Strategic Report

Contents

> We are delighted to have delivered a year of very strong financial and operational progress, especially in light of the extraordinary challenges presented by the pandemic. As ever, I would like to thank our outstanding colleagues across the business for their hard work, professionalism, and dedication.

Chief Executive Officer's Statement

Graham Stapleton

Underlying Profit Before Tax

£96.3m[1]

Autocentres Revenue Growth

+31.6%

Read our Corporate Governance Report on pages 86 to 108.

1. Number presented is pre-IFRS 16. Underlying Profit Before Tax, post-IFRS 16 is £99.5m.

Introduction

This year has undoubtedly been one of the most challenging that **Halfords** has faced in its 130-year history. I reflect on the year with immense pride in the commitment and determination of our colleagues to support our customers, suppliers and communities, whom we served throughout the pandemic to keep the UK moving in a time of great difficulty. Despite the challenging operating environment, I am very proud of the resilient and strong performance we delivered in FY21. We have shown agility in adapting our operating models on multiple occasions during the year, whilst at the same time continuing to build the strategic foundations on which we will transform our business in FY22. The Group is in good shape to invest in its strategy and position the business for long-term success.

Operational review

I am very pleased with our performance in FY21, shown not only in the financial results but also in the operational agility demonstrated throughout the business to overcome the many challenges presented last year. COVID-19 was clearly the most significant challenge faced by any retailer, but we have also faced Brexit, container shortages, port congestion and, more recently, the blockage of the Suez Canal. Our performance not only showcases the resilience of our core business and the relevance of our strategy, but also the importance of our progress in creating a more efficient and profitable business to provide strong foundations for future growth.

Retail revenue of £1,039.8m was +9.4% above last year and +14.6% on a LFL basis. We saw a volatile and unpredictable year of trading, with large swings in LFL performances from week to week, and across our categories. Overall, we saw strong demand for our Cycling products, +54.1% above last year, with our performance cycling business Tredz performing even better at +66.3%. Motoring was -12.1% LFL, better than traffic levels but inevitably impacted by the lockdowns.

Autocentre revenue was £252.5m, growing 31.6% year-on-year and +9.7% on a LFL basis. The overall growth in Autocentres benefited from the annualisation of our FY20 acquisitions and the continued expansion of our **Halfords** Mobile Expert business, launching new vans and hubs to serve this growing and in-demand service.

It has been a particularly strong year for our areas of strategic focus – Group Services, B2B and Online - demonstrating the resilience and relevance of our strategy in the face of a tough operating environment. Group Services revenue grew +23% on last year and accounted for 29% of the Group; B2B sales were up +40% on the prior year and accounted for 18% of Group revenue; and finally, online revenue was up +110% on last year and accounted for 44% of the Group.

Progress on strategy in FY21

'To Inspire and Support a Lifetime of motoring and cycling.'

At our preliminary results in July 2020, reflecting the unprecedented impact and extreme uncertainty of the COVID-19 pandemic, we highlighted that we would moderate our near-term plan. We adjusted our short-term focus to cost efficiency and cash preservation, ensuring our colleagues are safeguarded and engaged in the success of the business and, of particular importance, adapting quickly to new customer trends. Our aim was to strengthen the core of our business during FY21, in the hope that we could return to more transformative investment in FY22 as the pandemic situation stabilised. Our progress on the key building blocks was as follows:

Continue to transform and build a unique and market-leading Motoring Services offer

- Increased the scale of our **Halfords** Mobile Expert offer to 143 vans, 14 hubs and over 250 technicians to serve a wider geographic reach.
- Acquired Universal Tyres, adding 20 garages to our fixed estate, as well as 89 vans, enabling us to expand our coverage of the commercial market in FY22.
- Continued to invest in our technology:
  - PACE into McConechy's
  - Tyres on The Drive ("ToTD") integrated into our Group website
  - WeCheck app launched in Retail stores
- Launched our first Group motoring services campaign, contributing to increased awareness and a +28% uplift in consideration scores for our Services offer.
- Implemented a new labour operating model in our Retail stores, designed to significantly increase our scale and capability in motoring and cycling services. We completed consultations with over 5,500 colleagues, with 88% ultimately retained in the business.

Enhancing our Group web platform and digital customer experience, to create an even more differentiated and specialist proposition

- Launched over 160 new customer enhancements to our group website, including 'email me when in stock', guided selling, local store stock availability, and personalisation.
- Transferred inbound phone and digital customer-contact from all 404 retail stores to a centralised, specialist team. With the pandemic driving contact volumes to at least four times higher than normal, caused by accelerated online adoption and a buoyant cycling market, this initiative enabled a significant improvement in call answer rates, to over 95%, improved service speed and query resolution, and the liberation of store-based colleagues to focus on those customers in front of them.
- With an ongoing focus on improving the customer experience, Retail NPS improved by +1.8 YoY and Autocentres NPS by +3.8 YoY, a proud achievement in such a challenging year.

Group Services Revenue
£370.0m

Growth in B2B revenue
40%

Chief Executive Officer's Statement

A focus on cost and efficiency, creating a leaner and more profitable business

- Cycling profitability improvements of +680bps, far exceeding the targeted +300bps.
- Sustainable working capital improvement of £20m
- In line with our plans announced in November 2019, we closed 80 low-returning stores and garages where we were confident of trade transfer to neighbouring locations. This includes the exit of 22 Cycle Republic stores, announced in FY20.
- Negotiated 19 lease renewals in Retail, achieving an average rent reduction of -30%.
- Secured GNFR annualised cost savings of £7m.

Invest in our Colleagues' welfare, engagement and development

- Colleague safety and wellbeing was our number one priority throughout FY21:
  - We invested £11m in PPE and COVID-19 protocols across the Group.
  - We invested a further £4m in direct financial support, including a Frontline Colleague Support Scheme and the **Halfords** Here to Help fund.
  - We launched a Wellbeing hub to support colleagues on a range of issues affecting their mental and physical health.
- We commenced our Services skills intervention, significantly increasing our colleagues' ability to provide a broad range of motoring and cycling services to customers and providing them with development opportunities to help further their careers.

FY22 strategy focus

The last 12 months have proven the resilience of our business and the ongoing relevance of our strategy to focus on the growth of motoring services and B2B. Although we expect the volatile and uncertain trading patterns to continue, the period of optimisation we have undertaken has strengthened the core business and it is now well-placed to withstand future challenges. Although we will continue to optimise the business, we will now accelerate the process of transformation that was paused during the pandemic.

By the end of FY22 we expect to see a different business beginning to emerge, with our areas of focus next year as follows:

Inspire

- Project Fusion remains an exciting opportunity and we will trial between two and three towns in FY22. We think of Fusion as '*a customer experience seamlessly, consistently, & conveniently executed across all of our assets in a town*'. It will encompass a destination retail store, an updated Autocentre garage, and a **Halfords** Mobile Expert offer, all operating together in conjunction with centralised customer support channels and an online and home delivery proposition across a major town or city. Focused primarily on improving the customer experience and understanding the potential of combining all **Halfords** services in the most compelling way, the trial will also test whether a reinvigorated in-store & garage design, focused more heavily on the delivery of services, can further stimulate sales across the Group.
- We will continue to invest heavily in our digital proposition, whether online through the Group web platform, or enabling the wider transformation agenda.
- Through Project 'Peloton 2', we will significantly improve our PACs ("parts, accessories and clothing") offering in Cycling, through better ranging, improved merchandising, and most importantly enabling our colleagues to provide customers with complete solutions to their needs.

Support

- We will increase our **Halfords** Mobile Expert van network to at least 200, bringing this popular service to more parts of the UK and giving us over 80% national coverage.
- We will increase the number of Autocentres garages, bringing us closer to our medium-term goal of 550 in the UK and ROI.
- We will continue to expand our B2B channel, in particular building on the commercial business we established through our acquisitions of McConechy's and Universal Tyres.
- We will lead the transition to an electric future by investing in training, technology and introducing new products and services, positioning **Halfords** as the leading voice of E-mobility. This will include a commitment to train over 2,000 Retail and Autocentres colleagues in Electric servicing in FY22.

Lifetime

- We will launch a unique and market-leading motoring services club, rewarding loyal customers with preferential terms and offers.
- The additional value of customers that shop across our Group remains an exciting and valuable opportunity. Although the pandemic caused normal shopping behaviours to be interrupted, we will continue to focus on this and our digital customer experience.
- Our focus on ESG matters will accelerate, centred on four priority areas in which **Halfords** can make a real difference: Electrification, our Net Zero commitment, Diversity & Inclusion, and Product, Packaging and Waste Management.

Underpinned by:

- Cost and efficiency will remain a focus and although we do not foresee any further large-scale property closures in the near-term, we will retain flexibility in our estate and seek to negotiate further rental savings.
- Our frontline colleagues will benefit from the biggest investment in skills to-date, further enhancing our super-specialist expertise. By the close of H2 we will have completed our skills intervention, resulting in our skills base increasing from 16,000 to over 40,000, with every colleague trained in all core services.
- We will transition to a new Group operating and reward model, better aligned to our Group strategy and our One **Halfords** Family values.

In addition to these strategic priorities, we will continue to optimise the business to further strengthen our foundations. As mentioned in our Outlook statement above, one key initiative in FY22 will be an investment in core pricing in our motoring products business. The dramatic acceleration in online shopping and a more challenging economic picture have brought value into sharp focus and so we believe this is the right time to make this investment, providing customers with greater value and providing a strong foundation for our services business.

Outlook

In the longer term, we are confident in the outlook for the motoring and cycling markets and our ability to compete strongly in both. We have demonstrated the resilience and growth opportunity in our Services and B2B businesses by gaining market share through increasing scale and convenience alongside enhancing the overall customer experience. We also believe that the increased adoption of Cycling will continue, supported by Government investment and a societal need to tackle climate change. As a business, we will continue to drive our markets by launching more new and exclusive products, becoming the market leader in electric mobility as the UK switches to a sustainable future, and continuing to engage our customers by creating a seamless digital and physical experience. Building on the strong foundations we have created in FY21, **Halfords** is well-positioned to accelerate its transformation journey.

Graham Stapleton
Chief Executive Officer

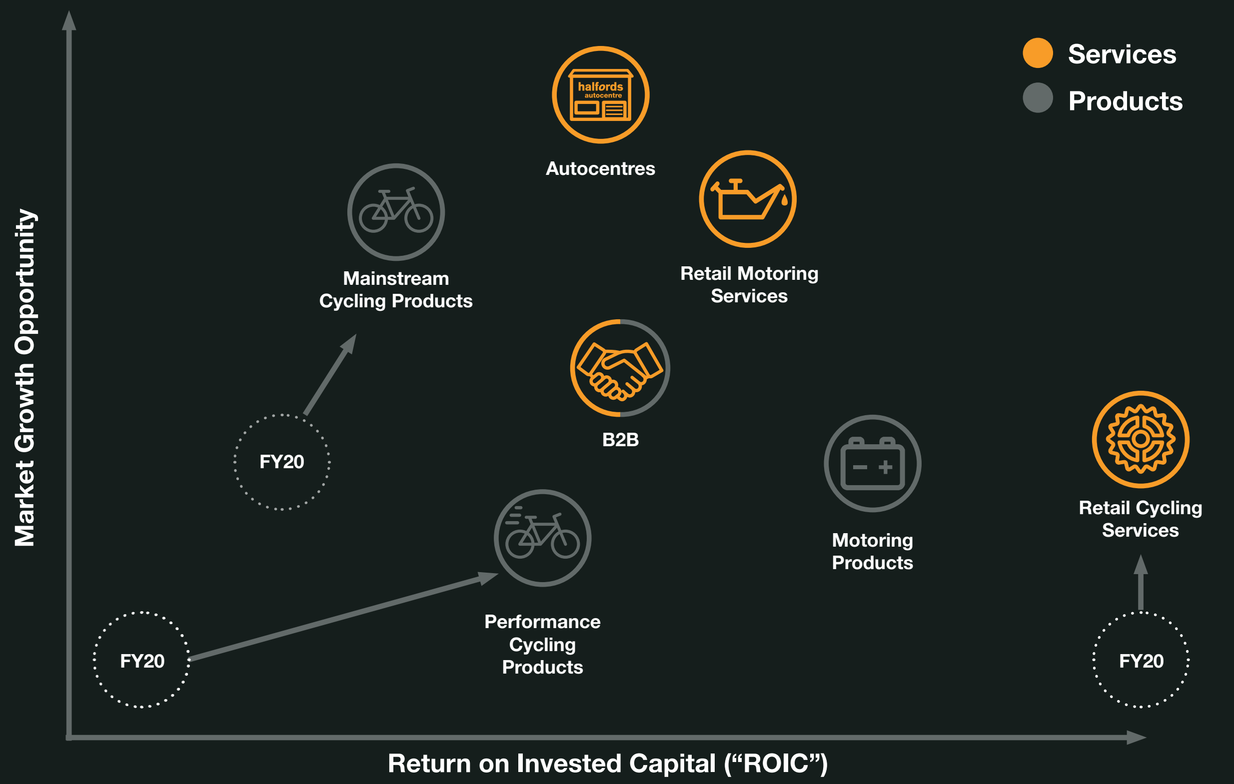
16 June 2021

Our Marketplace

Our Motoring and Cycling products segments remain core but we have a greater market opportunity in growing our existing services business. We will evolve into a consumer and B2B services-focused business, with a greater emphasis on motoring.

Market Opportunity

FY21 has seen progress in improving cycling profitability and financial returns:



COVID-19 affected our markets in the short term however the resilient services markets remain the best growth opportunity for our business, particularly motoring services which are delivered through Retail stores, Autocentres or via our Mobile Expert vans. The past year has shown that, whatever the circumstances, these services are an essential part of life in the UK and our status as an essential provider highlights our role in keeping the UK moving. Even during the pandemic, the opportunity for us to take further share in this market remains significant, with no clear market-leader and no single equivalent competitor.

The cycling market saw strong growth over the last 12 months and also gave us the opportunity to take share. Cycling services has seen a boost as customers dusted-off their old bikes rather than buying new ones when stock was limited and buying big-ticket items was financially more challenging. We are leading the market in electric mobility and are excited about the future of E-bikes and E-scooters which, when coupled with the booming mechanical bike market, shows how exciting the cycling market is for us. Along with the increased market opportunity, we have had significant success improving the returns of our cycling business, by rationalising our ranges, negotiating better buying terms and promoting more effectively.

Despite growth prospects being relatively lower in Motoring Products, this segment still contributes a high return and represents a significant part of the **Halfords** Group. We are excited about the new market opportunities, particularly those surrounding the UK shift to electric vehicles, and look forward to invigorating the markets in which we operate.

Retail Macro-Customer Trends

DIY to DIFM
Whilst the shift from 'Do It Yourself' to 'Do It For Me' is continuing to progress over time, with more people spending time at home and less able to go out, over the last year we have seen an increase in people searching for DIY solutions and 'having a go' at home. As the shift to electric mobility accelerates and technology continues to advance; however, DIY solutions will be increasingly difficult to manage at home and DIFM will become the norm.

Link to Strategy 2

Omnichannel Shopping
Modern consumers expect a seamless shopping experience across all channels and touchpoints. Our mission is to provide a best-in-class digital-led customer journey, that leverages all our digital and physical assets. Our locations are an important differentiator from online competitors, providing a convenient Click & Collect proposition and the delivery of services and expertise by our colleagues in stores and garages.

Link to Strategy 1 2

Sustainability
The requirement for sustainable practices is now impacting all businesses in the UK, with COVID-19 bringing this to the forefront of consumers' thoughts. Consumers are increasingly expecting proactive policies on climate change, clean air, reduction of plastic waste and ethical recycling, and wanting to shop with a clean conscience. The impact that we are having on the world and the footprint we are leaving behind is starting to shape the markets of the future.

Link to Strategy 3

Moving from Owning to Using
Economic, political and health crises have reduced consumer willingness to purchase 'big ticket' items. Particularly apparent among younger people, there is an increasing trend towards short and long-term renting rather than owning, evidenced by the increase in PCP schemes, car sharing initiatives and bike rental.

Link to Strategy 1

Experiential Shopping
The popularity of experiential shopping is continuing to increase. Retailers and retail parks are building non-core concessions and entertainment concepts, turning one-off 'impulse' visits into 'destination' shopping experiences.

Link to Strategy 1

Convenience
Consumers' lifestyles are getting busier, free time is becoming more valuable, and consumers expect retailers and service-providers to fit around their routines with on-demand services and friction-free interactions as standard. Convenience to them is not just about speed but about making their lives easier, even if this comes at an increased price. Our customers want their car or bike fixed as quickly as possible, at a time and place that suits them.

Link to Strategy 2

Less Brand Loyalty
Online searching and comparison is challenging traditional notions of brand loyalty. Alternative products offering better value or convenience can be identified within seconds, making brand loyalty harder to earn and maintain without possessing a compelling unique selling point.

Link to Strategy 3

Personalisation
Personalisation is an important way of standing out from the vast array of competitors. Enabling customers to feel valued through personalised communications or products is a good way to build strong relationships and drive loyalty.

