

Remuneration Policy Report

Executive Remuneration Policy

The Policy report set out on pages 80 to 88 sets out the Remuneration Policy (the "Policy") that the Company intends to apply, subject to shareholder approval, with effect from 26 July 2017 (the date of the Annual General Meeting ("AGM")). This Policy will replace in full the Directors' Remuneration Policy set out in the 2013/14 Annual Report, which was approved by shareholders at the AGM on 29 July 2014. It is intended that this Policy will apply until the 2020 AGM, unless the Company seeks shareholder approval for a revised policy which comes into force before this date.

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.

Key changes under the updated Policy

To ensure that the Remuneration Policy continues to support the Company's strategy for the next three-year cycle and reflects market best practice, the following key changes have been made:

- **Simplify the long-term incentive (PSP) and reduce overall maximum opportunity** – Under the Policy approved in 2014, the PSP was structured so that a 'core' award is granted and participants have the opportunity to earn above this level (the 'multiplier') for exceptional performance. The overall maximum award under the PSP is 225% of salary. The operation of the PSP under the new Policy has been simplified by removing the multiplier and the overall maximum limit has been reduced to 200% of salary.
- **Extension of the retention period for the PSP** – Under the 2014 Policy, the two-year retention period only applied to any portion of the award earned above the core award i.e. that part related to the multiplier. To reflect the simplified PSP structure and to make our approach more consistent with market practice going forward, a two-year retention period will apply to all amounts earned under the PSP. Transitional arrangements are in place to move to this position from FY19.
- **Reduce the cap on pension contributions** – Under the new Policy the pension cap of 20% of salary has been reduced to 15% of salary to reflect current operating levels.
- **Increase shareholding guidelines** – The shareholding guideline under the 2014 Policy for the Executive Directors was 100% of base salary. To further align executives' interests with those of shareholders, the shareholding guideline has been increased to 200% of salary. Executives will be required to retain 75% of any post-tax shares that vest under share incentive plans until this shareholding is reached. The requirement to meet the guideline over a period of time has been removed.

In addition to the above, other minor changes have been made, intended to align the new Policy to evolving market and best practice and to simplify its operation.

Key elements of Executive Remuneration Policy

Base Salary

Purpose and link to strategy

Base salary, which is payable in cash, is set at an appropriate level 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.

Operation	Maximum Opportunity
<p>Generally, salaries are reviewed annually with increases effective from 1 October but may be reviewed at other times if the Committee considers this appropriate.</p> <p>In determining base salary levels consideration is given to:</p> <ul style="list-style-type: none"> the individual's experience and the performance of the Group and the individual; salary levels at other companies of a similar size and complexity and at other UK listed retailers (without seeking to 'match the median'); and the pay increases for other employees in the Group. 	<p>While there is no maximum salary level, salary increases will generally be in line with increases awarded to other employees in the Group.</p> <p>However, larger increases may be made at the discretion of the Committee to take into account circumstances such as:</p> <ul style="list-style-type: none"> changes in an individual's role or responsibility; to reflect an individual's progression and increase in experience in the role; and where a salary is significantly behind market practice.
	Performance Measures
	<p>The payment of salary is not subject to performance conditions. However, when determining salary levels the performance of Executive Directors is taken into account, in advance of any increases being awarded.</p>

Benefits

Purpose and link to strategy

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

Operation	Maximum Opportunity
<p>The Committee's policy is to set benefits at an appropriate level taking into account the individual's circumstances and market practice.</p> <p>Executive Directors currently receive a car plus fuel or a cash allowance, private health insurance and life assurance as standard benefits.</p> <p>However, the Committee may determine that additional benefits may be provided based on individual circumstances (e.g. the use of a chauffeur) when it is considered appropriate.</p> <p>In the event that an executive is required to relocate to perform their role then additional one-off or ongoing benefits may be provided such as relocation expenses, a housing allowance and school fees.</p> <p>The Company reimburses reasonable business expenses and may pay any tax incurred in relation to these.</p> <p>Executives are also eligible to participate in any all-employee share plans operated by the Company on the same basis as other employees.</p>	<p>The overall level of benefits will depend on the cost of providing individual items and the individual's circumstances and therefore there is no maximum level of benefit.</p> <p>The maximum participation levels for all employee share plans is the same as any maximum applicable to other employees (and consistent with any relevant HMRC limits).</p>
	Performance Measures
	<p>None</p>

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Pensions

Purpose and link to strategy

To enable the Company to offer market competitive remuneration through the provision of additional retirement benefits.

