges:							
Fair value changes in the period	—	—	—	—	14.8	—	**14.8**
Transfers to inventory	—	—	—	—	(12.8)	—	**(12.8)**
Transfers to net profit:							
Cost of sales	—	—	—	—	(5.1)	—	**(5.1)**
Income tax on other comprehensive income	—	—	—	—	0.5	—	**0.5**
Total other comprehensive income for the period net of tax	—	—	—	—	(2.6)	—	**(2.6)**
Total comprehensive income for the period	—	—	—	—	(2.6)	56.4	**53.8**
Transactions with owners							
Share options exercised	—	—	1.4	—	—	—	**1.4**
Share-based payment transactions	—	—	—	—	—	1.0	**1.0**
Income tax on share-based payment transactions	—	—	—	—	—	(0.6)	**(0.6)**
Dividends to equity holders	—	—	—	—	—	(53.5)	**(53.5)**
Total transactions with owners	—	—	1.4	—	—	(53.1)	**(51.7)**
Balance at 31 March 2017	2.0	151.0	(9.5)	0.3	0.3	263.4	**407.5**
Total comprehensive income for the period							
Profit for the period	—	—	—	—	—	54.7	**54.7**
Other comprehensive income							
Cash flow hedges:							
Fair value changes in the period	—	—	—	—	(11.0)	—	**(11.0)**
Transfers to net profit:							
Cost of sales	—	—	—	—	1.3	—	**1.3**
Transfer between reserves	—	—	—	—	1.7	(1.7)	**—**
Income tax on other comprehensive income	—	—	—	—	0.2	—	**0.2**
Total other comprehensive income for the period net of tax	—	—	—	—	(7.8)	(1.7)	**(9.5)**
Total comprehensive income for the period	—	—	—	—	(7.8)	53.0	**45.2**
Hedging gains and loses and costs of hedging transferred to the cost of inventory	—	—	—	—	4.3	—	**4.3**
Transactions with owners							
Share options exercised	—	—	0.1	—	—	—	**0.1**
Share-based payment transactions	—	—	—	—	—	(0.4)	**(0.4)**
Income tax on share-based payment transactions	—	—	—	—	—	—	—
Dividends to equity holders	—	—	—	—	—	(34.8)	**(34.8)**
Total transactions with owners	—	—	0.1	—	—	(35.2)	**(35.1)**
Balance at 30 March 2018	**2.0**	**151.0**	**(9.4)**	**0.3**	**(3.2)**	**281.2**	**421.9**

The notes on pages 117 to 141 are an integral part of these consolidated financial statements.

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Consolidated Statement of Cash Flows

	Notes	**52 weeks to 30 March 2018 £m**	52 weeks to 31 March 2017 £m
Cash flows from operating activities			
Profit after tax for the period, before non-recurring items		**58.4**	59.5
Non-recurring items		**(3.7)**	(3.1)
Profit after tax for the period		**54.7**	56.4
Depreciation and impairment - property, plant and equipment		**24.0**	21.6
Amortisation - intangible assets		**10.9**	10.0
Net finance costs		**2.7**	2.3
Loss on disposal of property, plant and equipment		**4.1**	0.2
Equity-settled share-based payment transactions		**0.4**	1.0
Exchange movement		**1.9**	(1.8)
Income tax expense		**12.4**	15.0
(Increase) in inventories		**(4.4)**	(33.2)
Decrease in trade and other receivables		**2.4**	2.3
(Decrease)/increase in trade and other payables		**(10.6)**	14.6
(Decrease) in provisions		**(1.4)**	(0.2)
Finance income received		**0.1**	1.5
Finance costs paid		**(2.0)**	(2.3)
Income tax paid		**(16.1)**	(15.3)
Net cash from operating activities		**79.1**	72.1
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		**(5.1)**	(18.0)
Purchase of investment		**(3.5)**	(4.1)
Purchase of intangible assets		**(18.0)**	(18.4)
Purchase of property, plant and equipment		**(19.0)**	(16.0)
Net cash used in investing activities		**(45.6)**	(56.5)
Cash flows from financing activities			
Net proceeds from exercise of share options		**0.1**	1.4
Proceeds from loans, net of transaction costs		**415.2**	297.0
Repayment of borrowings		**(404.0)**	(251.0)
Payment of finance lease liabilities		**(0.6)**	(0.6)
Dividends paid		**(34.8)**	(53.5)
Net cash used in financing activities		**(24.1)**	(6.7)
Net increase in cash and bank overdrafts	I.	**9.4**	8.9
Cash and cash equivalents at the beginning of the period		**(1.9)**	(10.8)
Cash and cash equivalents at the end of the period	I.	**7.5**	(1.9)

Cash and cash equivalents at the period end consist of £27.0m (2017: £16.5m) of liquid assets and £19.5m (2017: £18.4m) of bank overdrafts.

The notes on pages 117 to 141 are an integral part of these consolidated financial statements.

Note to Consolidated Statement of Cash Flows

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

	At 31 March 2017 £m	Cash flow £m	Other non-cash changes £m	**At 30 March 2018 £m**
Cash and cash equivalents at bank and in hand	(1.9)	9.4	—	**7.5**
Debt due after one year	(72.0)	(11.2)	(0.5)	**(83.7)**
Total net debt excluding finance leases	(73.9)	(1.8)	(0.5)	**(76.2)**
Finance leases due within one year	(1.4)	0.6	(0.5)	**(1.3)**
Finance lease due after one year	(10.6)	—	0.3	**(10.3)**
Total finance leases	(12.0)	0.6	(0.2)	**(11.6)**
Total net debt	(85.9)	(1.2)	(0.7)	**(87.8)**

Non-cash changes include finance costs in relation to the amortisation of capitalised debt issue costs of £0.5m (2017: £0.7m) and changes in classification between amounts due within and after one year.

Cash and cash equivalents at the period end consist of £27.0m (2017: £16.5m) of liquid assets and £19.5m (2017: £18.4m) of bank overdrafts.

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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 30 March 2018 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 54, and under the historical cost convention, except where adopted IFRSs require an alternative treatment. The principal variations relate to financial instruments (IFRS 9 "Financial instruments") 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 30 March 2018, whilst the comparative period covered the 52 weeks to 31 March 2017.

Basis of Consolidation

Subsidiary Undertakings

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

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

The financial statements of all subsidiary undertakings are prepared to the same reporting date as the Company. All subsidiary undertakings have been consolidated.

The subsidiary undertakings of the Company at 30 March 2018 are detailed in note 4 to the Company balance sheet on page 142.

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

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.

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. 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.

Accounting Policies

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, in respect of Autocentres, and 10 years in respect of cBoardman;
- 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.

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 are 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.

Accounting Policies

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 purchase costs, adjusted for rebates and other costs incurred in bringing them to their existing location.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Details of the provisions recognised and the significant estimates and judgements can be seen in note 19.

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 quantum and/or 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 onerous contracts in loss-making stores and Autocentres which management do 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 management's 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 management's best estimate of the obligation which forms part of the Group's unavoidable cost of meeting its obligations under the lease contracts. Key uncertainties are the estimates of amounts due.

Provisions for employer and product liability claims are recognised when an incident occurs or when a claim made against the Group is received that could lead to there being an outflow of benefits from the Group. The provision is based on management's best estimate of the settlement assisted by an external third party. The main uncertainty is the likelihood of success of the claimant and hence the pay-out, however a provision is only recognised where there is considered to be reasonable grounds for the claim.

Financial Instruments

i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially recognised at the transaction price.

ii) Classification and subsequent measurement

Financial assets – policy applicable from 1 April 2017

On initial recognition, a financial asset is measured at: amortised cost; FVOCI – equity instrument; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets (Note 21). On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets: Business model assessment – policy applicable from 1 April 2017

The Group makes an assessment of the objective of the business model in which a financial asset is held at a CGU level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the business unit and the operation of those policies in practice. This includes whether a management's strategy focuses on earning contractual interest income, maintaining a particular interest rate portfolio, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- How the performance of the business unit is evaluated and reported to Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business unit) and how those risks are managed;
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest – policy applicable from 1 April 2017

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- Contingent events that would change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable rate features;
- Prepayment and extension features; and
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

Financial assets: Subsequent measurement and gains and losses – policy applicable from 1 April 2017

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit and loss. However, see Note 21 for derivatives designated as hedging instruments.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of investment. Other net gains and losses are recognised in OCI and never reclassified to profit or loss.

Financial liabilities: Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit and loss. All other financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Accounting Policies

iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

iv) Offsetting

Financial assets and financial liabilities are offset and the net position presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

v) Derivatives

Derivative financial instruments are used to manage risks arising from changes in foreign currency exchange rates relating to the purchase of overseas sourced products. The Group does not hold or issue derivative financial instruments for trading purposes. The Group uses the derivatives to hedge highly probable forecast transactions and therefore the instruments are designated as cash flow hedges.

Derivatives are initially recognised at fair value on the date a contract is entered into and are subsequently remeasured at their fair value.

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in the cash flows of the hedged item and hedging instrument are expected to offset each other.

The effective element of any gain or loss from re-measuring the derivative instrument is recognised in OCI and accumulated in the hedging reserve. Any element of the re-measurement 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 the hedged forecast transaction subsequently results in the recognition of a non-financial item such as inventory, the amount accumulated in the hedging reserve is included directly in the initial cost of the non-financial item when it is recognised.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is recognised immediately in profit or loss.

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months or as a current asset or liability, if the remaining maturity of the hedged item is less than 12 months.

vi) Impairment

Policy applicable from 1 April 2017

The Group recognises loss allowances for expected credit losses ("ECLs") on financial asset measured at amortised cost. These are always measured at an amount equal to lifetime ECL. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both qualitative and quantitative information and analysis, based on the Group's historical experience and informed credit assessment and forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Group considers a financial asset to be in default when the financial asset is more than 90 days past due.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have the assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Policy before 1 April 2017

A provision for impairment of trade receivables was established when there was objective evidence that the Group would not be able to collect all amounts due according to the original terms of receivables. The amount of the provision was determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, and was recognised in the income statement in operating expenses.

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.

Judgements made by the directors in the application of these accounting policies that have a significant effect on the financial statements, relating to intangible asset valuations, estimates with a significant risk of material adjustment in the next year, relating to allowances against the carrying value of inventories, and other estimates, relating to impairment of assets are detailed below.

Allowances Against the Carrying Value of Inventories

The Group reviews the market value of and demand for its inventories on a periodic basis to ensure that recorded inventory is stated at the lower of cost and net realisable value. In assessing the ultimate realisation of inventories, the Group is required to make 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.

Intangible Asset Valuations

The measurement of fair values on a business combination, the most recent of which was in FY17, 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 intangible assets relating to customer relationships involves judgement as to customer retention rates applicable.

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. As stated in the Audit Committee report on page 76, the key judgement relates to the Car Servicing business. Recoverable amount is based on a calculation of expected future cash flows, which includes management assumptions and estimates of future performance. Details of the assumptions used in the impairment review of goodwill and other assets are explained in Note 11.

The carrying amount of these assets and liabilities can be seen in the notes to the financial statements on pages 117 to 141.