Link to Strategy 1

New Post-COVID-19 Trends

Healthy Living and Exercise
Maintaining a healthy lifestyle – both physically and mentally – has been brought to the forefront of consumers' minds over the last year with self-care, healthy eating and exercise being key ways in which people have coped during the pandemic. Outdoor exercise such as walking and cycling has been encouraged by the Government and health experts alike. We expect this trend to continue as we move out of the pandemic and into the new norm.

Link to Strategy 1

Human Encounters
Customers are becoming more familiar with digital customer service interactions but want them to feel like in-person interactions. While customers understand many experiences will be digital, the in-person service with a smile will be essential to help brands stand out and be memorable.

Link to Strategy 1

Key

1 *Inspire*
2 *Support*
3 *Lifetime*

Our Marketplace

Key:
Motoring products
Motoring services
Autocentres

Motoring Market

Halfords Group addresses two distinct areas of the UK's highly-fragmented motoring market: Car Parts, Accessories, Consumables and Technology, and Car Servicing and Aftercare. From the perspective of the former, there is no single equivalent competitor selling all of our product ranges in physical locations, with many specialists and generalists now online only. In respect of the latter, there are over 30,000 garages in the UK, an estimated two-thirds of which are small independents.

Car Parts, Accessories, Consumables and Technology

>£3.5bn	20–25%	
Market size	Our share	Forecasted Market Growth

Our Approach

Our strong heritage and brand mean that **Halfords** is a destination for consumers who want inspiration and support with their vehicles. We continue to make progress in our markets through investment in our stores and colleagues to help deliver innovative products and services to our customers when and where they want them. Whilst some of the traditional motoring product markets are in decline, there is opportunity for innovative, unique and differentiated products to be brought to market. **Halfords** is also seeing an increase in service-related sales as more people are preferring to have an expert fit or install products as opposed to performing it themselves.

Competitor Landscape

- Limited number of specialists but a highly diverse and competitive set of retailers (e.g. Amazon) selling generalist product ranges.
- Limited bricks and mortar competition.
- Wholesalers and generalists moving into specialist retail markets with strong omnichannel offer.
- Supermarkets and garage forecourts continue to sell a limited range of high-volume, high-margin products.
- Independent garages offering car parts and associated fitting.

How We Differentiate Ourselves

Our heritage of over 125 years has established **Halfords** as a household name, with 90% of the UK population living within 20 minutes of a **Halfords** store. We have many outstanding strengths that differentiate us, notably our exclusive product ranges and our colleague expertise. Significantly, we have an established and growing ability to provide services on demand in-store.

Car Servicing and Aftercare

>£9bn	2%	
Market size	Our share	Forecasted Market Growth

Our Approach

The automotive servicing market is large and highly fragmented with no clear leader, and with only 2% share, there is significant opportunity for **Halfords** to grow. Increasing car complexity, accelerated by the transition to electric, is expected to drive growth in this market. Our goal is, by 2025, to operate from over 1,000 service locations in the UK and ROI, whether a Retail store, a garage or a mobile van. This will enable us to deliver customers the services they want at a location convenient to them. We will continue to invest in equipment and colleague training in order to remain at the forefront of technological changes. This will give us a competitive advantage in this fragmented market dominated by independent operators. Specifically, we have made significant progress in providing industry-accredited training to Autocentres colleagues in the servicing and maintenance of hybrid and electric vehicles, with most of our centres now capable of servicing these vehicles.

Competitor Landscape

- Technological advancements limit scope for effective delivery by small independent garages.
- Car dealerships expanding into used car servicing.
- Some evidence of sales aggregation (e.g. My Car Needs A…) and mobile services entrants.

How We Differentiate Ourselves

Halfords has a unique ability to offer automotive services from a variety of locations – our Retail stores, garages and mobile vans. In our accelerated strategy, we announced an ambition to increase our services footprint to over 1,000 locations in the medium term, including 550 garages, 200 vans and our existing Retail stores. Via our Autocentres, **Halfords** Group offers great value and convenience for UK consumers of car servicing, repairs and MOT compliance. The strength of our brand and the scale of our store, garage and mobile van estate enables us to invest in the most up-to-date equipment and technology with the majority of centres now equipped to deal with electric and hybrid vehicle servicing. Our **Halfords** Mobile Expert vans deliver elements of car fitting and servicing, such as battery replacement, tyres and diagnostic checks, direct to the customer at their home or workplace. In addition, we pride ourselves on our B2B proposition in this market, having developed a strong Fleet business over a number of years and recent acquisitions mean we have an ever-growing presence in the commercial tyre market.

Market Trends Affecting the Motoring Market

COVID-19

Time horizon:

Short term — Medium term

The number of cars on the road dropped to record levels as the first lockdown began with large swathes of the nation ordered to stay at home, impacting demand for motoring products and services. Conversely, the restriction of international travel has led to significant demand for Staycation products and services, such as roof racks, boxes and camping equipment.

Increasing Complexity

Time horizon:

Medium term

Comparing a vehicle from even the turn of the century to now would show just how quickly technology has evolved in the automotive world. In the next 10 years, we see this trend accelerating to a point where maintaining vehicles is something that only those with access to specialist knowledge and equipment are able to do. Adding to this, the generation of DIY'ers is in decline and therefore the motoring market will shift even further away from selling car parts to selling services and solutions.

Electric Vehicles

Time horizon:

Short term — Medium term

The shift to electric has accelerated in the last 12 months and we believe this will continue at pace, driven by Government policy, investment in charging infrastructure, and vehicle manufacturers' pledges to reduce their indirect emissions. Manufacturers have been investing in this technology for several years and will continue to do so as countries around the globe shift away from fossil fuels to a cleaner method of transport. New products and services will come to the aftermarket following the rise in Electric Vehicles ("EVs") on the roads.

Autonomous Vehicles

Time horizon:

Long term

Thinking further ahead, vehicles are likely to become autonomous with many trials already taking place around the globe. Companies such as Tesla are investing significant sums into autonomous vehicles and believe this to be the future of transportation. When technology advances sufficiently, and trials make it feasible to change Government legislation, these vehicles will change the motoring market and who the customer is, with subscription schemes replacing ownership as vehicles become too expensive for individual ownership.

Our Marketplace

Key:
Cycling products
Performance cycling
Retail cycling services

Cycling Market

The cycling market is highly fragmented, with an estimated 2,500 bike shops in the UK, the majority of which are independently owned. **Halfords** Group is the market leader, with strong brand awareness in bicycles, parts, accessories and clothing.

Mainstream Cycling

>£2bn	22-27%	
Market size	Our share	Forcasted Market Growth

Our Approach

As the market-leading retailer in mainstream cycling, we are well positioned to serve the needs of the consumer. We do this by continuing to monitor market trends to keep up with customer demand, whilst also providing great value and convenience to customers. As an example, **Halfords** was the first major stockist of E-scooters and is leading the market with product range and nationwide service capabilities, this year having expanded our ranges to include own-brand E-scooters.

Competitor Landscape

- Predominantly generalist competitors with own-label bikes (e.g. Decathlon, Argos).
- Online penetration in mainstream bikes boosted significantly by COVID-19.
- Physical service locations are important.
- Cycle-to-Work continues to be an important driver.
- Major sports retailers have diversified into cycling in recent years (e.g. JD Sports, Go Outdoors).

How We Differentiate Ourselves

Halfords Group boasts the biggest and most popular cycle brands in the UK – Carrera and Apollo. In total, approximately 80% of our bikes are own-brand, covering both children and adults at a wide range of price points. Our stores are conveniently located, and our online platform provides support and information to help customers choose the products and services they want. Our bike build proposition is leading the market with free 6-week checks and bike care plans to make sure our customers continue to stay safe whilst enjoying the great outdoors. Many customers take advantage of our Click & Collect offer, placing orders online via our website and picking up from a designated store at a time which is convenient to them. This also drives positive store footfall. Additionally, we are the market leader in the UK's Cycle-to-Work scheme, supporting sales and introducing new customers to our brand.

Performance Cycling

£1.1bn	6-7%	
Market size	Our share	Forcasted Market Growth

Our Approach

From our top-end Boardman bikes to brands such as Specialized and Giant, we offer customers higher specification products via **Halfords** Retail and Tredz brands. Demand has been exceptionally high in the last year, boosted by COVID-19 impacts, and we worked hard to serve our customers with the products and services they needed. Tredz complements **Halfords** Retail well, giving access to a wider customer base and bringing even more brands into the Group proposition, with our passionate colleagues, across both retail brands, offering expert knowledge and advice to customers.

We are one of the UK's leading retailers in the E-bike market and our colleagues, both in-store and our customer support functions, are highly trained to help customers with advice, support and in-store servicing. Cycle-to-Work schemes continue to be important and **Halfords**, as the market leader, can help consumers get to work in a healthy and sustainable way, whether that's on a mechanical bike, E-bike or E-scooter – with the Tredz brand position complementing the strong own-brand offering within **Halfords** Retail.

Competitor Landscape

- Predominantly branded bikes.
- Traditional specialists and independents struggling but supported more recently with the increase in cycling awareness and participation.
- Big brands selling directly to customers.
- Online pure-play continuing to grow.
- Physical service locations are important.
- Cycle-to-Work is an important driver.

How We Differentiate Ourselves

Through Tredz, **Halfords** has a strong and increasing foothold in the performance cycling market. Offering products and services appealing to performance cyclists has contributed to growth in the overall number of customers and provided many with bikes and exercise equipment during the COVID-19 pandemic. Cycle-to-Work vouchers can also be redeemed through Tredz, which contributes significantly to the ongoing success of that partnership through offering a wide range of recognised cycling brands. Tredz has a strong online presence which differentiates it from the independent cycle shop community and helps the brand to stay relevant and competitive in a challenging market environment.

Market Trends Affecting the Cycling Market

COVID-19

Time horizon:

Short term — Medium term

The cycling market boom over the last 12 months has been driven primarily by COVID-19 and the increase in people taking up cycling as a way of exercise, days out with the family or as an alternative means of commuting. As we look to the future and move out of the pandemic, we anticipate a proportion of those who have taken up cycling will continue, leading to sustained demand for replacement bikes, accessories and servicing.

E-mobility

Time horizon:

Short term — Medium term

Electric mobility was an area of the cycling market already seeing significant growth before the pandemic. Over the last year, E-bikes have continued to be in demand, either as a new and exciting way of travelling, an alternative to public transport or car, or a way for those who are unable to cycle a mechanical bike to access the benefits of cycling. We firmly believe that E-scooters will revolutionise urban mobility and we continue to lobby the Government to change the laws around this mode of transport.

Sustainability

Time horizon:

Medium term — Long term

From second-hand bikes and bikes made using recycled parts, to 'Green' living and clean air zones, we know the importance of cycling to people who are conscious about their environmental impact. As even greater focus is placed on reducing our environmental footprint, we expect consumers to look to cycling and eco-friendly solutions even more.

Government Investment

Time horizon:

Long term

The Government's £2bn Cycling and Walking Plan for England announced in the summer of 2020 is a bold vision that, if implemented, will have a material impact on the cycling market. Examples of initiatives include investment in infrastructure to improve safety and the convenience of cycling, the Cycle-to-Work scheme expanding to accommodate E-bikes, and the creation of clean air zones in many cities across the UK. Over time, this investment will be critical in creating sustainable growth in the cycling market.

Our Engagement with Stakeholders

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

The views of all of our stakeholders are considered by the Board and Executive team on a regular basis.

Stakeholders that Benefit from the Value We Create

Colleagues

Why is it Important to Engage

Our colleagues are fundamental to the achievement of our customer experience ambitions and are the cornerstone of our services proposition.

How We Engage Across the Company

- '3-Gears' training programme
- 'Aspire' store management development courses
- Listening: surveys and colleague groups
- Promotion of the Group values
- Recognition and reward

Stakeholder Key Interests

- Support and development
- Career opportunities
- Fair remuneration
- An appropriate sustainability strategy

Link to Our Risks

- Stakeholder Support
- Regulatory & Compliance
- Service Quality
- Colleague engagement / Culture
- Skills shortage

Suppliers

Why is it Important to Engage

Engaging with our supply chain effectively ensures the 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.

How We Engage Across the Company

- Far East trading office developing mutually beneficial relationships
- Logistics, efficiencies and environmental management
- Supplier conferences

Stakeholder Key Interests

- A trusted distributor in the UK and ROI
- Fair payment terms and pricing

Link to Our Risks

- Stakeholder Support
- Sustainable Business Model
- Critical physical infrastructure failure (including supply chain disruption)

Communities

Why is it Important to Engage

Ensures continued viability of the business in the long term and it is the right thing to do. We aim to contribute positively to the communities in which we operate.

How We Engage Across the Company

- Charity & Community initiatives
- Media channels
- Recycling initiatives
- Net Zero commitment

Stakeholder Key Interests

- Environmentally friendly practices
- Charitable giving

Link to Our Risks

- Stakeholder Support
- Brand Appeal and Market Share
- Cyber Security

Read more about our Risks and Uncertainties on pages 66 to 72.

Investors

Why is it Important to Engage
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.

How We Engage Across the Company
- Annual Report
- RNS announcements
- Annual General Meeting
- Investor presentations
- Corporate website
- One-on-one meetings

Stakeholder Key Interests
- Create value and deliver long-term sustainable growth
- Appropriate sustainability practices

Link to Our Risks
- Stakeholder Support
- Brand Appeal and Market Share
- Sustainable Business Model
- Regulatory & Compliance

Customers

Why is it Important to Engage
Understanding our customers' needs and behaviours allows us to deliver relevant products and services, retain customers and attract new ones. It also identifies opportunities for business growth.

How We Engage Across the Company
- Satisfaction surveys
- Rewards
- Commercial website
- Social media engagement

Stakeholder Key Interests
- A great product or service, for a fair price

Link to Our Risks
- Stakeholder Support
- Value Proposition
- Brand Appeal and Market Share
- Service Quality

Stakeholders That Influence What We Do

Government

Why is it Important to Engage
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 appropriately.

Link to Our Risks:
- Regulatory & Compliance

Media

Why is it Important to Engage
Ensures transparency and accuracy 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.

Link to Our Risks
- Stakeholder Support
- Brand Appeal and Market Share
- Regulatory & Compliance

Our Engagement with Stakeholders

Section 172(1) Statement

Engaging with stakeholders delivers better outcomes for our business, fundamental to our long-term success

Board Information

Keeping the Board Informed

- Leadership and management receive training on Directors' duties to ensure awareness of the Board's responsibilities.
- Board minutes include an explanation of s.172 factors and relevant information relating to them.
- Our Board continually engages with stakeholders.

Read more on pages 84 to 108.

Strategic Considerations

s.172 and the Company's Strategy

- s.172 factors considered in the Board's discussions on strategy.
- Chair ensures decision making is sufficiently informed by s.172 factors.

Read more on pages 84 to 108.

Board Decision Making

Outcomes of Considering s172

- Outcomes of decisions assessed and further engagement and dialogue.
- Actions taken as a result of Board engagement.
- Actions align with our culture.

Read more on pages 84 to 108.

Our Approach

As is referenced in the Corporate Governance Report on page 96, this section describes how the Directors have had regard to the matters set out in section 172(1)(a) to (f) Companies Act 2016 (the "Act"), in exercising their duty to promote the success of the Company for the benefit of its members as a whole.

In July 2019, the UK Corporate Governance Code, reinforced the importance of section 172 of the Act, which requires the Directors to have regard (amongst other matters) to the interests of wider stakeholders, as well as:

- Likely consequences of decisions in the long term
- The interests of the Company's workforce
- The need to foster relationships with suppliers, customers and others
- Impact of operations on the community
- High standards of business conduct
- The need to act fairly between members of the Company

COVID-19 Pandemic

Description

The impacts of the COVID-19 pandemic have been fast-moving and uncertain, but the Board consider that the decisions made were in the best long-term interests of all stakeholders.

s172 Consideration

Colleagues

Our frontline colleagues in stores, garages and vans supported our customers throughout the pandemic, as we remained open as an essential business. The provision of PPE and the robust implementation of policies and procedures helped colleagues to feel safe in their working environment. In addition, we launched over £4m of initiatives to support our colleagues, including a £2.3m Frontline Colleague Support Fund and a £1.5m Here to Help Fund for colleagues and their families to use if they are struggling financially due to COVID-19.

Customers

As an essential retailer we have remained open throughout the pandemic, supporting our customers to help keep the UK moving. Like our colleagues, it has been important to keep our customers safe through strong COVID-19 protocols.

Shareholders and debtholders

In a fast-paced and uncertain environment, we took immediate action to preserve cash to protect the long-term interests of both our shareholders and debtholders. This included reductions in expenses, working capital and capital expenditure, as well as the suspension of the dividend.

Government and UK taxpayer

Once the future trading environment became clearer, we took the decision to repay all funds we had received through government furlough schemes.

Link to Section 172 Considerations

Dividend Policy

Description

The Board carefully considered the impact of the dividend policy on all key stakeholders.

s172 Consideration

Shareholders

Having cancelled the dividend at the start of the pandemic as a cash preservation measure, we knew that an eventual reinstatement would be important to investors. The Board feels that the proposed dividend policy offered an attractive return to shareholders whilst allowing sufficient funds to reinvest in the business for its long-term success.

Debtholders

Maintaining a strong balance sheet is a key element of our capital structure considerations and the dividend level was therefore determined with this in mind.

