

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 1 April 2016.

Halfords Group plc

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

Summary of General Disclosures (incorporated into this Directors' Report)

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

Disclosure	Page
The financial position of the Group, its cash flows, liquidity position and borrowing facilities within the Chief Financial Officer's Report.	24-29
The Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk within Note 20 to the Group Financial Statements.	104
The Statement of Compliance with the UK Corporate Governance Code and description of the Group's corporate governance framework within the Corporate Governance Report.	38-47
A summary of how the Company recognises its responsibility to its colleagues, customers, environment, and community through various initiatives (case studies being on pages 9; 12; 16 and 29) and within the Corporate Social Responsibility Committee Report	50-53
The Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements.	73
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Directors' Report

Principal activities

The principal activities of the Group are: the retailing of automotive, leisure and cycling products from its Halfords and Cycle Republic retail stores and car servicing and repair from its Autocentres outlets. The principal activity of the Company is that of a holding company. The Company's registrar is Capita Asset Services, which is situated at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Strategic report

In accordance with Section 414A of the Companies Act 2006, the Directors have chosen to set out in the Strategic Report the following information required to be included in the Directors' Report:

Likely future developments – page 4;
Greenhouse Gas Emissions – page 53;
Use of Financial Instruments – Note 20 to the Group Financial Statements; and
Charitable Donations – page 52

The Corporate Governance Report on pages 40 to 47 is a statement for the purposes of Disclosure and Transparency Rule 7.2.1.

Profits & dividends

The Group's results for the year are set out in the Consolidated Income Statement on page 79. The profit before tax on ordinary activities was £81.5m (2015: £83.8m) and the profit after tax amounted to £64.9m (2015: £65.8m). The Board proposes that a final dividend of 11.34 pence per ordinary share be paid on 26 August 2016 to shareholders whose names are on the register of members at the close of business on 5 August 2016. This payment, together with the interim dividend of 5.66 pence per ordinary share paid on 22 January 2016, makes a total for the year of 17 pence per ordinary share. The total final dividend payable to shareholders for the year is estimated to be £22m.

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

Performance monitoring

The delivery of the Group's strategic objectives is monitored by the Board through KPIs and periodic review of various aspects of the Group's operations. The Group considers that the KPIs listed on pages 22 to 23 are appropriate measures to assess the delivery of the strategy of the Group via its Retail and Autocentres divisions.

Directors

The following were Directors of the Company during the period ended 1 April 2016 and, unless otherwise stated, at the date of this Annual Report:

Dennis Millard
Jill McDonald (appointed 11 May 2015)
Jonny Mason (appointed 12 October 2015)
David Adams
Claudia Arney
Helen Jones
Matt Davies (resigned 30 April 2015)
Andrew Findlay (resigned 1 October 2015)

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 1 April 2016 will retire and offer themselves for re-election at the 2016 AGM. Jonny Mason, who was appointed on 12 October 2015, will stand for election for the first time.

Directors' interests

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.

Directors' indemnities

Directors' and Officers' insurance cover 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, the Company's Articles of Association.

Colleagues

The Group strives to meet its business objectives by motivating and encouraging all colleagues to be responsive to the needs of our customers and continually improve operational performance. This 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, face to face and shop floor experience modules and are then recognised for their success through certification, career progression and increased pay awards. Autocentres runs, in conjunction with the IML, 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. In addition we run a Leadership Development programme, called *Aspire*, to identify, nurture and develop colleagues across the Group, with potential to be our leaders of the future. This continues our drive to develop from within.

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

The Group has an established framework of colleague communications, to provide colleagues with information on matters of concern to them and business performance as well as to encourage the engagement of every colleague in the Board's commitment to high standards of customer care and service provision.

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

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 AGM 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.

Going concern

The Group has a £170m five-year revolving credit facility, ending in November 2019. At the year end, the Group had undrawn borrowing facilities of £143m (2015: £117m). 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 1 April 2019. 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 1 April 2019.

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, with a focus on those risks that could threaten its business model, future performance, solvency or liquidity or sustainability. The assessment considered how risks may develop over three years; and
- financial analysis and forecasts showing current financial position and performance, cash flow projections, funding requirements and funding facilities.

Branches

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

Political donations

The Group made no political donations and incurred no political expenditure during the year (FY15: 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.

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 1 April 2016 for the Group was 63 days (2015: 70 days). The Company is a holding company and has no trade creditors.

Share capital

Details of the Company's share capital, including changes during the year in the issued share capital and details of the rights attaching to the Company's ordinary shares, are set out in Note 21 on page 107. 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. There are no known arrangements that may restrict the transfer of shares or voting rights.

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

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

Major shareholders

As at 29 April 2016, this being the latest practicable date, the Company's register of substantial shareholdings showed the following interests of 3% or more of the Company's issued ordinary shares.

Holder	Number of shares	% of issued shares
Artemis Investment Management LLP	23,028,046	11.57
Schroders Plc	13,914,607	6.99
Jupiter Asset Management Limited	11,142,795	5.60
Hargreave Hale Inv. Management	9,357,593	4.70
Rathbone Brothers Plc	8,501,088	4.27
Norges Bank Inv. Management	7,511,888	3.77
Invesco Limited	7,452,297	3.74
Ameriprise Financial Inc	7,410,238	3.72
J O Hambro Capital Management Limited	6,421,133	3.22

Authority to purchase shares

At the 2015 AGM, shareholders approved a special resolution authorising the Company to purchase a maximum of 19,906,322 shares, representing less than 10% of the Company's issued share capital at 5 June 2015, such authority expiring at the conclusion of the AGM to be held in 2016 or, if earlier, on 30 September 2016.

Disclosures required by listing rule 9.8.4R

Disclosures required by the FCA's Listing Rule 9.8.4R can be found on the following pages:

- Long term incentive schemes (Performance Share Plan) — pages 59 and 61; and
- Waiver of dividends — page 38

Important events since year end

On 24 May 2016, the Group acquired 100% of the issued share capital of Tredz Limited and Wheelies Direct Limited. Further information regarding this acquisition can be found on page 111 in note 28 to the Group Financial Statements.

Annual general meeting

The AGM will be held at the Hilton Garden Inn, 1 Brunswick Square, Brindley Place, Birmingham B1 2HW on Tuesday 26 July 2016. The Notice of the AGM and explanatory notes regarding the special business to be put to the meeting will be set out in a separate circular to shareholders.

By order of the Board

Tim O'Gorman

Group Company Secretary

1 June 2016