Adoption of New and Revised Standards

The following standards and interpretations are applicable to the Group were adopted in the current period as they were mandatory for the year ended 30 March 2018 but either had no material impact on the result or net assets of the Group or were not applicable.

- IAS 7 'Statement of cash flows' – amendments relating to the Disclosure Initiative.
- IAS 12 'Income taxes' – amendments relating to recognition of deferred tax assets for unrealised losses.
- IFRS 4 'Insurance contracts' – amendments relating to applying IFRS 9 with this standard.
- Annual improvements to IFRS 2014 – 2016 Cycle (amendments to IFRS 12).

The Group has early adopted IFRS 9 'Financial Instruments' issued in July 2014 with a date of initial application of 1 April 2017. The requirements of IFRS 9 represent a significant change from IAS 39 'Financial Instruments: Recognition and Measurement'.

The nature and effects of the key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarised below.

As a result of the adoption of IFRS 9, the Group adopted consequential amendments to IFRS 7 'Financial Instruments: Disclosures' that are applied to disclosures about 2017 but generally have not been applied to comparative information.

Accounting Policies

i) Classification of financial assets and financial liabilities
IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, investments in equity instruments that do not have a quoted price in an active market for an identical instrument are now measured at fair value rather than at cost. At application, any difference between the previous carrying amount and the fair value is recognised in the opening retained earnings for the financial year ended 30 March 2018.

For an explanation of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9, see Note 21.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies for financial liabilities.

ii) Impairment of financial assets
IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39 – see Note 21.

iii) Hedge accounting
The Group has elected to adopt the new general hedge accounting model in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

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 re-measuring 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 re-measurement 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.

As the derivatives are used for forecast inventory purchases, the amounts accumulated in the cash flow hedge reserve are included directly in the initial cost of the inventory item once the inventory is recognised.

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.

For an explanation of how the Group applies hedge accounting under IFRS 9, see Note 21.

iv) Transition
Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- The following assessments have been made on the basis of facts and circumstances that existed at the date of initial application:
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity not held for trading as at FVOCI.
- Changes to hedge accounting policies have been applied prospectively.
- All hedging relationships designated under IAS 39 at 31 March 2017 met the criteria for hedge accounting under IFRS 9 at 1 April 2017 and are therefore regarded as continuing hedging relationships.

There was no impact, net of tax, on reserves and retained earnings at 1 April 2017.

v) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and liabilities as at 1 April 2017.

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 £m	New carrying amount under IFRS 9 £m
Financial assets					
Equity investments	13	FVPTL	FVOCI	8.1	8.1
Forward exchange contracts used for hedging		Fair value – hedging instrument	Fair value – hedging instrument	5.2	5.2
Trade and other receivables*	15	Loans and receivables	Amortised cost	28.5	28.5
Cash and cash equivalents	16	Loans and receivables	Amortised cost	16.5	16.5
Total financial assets				**58.3**	**58.3**

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 £m	New carrying amount under IFRS 9 £m
Financial liabilities					
Forward exchange contracts used for hedging		Fair value – hedging instrument	Fair value – hedging instrument	(1.5)	(1.5)
Borrowings	17	Other financial liabilities	Other financial liabilities	(90.4)	(90.4)
Current tax liabilities		Other financial liabilities	Other financial liabilities	(8.7)	(8.7)
Finance lease liabilities	17	Other financial liabilities	Other financial liabilities	(12.0)	(12.0)
Trade and other payables**	18	Other financial liabilities	Other financial liabilities	(113.2)	(113.2)
Total financial liabilities				**(225.8)**	**(225.8)**

* Prepayments and accrued income of £29.9m are not included as a financial asset.

** Other taxation and social security payables of £25.1m, deferred income of £36.2m, accruals of £42.7m and other payables of £20.9m are not included as a financial liability.

The Group's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 21. The application of these policies resulted in reclassifications set out in the table above and explained below.

a. These equity investments represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. There is no impact recognition of the investment as transition.

b. Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. There was no increase in the allowance for impairment that was recognised in opening retained earnings at 1 April 2017 on transition to IFRS 9.

Hedge accounting

The retrospective application of IFRS 9 to hedge accounting has had no impact on the amounts presented for 2017 in respect of reserves or retained earnings.

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Accounting Policies

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.

- IFRIC 22 'Foreign Currency Transactions and Advance Consideration'.
- IFRS 2 'Share-based payment' – amendment relating to classification and measurement of share-based payment transactions.
- IFRS 40 'Investment property' – amendment relating to transfers of investment property.
- Annual improvements to IFRS 2014 – 2016 Cycle (amendments to IFRS 1 and IAS 28).

The following standards and interpretations have been published but not yet endorsed by the EU. 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 17 'Insurance contracts' – new standard requiring insurance liabilities to be measured at a current fulfilment value and providing a more uniform measurement and presentation approach for all insurance contracts.
- IAS 28 'Investments in associates' – amendments relating to long-term interests in associates and joint ventures.
- IAS 19 'Employee benefits' – amendments relating to plan amendment, curtailment or settlement.
- IFRIC 23 'Uncertainty over Income Tax Treatments'.
- Annual improvements to IFRS 2015 – 2017 Cycle.
- Amendments to References to the Conceptual Framework in IFRS standards.

The key new standards and interpretations affecting the Group are described below. The Group does not intend to early adopt these standards.

- IFRS 15 'Revenue from contracts with customers' will be first effective for the year ended 29 March 2019. The Group has substantially completed an assessment of the impact of IFRS 15 and it is expected that adoption will not materially impact the Group's profit or net assets, on the basis that the majority of the Group's sales are for standalone products made direct to customers at standard prices either in-store or online. Provisions are already held for expected levels of returns and gift cards.
- IFRS 16 'Leases' will be first effective for the year ending 3 April 2020. The Group has a large portfolio of leased properties and other equipment, including stores and warehouses. The minimum lease commitment on these is disclosed in note 12.

On adoption of IFRS 16, the lessee is required to recognise a right of use asset and a lease liability for future lease payables. The nature of expenses related to these leases will change because IFRS 16 replaces the straight line operating lease expense with a depreciation charge for right of use assets and interest expense on lease liabilities.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements, but has not yet completed its detailed assessment. The exact financial impact of the standard is as yet unknown, as a number of factors will impact the calculation of the liability, such as discount rate and the expected term of leases including renewal options.

The Group plans to apply IFRS 16 initially on 30 March 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 30 March 2019, with no restatement of comparative information.

When applying a modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

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 believe that these measures are the most relevant in evaluating the performance of the segment and for making resource allocation decisions.

The following summary describes the operations in each of the Group's reportable segments. Performance is measured based on segment operating profit, as included in the management reports that are reviewed by the Executive Directors. These internal reports are prepared in accordance with IFRS accounting policies 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 30 March 2018 Total £m**
Revenue	**977.2**	**157.9**	**1,135.1**
Segment result before non-recurring items	**72.6**	**4.1**	**76.7**
Non-recurring items	**(4.8)**	**—**	**(4.8)**
Segment result	**67.8**	**4.1**	**71.9**
Unallocated expenses[1]			**(2.1)**
Operating profit			**69.8**
Net financing expense			**(2.7)**
Profit before tax			**67.1**
Taxation			**(12.4)**
Profit for the year			**54.7**

Income statement	Retail £m	Car Servicing £m	52 weeks to 31 March 2017 Total £m
Revenue	938.4	156.6	1,095.0
Segment result before non-recurring items	76.8	2.2	79.0
Non-recurring items	(3.1)	(0.3)	(3.4)
Segment result	73.7	1.9	75.6
Unallocated expenses[1]			(1.9)
Operating profit			73.7
Net financing expense			(2.3)
Profit before tax			71.4
Taxation			(15.0)
Profit for the year			56.4

1 Unallocated expenses have been disclosed to reflect the format of the internal management reports reviewed by the Chief Operating Decision Maker and include an amortisation charge of £2.1m in respect of assets acquired through business combinations (2017: £1.9m).

Notes to the Financial Statements

1. Operating Segments continued

Other segment items:	Retail £m	Car Servicing £m	52 weeks to 30 March 2018 Total £m
Capital expenditure	**30.3**	**7.0**	**37.3**
Depreciation and impairment expense	**18.1**	**5.9**	**24.0**
Amortisation expense	**8.3**	**0.5**	**8.8**

Other segment items:	Retail £m	Car Servicing £m	52 weeks to 31 March 2017 Total £m
Capital expenditure	29.5	6.6	36.1
Depreciation and impairment expense	16.5	5.1	21.6
Amortisation expense	7.9	0.2	8.1

There have been no significant transactions between segments in the 52 weeks ended 30 March 2018 (2017: £nil).

2. Operating Expenses

For the period	52 weeks to 30 March 2018 £m	52 weeks to 31 March 2017 £m
Selling and distribution costs	**410.0**	401.5
	410.0	401.5
Administrative expenses, before non-recurring items	**85.6**	80.0
Non-recurring administrative expenses	**4.8**	3.4
	90.4	83.4
	500.4	484.9

3. Operating Profit

For the period	52 weeks to 30 March 2018 £m	52 weeks to 31 March 2017 £m
Operating profit is arrived at after charging/(crediting) the following expenses/(incomes) as categorised by nature:		
Operating lease rentals:		
– plant and machinery	**2.8**	2.0
– property rents	**92.1**	91.7
– rentals receivable under operating leases	**(3.6)**	(3.8)
Landlord surrender premiums	**(2.1)**	(1.9)
Loss on disposal of property, plant and equipment	**4.1**	0.2
Amortisation of intangible assets	**10.9**	10.0
Depreciation and impairment of:		
– owned property, plant and equipment	**23.0**	20.8
– assets held under finance leases	**1.0**	0.8
Trade receivables impairment	**0.2**	0.1
Staff costs (see note 4)	**231.4**	219.7
Cost of inventories consumed in cost of sales	**555.9**	524.7

3. Operating Profit continued

The total fees payable by the Group to KPMG LLP and their associates during the period was £0.2m (2017: £0.4m), in respect of the services detailed below:

For the period	52 weeks to 30 March 2018 £'000	52 weeks to 31 March 2017 £'000
Fees payable for the audit of the Company's accounts	**30**	30
Fees payable to KPMG LLP and their associates in respect of:		
The audit of the Company's subsidiary undertakings, pursuant to legislation	**171**	205
Audit-related assurance services	**15**	15
Other assurance services	**—**	75
All other services	**—**	75
	216	400

4. Staff Costs

For the period	52 weeks to 30 March 2018 £m	52 weeks to 31 March 2017 £m
The aggregated remuneration of all employees, including Directors, comprised:		
Wages and salaries	**210.5**	195.5
Social security costs	**15.0**	16.3
Equity settled share-based payment transactions (note 23)	**0.4**	1.0
Contributions to defined contribution plans (note 25)	**5.5**	6.9
	231.4	219.7

For the period	Number	Number
Average number of persons employed by the Group, including Directors, during the period:		
Stores/Autocentres	**9,678**	9,729
Central warehousing	**564**	527
Support Centre	**944**	945
	11,186	11,201

Key Management Compensation

For the period	52 weeks to 30 March 2018 £m	52 weeks to 31 March 2017 £m
Salaries and short-term benefits	**3.9**	4.5
Compensation for loss of office	**0.1**	0.2
Social security costs	**0.6**	0.8
Pensions	**0.3**	0.4
Share-based payment charge	**0.1**	0.4
	5.0	6.3

Key management compensation includes the emoluments of the Board of Directors (including Non-Executive Directors) and the emoluments of the Halfords Limited and Halfords Autocentres management boards.