Customers

The Board considers it critical that we continue to invest in the customer experience, positioning the business for long-term success. The proposed dividend policy allows sufficient investment in the business to do this.

Colleagues

Many of our colleagues are shareholders, either directly through our share plans, or indirectly through their pensions or other investments.

Link to Section 172 Considerations

Net Zero Commitment

Description

The fight against climate change requires all businesses to play their part in reducing GHG emissions. Our commitment to Net Zero is a key priority of our ESG agenda.

s172 Consideration

Environmental responsibility

During the period, we set a 1.5°C aligned science-based target by 2030, and an aim to achieve net zero emissions across our entire value chain by 2050. In the shorter term, this will include initiatives such as LED lighting installation and renewable energy sourcing.

Shareholders

Our long-term success is reliant on building a sustainable business. In addition, many of the initiatives needed to reduce our GHG emissions also provide good returns, such as LED installation.

Colleagues

Our colleagues are increasingly conscious of climate change and the environmental impact of our business. A robust commitment to net-zero is an important element in driving colleague engagement.

Link to Section 172 Considerations

How We Create Value

Our inputs enable us to . . .

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 services capability reaches our customers across all locations.

Partners
Halfords is proud to work with suppliers, distributors and other industry partners to drive our business forward, supporting the sale of our products and services and enabling us to work with communities across the UK.

Brand
Halfords is the nation's trusted retailer for motorists and cyclists and a leading provider of motoring services. 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.

Infrastructure/Assets
Our physical estate of Retail stores, Autocentres garages and Mobile Expert vans, combined with a best-in-class web platform and an efficient distribution network, provide customers with a convenient omnichannel offer.

Financial
With a strong balance sheet and strong cash generation, we have continued to invest in appropriate systems, capabilities and people to help support and grow our business for the long term.

Offer a unique proposition . . .

Products
Products are at the core of our business and have been for over 125 years, defining us as the UK's leading provider of motoring and cycling products. Whether in one of our physical locations or online, customers are able to find any part or product they want for their motoring or cycling needs from E-bikes to socket sets, power washers to bicycle helmets. Our colleagues are the true experts and can suggest suitable products for each customer situation.

Motoring Products

Mainstream Cycling Products

Performance Cycling

Services
Our services proposition complements our strong product business; helping to keep the UK moving whilst delivering unrivalled customer service.

Operating from over 900 locations, **Halfords** has the national scale to offer services for our customers' cars or bicycles in a way and at a location which is convenient to them. Whether a customer wants their bike serviced, a new wiper blade fitted, a new set of tyres fitted or a full car service we are able to help them find the ideal solution to fit their busy lifestyle.

Autocentres

Mobile Expert

Retail Motoring Services

Retail Cycling Services

Our Unique Strengths

Unique and differentiated products and services

Omnichannel customer proposition

Convenient services proposition delivered in over 900 locations

Focused on value-creating opportunities . . .

"Evolving into a consumer and B2B services-focused business, with a greater emphasis on motoring, generating higher and more sustainable financial returns."

What This Means for Halfords in the Medium Term

Selling products and related solutions for our customers' motoring and cycling needs remains core to our offering. However, in recognising the market opportunity and our unique advantages, we will evolve into a services-led business, with a greater emphasis on motoring. Our integrated services offering will provide customers with unparalleled convenience, giving them access to the services they need, when and where they want them.

Integrated service proposition across stores, garages and mobile.

Link to Strategy: 2

Lead and differentiate our markets and with innovation.

Link to Strategy: 1

Increase awareness of Halfords services by leveraging our brand.

Link to Strategy: 2

Focused and targeted approach to loyalty at a Group value.

Link to Strategy: 3

Our strategic priorities:

1 *Inspire* 2 *Support* 3 *Lifestyle*

Expertly trained colleagues

Super-specialist expertise that cannot be replicated

Strong sustainability credentials

Unique, technology-driven proposition in our physical estate

Delivering long-term value for all stakeholders

Customers

Access to a market-leading shopping experience, both online and in stores, helping meet all of their motoring and cycling needs in a way convenient to them, with access to technical and expert advice through our colleagues.

Colleagues

Developing, rewarding and retaining our colleagues so that they are engaged to drive our growth ambitions.

Financial

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

Read the Chief Financial Officer's Report on pages 58 to 64.

Community

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

Read more in the Charity and Communities section on pages 52 and 53.

Environmental

Ensuring the resources our business utilise have a positive impact on the environment, both today and in the future.

Read more in the ESG Strategy on pages 42 to 53.

Our Strategy

"The strategy we set out in 2018 remains just as relevant today – the last 12 months have proven this – delivering for all of our stakeholders, and building relationships and trust with our customers."

Graham Stapleton
Chief Executive Officer

Our Purpose

To **Inspire** and **Support** a **Lifetime** of motoring and cycling.

Our medium-term goal

To evolve into a customer and B2B services-focused business.

Our Strategy

We set out a clear vision and purpose in September 2018, which remains unchanged. Our strategy is as relevant now as it was then, arguably more so given shifting markets and changes to consumer behaviour. We have achieved significant progress in recent years and will continue to invest in the execution of the strategy, for the benefit of all stakeholders.

1. ***Inspire*** our customers with a differentiated and super-specialist offer.
2. ***Support*** our customers through an integrated, unique and more convenient services offer.
3. Enable a ***Lifetime*** of motoring and cycling.

Underpinned by

Focus on Cost and Efficiency

Investment in our Colleagues

1 *Inspire*

Inspire our customers with a differentiated and super-specialist offer.

- Transition from a general-specialist to a super-specialist.
- Lead and differentiate our markets with customer-led innovation.
- Redefine and further differentiate our own label ranges.
- New customer experience in stores and garages, linking online and offline journeys.

2 *Support*

Support our customers through an integrated, unique and more convenient services offer.

- Offer convenience through an integrated and expanded ‘on-demand’ service proposition across stores, garages and mobile.
- Enhance the customer journey from booking through to service delivery.
- Enhance our unique position in E-bike servicing in retail stores and hybrid and electric vehicle servicing in our garages with the most fully trained technicians outside the dealer network.
- Increase awareness of **Halfords** services by leveraging the **Halfords** brand.

3 *Lifetime*

Enable a *Lifetime* of motoring and cycling.

- A more focused and targeted approach to loyalty at a Group level in order to optimise the lifetime value of our customers.
- Accelerating the development of our Customer Relationship Management (“CRM”) programme, offering compelling reasons for our customers to return and shop across the Group.

Our Strategy

1 *Inspire* our customers with a differentiated and super-specialist offer.

Objectives

Specialism
We will become a super-specialist by:

- Increasing our online ranges of motoring and cycling products.
- Investing in training with even greater focus on specialism.
- Reducing our non-core products.

Innovation
We will lead and differentiate our markets with customer-led innovation by:

- Utilising customer insight to develop products we know they want and need.
- Working with suppliers to jointly create, and bring to market, innovative products which are exclusive to **Halfords**.

Customer Experience
We will improve our customer shopping journey online and in-store by:

- Continuing to optimise the Group's web platform and the full omnichannel journey.
- Focusing on personalisation by leveraging our Group-wide Single Customer View.
- Improving the in-store experience by providing a more experiential, inspirational and service-led environment.

Case Study

Carrera impel is-1

This year, we launched our own-brand E-scooter – the Carrera impel is-1 – bringing together the strength and reputation of the Carrera brand and the exciting growth in the E-scooter market. The impel offers customers the same high-quality performance technology commonly found on performance E-scooters but at a much lower price point.

Developing our own product has meant we have been able to talk to our customers, understand the pain points with branded E-scooters, and design a product which our customers love and that our electric service technicians know inside and out.

The impel has received great reviews from customers and critics, and has been in high demand with consumers as pressure mounts for the legalisation of E-scooters as we transition out of COVID-19 lockdowns and prepare for an exciting future of electric mobility within the UK.

Progress Made

- Launched over 160 new customer enhancements to our group website, including 'email me when in stock', guided selling, local store stock availability, and personalisation.
- Expanded our E-scooter range; introducing our first own-brand E-scooter and a greater number of products at a broader range of price points.
- Transferred inbound phone and digital customer-contact from all 404 retail stores to a centralised, specialist team.

Priorities for the Year

- Project 'Fusion' remains an exciting opportunity and we will trial 2-3 towns in FY22. Fusion is 'a customer experience seamlessly, consistently, and conveniently executed across all of our assets in a town'.
- We will continue to invest heavily in our digital proposition, whether online through the Group web platform, or enabling the wider transformation agenda.
- Through Project 'Peloton 2', we will significantly improve our PACs ("parts, accessories and clothing") offering in Cycling, through better ranging, improved merchandising, and most importantly enabling our colleagues to provide customers with complete solutions to their needs.


weFit
Bulbs, batteries & wipers
Maximum Height 2.3m (7', 8")
halfords

Our Strategy

2 *Support* our customers through an integrated,unique and more convenient services offer.

Objectives

Integrated

We will have a unified services identity across the Group through:

- One seamless website, combining **Halfords** Retail, **Halfords** Autocentres and **Halfords** Mobile Expert.
- Easy referral from Retail WeCheck findings to Autocentres booking.
- Integrating the Services booking experience to include nearest available location and timeslot.

Unique

- Offering customers access to our products and services via a unique combination of Retail stores, garages and mobile vans complemented by a strong online proposition.

Convenient

- Combining our physical estate with a consistent mobile services offer and increased availability.
- Full roll out and expansion of **Halfords** Mobile Expert to give most of the UK population access to our mobile services.
- Future roll out of garages to reduce average drive time from 30 minutes to 20 minutes.

Case Study

The Universal Tyre Company

In March, we announced the acquisition of The Universal Tyre Company. Operating from 20 sites and 89 commercial vans in the South East of the UK, Universal specialises in tyre services, including the supply and fit of tyres for a wide range of vehicles, from cars to commercial and agricultural vehicles, as well as providing general car maintenance and repairs such as brakes, servicing and MOT.

This acquisition takes us closer to our stated ambition of having over 550 garages in the UK and builds our coverage of the Commercial Truck and Van market.

Following on from our acquisitions of McConechy's and Tyres on the Drive in 2019, this is another exciting step in the growth of **Halfords**' motoring servicing business as we continue to inspire and support a lifetime of motoring and cycling, and establish ourselves as a leading motoring service provider in the UK.

Progress Made

- Added 61 new Mobile Expert vans, bringing the total to 143 to serve the exceptional demand for this service.
- Acquired The Universal Tyre Company, adding 20 garages to our fixed estate as well as 89 vans, enabling us to expand our coverage of the commercial market in FY22.
- Launched our first Group motoring services campaign.
- Rebranded 52 of our McConechy's garages to **Halfords** Autocentres.
- Launched new services including mobile towbar fitting and mobile tyre fitting in our Retail stores.

Priorities for the Year

- Increase our Mobile Expert van fleet to at least 200, bringing this popular service to more parts of the UK and giving us over 80% national coverage.
- Increase the number of Autocentres, bringing us closer to our medium-term goal of 550 in the UK and ROI.
- Continue to expand our B2B channel, in particular, building on the commercial business we established through our acquisitions of McConechy's and Universal Tyres.
- Lead the transition to an electric future by investing in training, technology and introducing new products and services, positioning **Halfords** as the leading voice of E-mobility.

Case Study

Halfords Mobile Expert Expansion

Convenience is of vital importance to our customers and, over the last year, our ability to bring services directly to customers has been in high demand. Our Mobile Expert proposition offers customers the ability to have services performed on their driveway by our expert technicians, from having products fitted to top-ups and even car diagnostic checks.

Over the last year, the business saw a record number of jobs and sales with the benefits of convenience and safety resonating well with customers.

We have continued the expansion of the proposition, investing in the scale and geographic reach of the service, growing the number of hubs from 8 to 14 to serve the ever-growing demand and ending the year with 143 vans, bringing us closer to our medium-term target of 200 vans.

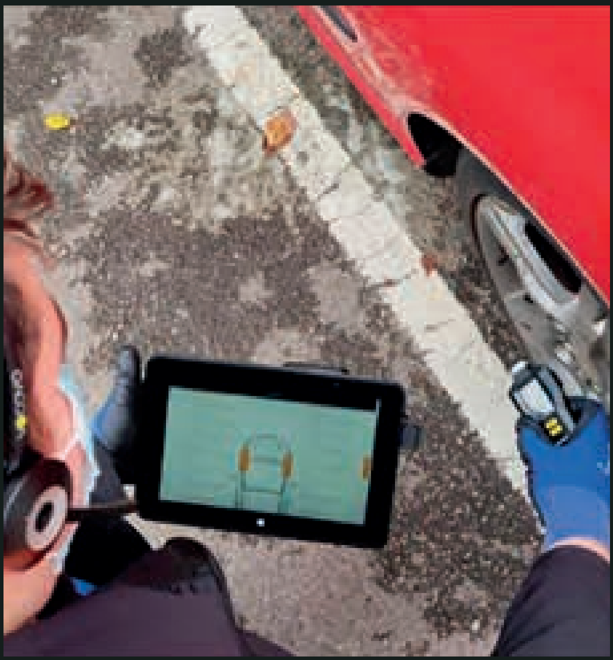
Case Study

WeCheck App

This year, we launched our innovative WeCheck application, specifically created in-house to enhance the customer journey, improve colleague productivity and strengthen the relationship between **Halfords** and its customers. The app is used by colleagues when they are carrying out a check on a vehicle and enables them to clearly record and share what tasks have been carried out with the recommended actions for customers to keep their vehicle safe.

Since launching the app, our data capture rate has increased significantly with over 80% of customers providing an email address and registration number when the app is used.

We have received great feedback from our customers who love the 'simple to understand' feedback, demystifying what could previously have been a very complicated report from a colleague.



Our Strategy

3 Enable a *lifetime* of motoring and cycling.

Objectives

Loyalty and Retention

We will more actively drive customer loyalty and retention by:

- Supercharging our CRM programme, providing compelling reasons for customers to return to our brand.
- Building cross-Group loyalty programmes to optimise lifetime value and advocacy.

Customer First

We have started to drive meaningful action from our insight, which has been used to:

- Define future range decisions.
- Change the labour operating model to better reflect customer needs.
- Obtain a greater understanding of customer pain points and moments that matter.
- Provide a Group-wide Financial Services offer.

ESG

We have started to make progress with our ESG strategy, focusing on our key priority areas:

- Electrification
- Net Zero Commitment
- Diversity & Inclusion
- Product, Packaging and Waste Management

Case Study

Improving the Customer Experience

This year, we have transformed our Customer Experience strategy, investing in initiatives to improve the customer shopping journey and convenience we offer our customers.

For instance, an end-to-end review of the bike purchase journey – customers can now see bike stock availability in their local store, book a bike collection slot and will receive personalised communications after their purchase to help them get the most of their bikes.

To manage customer contact, we have centralised our customer contact centre.

Our Net Promoter Scores have reached record levels as a consequence of the improvements we have made to the customer experience and we know that our customers are more engaged – with better opt-in rates – meaning we can talk to more customers than ever before.

Progress Made

- Record NPS scores with Retail exit rate of 65.3, and Autocentres 76.1.
- Development of our single Group web platform and other initiatives driving higher cross-shop volumes.
- Refresh of our ESG strategy and commitment to science-based targets.

Priorities for the Year

- Launch a unique and market-leading motoring services club.
- Further develop cross-shop opportunities across the Group.
- Continued investment in our digital capabilities, enhancing the customer experience online.
- Accelerating progress on our ESG programme.

Our ESG Strategy

Overview

We are committed to an ESG agenda which aims to exceed our stakeholders' expectations. Building on our strategy announced last year, we are now starting to make meaningful progress. The COVID-19 pandemic and broader social factors have accelerated expectations for progress, including more robust regulatory requirements, a fairer society, and a greater urgency to tackle climate change. We will continue to review and refresh our ESG strategy in line with this fast-changing environment and ensure we have a sustainable business that delivers for all stakeholders.

In our FY20 Annual Report, we set out our ESG strategy and demonstrated its alignment to the Group's purpose: 'To Inspire and Support a Lifetime of motoring and cycling'. In a fast-moving landscape, we have since refreshed our strategy, including a clear prioritisation on the topics most important to us and our broad stakeholder base, and a clear roadmap for building the capabilities and governance processes to drive further progress against the strategy.

Key:

1 **Inspire**

2 **Support**

3 **Lifetime**

Our Priorities

Electrification

"The leading name in electric services giving everybody the confidence to switch and continually enjoy the benefits of electric mobility."

Link to Strategy

1 2

Link to UN SDG

Description

- Lead the market in Electric Servicing as the UK shifts towards more sustainable mobility options, specifically Electric Vehicles ("EVs"), E-Bikes and E-Scooters.
- Investing in education and community engagement programmes to help and support consumers to make climate-smart choices.
- Providing industry-leading training to our colleagues to better support customers as they make the switch to electric.
- Broadening our ranges of electric services and solutions e.g. E-bikes/E-scooters making the transition to electric travel easier.
- Lobbying campaigns designed to accelerate the transition to electric vehicles.

