

Remuneration Committee Report



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Remuneration Committee Chairman's Letter

Dear Shareholders

On behalf of the Remuneration Committee, I am pleased to present the Remuneration Report for the financial period ended 1 April 2016.

The Report consists of three sections:

- this **Annual Statement**;
- our **Policy Report**, which sets out a summary of the Directors' Remuneration Policy for all Directors of Halfords; and
- our **Annual Report on Remuneration**, which sets out the details of how the Company's Directors were paid during FY16 and how our Policy will be implemented in FY17. The Annual Report on Remuneration is subject to an advisory shareholder vote at the 2016 AGM.

Remuneration Policy

The Committee was pleased that shareholders approved our Remuneration Policy at the AGM that took place on 30 July 2014. There are no proposals to amend the Policy at this time and it is intended that it continues to apply until 2017.



Read more about the Remuneration Policy in the corporate governance section, the full policy is online at www.halfordscompany.com/investors/governance/remuneration-policy



See more on our **Remuneration Policy** on pages 60 to 62.

Remuneration Structure and Philosophy

The Remuneration structure is comprised of the following elements:

- fixed pay — base salary, benefits and pension; and
- variable pay — annual cash bonus and Performance Share Plan.

Our approach to remuneration supports a strong focus on performance and reflects our key strategic objectives. Our remuneration philosophy aims to provide Executive Directors with incentive opportunities strongly aligned to growth, profitability and shareholder returns.

Performance Share Plan ("PSP")

To ensure that the interests of the Executive Directors continue to align with the delivery of the strategy, the Committee again determined that the performance measure for the FY16 PSP would be based on 75% Group EBITDA growth and 25% Group Revenue growth.

The rules for the current PSP, which were approved by shareholders at the 2015 AGM, now contain clawback provisions in addition to the existing malus provisions.

Annual Bonus

PBT was £81.5m in 2015/16 and therefore 15% of this element of the bonus was achieved (80% of the total bonus being based on PBT). There has been strong progress against strategic objectives during the year particularly in relation to 50:39 store delivery, value added sales growth and retention of store colleagues. The Committee judged that 11.5% of this element should be paid. This resulted in an overall bonus of 23.5% of maximum.


i Fast Fact*

60 miles

The distance you can travel **on one charge** of Halford's Carrera Crossfire-E bike

*Fast Fact figures relate to 4th April 2015 - 1st April 2016

Save As You Earn Scheme ("SAYE")

The Committee believes that encouraging colleagues to own shares in the business encourages them to 'think like an owner' in their dealings with customers and colleagues, which is why the Company took advantage of the change in HMRC rules and doubled the monthly sum that colleagues are permitted to save. Share ownership is another factor that makes Halfords a great place to work, as it drives colleague motivation and commitment. At the AGM in 2014, shareholders approved the renewal of a UK SAYE Scheme, which led to the adoption of new rules for the UK SAYE. Shareholders also approved measures to allow overseas colleagues to participate in similar SAYE schemes.

Following the announcement of our new Moving Up A Gear strategy in November 2015, the Committee approved a new SAYE opportunity for colleagues to encourage further share ownership in alignment with the launch of the strategy.

Incentive/Remuneration Review

Jill McDonald was appointed as the Group CEO in place of Matt Davies on 11 May 2015. In order to ensure her appointment, the Board agreed it was necessary to award her 114,702 ordinary shares in the Company to compensate for awards made by her previous employer that lapsed on resignation. The value of these shares was £529,819. These share awards were announced on 23 March 2015 when her appointment was made public. The first tranche of 38,973 shares was awarded in February 2016, and it is expected that future tranches will be delivered in a similar way until the full commitment is satisfied.

The Committee approved a 2% salary increase for Jill McDonald, mirroring that awarded to colleagues throughout the Support Centre in October 2015.

Following the departure of Andrew Findlay, the Chief Financial Officer in October, the Committee recommended to the Board the approval of an appropriate CFO remuneration package to achieve the appointment of his successor. The Board was delighted to secure Jonny Mason as the Group CFO and agreed that, as part of his package, it was necessary to compensate him for an accrued but as

yet unpaid bonus due from his previous employer as announced on 2 July 2015, details of this appear on page 64. Jonny Mason was not eligible for the pay review as he was appointed after the review on 12 October 2015.

During the period the Committee set the performance targets for the 2016 PSP and these were set to be consistent with, and supportive of, the Moving Up A Gear strategy communicated in November 2015.

Our Remuneration Policy (approved in 2014) allowed the Committee to award a bonus of up to 150% for the CFO and we have taken the opportunity to increase his total potential award to this level.

The Executive Directors reviewed the Non-Executive Directors' fees as detailed on page 62.

The Committee has previously approved the addition of malus and clawback provisions within the FY16 Executive Bonus and Deferred Bonus schemes and, as mentioned above, the introduction of clawback provisions into the new PSP rules, alongside existing malus provisions was approved at the FY15 AGM. In each case, these provisions give the Committee the ability to reduce awards prior to vesting or require repayment of awards that have vested or been paid in certain circumstances.

Concluding Remarks

I hope that you will find the Report clear, transparent and informative. The Committee has sought to set 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 AGM.

Yours faithfully

Claudia Arney

Chairman of the Remuneration Committee

1 June 2016