Full details of Directors' remuneration and interests are set out in the Directors' Remuneration Report on pages 82 to 90 which form part of these financial statements.

Notes to the Financial Statements

5. Non-recurring Items

For the period	52 weeks to 30 March 2018 £m	52 weeks to 31 March 2017 £m
Non-recurring operating expenses:		
Organisational Restructure Costs (a)	**4.3**	0.6
Autocentres operational review (b)	**0.6**	—
Acquisition and investment related fees (c)	**0.2**	1.7
Operating lease obligation (d)	**(0.3)**	0.3
Costs in relation to a historic legal case (e)	**—**	0.8
Non-recurring operating expenditure	**4.8**	3.4
Acquisition related interest charge (f)	**(0.3)**	0.6
Non-recurring items before tax	**4.5**	4.0
Tax on non-recurring items (g)	**(0.8)**	(0.9)
Non-recurring items after tax	**3.7**	3.1

a. In the current and prior year separate and unrelated organisational restructuring activities were undertaken. These comprised:
   - Redundancy costs of £0.7m (FY17: £0.6m);
   - £1.0m provision for compensation to the new CEO on joining for foregoing entitlements from a previous employer, as outlined at the time of announcement of his appointment;
   - £1.5m in relation to a restructure of the Boardman business. Boardman has stopped selling directly to customers through the Boardman website. The website will be maintained as a 'brand' website, with customers being directed to purchase bikes predominantly through Cycle Republic; and
   - £1.1m in relation to asset write-offs, principally resulting from the strategic decision to close the marketplace offer on Halfords.com.

b. Costs of £0.6m were incurred in FY18 in relation to the review of the operating model of the Autocentres business.

c. In FY18 further acquisition and investment related fees were incurred relating to the investment in Tyres On The Drive. Prior year costs predominantly related to the acquisition of Tredz & Wheelies.

d. The operating lease obligation in the current year related to a provision release of £0.3m from amounts originally provided for the Group's guarantor obligations arising from historically held lease guarantees. Prior year costs related to rectification work to one of the Group's retail stores, which was required to make good an area of land upon which the store is located.

e. During the prior year the Group settled a court case which related to activities during FY12. The size and historic nature of the settlement was outside the normal experience of the Group.

f. There was a £0.3m credit from the release of the remaining portion of interest charge due on the contingent consideration for Tredz, which was paid in May 2017.

g. The tax credit of £0.8m represents a tax rate of 19.0% applied to non-recurring items. The prior period represents a tax credit at 20% applied to non-recurring items.

6. Finance Income and Costs

Recognised in profit or loss for the period	52 weeks to 30 March 2018 £m	52 weeks to 31 March 2017 £m
Finance costs:		
Bank borrowings	**(1.3)**	(1.1)
Amortisation of issue costs on loans	**(0.5)**	(0.7)
Commitment and guarantee fees	**(0.5)**	(0.6)
Acquisition related interest charges	**0.3**	(0.6)
Interest payable on finance leases	**(0.8)**	(0.8)
Finance costs	**(2.8)**	(3.8)
Finance income:		
Bank and similar interest	**0.1**	0.1
Income from forward foreign exchange contracts	**—**	1.4
Finance income	**0.1**	1.5
Net finance costs	**(2.7)**	(2.3)

7. Taxation

For the period	52 weeks to 30 March 2018 £m	52 weeks to 31 March 2017 £m
Current taxation		
UK corporation tax charge for the period	**12.5**	16.1
Adjustment in respect of prior periods	**(2.2)**	(0.3)
	10.3	15.8
Deferred taxation		
Origination and reversal of temporary differences	**0.8**	(0.4)
Adjustment in respect of prior periods	**1.3**	(0.4)
	2.1	(0.8)
Total tax charge for the period	**12.4**	15.0

The tax charge is reconciled with the standard rate of UK corporation tax as follows:

For the period	52 weeks to 30 March 2018 £m	52 weeks to 31 March 2017 £m
Profit before tax	**67.1**	71.4
UK corporation tax at standard rate of 19% (2017: 20%)	**12.7**	14.3
Factors affecting the charge for the period:		
Depreciation on expenditure not eligible for tax relief	**0.7**	1.7
Other disallowable expenses	**0.3**	0.3
Adjustment in respect of prior periods	**(0.9)**	(0.7)
Impact of overseas tax rates	**(0.3)**	(0.4)
Impact of change in tax rate on deferred tax balance	**(0.1)**	(0.2)
Total tax charge for the period	**12.4**	15.0

The UK corporation tax rate reduced from 20% to 19% (effective 1 April 2017) and will be further reduced to 17% (effective from 1 April 2020) following changes substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 30 March 2018 has been calculated based on the rate of 17% substantively enacted at the balance sheet date.

The effective tax rate of 18.5% (2017: 21.0%) is higher than the UK corporation tax rate principally due to the non-deductibility of depreciation charged on capital expenditure and non-deductible amortisation of intangible assets.

The tax charge for the period was £12.4m (2017: £15.0m), including a £0.8m credit (2017: £0.9m credit) in respect of tax on non-recurring items.

An income tax credit of £0.2m (2017: £0.5m credit) on other comprehensive income relates to the movement in fair valuing forward currency contracts outstanding at the year end. No other items within other comprehensive income have a tax impact.

In addition to the above, a £nil current tax debit (2017: £0.6m credit) and a £nil deferred tax credit (2017: £0.6m credit) is recognised in reserves in relation to employee share options.

The Group engages openly and proactively with tax authorities both in the UK and internationally, where it trades and sources products, and is considered low risk by HM Revenue & Customs ("HMRC"). The Company is fully committed to complying with all of its tax payment and reporting obligations.

In this period, the Group's contribution from both taxes paid and collected exceeded £168m (2017: £160m) with the main taxes including corporation tax of £16.1m (2017: £15.3m), net VAT of £67.2m (2017: £59.0m), employment taxes of £47.3m (2017: £48.3m) and business rates of £37.5m (2017: £37.3m).

Notes to the Financial Statements

8. Dividends

For the period	52 weeks to 30 March 2018 £m	52 weeks to 31 March 2017 £m
Equity – ordinary shares		
Final for the 52 weeks to 31 March 2017 – paid 11.68p per share (2017: 11.34p)	**23.0**	22.3
Interim for the 52 weeks to 30 March 2018 – paid 6.0p per share (2017: 5.83p)	**11.8**	11.5
Special dividend – nil p per share (2017: 10.0p)	**—**	19.7
	34.8	53.5

In addition, the Directors are proposing a final dividend in respect of the financial period ended 30 March 2018 of 12.03p per share (2017: 11.68p per share), which will absorb an estimated £23.7m (2017: £23.0m) of shareholders' funds. It will be paid on 31 August 2018 to shareholders who are on the register of members on 27 July 2018.

9. Earnings Per Share

Basic earnings per share are calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. The weighted average number of shares excludes shares held by an Employee Benefit Trust (see note 22) and has been adjusted for the issue/purchase of shares during the period.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the 52 weeks to 30 March 2018.

The Group has also chosen to present an alternative earnings per share measure, underlying earnings per share, with profit adjusted for non-recurring items because it better reflects the Group's underlying performance. This measure is defined on page 151.

For the period	52 weeks to 30 March 2018 Number of shares m	52 weeks to 31 March 2017 Number of shares m
Weighted average number of shares in issue	**199.1**	199.1
Less: shares held by the Employee Benefit Trust (weighted average)	**(2.1)**	(2.5)
Weighted average number of shares for calculating basic earnings per share	**197.0**	196.6
Weighted average number of dilutive shares	**1.6**	0.5
Total number of shares for calculating diluted earnings per share	**198.6**	197.1

For the period	52 weeks to 30 March 2018 £m	52 weeks to 31 March 2017 £m
Basic earnings attributable to equity shareholders	**54.7**	56.4
Non-recurring items (see note 5):		
Operating expenses	**4.8**	3.4
Finance costs	**(0.3)**	0.6
Tax on non-recurring items	**(0.8)**	(0.9)
Underlying earnings before non-recurring items	**58.4**	59.5

Earnings per share is calculated as follows:

For the period	52 weeks to 30 March 2018	52 weeks to 31 March 2017
Basic earnings per ordinary share	**27.8p**	28.7p
Diluted earnings per ordinary share	**27.5p**	28.6p
Basic underlying earnings per ordinary share	**29.6p**	30.3p
Diluted underlying earnings per ordinary share	**29.4p**	30.2p

10. Acquisition of Subsidiary

On 23 May 2016 the Group acquired 100% of the issued share capital of Tredz Limited and Wheelies Direct Limited for initial cash consideration of £19.2m (excluding transaction costs). The acquired businesses comprise, an online retailer of premium bikes and cycling parts, accessories and clothing, which trades UK-wide under the brand Tredz, and the UK's largest provider of bicycle replacement for insurance companies which trades under the brand Wheelies. The transaction has been accounted for using the acquisition method of accounting.

Contingent Consideration

In addition to the initial consideration, a liability of £5.5m was recognised at fair value in respect of contingent consideration due to the previous shareholders. The contingent consideration was paid in May 2017 for £5.1m.

The acquisition had the following impact on the Group's assets and liabilities:

	Book value £m	Fair value adjustment £m	Final fair value £m
Tredz and Wheelies net assets at the acquisition date			
Intangible assets and goodwill	0.8	(0.8)	—
Tangible assets	1.3	(0.1)	1.2
Inventories	5.7	(0.1)	5.6
Trade and other receivables	1.8	—	1.8
Cash	1.2	—	1.2
Trade and other payables	(6.1)	—	(6.1)
Borrowings	(0.3)	—	(0.3)
Current tax liabilities	(0.2)	—	(0.2)
Deferred tax liability	(0.2)	—	(0.2)
Total	**4.0**	**(1.0)**	**3.0**

Goodwill

Goodwill was recognised as a result of the acquisition as follows:

	£m
Total consideration	23.9
Less fair value of identifiable assets	(3.0)
Goodwill and intangible assets	**20.9**
Intangible Assets:	
Supplier relationships	7.8
Tredz and Wheelies Brand Names	5.6
Computer Software	0.5
Deferred tax liability	(2.5)
Goodwill	**9.5**

None of the goodwill acquired is expected to be deductible for income tax purposes. The goodwill relates to the assembled workforce of Tredz and Wheelies and future expansion and growth opportunities.