Priorities for the next 12 months:

- Further develop the means we communicate with our customers to better engage with, support and educate them on the benefits of electric mobility.
- Broaden the range of electric products and services we offer.
- Accelerate investment in colleague training for electric servicing.
- Continue lobbying campaigns for the legalisation of private E-scooters in public areas.

Net Zero Commitment

"Achieve Net Zero value chain emissions by 2050 and interim reductions aligned to science-based principles."

Link to Strategy

3

Link to UN SDG

Description

- Commit to a 1.5°C science-based target across our own operations by 2030, reducing our emissions by at least 42% in this time period (vs. FY20 baseline).
- Engage with 67% of our suppliers by emissions, covering purchased goods and services and capital goods, with the objective of them having science-based targets by the start of 2026.
- Our ultimate aim is to achieve net zero emissions across our value chain by 2050. We recognise we cannot do this alone, so will collaborate and partner with our suppliers, vendors and customers to work towards a net zero future.

Priorities for the next 12 months:

- Make the switch to 100% renewable energy suppliers.
- Complete roll out of LED lighting and Building Management Systems across our estate, looking to identify and act upon new energy efficiency measures.
- Engage with suppliers to gather more data on their emissions, educate them on the importance of reducing emissions and support them in setting their own science-based targets.
- Develop a set of sustainable procurement criteria for all tenders and decisions.
- Preparation for reporting against the TCFD framework.

Diversity & Inclusion

*"Make **Halfords** a truly inclusive place to work and representative of the customers and communities we serve."*

Link to Strategy

2 3

Link to UN SDG

Description

- Create an inclusive workplace in which all colleagues are able to be themselves at work, feel valued for their contribution and are supported to perform their best.
- Provide equal opportunities for all colleagues.
- Remove the gender/ethnic/diversity pay gap.
- Create accessible opportunities and training to improve female representation across our Group, particularly in our garages.

Priorities for the next 12 months:

- Further reduce our gender pay gap.
- Collect baseline data on a number of categories, including gender, age and ethnicity.
- Proactive engagement with colleagues to increase knowledge of D&I in the workplace, such as webinars, events and videos from business leaders.
- Launch Business Resource Groups ("BRGs") to provide peer-to-peer support for LGBTQ+, disability, race and ethnicity and women.
- Establish a D&I awareness and compliance programme for all colleagues across the Group.

Product, Packaging & Waste Management

"Minimise our environmental impact and increase our transparency whilst continuing to pursue sustainability opportunities within our product portfolio."

Link to Strategy

1 3

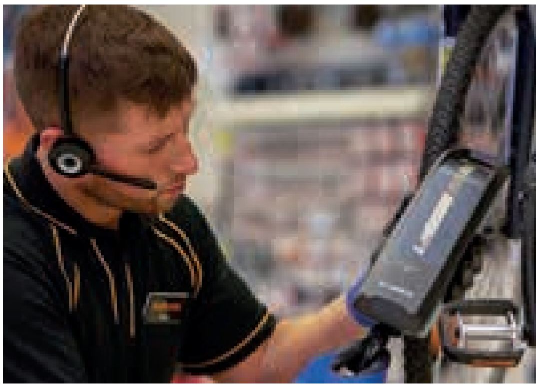
Link to UN SDG

Description

- Increase repair services across products and mitigate environmental impact of returns.
- Increase the recyclability of retail packaging and reduce transit packaging.
- Extend waste management to accommodate new streams including rubber-based products and flexible plastics.

Priorities for the next 12 months:

- Reduce commercial and industrial packaging with increased transparency.
- Increase known recyclability of retail packaging, including the introduction of on-pack recycling labelling to drive customer awareness of recycling options.
- Establish the UK's industry-leading tyre, tubes and car mat recycling processes.
- Extend repair capabilities of faulty returns to E-bikes and E-scooters.
- Develop a UK-wide capacity to safely manage end-of-life E-mobility batteries to combat the growing waste stream.
- Trial reselling of reconditioned products for discounted prices, specifically piloting selling second-hand bikes to explore the opportunity within this market.



ESG Progress in FY21

Electrification

Overview

For **Halfords**, Electrification means leading the way as the UK shifts towards electric modes of transport and supporting our customers as they make the switch. **Halfords** is uniquely positioned in the UK to offer electric services and solutions for both 2- and 4-wheeled modes of transport and we are proud to support our customers with everything they need as the UK transitions towards electric mobility.

Our ambition is to be the leading name in electric services, giving everybody the confidence to switch and continue to enjoy the benefits of electric mobility. We are in a privileged position to champion the needs of consumers and we intend to use our voice to develop the UK's electric mobility industry.

Progress in FY21

Knowledge is a key barrier for customers in their journey to electric and recognising that most customer journeys begin online, we launched an 'Electric Hub' on our website that provides advice and support on the benefits of electric vehicles, electric bikes and electric scooters. In addition, consumers can utilise our bespoke calculator to understand the costs of switching to electric and the impact it will have on the planet. We are incredibly proud of our role in helping customers make the switch to electric and we will continue to support them through this transition.

In FY21, customer demand for electric products and services continued to grow strongly and we sold a record number of E-bikes, E-scooters and electric service plans this year. To ensure that electric mobility remains widely accessible, we continued to expand our range of electric solutions, such as E-scooter care plans and electric bikes and scooters at a broader range of prices, including our first own-brand Carrera E-scooter. In addition, through our Cycle2Work proposition and the recent Government changes to increase the maximum purchase price on the scheme, we are making electric mobility more accessible to our customers than ever before.

We are the aftermarket leaders in electric and hybrid vehicle servicing and have the most colleagues trained nationally to service Electric Vehicles ("EVs"). Colleague training remains a top priority and we are investing heavily in electric services training to support customers who have made the switch. We ended the year with 359 colleagues trained to service EVs in our garages, with 317 colleagues accredited to IMI Hybrid Electric Vehicle Level 2 and 42 colleagues accredited to Level 3. In addition, we finished the year with 383 technicians in Retail stores capable of servicing E-bikes and E-scooters, up 10% on the year before. COVID-19 meant training plans were scaled back in FY21, but we plan to significantly increase the number of E-trained colleagues in FY22.

E-scooter legislation

We continue to lobby the Government to legalise the use of E-scooters on public roads, engaging with the Department for Transport through their consultation process, and in the last year we have held E-scooter events to raise awareness of the benefits of E-scooters. We believe strongly that E-scooters should play an important role in the future of sustainable urban transport and as a leading electric retailer and services provider we will lend our voice to this campaign.

Case Study

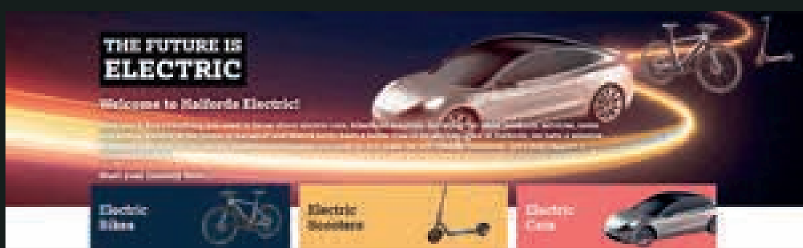
The Electric Hub

This year, we launched a brand new Electric Hub on our website designed by in-house experts to educate customers and provide support and advice for those looking to make the switch to electric.

Covering EVs, E-bikes and E-scooters, consumers can navigate around the site educating themselves on topics such as the advantages of electric mobility, maintenance tips, and the environmental benefits, as well as getting answers to common misconceptions about electric mobility such as charging or reliability.

We have also created bespoke calculators to show customers the associated costs of switching to electric; for instance, comparing the cost of an electric vehicle vs. a traditional combustion engine, over the life of the car, dispelling the myth that electric is always more expensive. We also provide customers with advice and help on purchasing electric bikes and scooters, such as through our Cycle2Work scheme or with finance options to spread the cost of their purchase.

We are uniquely positioned in the UK to help support customers on their electric journey and we are continually investing in our colleagues and capabilities to drive awareness of the benefits of electric mobility and to make electric travel accessible to everyone.



Net Zero Commitment

Overview

Addressing climate change through the reduction of greenhouse gas ("GHG") emissions is now a key priority for most companies and **Halfords** is no exception. As one of the UK's largest employers it is critically important that we make a strong commitment to tackle climate change and put this at the top of our ESG agenda.

Progress in FY21

Last year, we set out our plan to be carbon neutral by 2050. Over the last 12 months, we have gone a step further, agreeing a set of science-based targets for emissions reduction, and have engaged with the Science Based Target Initiative ("SBTi"), working towards formal accreditation. A target is 'science-based' if it aligns with the goals of the Paris Agreement to keep global warming below 2°C and sets out a clearly-defined pathway for companies to reduce emissions.

Our targets are as follows:

- **Halfords** commits to achieve a 1.5°C aligned science-based target across our own operations by 2030, reducing our greenhouse gas emissions by at least 42% in this decade (vs. FY20 baseline).
- We will also engage with 67% of our suppliers by emissions, covering purchased goods and services and capital goods, with the aim of them having science-based targets by the start of 2026.
- Achieve Net Zero value chain emissions by 2050.

The engagement with our supply chain will see us work with our priority suppliers to help them decarbonise their own operations. In support of this, we will encourage suppliers to measure and report their GHG emissions and have their own reduction plan in place, preferably setting science-aligned and Net Zero targets.

We continued to implement solutions to reduce our emissions, such as a further roll-out of LED lighting and Building Management Solutions ("BMS") in our retail stores, an assessment of our company car fleet to incorporate lower carbon vehicles, and an assessment of renewable energy options, after which we agreed a deal with a renewable energy company which will come into effect during FY22. We will continue to invest in initiatives to reduce our carbon footprint further, whether that's through improving efficiency e.g. LED lighting or heat pump technology, or through switching to greener forms of energy e.g. biomass options for vehicles.

We want to lead by example in electric mobility and so, as the operator of over 300 Mobile Expert and Commercial vans, we will continue to explore the options for making the switch to electric vans as soon as we can. The key challenges are weight and range, and as it stands today, we don't yet believe the technology exists for the journeys our vans make. We will continue to work with manufacturers and collaborate with other fleet operators to switch to electric once it is feasible to do so.

Scope 1 and 2 emissions data

	2020 tCO_2e	**2021 tCO_2e**
Halfords Retail directly purchased electricity	10,576	**7,967**
Autocentres directly purchased electricity	2,897	**2,159**
Total Electricity consumption	13,473	**10,126**
Halfords Retail combustion of gas	7,438	**6,470**
Autocentres combustion of gas	4,311	**3,637**
Total Gas consumption	11,749	**10,107**
Vehicles on Company business	2,547[1]	**2,988**
Overall totals	27,090	**23,221**
Company's chosen intensity measurement: tCO_2e per £1m Group revenue	23.45	**17.97**

SECR Report – 2020/2021

Scope		**2021 (tCO_2e)**	% of total
1	Gas	**10,107**	43.52%
2	Electricity	**10,126**	43.61%
1	Transport	**2,988**	12.87%
	Total	**23,221**	100%

Scope Breakdown (tCO_2e)

Scope 1	13,095
Scope 2	10,126

Electricity

Brand	**Total kWh**	**tCO_2e**
Halfords Retail	34,173,135	7,967
Halfords Autocentres	9,261,221	2,159
Grand total	**43,434,355**	**10,126**

Gas

Brand	**Total kWh**	**tCO_2e**
Halfords Retail	35,185,311	6,470
Halfords Autocentres	19,780,143	3,637
Grand total	**54,965,455**	**10,107**

Transport

Brand	**Miles**	**tCO_2e**
Halfords Retail	1,311,954	362
Halfords Autocentres	1,668,482	460
Mobile vans	7,990,000	2,166
Grand total	**10,970,436**	**2,988**

1. Restating 2020 to include all Group vehicles, including mobile vans.

ESG Progress in FY21

Net Zero Commitment

The overall reduction in Scope 1 and 2 emissions is partly driven by store closures related to COVID-19, but also our own efficiencies within our emissions-reduction programme, e.g. the roll-out of LED lighting and BMS within our Retail estate.

Scope 3 emissions

Our Scope 3 emissions data is based on an Input/Output model and is therefore an estimate, calculated by applying supplier spend data to industry-accepted carbon benchmarks for each supplier. We will start working with our suppliers and vendors to gather accurate Scope 3 data, building a robust baseline from which to set targets and measure our progress. As is common with most retailers and distributors in the UK, the majority of our overall emissions are Scope 3, reflecting the impact of manufacturing products in a global supply chain. It is therefore imperative that we engage with our suppliers to reduce their own emissions, thus putting us on pathway to achieving Net Zero by 2050.

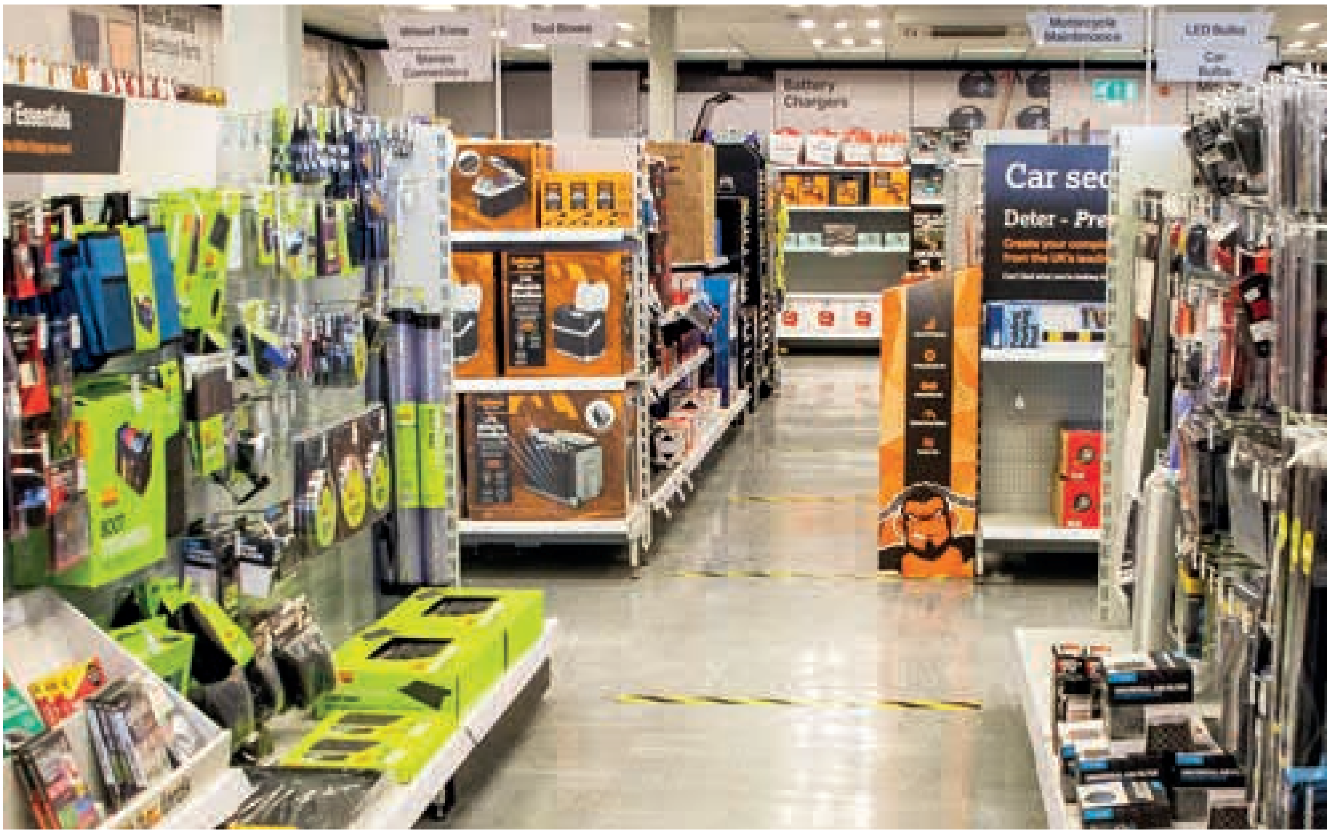
Case Study

LED Lighting and BMS Roll-Out

Over the past 12 months, we have continued our investment in energy-saving measures across our estate, particularly the roll out of LED lights and Building Management Systems ("BMS") in our retail stores. BMS provides automation of controls in stores for heating, lighting and small power sources, ultimately helping us control energy usage.

By the end of FY21, we had BMS and LED lights installed in 224 sites accounting for well over 50% of our retail estate. This roll-out significantly improves our energy efficiency, reducing our Scope 2 emissions, and will form a core part of our plans to meet our science-based targets.

We will invest further in FY22, rolling out to an additional 124 retail sites. Looking further ahead, we will continue to search for innovative opportunities to reduce the energy requirements of our stores, garages, distribution centres and hubs.



Diversity & Inclusion

Overview

Halfords Group is committed to providing equal opportunities to colleagues and candidates. This applies to recruitment, training, career development and promotion, regardless of physical ability, gender, sexual orientation or gender reassignment, pregnancy and maternity, race, religious beliefs, age, nationality or ethnic origin.

We are proud to promote diversity in the motoring and cycling industries (e.g. representation on D&I working groups within the IMI) and work hard to ensure every colleague feels they can be themselves at work and perform to their best. We also recognise there is always more we can do and we are excited to build on our foundations.

