halfords

Remuneration Policy Summary

Remuneration policy summary

This section of the report sets out Halfords' Remuneration Policy for all of the Executive Directors and Non-Executive Directors. It explains the purpose and principles underlying the structure of remuneration packages and how the Policy links remuneration to the achievement of sustained high performance and long-term value creation.

As our Directors' Remuneration Policy (the "Policy") is unchanged from that approved by shareholders at the 2014 Annual General Meeting on 29 July 2014, we have provided a summary of the Policy to give context to decisions taken by the Remuneration Committee (the "Committee") during the year. The full Policy was in the Report and Accounts for 2014 and it can also be found on our website.

Read more online at
www.halfordscompany.com/investors/governance/remuneration-policy

A summary of the Policy is provided in the following tables.

Key Elements of Executive Directors' Remuneration Policy

Base salary

Base salary is set at an appropriate level to attract and retain management of a high calibre with the necessary financial, retail, customer service and digital skill sets required to deliver a sustainable business model and drive shareholder returns.

Key Policy features	Implementation of the Policy in the period
Base salaries are reviewed annually, typically with effect from 1 October, with increases broadly aligned to those in the wider workforce. Occasionally, larger increases may be considered to take account of changes in an individual's role or responsibilities, individual progression or experience or external market trends.	With effect from 1 October 2015, the salary of the CEO was increased by 2%, mirroring the increase generally awarded to colleagues in the Support Centre. Salaries will next be reviewed from 1 October 2016. **Changes made** None

Benefits

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

Key Policy features	Implementation of the Policy in the period
Executive Directors receive various benefits as part of their package, such as a fully expensed car (or a cash allowance and a fuel card), private health insurance and life assurance. Where an Executive Director relocates to take up a role, other benefits may be paid, such as relocation expenses, a housing allowance and school fees.	Executive Directors continued to enjoy the same benefits package as their predecessors had in the prior year. No allowances or benefits were increased. **Changes made** None

Pensions

To provide Executive Directors with an appropriate allowance for retirement planning.

Key Policy features	Implementation of the Policy in the period
Defined employer contribution funding to the Halfords Pension Plan or payments into a personal fund or a cash allowance for Executive Directors to make their own pension arrangements. The maximum payable by the Company will be 20% of base salary.	The CEO and CFO will receive 15% of base salary. **Changes made** None

Annual Bonus

To incentivise Executive Directors to achieve annual financial targets and performance against strategic goals.

Key Policy features	Implementation of the Policy in the period
The maximum annual bonus opportunity is 150% of base salary. The annual bonus is based on a mix of financial and strategic measures. Measures are selected each year by the Committee to ensure continued focus on the Company's strategy. At least 50% of the bonus will be based on financial measures. Generally the annual bonus is paid in cash, but the Committee might determine that it be paid in shares or in a mixture of cash and shares. The Committee may require a portion of any bonus earned to be deferred. Deferred bonus awards are normally made in the form of nil cost options, which normally vest three years from award. The Committee may decide to pay dividends on those shares during the vesting period, either as cash or as additional shares. Malus provisions apply to any deferred shares, allowing the Committee to scale back any award before exercise in circumstances that the Committee determines is appropriate such as a material misstatement of the Company's results, serious reputational damage to the Company, or where the Company suffers serious losses.	In the period, the CEO's maximum bonus opportunity was 150% of base salary, 1/3 of which will be paid in shares and deferred for three years (with dividends reinvested), and the remainder paid in cash. The CFO's maximum bonus opportunity was 100% of base salary, paid in cash. **Changes made** The FY16 Executive Bonus and Deferred Bonus Plan reinforced existing malus provisions in relation to any deferred element and introduced clawback provisions for any paid element, giving the Company the power to seek redress from any individual for material misstatement, employee misconduct, serious reputational damage or miscalculation of metrics leading to an award under either scheme. The principles set out in the FY16 Executive Bonus and the Deferred Bonus Plan are continued in FY17. The CFO's bonus opportunity will increase to 150% of salary for FY17 with one third paid in shares and deferred.

PSP

To attract and retain Executive Directors of a high calibre.

To incentivise and reward long-term performance and align Executive Directors' interests with those of our shareholders.

Key Policy features	Implementation of the Policy in the period
The PSP comprises annual awards, usually in the form of nil-cost options, with vesting based on performance against pre-determined conditions over a minimum three-year period. The maximum core award is 150% of base salary. A participant has the opportunity to earn up to 1.5 × core award for exceptional performance and, therefore, the maximum annual face value of awards is 225% of base salary. Any award paid over the core award is subject to a two-year retention period.	Awards granted in 2016 will vest subject to the achievement of stretching Revenue and EBITDA targets. The vesting of 25% of the awards will be determined by the growth in the Group's Revenue and the vesting of 75% of the award will be determined by the growth in the Group's EBITDA over a three-year performance period. In addition to achieving these targets, the vesting of awards will be subject to meeting a net debt underpin. The core award for the CEO and CFO in the period was 150% of base salary. **Changes made** The new PSP rules approved at the AGM in FY15 restated existing malus provisions and introduced clawback provisions, each giving the Company the power to seek redress from any individual for material misstatement, employee misconduct, serious reputational damage or miscalculation of metrics leading to an award under the PSP. During the period, the Committee set the performance targets for the 2016 PSP to be consistent with, and supportive of, the Moving Up A Gear strategy communicated in November 2015.

Remuneration Policy Summary continued

Key Elements of Non-Executive Director Remuneration Policy

NED Fees

Fee levels are designed to attract and retain high-calibre individuals to serve as Non-Executive Directors.

Key Policy features	Implementation of the Policy in the period
Fee levels are set to reflect the time, commitment and experience of the Chairman and the Non-Executive Directors, benchmarking fees against UK listed retail comparators. The fees of Non-Executive Directors are normally reviewed every two years by the Board, following a recommendation from the CEO. The Chairman's fees are determined by the Remuneration Committee, again following a recommendation from the CEO. The Chairman's fee includes a sum for chairing the Nomination Committee but other Committee Chairmen may receive an additional fee for that role, as does the Senior Independent Director. The fees are normally paid in cash quarterly but may be paid in shares if this is considered appropriate.	Fees for Non-Executive Directors remained unchanged in the period. **Changes made** Given that fees for Non-Executive Directors have not been increased since 2008, it was felt appropriate for them to be reviewed at this time. For FY17, appropriate benchmarking data for the FTSE 250 was analysed and the following recommendations, which are consistent with market practice elsewhere, are proposed: • for Non-Executive Directors basic fees, a 4% increase will be applied giving an increase in basic fee to £50,000; • the fee for Chairing the Audit and Remuneration Committees will increase to £10,000 each; • a fee for Chairing the new CSR Committee will be introduced and will commence at £5,000 as this is a new role; • the fee for the Senior Independent Director to be reduced by £5,000 to £10,000. This is still ahead of the median and, when combined with the proposed increased fee for Chairing the Audit Committee, will mean that in practice, the recipient's overall fee received is not reduced; and, • the same principle as is used for basic Non-Executive Director fees (set out above) is also applied to the Chairman of the Board. This would give a 4% rise, which is fractionally less than the median.