Notes to the Financial Statements

11. Intangible Assets

	Brand names and trademarks £m	Customer relationships £m	Supplier relationships £m	Favourable leases £m	Computer software £m	Goodwill £m	Total £m
Cost							
At 1 April 2016	4.2	14.9	—	2.3	37.5	355.2	414.1
Additions	5.6	—	7.8	—	18.3	9.5	41.2
Disposals	—	—	—	—	—	—	—
At 31 March 2017	9.8	14.9	7.8	2.3	55.8	364.7	455.3
Reclassification to Tangibles	—	—	—	—	(4.4)	—	(4.4)
Additions	—	—	—	—	18.0	—	18.0
Disposals	—	—	—	—	(4.5)	—	(4.5)
At 30 March 2018	**9.8**	**14.9**	**7.8**	**2.3**	**64.9**	**364.7**	**464.4**
Amortisation							
At 1 April 2016	1.6	9.2	—	0.5	18.2	21.7	51.2
Charge for the period	0.6	0.7	0.4	0.1	8.2	—	10.0
At 31 March 2017	2.2	9.9	0.4	0.6	26.4	21.7	61.2
Reclassification to Tangibles	—	—	—	—	(0.4)	—	(0.4)
Charge for the period	0.7	0.7	0.5	0.1	9.3	—	11.3
Disposals	—	—	—	—	(1.6)	—	(1.6)
At 30 March 2018	**2.9**	**10.6**	**0.9**	**0.7**	**33.7**	**21.7**	**70.5**
Net book value at 30 March 2018	**6.9**	**4.3**	**6.9**	**1.6**	**31.2**	**343.0**	**393.9**
Net book value at 31 March 2017	7.6	5.0	7.4	1.7	29.4	343.0	394.1

No intangible assets are held as security for external borrowings.

Product rights of £0.2m, which are fully amortised, have been included within brand names and trademarks.

Goodwill of £253.1m arose on the acquisition of Halfords Holdings Limited by the Company on 31 August 2002 and is allocated to the Retail segment. The goodwill relates to a portfolio of sites within the UK which management monitors on an overall basis as a group of cash-generating units being Retail. Goodwill of £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. Goodwill of £10.7m arose on the acquisition of Boardman Bikes Limited and Boardman International Limited on 4 June 2014 and is allocated to the Retail segment. The goodwill relates to the two Boardman entities which management monitors on an overall basis as part of the Retail cash-generating unit. Goodwill of £9.5m arose on the acquisition of Tredz Limited and Wheelies Direct Limited on 23 May 2016 and is allocated to the Retail segment. The goodwill relates to the two entities which management monitors on an overall basis as part of the Retail cash-generating unit.

The goodwill arising on the acquisition of the Nationwide Autocentres is attributable to a) future income to be generated from new retail, fleet customer contracts and related relationships, b) the workforce, c) the value of immaterial other intangible assets, and d) operating synergies. The goodwill on acquisition of the Boardman Bikes is attributable to a) operating synergies and increased control of operations, b) the value of immaterial other intangible assets, and c) future income to be generated from new retail customer contracts and related relationships. The goodwill on acquisition of Tredz and Wheelies is attributable to a) assembled workforce and b) future expansion and growth opportunities.

The 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.

The value-in-use of the goodwill held at 30 March 2018 and 31 March 2017 is driven by, and is most sensitive to, the key assumptions underlying the recoverable amounts of the Group cash-generating units, which are the discount rate and growth rate.

Cash flow projections are based on financial budgets approved by management covering a five-year period, which are reviewed by the board. Budgets are based on both past performance and expectations for future market development, linked to the strategy of the Group as set out in the Strategic Report section in these financial statements.

The growth rates used to extrapolate cash flows beyond the budget period, as set out in the table on the next page, do not exceed long-term industry averages and reflect the revenue growth and ongoing efficiency initiatives, and the relative maturity of the Retail and Autocentres businesses.

11. Intangible Assets continued

The discount rate is a pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the cash-generating units. The pre-tax discount rates used to calculate value in use are derived from the Group's post-tax weighted average cost of capital, as adjusted for the specific risks relating to each cash-generating unit. The discount rates used are shown below.

		Retail		Car Servicing	
	Notes	**2018**	2017	**2018**	2017
Discount rate	1	**9.5%**	9.1%	**9.5%**	9.1%
Growth rate	2	**0.0%**	0.0%	**1.0%**	1.0%

Notes:

1 Pre-tax discount rate applied to the cash flow projections (the prior year numbers above have been updated to also show the pre-tax rate).

2 Growth rate used to extrapolate cash flows beyond the five year budget period.

Sensitivity analysis on the key assumptions in the value-in-use calculations has been undertaken, which found that there is a more than adequate amount of headroom before an impairment would be triggered. As stated in the Audit Committee report on page 76, the key judgement relates to the Car Servicing business. The Directors are confident that a reasonably possible change in the key assumptions, including a +1.0% change in the discount rate and a -1.0% change in the growth rate, would not cause the carrying amounts to exceed the estimated recoverable amounts.

Overall, the Directors have concluded that the recoverable value of the Group's CGUs exceeded their carrying amount.

12. Property, Plant and Equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Payments on account and assets in course of construction £m	Total £m
Cost				
At 1 April 2016	72.9	205.2	—	278.1
Additions	5.0	12.5	0.2	17.7
Disposals	(0.6)	(2.6)	—	(3.2)
At 31 March 2017	77.3	215.1	0.2	292.6
Reclassification from intangibles	—	4.4	—	4.4
Additions	3.6	13.9	1.8	19.3
Disposals	(0.8)	(4.2)	–	(5.0)
At 30 March 2018	**80.1**	**229.2**	**2.0**	**311.3**
Depreciation and impairment				
At 1 April 2016	38.0	132.8	—	170.8
Depreciation and impairment for the period	4.8	16.8	—	21.6
Disposals	(0.5)	(2.1)	—	(2.6)
At 31 March 2017	42.3	147.5	—	189.8
Reclassification from intangibles	—	0.4	—	0.4
Depreciation and impairment for the period	5.7	17.9	—	23.6
Disposals	(0.7)	(3.1)	—	(3.8)
At 30 March 2018	**47.3**	**162.7**	**—**	**210.0**
Net book value at 30 March 2018	**32.8**	**66.5**	**2.0**	**101.3**
Net book value at 31 March 2017	35.0	67.6	0.2	102.8

No fixed assets are held as security for external borrowings.

Notes to the Financial Statements

12. Property, Plant and Equipment continued

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 30 March 2018			
Cost	**12.7**	**3.0**	**15.7**
Additions	**—**	**0.6**	**0.6**
Accumulated depreciation	**(7.1)**	**(1.0)**	**(8.1)**
Net book value	**5.6**	**2.6**	**8.2**
As at 31 March 2017			
Cost	12.7	2.5	15.2
Additions	—	0.5	0.5
Accumulated depreciation	(6.6)	(1.4)	(8.0)
Net book value	6.1	1.6	7.7

1 Relates to the Halfords support centre building lease, which expires in 2028.

Finance lease liabilities are payable as follows:

	Minimum lease payments 2018 £m	Interest 2018 £m	Principle 2018 £m	Minimum lease payments 2017 £m	Interest 2017 £m	Principle 2017 £m
Less than one year	**2.0**	**0.7**	**1.3**	2.2	0.8	1.4
Between one and five years	**6.9**	**2.3**	**4.6**	7.0	2.4	4.6
More than five years	**6.8**	**1.1**	**5.7**	7.4	1.4	6.0
	15.7	**4.1**	**11.6**	16.6	4.6	12.0

13. Investments

	Non-current 2018 £m	2017 £m
Equity Investments – at FVOCI		
Investment in Tyres On The Drive	**8.1**	8.1
	8.1	8.1

During the prior year the Group acquired a minority stake in an automotive related business, Tyres On The Drive. The investment is payable in instalments, and comprised an initial cash consideration of £4.1m in FY17. An additional £3.5m has been invested in FY18, with a further £0.5m subject to performance conditions being met. A total of £8.1m has been recognised as an investment, with a liability held for the remaining instalment.

At 1 April 2017, the Group designated the investments shown above as equity investments as at FVOCI because these represent investments that the Group intends to hold for long term strategic purposes. In the prior year, these were classified as available for sale – see Note 21.

	Fair value at 30 March 2018	Dividend income recognised in the period
Equity Investments – at FVOCI		
Investment in Tyres On The Drive	**8.1**	**—**
	8.1	**—**

No strategic investments were disposed of during the year, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

Information about the Group's exposure to credit and market risks, and fair value measurement is included in Note 21.

14. Inventories

	2018 £m	2017 £m
Finished goods for resale	**195.5**	191.1

Finished goods inventories include £18.0m (2017: £17.5m) 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 £9.0m was recognised as an expense in respect of the write-down of inventories (2017: £9.3m) to net realisable value. No inventories are held as security for external borrowings.

15. Trade and Other Receivables

	2018 £m	2017 £m
Falling due within one year:		
Trade receivables	**10.2**	19.6
Other receivables	**17.9**	8.9
Prepayments and accrued income	**27.9**	29.9
	56.0	58.4

Information about the Group's exposure to credit and market risks and impairment losses for trade and other receivables is included in Note 21.

16. Cash and Cash Equivalents

	2018 £m	2017 £m
Cash at bank and in hand	**27.0**	16.5

The Group's banking arrangements are subject to a netting facility whereby credit balances may be offset against the indebtedness of certain other Group companies.

17. Borrowings

	2018 £m	2017 £m
Current		
Unsecured bank overdraft	**19.5**	18.4
Finance lease liabilities	**1.3**	1.4
	20.8	19.8
Non-current		
Unsecured bank loan and other borrowings[1]	**83.7**	72.0
Finance lease liabilities	**10.3**	10.6
	94.0	82.6

1 The above borrowings are stated net of unamortised issue costs of £1.3m (2017: £1.0m).

The Group's current borrowing facility was amended and extended in the year. It is a four-year £200m revolving credit facility starting from 4 September 2017, with the option of a further year. The facility carries an interest rate of LIBOR plus a margin which is variable based on the gearing measures as set out in the facility covenant certificate and which is currently 100 basis points. Both utilisation and non-utilisation fees are also applicable being charged when utilisation rises above a set percentage with non-utilisation based on a set percentage of the applicable margin. These charges are based on market rates as are the commitment fees.

Notes to the Financial Statements

17. Borrowings continued

The Group had the following undrawn committed borrowing facilities available at each balance sheet date in respect of which all conditions precedent had been met:

	2018 £m	2017 £m
Expiring within 1 year	**20.0**	20.0
Expiring between 1 and 2 years	**—**	—
Expiring between 2 and 5 years	**85.0**	77.0
	105.0	97.0

The overdraft facility expiring within one year is an annual facility subject to review at various dates during the period. The facility of £105.0m (2017: £97.0m) relates to the Group's revolving credit facility. All these facilities incurred commitment fees at market rates.

18. Trade and Other Payables

	2018 £m	2017 £m
Current liabilities		
Trade payables	**109.3**	110.7
Other taxation and social security payable	**15.2**	25.1
Other payables	**18.1**	20.9
Deferred income – lease incentives	**5.1**	4.3
Accruals and other deferred income	**39.3**	45.2
	187.0	206.2
Non-current liabilities		
Deferred income – lease incentives	**31.2**	31.9

19. Provisions

	Property related £m	Other trading £m	Total £m
At 31 March 2017	9.0	8.2	17.2
Charged during the period	2.5	2.9	5.4
Utilised during the period	(1.1)	(3.4)	(4.5)
Released during the period	(0.7)	(1.6)	(2.3)
At 30 March 2018	**9.7**	**6.1**	**15.8**
Analysed as:			
Current liabilities	**8.8**	**3.1**	**11.9**
Non-current liabilities	**0.9**	**3.0**	**3.9**

Property related provisions consist of costs associated with vacant property, rent reviews and dilapidations. Also included are prior period liabilities in respect of previous assignments of leases where the lessee has entered into administration.