Progress in FY21

Today, we have a good understanding of our gender diversity within the Group. We routinely collect gender data and have been publishing our gender pay gap data for a number of years, which we are proud to say has improved even further this year. 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 women's mean hourly rate 1.15% higher than men's and women's median hourly rate 3.98% lower than men's.

Our focus remains on two areas: improving gender diversity across the Group, and building awareness amongst our colleagues of career progression opportunities, such as promoting female technicians in garages. We have a number of initiatives in place to support this, including partnering with schools and colleges to engage with potential candidates, delivering virtual 'Values' sessions to colleagues right across the Group, and promoting our Group career path.

Our annual colleague engagement survey is a key point in the year for us to gather overall sentiment across the Group, with some highlights of the year being:

- 80% of colleagues feel **Halfords** treats them and their colleagues fairly.
- 85% of colleagues feel they can be themselves at work.
- Engagement is consistent across gender, with female indexing slightly higher.
- Colleagues identifying as Asian are 10ppts more engaged.

Whilst we have not historically collected ethnicity data, our field-based colleagues live in their local communities and we therefore have a diverse mix of ethnic backgrounds across the UK. We do, however, recognise the need for a more thorough understanding of diversity across a number of categories, and so we have started to develop methods through which we can collect and record this data, which will eventually form the basis of our Inclusion programme. Data from our initial findings are shown below:

	Gender				Ethnicity						
Role	Male	Female	Other	Prefer not to Say	White / Caucasian / White Other	Black/ Black African/ Black Caribbean/ Black Other	Asian	Middle Eastern	Mixed Ethnic Heritage	Other	Prefer not to say
Leadership Group	75%	20%	1%	4%	86%	2%	3%	0%	1%	1%	7%
Management	83%	13%	0%	3%	88%	1%	3%	0%	1%	2%	5%
Non-Management	75%	20%	1%	4%	83%	3%	5%	0%	2%	1%	6%

The data presented is based on the 94% of colleagues that completed the most recent colleague survey.

The Board is committed to improving ethnic diversity at Board level and, during the year, we will begin the process of ensuring that the composition of the Board is compliant with the Parker review into corporate governance. Importantly, the Board is committed to providing an inclusive workplace so that all colleagues feel that they can be themselves at work and perform to their best.

ESG Progress in FY21

Diversity & Inclusion

Case Study

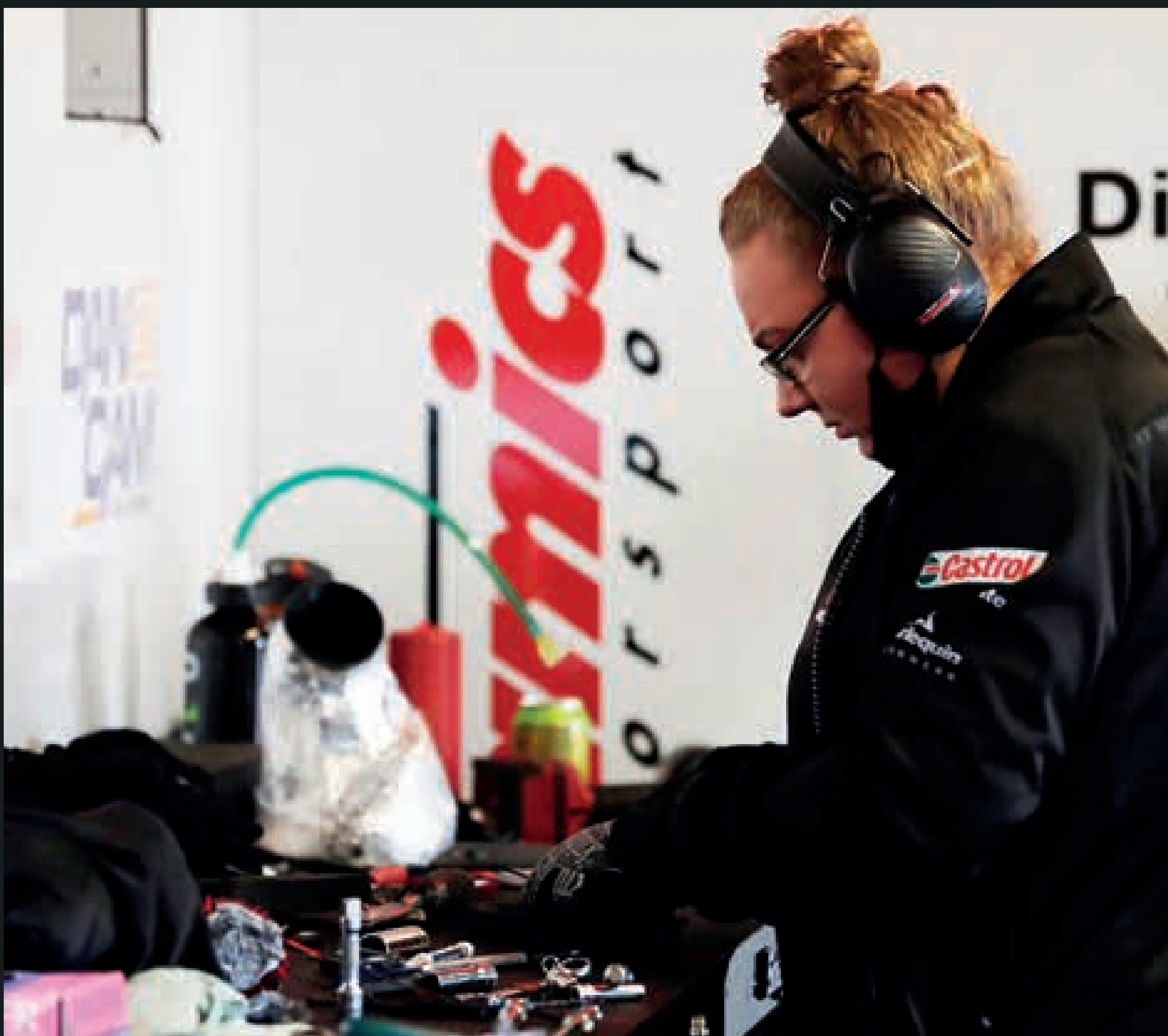
Halfords BTCC Apprentice 2020

Jackie Hardy, an apprentice mechanic at the **Halfords** Autocentre in Borehamwood, was named **Halfords** BTCC Apprentice 2020, fending off tough competition from eight of her colleagues. The Level 3 apprentice has since been travelling with the touring car team to BTCC race weekends where she plays an integral part of the effort to win races.

To secure the victory, Jackie did a practical timed assessment on a Volkswagen van to find hidden faults and successfully convinced a panel that she has the right attitude and character to become part of the BTCC team.

After it was announced that she won in an otherwise all-male field, Jackie offered the following comment on the victory and her expectations of joining BTCC on the road:

"To be fair I didn't expect it. I was nervous during the competition but I'm over the moon now, really happy. Now I'm looking forward to joining the BTCC team, which will definitely be different from working in a garage, but I'm excited to get in there and learn and embark on the next stage of my career. Women need to know that it is okay to take that initial step, and that there are other women working in the industry. Once you get your foot in the door it is okay!"



Product, Packaging and Waste Management

Product Solutions

Halfords has a rich heritage as a destination for cycling and motoring service, maintenance and repair. Through its full estate, **Halfords** is responsible for millions of repairs each year and therefore plays an important role in enhancing the longevity of products and mitigating the impact of a linear economy. We will expand these strengths to offer this industry-leading service in the emerging electric mobility market, to reduce the impact of full-product replacements by upskilling our store colleagues in service and repairs – leading to a better customer experience and reduced environmental impact.

In the next year, we will explore options for sustainable sourcing and waste-management solutions for rubber-based products, including tyres, tubes and car mats, which represent a high proportion of sales within our business.

Our firm commitments to consumer rights and great customer service mean we receive a significant volume of returned goods that can often be repurposed with minimal repair. This provides us with both a commercial and environmental opportunity to maximise the value of our returns, and so in FY22 we will pilot the reselling of reconditioned products for discounted prices, helping to extend the lifecycle of these products and ultimately reduce the use of virgin materials. Specifically we will trial a pilot of selling second-hand bikes exploring the opportunity within this market.

Packaging Solutions

During the year, we have significantly improved our ability to report on packaging data, responding to heightened consumer awareness and anticipation of more stringent legislation. We are using this improved dataset visibility to establish metrics and targets that will help to evolve our packaging portfolio, with recyclability our primary focus, and longer term, looking to reduce our use of virgin plastic within our supply chain. Currently, 71% of our retail packaging is known to be widely recyclable, meaning we have a further 29% to aim for. We appreciate that recyclability does not always lead to recycling, so we will join other leading retailers and brands by introducing clear instructions via on-pack recycling labels to raise awareness of end-of-life packaging options.

Waste Management

Through our packaging data improvements, we have greater visibility on the amount of packaging we use in our pre-store logistics. Approximately 38% of our packaging is commercial and industrial, and we aim to make significant reductions to this packaging usage. Where the packaging is deemed essential, we aim to improve on the current 75% recycling rate through our waste management processes. We are committed to transparency on the end destination of this packaging within a two-year period, to ensure that our waste has the lowest possible environmental impact and reduces the use of virgin materials.

Halfords remains a popular destination for the end-of-life domestic and car batteries, and we want to expand this service to a more difficult, dangerous and expensive type – Lithium Ion – which is the current go-to for electric mobility products. As the market-leader, **Halfords** has a critical role to play in finding recycling and waste management solutions for a fast-growing consumable item.

Case Study

Packaging Data

Our improvement in data functionality has increased our ability to better manage our packaging portfolio in the future. We have increased data accuracy giving us better confidence in understanding our current packaging usage, which is around 12,700 tonnes of packaging each year; 96.6% of that is split between cardboard, wood and plastics. Of our overall packaging use, 61% is in retail units that go out to customers, and we are using this data to target our coverage of widely-recycled packaging, with clear labelling to support customers in placing waste in the correct bin.

One of the topical areas within the industry is plastic and we know that plastic is visible in a large proportion of the products we sell. We are committed to report in even further granularity to specifically target plastics so that we can increase our overall widely-recycled packaging rate from 71% across all materials towards as close as we can to the 100% figure.

We are in an exciting age of innovation within the plastics industry and want to take a measured approach towards recyclable content, whilst also prioritising reduction and refill approaches.

ESG Progress in FY21

Supply Chain Ethics

We are committed to maintaining the highest ethical standards amongst our suppliers.

We are strongly opposed to the exploitation of workers and we will not tolerate forced labour (including the most recent Modern Slavery Act), or labour which involves physical, verbal or psychological harassment or intimidation. For further information, please see our Modern Slavery Statement on page 82.

We will not accept human trafficking or the exploitation of children and young people in our business and we 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 Supplier Code of Conduct and its principles are based on international standards, including the International Labour Organisation ("ILO") conventions and recommendations, which in turn are based on the United Nations Universal Declaration of Human Rights and Convention on Rights of the Child.

We carry out a rolling programme of Code of Conduct audits and assessments with our suppliers across social, ethical and ESG issues.

This rolling programme and regular review ensures continued compliance with our Sourcing Code of Conduct across our supply-chain.

A risk-based (or tiered) approach is used to devote most attention to the areas of greatest risk. For Tier 1 suppliers, which are those operating in higher risk countries, we conduct in-depth audits, including in-person factory visits, confirming compliance every two years as standard, and every year for bike suppliers.

Tier 2 suppliers are generally own-brand manufacturers operating in low-risk countries. For these, we may accept an alternative audit report as a means of validating compliance, and we will accept a reduced frequency of audit.

Tier 3 suppliers are proprietary branded goods for resale. Our standard terms include conditions to explicitly reference our Suppliers Code of Conduct which they must sign up to.

During FY21, despite fewer visits due to COVID-19 limiting global travel, we have maintained our high standards of compliance and no concerns of unacceptable conduct were raised or reported. As soon as restrictions allow, we will ensure supplier compliance according to our usual governance.

In FY22, we will engage further with our supply chain in the following ways:

- Present, as usual, our Supplier Code of Conduct at the Annual Supplier Conference.
- Review our supplier Terms and Conditions and update them for enhancements to our ESG Strategy.
- Start to work with our suppliers to understand their ESG and Ethical Sourcing commitments in further depth.

Our Colleagues

Over the last year, our colleagues have shown their dedication to our business, going the extra mile to provide our customers with the products and services they needed to keep the UK moving. Have worked hard to prioritise the health, safety and wellbeing of all of our colleagues and have recognised their unwavering commitment with a number of support initiatives.

- We made sure we had robust COVID-19 protocols in place from the start of the first lockdown to keep our colleagues and customers safe, such as sufficient stocks of PPE, additional concierge staff, and adjustments to colleague rotas.
- We launched over £4m of initiatives to support our front-line colleagues, including a Frontline Colleague Support fund and **Halfords** Here to Help Fund.
- We developed and launched a 'Wellbeing Hub', where colleagues can go to receive support and advice on a range of issues. We have also signed up to the Mental Health at Work initiative, demonstrating the importance of mental wellbeing and doing everything we can to support our colleagues through such a challenging period.

Colleague engagement is vital to our success as a business. As such, it is a measure in our Executive bonus scheme and we set targets for improved engagement right across the organisation. Each year we conduct a colleague engagement survey, administered by a third party and providing actionable, anonymised reports at a team level. This year's survey, conducted in April 2021, had a response rate of 94% and an engagement index score of 75%, strong numbers that demonstrate high levels of colleague engagement despite the impact of COVID-19 and retail organisational design changes. In response to the survey results, every team produces an engagement plan for the year ahead, which rolls up into department and Group plans. Once again our Retail business was placed in the 'Best 25 Big Companies to Work For' category in The Sunday Times Best Big Companies survey, for the seventh year running – an achievement we are very proud of.

We remain committed to providing best-in-class training to our colleagues. This includes field-based training, such as electric servicing, all the way to online training courses via our intranet to upskill colleagues who wish to progress their career. Over the last year we have delivered a change in our in-store operating model, designed to ensure we have significantly more services-trained colleagues across the retail estate, providing a foundation for electric servicing, as well as product-fitting, WeChecks and Cycle care.

- **Halfords** Values delivered virtually to c.2,700 leaders across the business, who cascaded to all colleagues across the Group.
- Over 2,500 colleagues completed training courses, from PDI to 'Silver Service' to WeFit services such as Dashcams fitting.
- 77 colleagues completed an Apprenticeship – 39 with a distinction.
- 79 colleagues achieved the IMI's DVSA MOT tester accreditation.
- 43 colleagues achieved IMI Level 3 accreditation, with a further 10 gaining IMI's Hybrid Electric Vehicle accreditation, which was lower than previous years due to limited training resource as a result of COVID-19 and the need to prioritise MOT tester training.

ESG Progress in FY21

Charity and Communities

Halfords is proud to support charities and communities across the UK. The COVID-19 pandemic meant that much of our focus was centred on supporting the UK's key front-line workers, to help keep them moving so they can focus on keeping the country safe in a national emergency.

Supporting our key workers

Throughout the pandemic, we carried out over half a million services and repair jobs on cars and bikes each month, playing an essential role in keeping the UK moving.

We were privileged to offer free checks and discounts to 480,000 key workers, including NHS staff, teachers and Armed Forces, to keep their vehicles safe and roadworthy. **Halfords** Autocentres and McConechy's garages provided servicing, repair and tyre services for ambulances, police cars and border control vehicles, contracting with 49 emergency service agencies across the UK.

We were particularly proud to donate E-scooters to the NHS Nightingale hospital in Birmingham to help construction workers complete the fit-out, and we donated numerous bikes to individual doctors and nurses whose bicycles had been stolen or vandalised.

Case Study

Trussell Trust

We are active within many communities across the UK and actively help and support local communities in which we operate. One great example of this during FY21 was supporting our local foodbank via the Trussell Trust. Despite the pandemic making fundraising more challenging, we ran a variety of events to raise money for the Redditch foodbank and were delighted to donate this money in the period leading up to Christmas.

Case Study

Re-Cycle

Halfords has worked with the Re-Cycle charity since 2013 – an amazing charity which repurposes bikes by sending them to those in desperate need of basic transport in African countries, training mechanics in-country to recondition the bikes and ultimately giving the bike a second life. For the people in these communities, a reliable bike is essential for their livelihoods and it is extremely important to us that we can support them as much as we can.

We encourage our customers to donate their old bikes at our stores, which are then transported to our central distribution centre before being shipped to the main Re-Cycle hub. When the bikes are received at Re-Cycle, they are assessed for quality and suitability to send to Africa. They are then sent to Re-Cycle's Africa Partners and 'prepped' by an amazing team of volunteers, before being taken to communities in desperate need. Re-Cycle has a zero-waste policy and any parts or components that cannot be repurposed or reused are recycled. This is very much aligned with our own ambitions to reduce products and packaging ending up in landfill and is a great example of how a circular economy can help benefit the planet in various ways.

Since we began our partnership, we have donated more than 60,000 bikes, and despite COVID-19 meaning the partnership had to be put on hold until the start of 2021, we still managed to send 1,780 bikes to Re-Cycle between April 2020 and April 2021.