Operation	Maximum Opportunity
Executives are eligible for a defined employer contribution funding to the Halfords Pension Plan, payments into a personal fund and/or a cash allowance in lieu of pension. The Committee may determine that alternative arrangements should apply (including for new hires). When determining such arrangements the Committee will consider cost and market practice (subject to the overall limit set out in the maximum column).	The aggregate value of any annual pension contributions and cash allowance for each individual will not exceed 15% of base salary.
	Performance Measures
	None

Annual Bonus

Purpose and link to strategy

To incentivise executives to achieve annual financial targets and performance against key strategic objectives. Deferral of bonus under the Deferred Bonus Plan ("DBP") further incentivises Executive Directors to manage risk and align their long-term interests with those of shareholders.

Operation	Maximum Opportunity
<p>The annual bonus is normally based on performance over a financial year.</p> <p>After the year-end the Committee determines the extent to which targets have been met. In certain circumstances the Committee may review the annual bonus payout in the context of the performance of the business during the year and the delivery against strategy and may amend the level of bonus payout (upwards or downwards) to reflect overall business and individual performance.</p> <p>Normally up to two-thirds of the total bonus is paid in cash. The remaining one-third of the bonus is deferred as shares for three years. The Committee may determine that a different portion of the bonus will be paid in shares or that the bonus may be paid in cash.</p> <p>Deferred awards normally vest three years from award (or after such other period as the Committee determines) and have no additional performance conditions.</p> <p>Malus and clawback provisions apply to the cash bonus payments and deferred share awards for a period of three years from award. During this period, the Committee may determine that payments may be scaled back in the event of a material misstatement of the Company's results, or where the Company has suffered serious loss or reputational damage in respect of the period for which the Executive had responsibilities for the running of the business.</p> <p>Bonuses are non-pensionable.</p>	<p>The maximum annual bonus opportunity is 150% of base salary.</p>
	Performance Measures
	<p>The annual bonus measures are 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.</p> <p>Performance measures are set annually to ensure they are appropriately stretching for the delivery of threshold, target and maximum performance.</p> <p>For 2017/18, the bonus will be based on performance against PBT and strategic objectives consistent with the <i>Moving Up A Gear</i> strategy.</p> <p>Further details are provided on page 96 of the Annual Remuneration Report.</p> <p>No bonus will be paid for below threshold performance, typically around 50% of the bonus will be paid for achieving 'target' levels of performance and 100% of bonus will be paid for achieving a stretching performance target. Performance targets are set by the Remuneration Committee with reference to prior year performance and the Group's business plan.</p>

Performance Share Plan ("PSP")

Purpose and link to strategy

To attract and retain Executive Directors of a high calibre. To align Executive Directors' interests with those of our shareholders by incentivising them to deliver the Company strategy and to create a sustainable business and maximise returns to shareholders.

Operation	Maximum Opportunity
<p>Annual awards of shares with vesting based on performance over a three-year period (or such other period as the Committee shall determine). The vesting of awards to Executive Directors is subject to the satisfaction of performance conditions.</p> <p>A post-vesting retention period will apply to awards granted under the PSP. Shares that vest will not normally be released to executives (and nil-cost options will not normally become exercisable) for a further two-year period (unless the Committee determines otherwise) from the point at which the Committee determined that the performance conditions have been met. In FY18, transitional arrangements are in place, see page 96.</p> <p>The Committee can apply malus provisions to an unvested award if there has been a material misstatement of the Company's results or misconduct by the Executive, or if the Committee considers there are other similar circumstances which mean that the malus provisions should apply.</p> <p>The Committee can also apply clawback provisions to an award for a period of two years following its vesting if there has been a material misstatement of the Company's results, a calculation error in respect of the number of shares over which the award was granted or vested, or misconduct, actions or omissions by the Executive which have caused or contributed to serious reputational damage to the Company.</p>	<p>Maximum award under the PSP is 200% of base salary.</p>
	Performance Measures
	<p>For 2017 awards will vest subject to the achievement of stretching Revenue and EPS growth targets.</p> <p>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 underlying EPS over a three-year performance period.</p> <p>25% of the award vests for entry level performance.</p> <p>Any vesting of the PSP will be subject to an underpin whereby the net debt to EBITDA ratio remains below 1.5 times on average for the 3 years of the plan.</p> <p>For future awards the Committee may determine that different financial, operational / strategic or share price related performance measures may apply to awards or that a different weighting between performance measures may apply to ensure continued alignment with our evolving strategy. The majority of the award will be subject to meeting a financial performance target.</p>

Other information

Shareholding guidelines

The Committee believes that it is important that Executive Directors' interests are aligned with those of our shareholders to incentivise them to deliver the corporate strategy, thus creating value for all shareholders. Executive Directors are encouraged to acquire and retain shares with a value equal to 200% of their annual base salary. Executives are expected to retain 75% of any post-tax shares that vest under any share incentive plans until this shareholding is reached. Current Executive Director shareholdings are disclosed on page 94.

Legacy awards

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments)

notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed (i) before 29 July 2014 (the date the Company's first shareholder-approved Directors' Remuneration Policy came into effect); (ii) before the policy set out in this 2016/17 Annual Report came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' Remuneration Policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.