Other trading provisions comprise a sales returns provision and a provision for the costs associated with the cessation of the standalone cycle concept 'BikeHut', including closure of stores where necessary, an employer/product liability provision and provision for unused gift vouchers in issue.

20. 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 1 April 2016	1.5	(0.1)	0.6	(2.0)	—
Credit/(charge) to the income statement	3.5	(2.2)	—	(0.5)	0.8
Credit to other comprehensive income	—	0.5	—	—	0.5
Acquisition of subsidiary	—	(2.7)	—	—	(2.7)
Charge to equity	—	—	0.6	—	0.6
At 31 March 2017	5.0	(4.5)	1.2	(2.5)	(0.8)
Credit/(charge) to the income statement	(1.4)	(1.9)	0.3	0.9	(2.1)
Credit to other comprehensive income	—	0.2	—	—	0.2
Credit to equity	—	(0.3)	0.3	—	—
At 30 March 2018	**3.6**	**(6.5)**	**1.8**	**(1.6)**	**(2.7)**

Deferred income tax assets and liabilities are offset when the Group has a legally enforceable right to do so and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	52 weeks to 30 March 2018	52 weeks to 31 March 2017
Deferred tax assets	**5.4**	6.2
Deferred tax liabilities	**(8.1)**	(7.0)
	(2.7)	(0.8)

21. Financial Instruments and Related Disclosures

a. Treasury Policy

The Group's treasury department's main responsibilities are to:

- Ensure adequate funding and liquidity for the Group;
- Manage the interest risk of the Group's debt;
- Invest surplus cash;
- Manage the clearing bank operations of the Group, and
- Manage the foreign exchange risk on its non-sterling cash flows.

Treasury activities are delegated by the Board to the Chief Financial Officer ("CFO"). The CFO controls policy and performance through the line management structure to the Group Treasurer and by reference to the Treasury Committee. The Treasury Committee meets regularly to monitor the performance of the Treasury function.

Policies for managing financial risks are governed by Board approved policies and procedures, which are reviewed on an annual basis.

The Group's debt management policy is to provide an appropriate level of funding to finance the Business Plan over the medium term at a competitive cost and ensure flexibility to meet the changing needs of the Group. Details of the Group's current borrowing facilities are contained in Note 17.

Notes to the Financial Statements

21. Financial Instruments and Related Disclosures continued

b. Accounting classifications and fair value

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

		Carrying amount					
30 March 2018	Note	**Fair Value – hedging instruments £m**	**Mandatorily at FVTPL – others £m**	**FVOCI – equity instruments £m**	**Amortised cost £m**	**Other financial liabilities £m**	**Total carrying amount £m**
Financial assets measured at fair value							
Forward exchange contracts used for hedging		0.3	—	—	—	—	0.3
Equity investments	13	—	—	8.1	—	—	8.1
		0.3	—	8.1	—	—	8.4
Financial assets not measured at fair value							
Trade and other receivables*	15	—	—	—	28.1	—	28.1
Cash and cash equivalents	16	—	—	—	27.0	—	27.0
		—	—	—	55.1	—	55.1
Financial liabilities measured at fair value							
Forward exchange contracts used for hedging		(5.4)	—	—	—	—	(5.4)
		(5.4)	—	—	—	—	(5.4)
Financial liabilities not measured at fair value							
Borrowings	17	—	—	—	—	(103.2)	(103.2)
Current tax liabilities		—	—	—	—	(3.3)	(3.3)
Finance lease liabilities	17	—	—	—	—	(11.6)	(11.6)
Trade and other payables**	18	—	—	—	—	(112.4)	(112.4)
		—	—	—	—	(230.5)	(230.5)

* Prepayments and accrued income of £27.9m are not included as a financial asset.

** Other taxation and social security payables of £15.2m, deferred income of £36.3m, accruals of £36.2m and other payables of £18.1m are not included as a financial liability.

21. Financial Instruments and Related Disclosures continued

31 March 2017	Note	Carrying amount Fair Value – hedging instruments £m	Mandatorily at FVTPL – others £m	FVOCI – equity instruments £m	Amortised cost £m	Other financial liabilities £m	Total carrying amount £m
Financial assets measured at fair value							
Forward exchange contracts used for hedging		5.2	—	—	—	—	5.2
Equity investments	13	—	—	8.1	—	—	8.1
		5.2	—	8.1	—	—	13.3
Financial assets not measured at fair value							
Trade and other receivables*	15	—	—	—	28.5	—	28.5
Cash and cash equivalents	16	—	—	—	16.5	—	16.5
		—	—	—	45.0	—	45.0
Financial liabilities measured at fair value							
Forward exchange contracts used for hedging		(1.5)	—	—	—	—	(1.5)
		(1.5)	—	—	—	—	(1.5)
Financial liabilities not measured at fair value							
Borrowings	17	—	—	—	—	(90.4)	(90.4)
Current tax liabilities		—	—	—	—	(8.7)	(8.7)
Finance lease liabilities	17	—	—	—	—	(12.0)	(12.0)
Trade and other payables**	18	—	—	—	—	(113.2)	(113.2)
		—	—	—	—	(224.3)	(224.3)

* Prepayments and accrued income of £29.9m are not included as a financial asset.

** Other taxation and social security payables of £25.1m, deferred income of £36.2m, accruals of £42.7m and other payables of £20.9m are not included as a financial liability.

Notes to the Financial Statements

21. Financial Instruments and Related Disclosures continued

The fair values of each class of financial assets and liabilities is the carrying amount, based on the following assumptions:

Trade receivables, trade payables and 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.

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, except for the investment in Tyres On The Drive, as shown in Note 13, which is valued at Level 3.

c. Financial Risk Management

The Group has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk; and
- Market risk.

i) Risk Management framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors are responsible for establishing the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are regularly reviewed to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was £55.4m (2017: £50.2m) as detailed in the tables above.

Impairment losses on financial assets recognised in profit or loss were as follows:

£m	**52 weeks to 30 March 2018**	52 weeks to 31 March 2017
Impairment loss on trade and other receivables	**0.5**	0.3
Impairment loss on cash and cash equivalents	**—**	—
	0.5	0.3

21. Financial Instruments and Related Disclosures continued

Trade receivables

The Group does not have any individually significant customers and so no significant concentration of credit risk.

The majority of the Group's sales are paid in cash at point of sale which further limits the Group's exposure The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Board of Directors has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment terms and conditions are offered. The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of one month for customers. All trade receivables are based in the United Kingdom.

The Group has taken into account the historic credit losses incurred on trade receivables and adjusted it for forward looking estimates. The movement in the allowance for impairment in respect of trade receivables during the year was £0.2m.

Cash and cash equivalents

The Group held cash and cash equivalents of £27.0m at 30 March 2018 (2017: £16.5m). The cash and cash equivalents are held with bank and financial institution counterparties which are designated 'A-' by Standard & Poor and Fitch and A3 by Moody's. The Group does not consider there to be any impairment loss in respect of these balances (2017: £nil).

Derivatives

The derivatives are entered into with bank and financial institutions counterparties which are designated at least BBB by Standard & Poor and Fitch and Baa3 by Moody's.

iii) Market risk

The Group's exposure to market risk predominantly relates to interest, currency and commodity risk. These are discussed further below. Commodity risk is due to the Group's products being manufactured from metals and other raw materials, subject to price fluctuation. The Group mitigates this risk through negotiating fixed purchase costs or maintaining flexibility over the specification of finished products produced by its supply chain to meet fluctuations.

Foreign currency risk

The Group has a significant transaction exposure with increasing direct-sourced purchases from its suppliers in the Far East, with most of the trade being in US Dollars. The Group's policy is to manage the foreign exchange transaction exposures of the business to ensure the actual costs do not exceed the budget costs by more than 10% (excluding increases in the base cost of the product).

The Group does not hedge either economic exposure or the translation exposure arising from the profits, assets and liabilities of non-sterling businesses whilst they remain immaterial.

The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of their respective cash flows. The Group assesses whether the derivative designated in each hedging relationship is expected to be and has been effective in offsetting changes in cash flows of the hedging item using the hypothetical derivative method.

In these hedge relationships, the main sources of ineffectiveness are:

- The effect of the counterparty and Group's own credit risk on the fair value of the forward exchange contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in exchange rates; and
- Changes in the timing of the hedged item.

During the 52 weeks to 30 March 2018, the foreign exchange management policy was to hedge via forward contract purchase between 75% and 100% of the material foreign exchange transaction exposures on a rolling 18-month basis. Hedging is performed through the use of foreign currency bank accounts and forward foreign exchange contracts.

At 30 March 2018, the Group held the following instruments to hedge exposures to changes in foreign currency:

	Maturity		
Forward exchange contracts	**1 – 6 months**	**6 – 12 months**	**More than one year**
Net exposure (in £m)	**119.3**	**46.8**	**27.0**
Average GBP:USD forward contract rate	**1.3483**	**1.3647**	**1.3891**

At 31 March 2017, the Group held the following instruments to hedge exposures to changes in foreign currency:

	Maturity		
Forward exchange contracts	1 – 6 months	6 – 12 months	More than one year
Net exposure (in £m)	134.9	53.3	17.5
Average GBP:USD forward contract rate	1.3095	1.2751	1.2570

Notes to the Financial Statements

21. Financial Instruments and Related Disclosures continued

The amounts at the reporting date relating to items designated as hedged items were as follows:

Forward currency risk	Change in value used for calculating hedge ineffectiveness £m	Cash flow hedge reserve £m	Balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied £m
At 30 March 2018			
Inventory purchases	**20.1**	**(5.1)**	**—**
At 31 March 2017			
Inventory purchases	21.5	3.7	—

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	30 March 2018		31 March 2017	
	USD £m	**Other £m**	USD £m	Other £m
Cash and cash equivalents	**0.2**	**0.5**	4.3	0.2
Trade and other payables	**(23.8)**	**(0.9)**	(27.0)	(0.8)
	(23.6)	**(0.4)**	(22.7)	(0.6)

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.

	2018 Increase/ (decrease) in equity £m	2017 Increase/ (decrease) in equity £m
10% appreciation of the US dollar	**15.3**	18.3
10% depreciation of the US dollar	**(12.5)**	(14.9)

A strengthening/weakening of Sterling, as indicated, against the USD at 30 March 2018 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.

The movements in equity relates to the fair value movements on the Group's forward contracts that are used to hedge future stock purchases.

Interest rate risk

The Group's policy aims to manage the interest cost of the Group within the constraints of the Business Plan and its financial covenants. The Group's borrowings are currently subject to floating rate interest rates and the Group will continue to monitor movements in the swap market.

If interest rates on floating rate borrowings (i.e. cash and cash equivalents and bank borrowings which attract interest at floating rates) were to change by + or – 1% the impact on the results in the Income Statement and equity would be a decrease/increase of £0.6m (2017: £0.4m).