Case Study

Mind

As part of our pledge to support both our colleagues and charities, we embarked on a Group-wide initiative to walk, run, swim and cycle the distance around the globe – an incredible 33,327 mile journey matching the route you would most likely take if you cycled around the world. Many colleagues were feeling the impact of COVID-19 lockdown and the dark evenings of winter, and this challenge provided a great opportunity to use exercising as a means to improve health and wellbeing. We were delighted with a total mileage of 141,733 miles and in doing so we donated £33,327 to the Mind charity. An incredible amount of money raised for Mind and great for colleague engagement – a great example of the **Halfords** 'One Team' value.

Case Study

HMP Drake Hall

The **Halfords** Academy at HMP Drake Hall was launched a number of years ago and it is a scheme which we remain firmly committed to. It offers participants the opportunity to train as cycle mechanics and create the prospect of steady employment upon release. The programme is tailored for each participant with an added focus on mechanics, customer services or retail.

Since launch, the **Halfords** Academy has been a great success and although COVID-19 meant the programme had to pause, we have resumed training, and are currently training twelve female offenders. Twenty graduates have joined the business in a variety of roles following their release. Fully supported by **Halfords** colleagues, participants are subject to the same high standards of training as other colleagues within the Group – the training programme is thorough, designed to challenge participants and raise aspirations. The programme provides offenders with the opportunity to be trained and work on bikes that require reconditioning.

The majority of the bikes are then donated to primary schools in disadvantaged areas to help children access cycling through the **Halfords** school bike donation scheme.

Case Study

Armed Forces Covenant

We continue to offer guaranteed interviews to service leavers and reservists for all roles where candidates meet the minimum requirements. We also support service leavers and reservists by recruiting through the Career Transition Partnership, offering ten days additional unpaid leave for reservists and a range of discounts for those serving in the Armed Forces. As a result, we are now a Silver Level employer in the MOD's Employer Recognition Scheme, and were also nominated for The Sun's Military Awards, which are known as the 'Millies'.

Since signing up to the Armed Forces Covenant, **Halfords** is proud to have recruited 78 ex-services personnel into a variety of stores and garages roles.

Our Key Performance Indicators

Shareholder KPIs

Underlying Profit Before Tax[1]

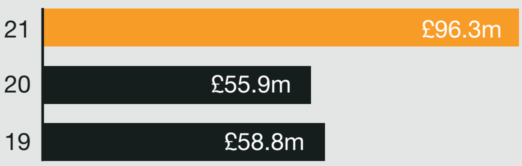
Definition
Profit before income tax and non-underlying items as shown in the Group Income Statement.

Commitment
The Board considers that this measurement of profitability provides stakeholders with information on trends and performance, before the effect of non-underlying items.

Performance
PBT finished £40.4m above FY20 driven by share gains in Motoring services, profitability improvements across the Group, and share gains and strong demand in Cycling.

Link to Remuneration:
Bonus

Historic Performance



Underlying Earnings Per Share[1]

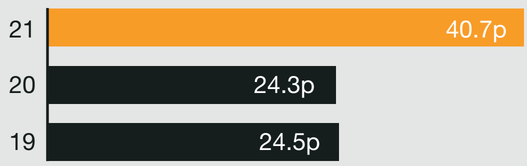
Definition
Profit after income tax and before non-underlying items as shown in the Group Income Statement, divided by the number of shares in issue

Commitment
EPS is a measure of our investment thesis and as such we aim to manage revenues, margins and invest in long-term growth.

Performance
Underlying EPS grew 67.5% reflecting the strong profit performance.

Link to Remuneration:
Performance Share Plan

Historic Performance



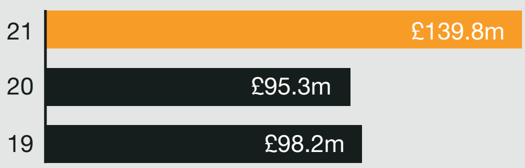
Underlying EBIT and Underlying EBITDA[1]

Definition
Underlying EBIT results from operating activities before non-underlying items. Underlying EBITDA further removes Depreciation and Amortisation.

Commitment
The Board considers that these measurements of profitability are a viable alternative to underlying profit and uses these measures to incentivise Management.

Performance
Underlying EBITDA grew 47% reflecting the strong profit performance with depreciation 10% above last year as capital expenditure was moderated due to COVID-19.

Historic Performance
The numbers below represent Underlying EBITDA



Dividend Per Share[1]

Definition
Cash returned to shareholders as a return on their investment in the Company.

Commitment
Our existing dividend policy was suspended last year in light of the considerable uncertainty that we faced during the pandemic. We will reinstate the ordinary dividend from FY22, intending this to be progressive. Should surplus cash remain in the business that we feel we cannot deploy with good rates of return, we will return this to shareholders in the most appropriate way.

Performance
With the strong close to FY21, the Board proposed a final dividend of 5p.

Historic Performance

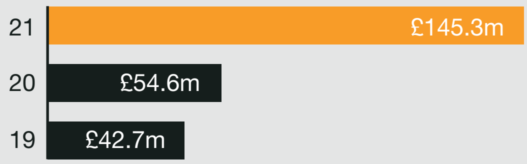
Free Cash Flow[2]

Definition
Adjusted Operating Cash Flow less capital expenditure, net finance costs, taxation, exchange movement and arrangement fees on loans.

Commitment
Our medium-term target is to grow Free Cash Flow over the current three year period (FY19–FY21) compared with the previous three years (FY16– FY18).

Performance
Free Cash Flow was strong, £91m above FY21 from the strong profit performance and working capital inflow. We anticipate circa £36m of the working capital inflow to reverse in FY22.

Historic Performance



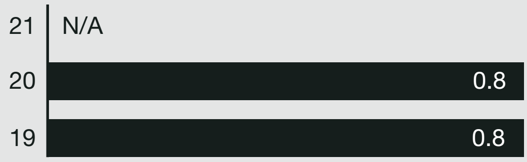
Net Debt to Underlying EBITDA Ratio[2]

Definition
Represented by the ratio of Net Debt to Underlying EBITDA.

Commitment
We currently continue to target a ratio of 1.0×, with a range of up to 1.5× 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.

Performance
The Group ended FY21 with net positive cash.

Historic Performance



Like-for-Like Sales[1]

Definition
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.

Commitment
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.

Performance
Group LFL was strong driven by both growth in our Autocentres business and Cycling. Retail Motoring saw a LFL decline off the back of low traffic levels from COVID-19.

FY21 LFL Sales Movement

Halfords Group	13.9%
Retail	14.6%
Motoring	-12.1%
Cycling	54.1%
Autocentres	9.7%

[1] All numbers presented are pre-IFRS 16 and FY20 numbers are on a 52-week basis.

[2] All numbers presented are pre-IFRS 16 and FY20 numbers are on a 53-week basis.

Read the Remuneration Report on pages 122 to 135.

Our Key Performance Indicators

Operational KPIs

Service-related Group Sales Growth

Definition
Service-related Group sales is the income derived from the fitting or repair services themselves along with the associated product sold within the same transaction.

Commitment
To grow service-related Group sales faster than total Group sales growth.

Performance
Service-related sales growth was very strong, now accounting for 28.7% of Group sales. The growth was driven by our Autocentres business from both our FY20 acquisitions, the expansion of our HME business and market share gains across the Autocentres.

Link to Remuneration:
Bonus and Performance Share Plan

Historic Performance

Group Colleague Engagement

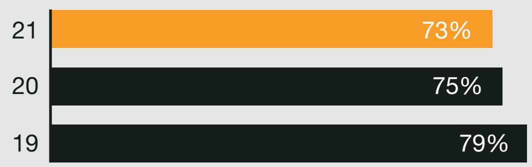
Definition
The proportion of Group colleagues who respond positively to the questions in the Colleague Engagement Survey.

Commitment
We aim to improve Colleague Engagement across the Group with specific focus on required areas identified by colleagues.

Performance
Engagement fell 2% which although disappointing on face value was a positive result given the unprecedented challenges and disruption felt by every colleague within the business. We launched several initiatives to try and lessen the burden both financially and their mental and physical health.

Link to Remuneration:
Bonus

Historic Performance



Customer Net Promoter Score ('NPS')

Definition
Measure the changes in NPS of our Retail stores and Autocentres.

Commitment
We are committed to improving the score with our customers across the Group.

Performance
NPS saw good positive movements across both Retail and Autocentres as we focussed on enhancing the customer experience at multiple touch points. Given the dramatic increase in customer contact during COVID-19, this was a pleasing result reflecting our investments in digital and centralising customer contact.

Link to Remuneration:
Bonus

Historic Performance

	FY21	FY20
Retail	**59.7**	57.9
Autocentres	**72.6**	68.8

The FY21 financial results reflect our operational agility in year but also the positive impact of longer-term initiatives to improve the efficiency and profitability of our business.

Chief Financial Officer's Review

Loraine Woodhouse

2020/21 Highlights

+13.1%
Total Sales Growth

-3.1ppts
Cost as a % of Sales

£20.0m
Sustainable Working Capital Reduction

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 "FY21" accounting period represents trading for the 52 weeks to 2 April 2021 ("the financial year"). To ensure a meaningful comparison with the prior year, all commentary unless otherwise stated is for the 52-week period ended 27 March 2020 and is before non-underlying items. Most of our commentary on profit and cost measures is before the impact of IFRS 16, which is stated where relevant. The impact of IFRS 16 is shown in the table below and further details of this impact are provided later within this report. The comparative period "FY20" represents trading for the 53 weeks to 3 April 2020 ("the prior year").

Group Financial Results

	FY21 (52 weeks) £m	FY20 (53 weeks) £m	FY20 (52 weeks) £m	52-week change
Group Revenue	**1,292.3**	1,155.1	1,142.4	+13.1%
Group Gross Profit	**656.3**	589.7	584.0	+12.4%
Underlying EBIT pre-IFRS 16*	**101.8**	55.4	58.7	+73.4%
Underlying EBITDA pre-IFRS 16*	**139.8**	92.6	95.3	+46.7%
Net Finance Costs	**(5.5)**	(2.8)	(2.8)	+96.4%
Underlying Profit Before Tax pre-IFRS 16*	**96.3**	52.6	55.9	+72.3%
Net Non-Underlying Items	**(37.3)**	(32.1)	(32.1)	+16.2%
Impact of IFRS 16	**5.5**	(1.1)	(1.1)	–
Profit Before Tax post-IFRS 16	**64.5**	19.4	22.7	+184.1%
Underlying Basic Earnings per Share pre-IFRS 16*	**40.7p**	22.9p	24.3p	+67.5%

* This report includes Alternative Performance Measures ("APMs") which we believe provide readers with important additional information on the Group. A glossary of terms and reconciliation to IFRS amounts is shown on page 201.

The speed with which COVID-19 hit, and the subsequent implications, have been the most significant test for every business in living memory. Almost overnight, demand and customer shopping behaviour changed, cash flows and supply chains were interrupted, and the resulting operational challenges tested everyone and everything. Although I believe the financial strength of **Halfords**, and our diverse portfolio of essential products and services, positioned us well going into the pandemic, I am pleased that the work in the preceding 12 months was designed for exactly this purpose - to strengthen the resilience and profitability of the business in an ever-changing retail environment. The FY21 financial results therefore reflect our operational agility in year but also the positive impact of longer-term initiatives to improve the efficiency and profitability of our business. We saw revenues and profits grow, gross margins improve in our core categories and businesses, operational costs fall as a proportion of sales, and a closing net cash of £58.1m.

The customary financial metrics undoubtedly demonstrate our strong performance but, over and above this, we also undertook further activity in year to safeguard the Group. This included securing £25m of CLBILS funding and covenant waivers on our existing RCF at the peak of the pandemic and, more notably, the subsequent refinancing of the Group's debt facility for the next 3 years, securing a competitive rate of borrowing on a reduced facility size overall.

Group revenue in FY21, at £1,292.3m, was up 13.1%, comprised of Retail revenues of £1,039.8m and Autocentres revenue of £252.5m. This compared to FY20 Group revenue of £1,142.4m, which saw Retail revenue of £950.6m and Autocentres revenue of £191.8m. Group gross profit at £656.3m (FY20: £584.0m) represented 50.8% of Group revenue (FY20: 51.1%), comprising an increase in the Retail gross margin of 10 basis points ("bps") to 48.3% and a decrease in the Autocentres gross margin of 440bps to 61.1%, reflecting the recent acquisition of lower gross margin businesses. Although the headline Group gross margin rate declined, -34bps, this was a strong result given the dynamics and volatility of the last 12 months and the outcome reflects our focus on creating a more profitable business. To context this result, it is worth highlighting three key components within the final overall Group gross margin %. Within Retail, we saw a significant, and adverse, change in mix, out of higher margin motoring products and into lower margin cycling. Motoring revenues were impacted by the almost continuous rhythm of lockdowns and resultant fewer journeys. On the contrary, our cycling performance was very strong as we worked hard to capitalise on any opportunity within this market and offset the lost motoring revenue. Offsetting the significant mix impact, we saw a particularly strong margin rate improvement, reflecting almost 18 months of work to improve the profitability of our cycling business. The overall improvement in cycling gross margin was particularly pleasing, up almost 680bps on FY20 and, alongside a smaller, but favourable, improvement in motoring this completely mitigated the adverse mix effect within Retail.

The final margin impact was seen within our Autocentre Business. The overall performance was -440bps vs FY20 but was expected as we reported the first full year of Tyres on the Drive and McConechy's Tyre Service Limited ("McConechy's"). As we highlighted last year, these businesses generate a lower gross margin due to a higher participation of tyre sales. The operating model is different, but we see an opportunity in the medium term as we increase the participation of higher-margin services, maintenance, and repair within the product mix. Encouragingly, all three Autocentre businesses saw their gross margins improve vs FY20 as we continue to optimise and take the first steps on this journey.

Total underlying costs, pre-IFRS 16, increased to £554.5m (FY20: £525.3m) of which Retail comprised £410.6m (FY20: £404.3m), Autocentres £141.6m (FY20: £118.9m) and unallocated costs £2.3m (FY20: £2.1m). 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, Tredz and Wheelies in May 2016, McConechy's in November 2020 and The Universal Tyre Company (Deptford) Limited ("Universal") in March 2021, which arise on consolidation of the Group. Group Underlying EBITDA pre-IFRS 16 increased 46.7% to £139.8m (FY20: £95.3m), whilst net finance costs pre-IFRS 16 were £5.5m (FY20: £2.8m).

Group operating costs before non-underlying items and pre-IFRS 16 saw an increase of 5.6% but decreased as a proportion of sales by -3.1ppts to 42.9%, demonstrating our increased efficiency. As with revenue and gross margin, there are several movements within this result that give context to the performance. The Group saw over £33m of costs as a result of operating under COVID-19 restrictions, driven by additional payroll to manage colleague and customer safety, personal protective equipment ('PPE') and safety equipment, and higher fulfilment cost as customers temporarily changed shopping behaviour. During Q1, whilst the Groups stores and centres were partially closed, over 50% of colleagues were furloughed.

Chief Financial Officer's Review

At this point we utilised government furlough schemes, receiving £10.5m of support, which was later paid back in full during Q4. We also recognised the difficult environment through which our colleagues have worked and, as a result, invested in supporting them financially through initiatives including the Front-Line Bonus Scheme and a Hardship Fund totalling £4m, whilst also adjusting holiday rules to allow colleagues to take more time off during FY22. These costs were offset by the business rates relief of £39m across the Group, of which the majority arose within the Retail business.

We continued to drive our ongoing efficiency programmes, delivering £7m of Goods Not For Resale ("GNFR") cost savings, alongside those associated with the closure of Cycle Republic, worth a further £9m. We also achieved rental savings within our Retail estate on 19 lease renewals of circa -30% worth £0.6m in FY21 and continued to convert most of stores and garages to LED lighting saving a further £0.4m. These underlying savings were offset by the inevitable cost increases associated with the growth of our business. The annualisation of our acquisitions - Tyres on the Drive and McConechy's - added £18m, strategic investments totalled £8m and the significantly skewed mix into bikes, and their increased volumes during FY21, added a further £22m of additional cost.

Underlying Profit Before Tax pre-IFRS 16 for the year increased 72.3% at £96.3m (FY20: £55.9m). Non-underlying items of £37.3m in the year (FY20: £32.1m) related predominantly to the closure of a number of stores and garages following a strategic review, as well as costs relating to a significant organisational restructure. After non-underlying items, Group Profit Before Tax was £59.0m (FY20: £23.8m).

After non-underlying items and including IFRS 16, Group Profit Before Tax was £64.5m (FY20: £22.7m). The impact on the Group of IFRS 16 in the period was a £5.5m net increase to Group Profit Before Tax.

Retail

	FY21 (52 weeks) £m	FY20 (53 weeks) £m	FY20 (52 weeks) £m	52-week change
Revenue	**1,039.8**	961.0	950.6	+9.4%
Gross Profit	**502.0**	462.8	458.4	+9.4%
Gross Margin	**48.3%**	48.2%	48.2%	+10bps
Operating Costs	**(410.6)**	(410.8)	(404.3)	+1.6%
Underlying EBIT pre-IFRS 16*	**91.4**	52.0	54.1	+68.9%
Non-underlying items	**(33.6)**	(29.5)	(29.5)	+13.9%
Impact of IFRS 16	**14.2**	(1.2)	(1.2)	–
EBIT post-IFRS 16	**72.0**	21.3	23.4	+207.7%
Underlying EBITDA pre-IFRS 16*	**120.5**	81.1	82.7	+45.7%

* This report includes Alternative Performance Measures ("APMs") which we believe provide readers with important additional information on the Group. A glossary of terms and reconciliation to IFRS amounts is shown on page 201.