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 a debt ratio, which is calculated as the ratio of net debt to underlying EBITDA. This was 0.8:1 in 2018 (2017: 0.8:1).

21. Financial Instruments and Related Disclosures continued

Pension liability risk

The Group has no association with any defined-benefit pension scheme and therefore carries no deferred, current or future liabilities in respect of such a scheme. The Group operates a number of Group Personal Pension Plans for colleagues.

Liquidity risk

The Group ensures that it has sufficient cash or loan facilities to meet all its commitments when they fall due by ensuring that there is sufficient cash or working capital facilities to meet the cash requirements of the Group for the current Business Plan. The minimum liquidity level is currently set at £30m, such that under Treasury Policy the maximum drawings would be £170m of the £200m available facility, to include the Overdraft Facility of £20m.

The process to manage the risk is to ensure there are contracts in place for key suppliers, detailing the payment terms, and for providers of debt, the Group ensured that such counterparties used for credit transactions held at least an 'A-' credit rating at the time of the amend and extend agreement (September 2017). The Group may, subject to Board approval in any and every such incidence, allow a counterparty to have a credit rating of less than A but no less than investment grade at the time of signing the facilities on the basis that the counterparty only has a junior role in the debt syndicate and has zero ancillary business until if/when its credit rating is designated A-. At the year-end the senior banks within the banking group maintained a credit rating of A- or above, in line with Treasury policy, with the junior bank holding a credit rating of BB+. The counterparty credit risk is reviewed by the Chief Financial Officer regularly as part of the Treasury Committee process. In addition, the Head of Tax & Treasury reviews credit exposure on a daily basis.

The risk is measured through review of forecast liquidity each month by the Head of Tax & Treasury to determine whether there are sufficient credit facilities to meet forecast requirements, and through monitoring covenants on a regular basis to ensure there are no significant breaches, which would lead to an "Event of Default". Calculations are submitted bi-annually to the Group banking agent. There have been no breaches of covenants during the reported periods.

The contractual maturities of finance leases are disclosed in Note 12. 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:

	30 March 2018 Bank borrowings £m	31 March 2017 Bank borrowings £m
Due less than one year	**1.1**	1.1
Expiring between one and two years	**1.3**	1.1
Expiring between two and five years	**85.0**	73.7
Expiring after five years	**—**	—
Contractual cash flows	**87.4**	75.9
Carrying amount	**83.7**	72.0

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 30 March 2018 (31 March 2017).

	2018 Receivables £m	**2018 Payables £m**	2017 Receivables £m	2017 Payables £m
Due less than one year	**133.6**	**(138.4)**	171.3	(167.8)
Due between one and two years	**20.7**	**(20.7)**	17.5	(17.3)
Contractual cash flows	**154.3**	**(159.1)**	188.8	(185.1)
Fair value	**0.3**	**(5.4)**	5.2	(1.5)

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

halfords

Notes to the Financial Statements

22. Capital and Reserves

Ordinary shares of 1p each:	2018 Number of shares	2018 £000	2017 Number of shares	2017 £000
Allotted, called up and fully paid	**199,116,632**	**1,991**	199,116,632	1,991

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

There has been no change in share premium, which has remained at £151.0m (2017: £151.0m).

In total the Company received proceeds of £0.1m (2017: £1.4m) from the exercise of share options.

Investment in Own Shares

At 30 March 2018 the Company held in Trust 2,060,363 (2017: 2,097,863) of its own shares with a nominal value of £20,604 (2017: £20,979). 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 30 March 2018 was £6.7m (2017: £7.4m). In the current period nil (2017: nil) were repurchased and transferred into the Trust, with 37,500 (2017: 886,426) 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.

23. Share-based Payments

The Group has five share award plans, all of which are equity-settled schemes. The Group Income Statement charge recognised in respect of share-based payments for the current period is £0.4m (2017: £1.0m).

1. Halfords Company Share Option Scheme

The CSOS was introduced in June 2004 and the Company has made annual grants up to and including the prior year. Options were granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. The contractual life of an option is 10 years.

Options granted before August 2013 became exercisable on the third anniversary of the date of grant, subject to the achievement of a three-year performance condition. For grants up to 150% of basic salary the options can only be exercised if the increase in earnings per share ("EPS") over the period is not less than the increase in the Retail Price Index ("RPI") plus 3.5% per year. In the case of grants in excess of 150% of basic salary, the excess can only be exercised in full if the increase is not less than RPI plus 10% per year. Exercise of an option is subject to continued employment.

Changes to the performance criteria of the CSOS scheme in relation to the awards granted from August 2013 onwards were made by the Remuneration Committee. These changes were made in order to create better alignment with Group's three-year strategic priorities following the Moving Up A Gear programme. The awards are dependent on EBITDA performance and are only exercisable if EBITDA growth exceeds a compound annual growth rate of 2.5% over the three-year performance period, or a total growth rate of 8.4%. Exercise of an option is subject to continued employment.

The expected volatility is based on historical volatility of a peer group of companies since the IPO in June 2004. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds.

Options were valued using the Black-Scholes option-pricing models. No performance conditions were included in the fair value calculations.

23. Share-based Payments continued

2. Management Share plan ('MSP')

In the year the CSOS was replaced by the MSP. Nil cost options have been granted which can be exercised on or after the third anniversary of the date on which they are granted. The option cannot be exercised later than 10 years from the date on which it was granted. Exercise of an option is subject to continued employment.

The expected volatility is based on historical volatility of a peer group of companies. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds.

Options were valued using the Black-Scholes option-pricing models. No performance conditions were included in the fair value calculations.

3. Halfords Sharesave Scheme

The SAYE is open to all employees with eligible employment service. Options may be exercised under the scheme if the option holder completes their saving contract for a period of three years and then not more than six months thereafter. Special provisions allow early exercise in the case of death, injury, disability, redundancy, retirement or because the company or business which employs the option holder is transferred out of the Group, or in the event of a change in control, reconstruction or winding up of the Company.

Options were valued using the Black-Scholes option-pricing models.

4. Performance Share Plan

The introduction of a Performance Share Plan ("PSP") was approved at the Annual General Meeting in August 2005 awarding the Executive Directors and certain senior management conditional rights to receive shares. Annual schemes have been approved for each year from 2005.

For 2009 awards onwards, the Committee has recommended the reinvestment of dividends earned on award shares, such shares to 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. The shares awarded under the Performance Share Plan in 2013, 2015 and 2016 earned final dividends of 11.68p per share and were reinvested in shares at a cost of £3.17 per share. Shares awarded in 2013, 2015, 2016 and 2017 under the PSP earned interim dividends of 6.0p per share and were reinvested in shares at a cost of £3.52 per share.

The current PSP performance criteria is weighted 25% towards Group revenue growth targets and 75% towards Group EPS growth targets. In order to focus management the awards will be underpinned by the Remuneration Committee determining whether, in its opinion, the extent to which the performance conditions have been satisfied is a genuine reflection of the Company's underlying financial performance and has generated value for Company's shareholders over the performance period, and by a net debt to EBITDA ratio no greater than 1.5x throughout the three-year performance period.

For other senior participants conditions are based on the performance of the individual business units. The awards are weighted 37.5% towards Group EPS growth targets, 12.5% weighted towards Group revenue growth targets and 50% weighted toward EBIT of the individual business unit.

Options were valued using the Black-Scholes option-pricing models.

Notes to the Financial Statements

23. Share-based Payments continued

5. Restricted Share Plan – Senior Management Plan ('RSP-SMP')

In the year two RSP-SMP awards were granted to senior management excluding the CEO and CFO. They were granted to participants on 13 September 2017 and have two different performance period end dates: 30 March 2018 and 29 March 2019.

Nil cost options have been granted which can be exercised on the first anniversary and second anniversary of the grant date for the 2018 and 2019 schemes respectively. Exercise of an option is subject performance conditions in relation to Group PBT and continued employment.

Options were valued using the Black-Scholes option-pricing models.

The following tables reconcile the number of share options outstanding and the weighted average exercise price (WAEP) for all share award plans.

For the period ended 30 March 2018

	CSOS		**MSP**		**SAYE**		**PSP**		**RSP-SMP**	
	Number ('000)	**WAEP (£)**	**Number ('000)**	**WAEP (£)**	**Number ('000)**	**WAEP (£)**	**Number ('000)**	**WAEP (£)**	**Number ('000)**	**WAEP (£)**
Outstanding at start of year	**5,983**	**3.87**	**—**	**—**	**2,892**	**2.77**	**1,612**	**—**	**—**	**—**
Granted	**—**	**—**	**360**	**—**	**899**	**2.77**	**1,204**	**—**	**591**	**—**
Shares representing dividends reinvested	**—**	**—**	**—**	**—**	**—**	**—**	**77**	**—**	**—**	**—**
Forfeited	**(750)**	**4.05**	**(2)**	**—**	**(636)**	**2.84**	**(541)**	**—**	**(30)**	**—**
Exercised	**(5)**	**3.07**	**—**	**—**	**(33)**	**2.64**	**—**	**—**	**—**	**—**
Lapsed	**(1,030)**	**4.66**	**—**	**—**	**(44)**	**2.63**	**(266)**	**—**	**—**	**—**
Outstanding at end of year	**4,198**	**3.64**	**358**	**—**	**3,078**	**2.76**	**2,086**		**561**	**—**
Exercisable at end of year	**118**		**—**		**—**		**—**		**—**	
Exercise price range (£)		**2.20- 5.43**		**—**		**2.50-4.25**		**—**		**—**
Weighted average remaining contractual life (years)		**7.3**		**9.4**		**2.0**		**1.8**		**0.8**

For the period ended 31 March 2017

	CSOS		SAYE		PSP	
	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)
Outstanding at start of year	5,288	3.96	2,419	3.12	1,337	
Granted	1,848	3.59	2,038	2.50	1,013	—
Shares representing dividends reinvested	—	—	—	—	177	
Forfeited	(1,023)	4.03	(1,150)	3.07	(540)	—
Exercised	(126)	3.48	(350)	2.56	(366)	—
Lapsed	(4)	3.02	(65)	3.11	(9)	—
Outstanding at end of year	5,983	3.87	2,892	2.77	1,612	—
Exercisable at end of year	197	3.36	—	—	—	—
Exercise price range (£)		2.20–5.43		1.56–4.25		—
Weighted average remaining contractual life (years)		8.0		2.7		1.7

23. Share-based Payments continued

The following table gives the assumptions applied to the options granted in the respective periods shown:

	52 weeks to 30 March 2018				
Grant date	**CSOS**	**MSP**	**SAYE**	**PSP**	**RSP -SMP**
Share price at grant date (£)	**—**	**3.26**	**3.33**	**3.19/3.58**	**3.19**
Exercise price (£)	**—**	**—**	**2.77**	**—**	**—**
Expected volatility	**—**	**28.99%**	**28.89%**	**28.89%/30.53%**	**22.01%/31.38%**
Option life (years)	**—**	**10**	**3**	**3**	**0.75/1.75**
Expected life (years)	**—**	**3**	**3.5**	**2.5/2.2**	**0.5/1.5**
Risk free rate	**—**	**—**	**0.35%**	**—**	**—**
Expected dividend yield	**—**	**5.37%**	**5.26%**	**—**	**—**
Probability of forfeiture	**—**	**33%**	**44%**	**32%/0%**	**10%/20%**
Weighted average fair value of options granted (£)	**—**	**2.78**	**0.60**	**3.19/3.58**	**3.19**

	52 weeks to 31 March 2017		
Grant date	CSOS	SAYE	PSP
Share price at grant date (£)	3.60	3.49	3.60
Exercise price (£)	3.59	2.50	0
Expected volatility	32.0%	31.66%	0
Option life (years)	10	3	3
Expected life (years)	4.85	3.5	3
Risk free rate	0.17%	0.21%	0
Expected dividend yield	4.72%	4.87%	0.00%
Probability of forfeiture	33%	44%	30%
Weighted average fair value of options granted (£)	0.57	0.89	3.60

As the MSP, PSP and RSP-SMP awards have a nil exercise price the risk free rate of return does not have any effect on the estimated fair value and therefore is excluded from the above table.