Revenue for the Retail business of £1,039.8m reflected, on a constant-currency basis, a like-for-like ("LFL") sales increase of +14.6%. Total revenue in the year increased 9.4% after adjusting for the impact of closed stores. The volatility of the trading environment discussed earlier was most evident in our Retail business, which made forecasting particularly difficult. Demand for our motoring products suffered from a suppressed market throughout FY21 as lockdowns markedly reduced the number of journeys, with customers opting to work from the safety of their homes. Motoring like-for-like declined 12.1%, better than transport data would suggest, but still saw weekly LFLs ranging from -75% to +20%. There were a number of positive performances within motoring, such as our touring products and car cleaning, but many product areas saw LFL declines through much of the year.

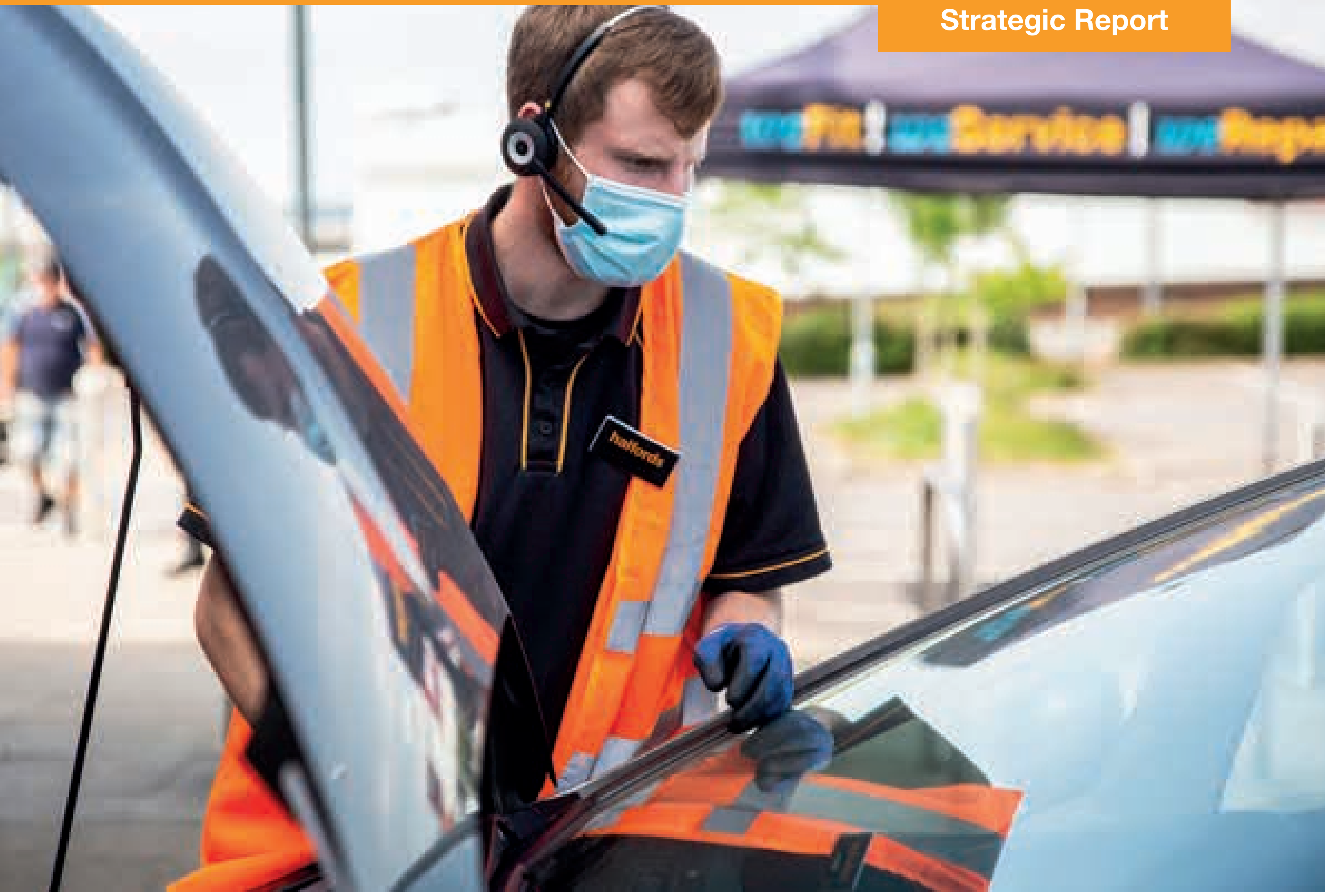
Our cycling performance was much stronger, with like-for-like growth of 54.1%, as we worked hard to source stock from new and existing suppliers and serve the increased demand within the market. Cycling was equally hard to predict, and although performed very well across H1, with LFL peaks of over +100%, H2 saw more volatility from week-to-week with LFL declines late in Q3 and early Q4.

The differing category fortunes resulted in the mix of motoring within Retail decline by almost -12ppts vs. Cycling against last year. The Retail Operational Review in the Chief Executive's Statement contains 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:

	FY21 LFL (%)	**FY21 Total sales mix (%)**	FY20 Total sales mix (%)
Motoring	**-12.1**	**46.1**	58.4
Cycling	**+54.1**	**53.9**	41.6
Total	**+14.6**	**100.0**	100.0

Gross profit for the Retail business, at £502.0m (FY20: £458.4m) represented 48.3% of sales, an increase of +10bps on the prior year (FY20: 48.2%). Underlying gross margins of Cycling and Motoring improved more significantly than the headline number, which was diluted by product mix into lower margin cycling and a currency impact within the broader gross margin due to fluctuations on the year end spot rate. The gross margin improvement within the categories reflected the significant work carried out over the last 18 months on our sourcing strategy for both bikes and motoring products, as well as our work to optimise promotional activity throughout the year. Over the year, Cycling gross margins improved by +680bps and Motoring by +40bps vs. FY20.



Retail operating costs before non-underlying items and IFRS 16 were £410.6m (FY20: £404.3m), an increase of 1.6% on FY20. The focus on operational efficiency and procurement continued in FY21, offsetting the impact of volume and mix, whilst simultaneously allowing the business to invest, albeit at a reduced level, in our strategic initiatives. Some of the highlights included centralising all customer contact and further development of our digital platform to enhance our customer experience including bookable bike slots and our WeCheck app. We saw almost £7m of GNFR costs removed from the Retail business through continued review of services and tendering processes. We saw 19 lease renewals, saving on average -30% on annual rents, and we continued to convert more stores to LED lighting and building management systems, saving over 40% on annual converted stores utilities consumption.

Naturally, due to the size of the Retail business, a greater proportion of the costs associated with COVID-19 were within its costs. Of the £33m mentioned above, £25m arose in Retail, offset by £33m of business rates relief.

Autocentres

	FY21 (52 weeks) £m	FY20 (53 weeks) £m	FY20 (52 weeks) £m	52-week change
Revenue	**252.5**	194.1	191.8	+31.6%
Gross Profit	**154.3**	126.9	125.6	+22.9%
Gross Margin	**61.1%**	65.4%	65.5%	-440bps
Operating Costs	**(141.6)**	(121.4)	(118.9)	+19.1%
Underlying EBIT pre-IFRS 16*	**12.7**	5.5	6.7	+89.6%
Non-underlying items	**(3.7)**	(2.6)	(2.6)	+42.3%
Impact of IFRS 16	**0.8**	0.1	0.1	–
EBIT post-IFRS 16	**9.8**	3.0	4.2	+133.3%
Underlying EBITDA pre-IFRS 16*	**19.3**	11.5	12.6	+53.2%

* This report includes Alternative Performance Measures ("APMs") which we believe provide readers with important additional information on the Group. A glossary of terms and reconciliation to IFRS amounts is shown on page 201.

Autocentres generated total revenues of £252.5m (FY20: £191.8m), an increase of 31.6% on the prior year, with a LFL increase of 9.8%. Non-LFL revenue in the year included benefits from the acquisitions of both Tyres on the Drive and McConechy's in November 2020, alongside existing Autocentres that have been open less than 12 months.

Gross profit, at £154.3m (FY20: £125.6m), represented a gross margin of 61.1%, a decrease of 440bps on the prior year. As stated earlier, the decrease in gross margin % was solely a result of annualisation of the FY20 acquisitions, which have a dilutive effect as the operating model is quite different. These businesses tend to be lower gross margin but also lower cost. There is an opportunity for us to grow margin, over time, through a greater mix into service and repair, but the gross margin will remain lower than that of a core garage.

Chief Financial Officer's Review

All businesses saw their respective gross margins improve during FY21, with the continued development of our PACE Digital Operating Platform supporting buying efficiency across garages, boosted further by a slightly lower mix into tyres, which tend to be lower margin.

Operating costs were £141.6m, +£22.7m above last year, of which £18m was a result of the annualisation and growth of our acquisitions from FY20. COVID-19 costs within Autocentres totalled £5.3m, offset by £6.0m of relief through the Retail, Hospitality and Leisure Grant Fund. The remaining cost increase was the result of growth in the underlying business.

Autocentres' Underlying EBIT was £12.7m before IFRS 16 (FY20: £6.7m), a strong performance, reflecting the continued growth and optimisation of our LFL business alongside the annualisation and expansion of FY20 acquisitions. Underlying EBITDA before IFRS 16 of £19.3m (FY20: £12.6m) was 53.2% higher than FY20.

Portfolio Management

The last 12-18 months have seen some of the most significant changes in the Group's portfolio since the acquisition of Autocentres over a decade ago. Within Q3 FY20, we saw the acquisition of McConechy's Garages and Tyres on the Drive, followed shortly by the closure of our Cycle Republic business, including 22 stores, at the close FY20. Within FY21, we have continued to grow our services business, increasing the number of HME vans and acquiring Universal Tyres at the end of the financial year. We also, however, took steps to further improve the profitability and efficiency of our business through the closure of 59 lower return stores and garages.

The total number of fixed stores or centres within the Group stood at 781, with a further 143 HME vans and a further 192 commercial vans supporting mobile tyre fitting within McConechys and Universal as at 2 April 2021. The portfolio comprised 404 stores (end of FY20: 472) and 374 Autocentres (end of FY20: 371). Mobile locations grew by 156 vans, increasing coverage of the most in-demand regions within the UK.

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

	Retail	Centres	Vans
Relocations	–	–	–
Leases renegotiated	19	7	–
Refreshed	–	–	–
Openings/ Acquisitions	–	20	159
Closed	42	17	–

Within Retail, 42 low-return stores closed during the year, largely in Q4. It was considered more profitable to the Group, on analysing the anticipated sales transfer to other channels and neighbouring stores, to close these stores and reduce the overall cost base. Where there was term remaining on any leases at the point of closure, provision has been made in the balance sheet to cover occupancy costs to the point of lease expiry. A further 22 Cycle Republic stores, along with the Boardman Performance Centre, are also no longer part of the trading portfolio.

The number of lease expiries, or breaks under option, increases significantly within the next five years. Retail will see two-thirds of stores experience optionality within five years, allowing for a high degree of flexibility within the estate.

Within Autocentres, no new centres were opened, but 20 locations were acquired in the year. Seventeen were closed, taking the total number of Autocentre locations to 374 as at 2 April 2021 (end of FY20: 371). No Autocentres were refreshed in the year (FY20:14).

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 under six years. The acquisition of Universal resulted in the purchase of 6 freehold properties but all have been sold and leased back within the first two periods of FY22.

Net Non-Underlying Items

The following table outlines the components of the non-underlying items recognised in the 52 weeks ended 2 April 2021:

	FY21 £m	FY20 £m
Organisational restructure costs (a)	**5.9**	2.8
Group-wide strategic review (b)	**–**	1.0
Acquisition and investment-related fees (c)	**0.6**	1.9
One-off claims (d)	**2.9**	0.8
Closure costs (e)	**27.9**	25.6
Net non-underlying items pre-IFRS 16	**37.3**	32.1
Closure costs (e)	**(1.9)**	1.2
Impairment of right-of-use assets (f)	**(0.4)**	0.9
Net non-underlying items post-IFRS 16	**35.0**	34.2

a. In the current and prior period, separate and unrelated organisational restructuring activities were undertaken.

Current period costs comprised:

- During the year, a strategic redesign of the in-store operating model undertaken to better meet our customers' expectations and deliver a consistent shopping experience across our estate. Redundancy costs of £5.9m were incurred to transition to the new operating model. These costs have materially been spent during the year.

Prior period costs comprised:

- Redundancy and transition costs relating to roles which have been outsourced or otherwise will not be replaced (FY20: £1.4m); and
- Asset write-offs, principally resulting from the strategic decision to re-platform the Retail and Autocentres websites (FY20: £1.4m).

b. In the prior period, costs were incurred in preparing and implementing the new Group strategy. This included £0.4m of external consultant cost and £0.6m of store labour costs, point-of-sale equipment and other associated costs in completing the cycling space re-lay across the store estate.

c. In the current and prior periods, costs were incurred in relation to the investments in Universal, McConechy's and Tyres on the Drive.

- £0.6m (FY21) relating to professional fees in respect of the acquisition of Universal;
- Tyres on the Drive acquisition costs comprised £1.0m (FY20) principally relating to the costs of dual running **Halfords** Mobile Expert and Tyres on the Drive, as well as the write-off of the receivables balance due from Tyres on the Drive related to **Halfords** Mobile Expert prior to acquisition; and
- £0.9m (FY20) relating to professional fees in respect of the acquisition of McConechy's.

d. During the prior year, the Group incurred £0.2m in settling a court case. In addition, a provision of £0.6m was recognised in relation to the HMRC audit relating to the national minimum wage. The Group has continued to work with HMRC and external advisors during FY21 and a full data validation exercise is underway to determine the required Notice of Underpayment. The exercise is in progress and based on information available to date and the Group's assessment of a range of potential outcomes, management has increased the provision to £3.4m which represents management's best estimate of the value of underpayments and the associated penalty charge.

e. Of the closure costs £28.5m represents costs associated with the closure of a number of stores and garages following a strategic review of the profitability of the physical estate. The costs mostly relate to the impairment of right-of-use assets (£12.2m) and tangible assets and ongoing onerous commitments under the lease agreements and other costs associated with the property exits.

In the prior period, they related to costs associated with the closure of the operations of Cycle Republic and the Boardman Performance Centre ("Cycle Republic") following a strategic review of the Group's cycling businesses. The costs mostly relate to the impairment of right-of-use assets, as well as the impairment of intangible and tangible assets and inventories. £2.5m of these costs have been reversed during the year as the Group continues to negotiate lease disposals and was able to release stock provisions previously in place (£1.8m).

f. In light of the ongoing COVID-19 pandemic, the Group has revised future cash flow projections for stores and garages. As a result, in the prior period, £0.9m incremental impairment was recognised in relation to garages where the current and anticipated future performance did not support the carrying value of the right-of-use asset and associated tangible assets. This charge is directly attributable to impairment due to COVID-19 and relates primarily to the right-of-use asset value. During the year, £0.4m of this impairment has been reversed as the stores and garages have returned to a profitable position.

Finance Expense

The net finance expense (before non-underlying items and IFRS 16) for the 52 weeks ended 2 April 2021 was £5.5m (FY20: £2.8m), reflecting the drawdown of the Revolving Credit Facility ("RCF") early in the pandemic, alongside increased amortisation and commitment fees relating to the new RCF, which was renegotiated in the period.

Taxation

The taxation charge on profit for the 52 weeks ended 2 April 2021 (before IFRS 16) was £10.3m (FY20: £2.8m), including a £5.8m credit (FY20: £4.7m credit) in respect of non-underlying items. The effective tax rate of 17.5% (FY20: 13.9%) differs from the UK corporation tax rate (19%) principally due to the impact of deferred tax on accounting for share options and adjustments in respect of provisions held in respect of prior periods.

Earnings Per Share ("EPS")

Underlying Basic EPS before IFRS 16 was 40.7 pence and after non-underlying items 24.7 pence (FY20: 22.9 pence and 8.9 pence after non-underlying items), a 77.7% and 177.5% increase on the prior year. Basic weighted-average shares in issue during the year were 197.1m (FY20: 197.0m).

Dividend ("DPS")

In light of the COVID-19 pandemic and the impact on short-term profitability, the Board has taken a series of measures to preserve cash, one of which was a suspension of the dividend. After the strong close in the final quarter of FY21, the Board has recommended to shareholders that a final dividend of 5.0p per share (FY20: nil) should be paid.