Notes to the Financial Statements

24. Commitments

	2018 £m	2017 £m
Capital expenditure: Contracted but not provided	**0.7**	1.9

At 30 March 2018, the Group was committed to making payments in respect of non-cancellable operating leases in the following periods:

	Land and buildings 2018 £m	**Other assets 2018 £m**	Restated Land and buildings 2017 £m	Other assets 2017 £m
Within one year	**85.3**	**2.2**	84.8	2.1
Later than one year and less than five years	**281.2**	**3.3**	292.1	2.3
After five years	**183.4**	**—**	212.8	—
	549.9	**5.5**	589.7	4.4

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 £5.7m (2017 restated: £6.9m). The prior year figures for payments in respect of non-cancellable operating leases and sublet income have been restated by £12.5m to remove intergroup leases.

No leases place any commercial restriction on the Group's ability to conduct its business in the manner it sees fit (for instance restrictions on dividends, debt levels or further leases). No lease has clauses that link rental payments to performance, for instance turnover leases and no lease contains contingent rent clauses. All leases include rent escalation clauses setting out the basis for future rent reviews. Typically these are based on open market conditions or are linked to RPI or CPI.

25. Pensions

Employees are offered membership of the Halfords Pension, which is a contract based plan, where each member has their own individual pension policy, which they monitor independently. The costs of contributions to the scheme are charged to the income statement in the period that they arise. The contributions to the scheme for the period amounted to £5.5m (2017: £6.9m).

In accordance with Government initiatives Halfords operates an automatic enrolment process with regards to its pension arrangements. Employees who are aged between 22 and state pension age, earn more than £10,000 a year, and work in the UK are automatically enrolled into the Group pension arrangement. Employees retain the right to withdraw from this pension arrangement, however election of this choice must be made.

26. 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 30 March 2018 amounted to £3.6m (2017: £3.7m).

The Group's banking arrangements are subject to a netting facility whereby credit balances may be offset against the indebtedness of other Group companies.

27. Related Party Transactions

The Group's ultimate parent company is Halfords Group plc. A listing of all related undertakings is shown within the financial statements of the Company on pages 142 to 147.

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 82 to 90. Key management compensation is disclosed in Note 4.

Directors of the Company control 0.09% of the ordinary shares of the Company.

28. Off Balance Sheet Arrangements

The Group has no off balance sheet arrangements to disclose as required by S410A of the Companies Act 2006.

29. Post Balance Sheet Events

The Group announced the resignation of its Group Chief Financial Officer, Jonny Mason, on 27 March 2018, with a leaving date of September 2018. On 22 May 2018, the Group announced that Keith Williams will be joining as Chairman on 24 July 2018.

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Company Balance Sheet

	Notes	30 March 2018 £m	31 March 2017 £m
Fixed assets			
Investments	4	**20.9**	20.5
Current assets			
Debtors falling due within one year	5	**485.8**	478.5
Cash and cash equivalents		**6.7**	6.5
		492.5	485.0
Creditors: amounts falling due within one year	6	**(169.0)**	(142.7)
Net current assets		**323.5**	342.3
Creditors: amounts falling due after more than one year	6	**(83.7)**	(72.0)
Net assets		**260.7**	290.8
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	**(9.4)**	(9.5)
Capital redemption reserve	9	**0.3**	0.3
Profit and loss account	9	**116.8**	147.0
Total shareholders' funds		**260.7**	290.8

The notes on pages 145 to 147 are an integral part of the Company's financial statements.

The Company has elected to prepare its financial statements under FRS 101 and the accounting policies are outlined on page 144.

The financial statements on pages 142 to 147 were approved by the Board of Directors on 22 May 2018 and were signed on its behalf by:

Jonny Mason
Chief Financial Officer

Company number: 04457314

Company Statement of Changes in Shareholders' Equity

	Share capital £m	Share premium £m	Investment in own shares £m	Capital redemption £m	Retained earnings £m	Total £m
At 1 April 2016	2.0	151.0	(10.9)	0.3	196.0	**338.4**
Profit for the period	—	—	—	—	3.5	**3.5**
Share options exercised	—	—	1.4	—	—	**1.4**
Share-based payments	—	—	—	—	1.0	**1.0**
Dividends paid	—	—	—	—	(53.5)	**(53.5)**
At 31 March 2017	2.0	151.0	(9.5)	0.3	147.0	**290.8**
Profit for the period	—	—	—	—	4.2	**4.2**
Share options exercised	—	—	0.1	—	—	**0.1**
Share-based payments	—	—	—	—	0.4	**0.4**
Dividends paid	—	—	—	—	(34.8)	**(34.8)**
At 30 March 2018	**2.0**	**151.0**	**(9.4)**	**0.3**	**116.8**	**260.7**

Accounting Policies

Accounting Convention

The accounts of the Company are prepared for the period up to the Friday closest to 31 March each year. Consequently, the financial statements for the current period cover the 52 weeks to 30 March 2018, whilst the comparative period covered the 52 weeks to 31 March 2017. The accounts are prepared under the historical cost convention, except where Financial Reporting Standards requires an alternative treatment in accordance with applicable UK accounting standards and specifically in accordance with the accounting policies set out below. The principal variation to the historical cost convention relates to share-based payments.

Basis of Preparation

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100). In the prior year the Company adopted FRS 101 'Reduced Disclosure Framework' and has ceased to apply all UK Accounting Standards issued prior to FRS 100. Therefore, the recognition and measurement requirements of EU-adopted IFRS have been applied, with amendments where necessary in order to comply with Companies Act 2006.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the Group financial statements.

As permitted by section 408 of the Companies Act 2006, no profit or loss account is presented for this company. Additionally, no cash flow statement is presented as permitted by FRS 101.8 (h). The profit for the year is disclosed in note 1 to the financial statements.

Employee Benefit Trusts ('EBTs') are accounted for under IFRS 10 and are consolidated on the basis that the parent has control, thus the assets and liabilities of the EBT are included on the Company balance sheet and shares held by the EBT in the Company are presented as a deduction from equity.

Share-based Payments

The Company operates a number of equity-settled, share-based compensation plans that are awarded to employees of the Company's subsidiary undertakings.

In accordance with FRS 101 'Group and treasury share transactions', the fair value of the employee services received under such schemes is recognised as an expense in the subsidiary undertaking's financial statements, which benefit from the employee services. The Company has recognised the fair value of the share-based payments as an increase to equity with a corresponding adjustment to investments.

Fair values are determined using appropriate option pricing models. The total fair value recognised is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

At each balance sheet date, the Company revises its estimates of the number of share incentives that are expected to vest. The impact of the revision of original estimates, if any, is recognised as an adjustment to equity, with a corresponding adjustment to investments, over the remaining vesting period.

Investments

Investments in subsidiary undertakings are stated at the 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 period of £4.6m (52 week period to 31 March 2017: £3.5m). 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 current and prior period are detailed in Note 3 to the Group financial statements.

3. Staff Costs

The Company has no employees other than the Directors. Full details of the Directors' remuneration and interests, including those details required by Schedule 5, are set out in the Remuneration Report on pages 82 to 90 which forms part of the audited information.

4. Investments

	£m
Shares in Group undertaking	
Cost	
As at 31 March 2017	20.5
Additions – share-based payments	0.4
At 30 March 2018	**20.9**

The investments represent shares in the following subsidiary undertakings as at 30 March 2018 and the fair value of share-based compensation plans that are awarded to employees of the Company's subsidiary undertakings.

Subsidiary undertaking	Incorporated in	Ordinary shares percentage owned %	Principal Activities
Halfords Holdings (2006) Limited	Great Britain*	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.

Notes to the Financial Statements

4. Investments continued

The related undertakings of the Company at 30 March 2018 are as follows:

Subsidiary undertaking	Principal activity	% Ownership of ordinary equity shares
Subsidiaries registered in England & Wales, with a registered address of: Icknield Street Drive, Redditch, Worcestershire, B98 0DE		
Halfords Holdings (2006) Limited	Intermediate holding company	100
Halfords Holdings Limited*	Intermediate holding company	100
Halfords Finance Limited*	Intermediate holding company	100
Halfords Limited*	Retailing of auto parts, accessories, cycles and cycle accessories	100
Halfords Payment Services Limited*	Dormant	100
Halfords Investments (2010) LP**	Intermediate holding partnership	100
Halfords Autocentres Holdings Limited*	Intermediate holding company	100
Halfords Autocentres Funding Limited*	Dormant	100
Halfords Autocentres Limited*	Car servicing	100
Halfords Autocentres Acquisitions Limited*	Dormant	100
NW Autocentres Limited*	Dormant	100
Halfords Autocentres Developments Limited*	Dormant	100
Stop N' Steer Limited*	Dormant	100
Halfords Vehicle Management Limited*	Dormant	100
Boardman Bikes Limited*	Cycle design and cycle sales	100
Boardman International Limited*	Cycle design and cycle sales	100
Cycle Republic Limited*	Dormant	100
Performance Cycling Holdings Limited (previously Performance Cycling Limited)*	Intermediate holding company	100
Tredz Limited*	Non-trading	100
Wheelies Direct Limited (previously Savvy Bikes Limited)*	Dormant	100
Performance Cycling Limited (previously Wheelies Direct Limited)*	Retailing of cycles and cycle accessories	100
Giant (Wales) Limited*	Non-trading	100
Subsidiary registered in the Republic of Ireland, with a registered address of: c/o DWF Dublin, 4 George's Dock, IFSC, Dublin 1, DO1 X8N7		
Halfords Limited (ROI)*	Dormant	100
Other equity investment, registered in Northern Ireland, with a registered address of: 22 Derryall Road, Portadown, Craigavon, Northern Ireland, BT62 1PL		
Hamilton Internet Services Limited*	E-Commerce	7.7
Other equity investment, registered in England & Wales, with a registered address of: Cotton Court, Middlewich Road, Holmes Chapel, Crewe, England, CW4 7ET		
Tyres On the Drive Limited*	Retailing of motor vehicle parts and accessories	5.1

* Shares held indirectly through subsidiary undertakings.
** Wholly owned indirectly through subsidiary undertakings.

The only subsidiaries to trade during the year were Halfords Limited, Halfords Autocentres Limited, Boardman Bikes Limited, Boardman International Limited and Performance Cycling Limited.

5. Debtors

	2018 £m	2017 £m
Falling due within one year:		
Amounts owed by Group undertakings	**485.8**	478.5
	485.8	478.5

Amounts owed by Group undertakings are subject to interest. At 30 March 2018 the amounts bear interest at a rate of 1.75% (2017: 1.75%).

6. Creditors

	2018 £m	2017 £m
Falling due within one year:		
Bank borrowings (note 7)	**19.7**	20.7
Amounts owed by group undertakings	**148.7**	121.3
Accruals and deferred income	**0.6**	0.7
	169.0	142.7
Falling due after more than one year:		
Bank borrowings (note 7)	**83.7**	72.0
	83.7	72.0

7. Borrowings

	2018 £m	2017 £m
Current		
Unsecured bank overdraft	**19.7**	20.7
Non-current		
Unsecured bank loan and other borrowings (expiring between two and five years)	**83.7**	72.0
	103.4	92.7

The above borrowings are stated net of unamortised issue costs of £1.3m (2017: £1.0m).

Details of the Company's borrowing facilities are in Note 17 to the Group's financial statements.

8. Equity Share Capital

Ordinary shares of 1p each:	2018 Number of shares	2018 £000	2017 Number of shares	2017 £000
Allotted, called up and fully paid	**199,116,632**	**1,991**	199,116,632	1,991

During the current period the Company has not changed its share capital. There has been no change in share premium, which has remained at £151.0m (2017: £151.0m).

In total the Company received proceeds of £0.1m (2017: £1.4m) from the exercise of share options.

Potential Issue of Ordinary Shares

The Company has five employee share option schemes, three of which were set up following the Company's flotation, and the MSP and RSP-SMP which have been set up in the year. Further information regarding these schemes can be found in Note 23 to the Group's financial statements.

Investment in Own Shares

At 30 March 2018 the Company held in Trust 2,060,363 (2017: 2,097,863) of its own shares with a nominal value of £20,604 (2017: £20,979). 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 30 March 2018 was £6.7m (2017: £7.4m). In the current period nil (2017: nil) were repurchased and transferred into the Trust, with 37,500 (2017: 886,426) reissued on exercise of share options.

9. Reserves

The Company settled dividends of £34.8m (2017: £53.5m) in the period, as detailed in Note 8 to the Group's financial statements.

10. Related Party Disclosures

Under FRS 101 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 30 March 2018 amounted to £3.6m (2017: £3.7m).

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.


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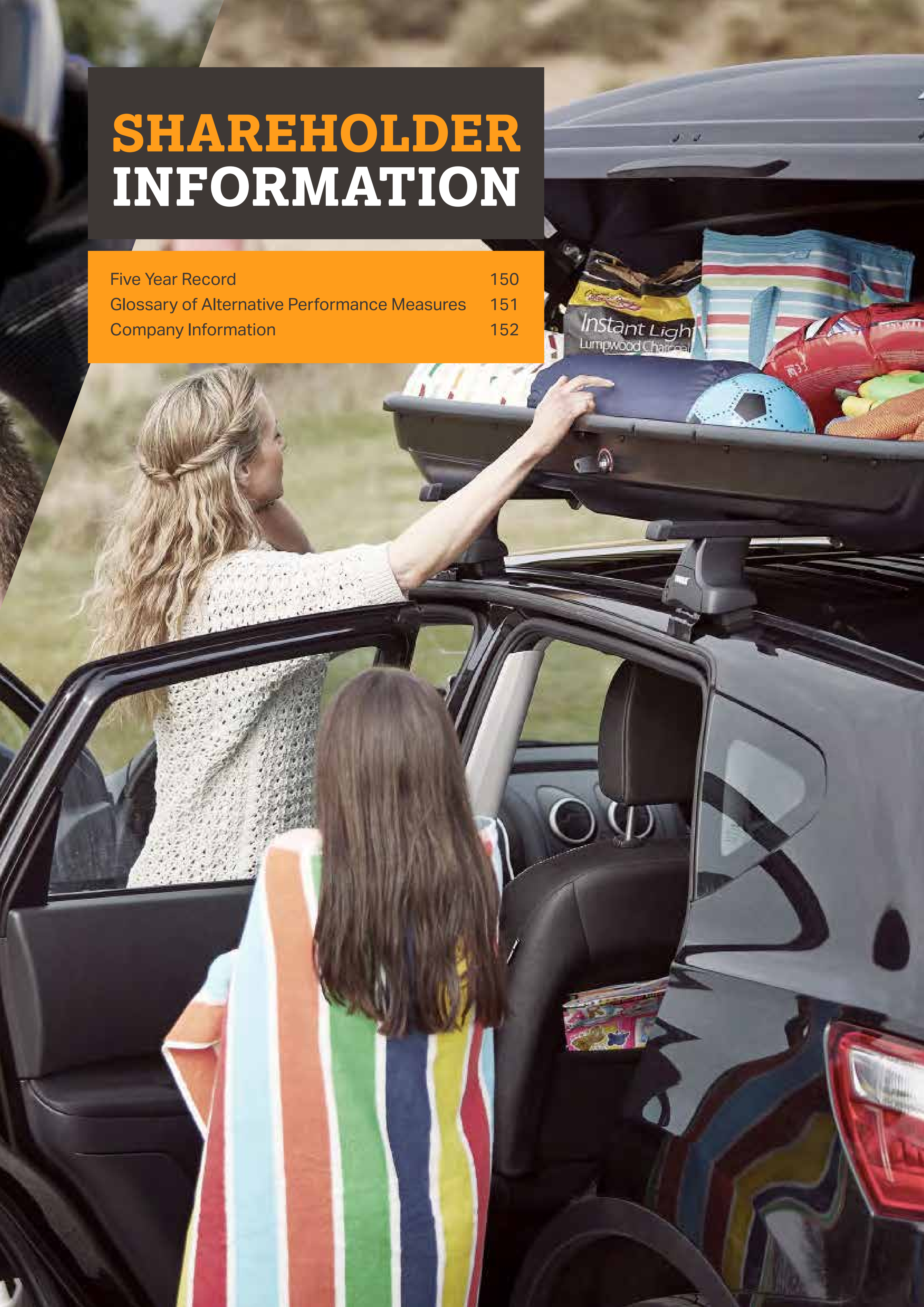

SHAREHOLDER INFORMATION

Five Year Record

	52 weeks to 28 March 2014 (audited) £m	52 weeks to 27 March 2015 (proforma)* £m	52 weeks to 1 April 2016 (audited) £m	52 weeks to 31 March 2017 (audited) £m	**52 weeks to 30 March 2018 (audited) £m**
Revenue	939.7	1,004.9	1,021.5	1,095.0	**1,135.1**
Cost of sales	(435.5)	(469.8)	(478.4)	(536.4)	**(564.9)**
Gross profit	504.2	535.1	543.1	558.6	**570.2**
Operating expenses	(426.4)	(450.5)	(458.6)	(481.5)	**(495.6)**
Operating profit before non-recurring items	77.8	84.6	84.5	77.1	**74.6**
Non-recurring operating expenses	(0.2)	(0.3)	(1.7)	(3.4)	**(4.8)**
Operating profit	77.6	84.3	82.8	73.7	**69.8**
Net finance costs	(5.0)	(3.5)	(3.0)	(2.3)	**(2.7)**
Underlying Profit Before Tax**	72.8	81.1	81.5	75.4	**71.6**
Non-recurring operating expenses	(0.2)	(0.3)	(1.7)	(3.4)	**(4.8)**
Non-recurring finance costs	—	—	—	(0.6)	**0.3**
Profit before tax	72.6	80.8	79.8	71.4	**67.1**
Taxation	(17.0)	(17.4)	(16.6)	(15.9)	**(13.2)**
Taxation on non-recurring items	(0.1)	(0.1)	0.3	0.9	**0.8**
Profit attributable to equity shareholders	55.5	63.3	63.5	56.4	**54.7**
Basic earnings per share	28.6p	32.5p	32.5p	28.7p	**27.8p**
Basic underlying earnings per share**	28.8p	32.7p	33.2p	30.3p	**29.6p**
Weighted average number of shares	194.0m	194.2m	195.2m	196.6m	**197.0m**

* The statutory 53-week period to 3 April 2015 comprises results that are non-comparable to the 52 week periods reported in other years. To provide a more meaningful comparison, the above tables include the pro forma 52 weeks to 27 March 2015.

** These alternative performance measures are defined on page 151.

Glossary of Alternative Performance Measures

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures ("APMs"), previously termed as 'Non GAAP measures'. APMs should be considered in addition to IFRS measurements, of which some are shown on page 100. The Directors believe that these APMs assist in providing useful information on the underlying performance of the Group, enhance the comparability of information between reporting periods, and are used internally by the Directors to measure the Group's performance.

The key APMs that the Group focuses on are as follows:

1. Like-for-like ("LFL") sales represent revenues from stores, centres and websites that have been trading for at least a year (but excluding prior year sales of stores and centres closed during the year) at constant foreign exchange rates.
2. Underlying EBIT is results from operating activities before non-recurring items. Underlying EBITDA further removes Depreciation and Amortisation.
3. Underlying Profit Before Tax is Profit before income tax and non-recurring items as shown in the Group Income Statement.
4. Underlying Earnings Per Share is Profit after income tax before non-recurring items as shown in the Group Income Statement, divided by the number of shares in issue.
5. Net Debt is current and non-current borrowings less cash and cash equivalents, both in-hand and at bank, as shown in the Consolidated Statement of Financial Position.
6. Net Debt to Underlying EBITDA ratio is represented by the ratio of Net Debt to Underlying EBITDA (both of which are defined above).
7. Adjusted Operating Cash Flow is defined as EBITDA plus share-based payment transactions and loss on disposal of property, plant and equipment, less working capital movements and movement in provisions; as reconciled below.

	FY18 £m	FY17 £m
Underlying EBITDA	**109.5**	108.7
Non-recurring operating expenses	**(4.8)**	(3.4)
EBITDA	**104.7**	105.3
Share-based payment transactions	**0.4**	1.0
Loss on disposal of property, plant & equipment	**4.1**	0.2
Working capital movements	**(12.6)**	(16.3)
Provisions movement & other	**(1.2)**	(0.2)
Adjusted Operating Cash Flow	**95.4**	90.0

8. Free Cash Flow is defined as Adjusted Operating Cash Flow (as defined above) less capital expenditure, net finance costs, taxation, exchange movements and arrangement fees on loans; as reconciled below.

	FY18 £m	FY17 £m
Adjusted Operating Cash Flow	**95.4**	90.0
Capital expenditure	**(37.0)**	(34.4)
Net finance costs	**(1.9)**	(0.8)
Taxation	**(16.1)**	(15.3)
Exchange movements	**1.9**	(1.8)
Arrangement fees on loans	**(0.8)**	—
Free Cash Flow	**41.5**	37.7

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Company Information

Financial Calendar

24 July 2018	Annual General Meeting
27 July 2018	Final Dividend Record Date
31 August 2018	Final Dividend Payment Date
4 September 2018	20 Week Trading Update
7 November 2018	Interim Results

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Commercial Website
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