Chief Financial Officer's Review

IFRS 16

	FY21 (52 weeks) Pre-IFRS 16 £m	FY21 (52 weeks) Post-IFRS 16 £m	Movement £m
Underlying EBIT	101.8	114.5	12.7
Net finance costs	(5.5)	(15.0)	(9.5)
Underlying profit before tax	96.3	99.5	3.2
Net underlying items	(37.3)	(35.0)	2.3
Profit before tax	59.0	64.5	5.5
Underlying basic earnings per share	40.7p	41.7p	

IFRS 16 has had the effect of increasing profit by £5.5m. The two main drivers for this being the increase in held over leases which have decreased the depreciation charge in comparison to the rental payments, and the increased aging of the lease portfolio which has led to a lower interest charge in comparison to the rental payments.

Capital Expenditure

Capital investment in the 52 weeks ended 2 April 2021 totalled £32.5m (FY20: £35.8m) comprising £23.2m in Retail and £9.3m in Autocentres. Within Retail, £6.0m (FY20: £15.9m) was invested in stores. Additional investments in Retail infrastructure included a £13.1m investment in IT systems, including the continued development of the Group website.

The £9.3m (FY20: £4.8m) capital expenditure in Autocentres principally related to the replacement of garage equipment and replacement of fixtures and fittings, rebranding of McConechy's garages and further development of PACE, our Garage Workflow System.

Inventories

Group inventory held as at the year-end was £143.9m (FY20: £173.0m). Retail inventory decreased to £134.3m (FY20: £168.0m), reflecting reduced stock levels and working capital efficiencies. The stock levels within our cycling business were, however, sub-optimal for much of the year and, as such, the inventory reduction is flattered. Inventory levels are likely to revert to more normal levels in FY22.

Autocentres' inventory was £9.6m (FY20: £5.0m). The existing Autocentres business model is such that only modest levels of inventory are held, with most parts acquired on an as-needed basis. The increase in inventory related to the acquisition of tyre stock within Universal.

Cash Flow and Borrowings

Adjusted Operating Cash Flow was £186.6m (FY20: £109.9m). After acquisitions, taxation, capital expenditure and net finance costs, Free Cash Flow of £145.3m (FY20: £54.6m) was generated in the year. Group Net Cash/(Debt) was £58.1m (FY20: (£73.2m)). All these numbers are pre-IFRS 16.

Within the cash flow is a working capital inflow of approximately £42m. Within this was approximately £20m of planned and sustainable inventory reductions in Retail and £36m which we anticipate will reverse in FY22. The £36m is a result of Retail inventories at year end which were £14m lower than optimal due to the high cycling demand, and year end creditors worth £22m which saw our normal timing differences alongside a VAT creditor that was deferred from earlier in the year and paid early in FY22.

Group net debt after IFRS 16 was £277.3m (FY20: £479.8m).

Principal Risks and Uncertainties

The Board considers the assessment of risk assessment and the identification of mitigating actions and internal control to be fundamental to achieving **Halfords**' strategic corporate objectives. In the Annual Report and 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 of the 2021 Annual Report and Accounts. These include:

- Business Strategy
  - Capability and capacity to effect change
  - Stakeholder support
  - Value proposition
  - Brand appeal and market share
- Financial
  - Sustainable business model
- Compliance
  - Regulatory and compliance
  - Service quality
  - Cyber security
- Operational
  - Colleague engagement/culture
  - Skills shortage
  - IT infrastructure failure
  - Critical physical infrastructure failure (including supply chain disruption)

Specific risks associated with performance include the success, or otherwise, of peak trading periods (e.g. Christmas), as well as weather-sensitive sales, particularly within the Car Maintenance and Cycling categories in the Retail business.

Loraine Woodhouse
Chief Financial Officer

16 June 2021

Our Principal Risks and Uncertainties

Board and Audit Committee

Overall oversight of risk management and internal control framework:

- Full annual review of effectiveness of risk management and internal control systems, corporate risk register, and risk appetite undertaken by Audit Committee with assessment delivered to Board for approval.
- Update on changes to risk and internal control environment presented by Internal Audit to Audit Committee at each meeting.

Whistleblowing process
Regular KPI reporting

Regular management presentation to Board and Audit Committee

Internal Audit Reports
Corporate Risk Register

Shops, Garages, Distribution Centres and Customer-Facing Businesses

First Line Assurance

Operating within agreed policies and procedures, for example:

- Delegated authorities ('How We Do Business').
- Quality Standards.
- Retail guidelines ('Retail Basics').
- Health and Safety policies.
- Colleague handbooks.
- Regular oversights.
- Performance monitoring.
- Regular management presentation to Board and Audit Committee.

Corporate Functions

Second Line Assurance

- Identify developments in risk and internal control environment.
- Develop and implement strategy, policies, procedures and controls to manage risk.
- Internal audits.
- Risk and internal control analysis.
- Internal audit reports.
- Corporate Risk Register.

Internal Audit

Third Line Assurance

- Independently review quality of key internal controls and management assessment of risk.
- Challenge management to enhance control environment.
- Maintain Corporate Risk Register.

Internal Audits
Risk and internal control analysis

Risk Management Framework
The Board has overall responsibility for the management of risk and the identification of principal risks that may affect the Group's strategic objectives. Specifically the Board determines the nature and extent of risk exposure that the business is willing to take in pursuit of its strategy. The Audit Committee, on behalf of the Board, has responsibility for maintaining oversight of the Group's framework for risk management.

Whilst ultimate responsibility for the oversight of risk management rests with the Board, the effective day-to-day management or risk is embedded within the business through a layered assurance approach.

During the year, additional rigour was added into the overall management of risk through the creation of a Risk Committee. This Committee, comprising members of the Executive Team, systematically reviews existing risks, focuses on mitigating actions and identifies emerging risks. Changes to the risk profile of the business, alongside significant and emerging risks, are escalated to the Audit Committee, which routinely receives deep dive analysis and regulatory updates on key risks. Please see page 117 for details of Audit Committee activities during the year.

Principal Risks
The Audit Committee reviews the effectiveness of the risk management processes and monitors the assessment of the Group's principal risks, reflecting on external factors and their impact on strategic priorities. Each principal risk has an Executive owner and is included within a Corporate Risk Register, which is subject to a 'top-down' review. Operational risk registers are maintained to provide greater granularity, a 'bottom-up' perspective and a further means to identify emerging risks.

Principal risk changes:

- COVID-19 is a present threat but is no longer regarded as a principal risk having crystallised during the year. Residual risk remains but we have elected to treat this as an elevation of our existing principal risks, many of which continue to be impacted by the pandemic.
- Brexit is no longer a principal risk having been concluded during the year. Any residual impact of the agreement is monitored through the day-to-day risk management process.

COVID-19
COVID-19 had a significant impact across all sectors throughout 2020 with the imposition of lockdowns and travel restrictions disrupting global supply chains and changing consumer behaviour. **Halfords** responded immediately to the pandemic, with the fast set up of daily COVID-19 'war rooms' at senior management and Executive level. All risks, whether health and safety related, financial, commercial or operational, were quickly identified, managed and ultimately mitigated.

The Group was able to limit the impact of the pandemic by continuing to trade safely as an essential retailer and by making any necessary proposition changes, such as enhancing our online offer, to respond to changes in customer behaviour. The management of financial risks and liquidity was strengthened to protect the business and deliver a positive result for the year. Throughout this period, risk management was at the forefront of our response, designed to protect both customers and colleagues.

The advancement of the vaccine programme and the easing of lockdown restrictions has enabled operations at stores and centres to prepare for a return to pre COVID-19 levels of customer traffic. The risk of another rise in COVID-19 infections posed by virus variants and a return to pandemic restrictions is under constant review, and if necessary, our proven response plan can be rapidly redeployed.

Emerging Risks
The evolution of risk is actively considered at Board level and across the senior management team. Emerging risk is seen as an undefined risk that may eventually develop to materially impact the business in the future. The newly formed Risk Committee now manages the identification and progression of emerging risk with further evaluation and discussion by the Audit Committee. Climate change and the electrification of vehicles continues to be a developing area, representing both an emerging risk and an opportunity. We conduct horizon scanning with subject matter experts, who contribute to the risk management process with insight on key risk themes such as economic, environmental, technological, societal, and geopolitical.

Risk Appetite
The Board has defined risk appetite for its principal risks based on the categories of strategy, financial, compliance and operational. By grouping risks into categories, the Board is able to distinguish the risk appetite for each of the principal risks and whether mitigations are adequate.

Our Principal Risks and Uncertainties

Capability and Capacity to Effect Change

If we do not have sufficient capacity and capability (in terms of our people, processes, and systems) to successfully implement the changes necessary across the business, we will not realise the expected benefits of our strategy and the business will not be sustainable.

Current Mitigation

- The appointment of a Transformation Director and a strengthened team with emphasis on project management enabled progress to be maintained during a challenging period for capital investment. The successful acquisition of the The Universal Tyre Company (Deptford) Limited ("Universal") in March 2021 demonstrated our intent and ability to grow our services business.
- The continued advancement of our change programme is managed through a Transformation Board, providing the necessary governance for delivery of the strategy. The Transformation Board ensures there is a robust approval process for each project, allocates resource and monitors progress. Project managers are in place within the business to whom projects can be assigned and this has been supplemented by specialist resource to boost capability. In affecting change, **Halfords** is requiring all contributing colleagues to observe the principles of Responsible, Accountable, Consulted, and Informed ("RACI").

Focus in 2022

- Continue to align our Transformation Plan with the key objectives of our corporate strategy.
- Closely monitor progress on individual programmes, realigning resources where necessary.
- Specifically, within the technology and digital teams, address operating model shortcomings to enable faster execution.
- Complete organisational design changes to align with the strategic focus of the business.

Stakeholder Support

If we fail to maintain stakeholder confidence in our strategy, they may withdraw their support.

Current Mitigation

- Throughout the year, we demonstrated progress in the execution of our strategy, building confidence in external and internal stakeholders. Our share price responded positively, Customer NPS improved, and our internal engagement scores remained high despite the disruption caused by COVID-19.
- Engagement continued throughout the year with customers, investors and colleagues, keeping them informed of progress against our strategic plans, changing customer propositions as well as the challenges presented by the pandemic.

Focus in 2022

- Maintain progress on the delivery of our strategic objectives.
- Address colleague engagement challenges through a regular cycle of survey and review.
- Proactive investor relations programme of events and communication.

Value Proposition

Customers are not persuaded by our value proposition and we lose market share to online retailers and discounters. Purely competing on price leads to a diminution of financial returns.

Current Mitigation

- To differentiate ourselves in a competitive retail market, our vision is to consolidate **Halfords** as a super specialist in motoring and cycling. Our strategy emphasises the importance of creating value for the customer by delivering services alongside the sale of a product. Progress continued through the development of new services and greater accessibility through the growth of our Cycle-to-Work programme, financial products, and **Halfords** Mobile Expert business.
- Optimisation of our Group website with payment online functionality was further enhanced by investment in our fulfilment proposition and enablement of cross-shop opportunities, aligned with more targeted promotions, designed to appeal to customers.

Focus in 2022

- Launch of a **Halfords** Motoring loyalty programme, designed to reward loyal customers and inspire a greater proportion to shop across the Group.
- Further investment in pricing of motoring products to deliver greater value for customers.

Brand Appeal and Market Share

If we continue to lose brand relevance, we will be unable to maintain and grow our customer base and build market share.

Current Mitigation	Focus in 2022
• Building on a positive response to our status as an essential retailer, we have grown awareness of our HME and garage services. Customer loyalty and satisfaction has achieved record levels for Trust Pilot and Google scores for the Group. • Improvement of our cycling proposition, allied with better than market availability and support for the cycle voucher scheme, has strengthened market share.	• Continued investment in a Group services marketing campaign. • A greater focus on E-bike and E-scooter product sales, alongside a more general electric vehicle servicing strategy. • Investment in fair pricing for motoring products. • Improve climate change credentials with ESG targets defined.

Sustainable Business Model

Changes in the UK economy (including COVID-19, consumer confidence, tax and duty rates and the value of the Pound) could materially impact our revenue and/or costs, and therefore the profitability of the business. Unless we can reduce our exposure to these economic variables (e.g. our foreign exchange exposure), and improve our ability to take action quickly on our margins and operating costs, we will not create a sustainable business model.

Current Mitigation	Focus in 2022
• Significant actions on cost and margin taken in FY21 have collectively built financial resilience, including a successful project to reduce our fixed cost base. A refinancing secured our funding for a three-year period. • A strategic focus on the growth of services will build more stable revenue streams going forward, lessening the Group's exposure to product lifecycles and trends. • The business has a hedging programme in place and is following a working capital reduction programme, targeted at reducing stock holding and aligning trade creditor terms.	• Maintain focus on reducing underlying costs, e.g. rental costs through property renegotiations. • Continuing to focus on margin improvement, eliminating unnecessary cost through targeted efficiencies and scale benefits.

Regulatory and Compliance

A failure to adhere to our legal and/or regulatory obligations for some or all of the Group's activities leads to an inability to meet our responsibilities to stakeholders and/or the imposition of financial penalties, placing a strain or financial cost on the business.

Current Mitigation	Focus in 2022
• The senior leadership team communicates tone from the top to provide guidance to colleagues on all policy commitments. • A new health and safety structure was implemented with strong application of COVID-19 secure controls applied across all function of the business. • An external review of financial services compliance was undertaken in the year, allowing a targeted strategy of improvement. • Regular horizon scanning is undertaken to capture new regulations and requirements.	• Review and improvement of policies supported by training programmes for colleagues. • Regular training and information provided through user-friendly channels. • Deep-dive analysis into specific risk areas carried out on behalf of the Executive Risk Committee.

Key:

Risk increasing

Risk decreasing

No risk movement

Our Principal Risks and Uncertainties

Service Quality

The service we provide to customers may fail to meet regulatory/safety requirements resulting in harm to customer and/or legal/financial penalty.

Current Mitigation	Focus in 2022
• All colleagues are provided with dedicated training and adhere to established quality control and safety procedures, with compliance audits by management. We also have a dedicated compliance team monitoring our regulated activities. • In Autocentres, we have introduced PACE, our digital operating platform, enabling increased workflow, productivity, and quality assurance. A new store operating model is also now in place with multi-skilled retail colleagues operating across all departments. • Store calls are now managed through a centralised contact centre, improving response times and convenience to customers.	• Full roll-out of new store operating model, with additional skills training completed for all retail colleagues. • Introduction of in-store specialists, focused on delivering excellence in our different service offerings. • Ongoing programme of proactive store maintenance and safety checks.

Cyber Security

If we fail to sufficiently detect, monitor, or respond to cyber-attacks against our systems they may result in disruption of service, compromise of sensitive data, financial loss and reputational damage.

Current Mitigation	Focus in 2022
• Our information security team working with our security partner, TCS, provide valuable support by managing vulnerability scans and email and website security. • A perpetual education and awareness campaign is provided to all colleagues. Regular briefings promote an understanding of the risks to our data and the benefits of good security practices. • The Audit Committee is regularly briefed by senior IT management on the business' IT security framework.	• Launch of a fully managed security operations centre, increasing visibility and decreasing response time to incidents.

Colleague Engagement/Culture

Our employment model may not be sufficiently attractive to recruit and retain the talent that we need.

Current Mitigation	Focus in 2022
• Our status as an essential retailer during the pandemic provided a strong sense of purpose and enhanced the culture and identity of **Halfords** as a services business. • Early in the year, we launched our new colleague values and behaviours framework and appointed a colleague experience manager to focus on engagement. An annual engagement survey provides us with reports at team level. We have an environment that encourages colleagues to feed back to us about how we can make **Halfords** an even better place to work. • During the year, a hardship fund was founded for the benefit of our colleagues to provide support and assistance where needed. Equally, a bonus scheme was established for those colleagues working in a front line role during the early period of the pandemic.	• Regular survey activity to identify areas important to colleagues in driving continued engagement. • Ongoing wellbeing programme, providing ideas, support and tips for a better work/life balance. • Identification and development of top talent, allowing us to develop colleagues to fulfil their potential and, in turn, strengthen our succession pipeline.

Key:

Risk increasing

Risk decreasing

No risk movement

Skills Shortage

We may be unable to recruit, retain and develop enough people to have the different mix of skills that we need at all levels across the business, in the near and longer term.

Current Mitigation	Focus in 2022
• We have a strategy that relies on attracting and retaining colleagues who can inspire and support our customers and encourage them to build a lifetime relationship with the brand. • Our recruitment website highlights the importance of the **Halfords** behaviours and details the skills and experience required of our colleagues. New starters are given a full induction and all colleagues receive a performance development review. We develop colleagues via the application of a talent matrix, which supports them in fulfilling their potential and enabling succession management. • Training and development are a fundamental part of our business and a great attraction for new applicants. We apply a targeted approach to further enhance skill levels for centres as we do with stores, by mapping against the optimal skills mix.	• Material investment programme in skills training to enhance colleague capability and, in turn, improve the customer experience across our touch points. • As the restrictions associated with COVID-19 ease, develop a revised working model for our Support Centre colleagues, balancing a desire for greater flexibility with the connection and creativity that comes from being in the right office environment. • Extend our eLearning programme for the benefit of all colleagues.

IT Infrastructure Failure

Failure in our IT system(s) may cause significant disruption to, or prevention of, normal business-as-usual activities

Current Mitigation	Focus in 2022
• Extensive controls are in place to maintain the integrity of our systems and to ensure that systems changes are implemented in a controlled manner. We have resilient infrastructure in place for remote working colleagues to access **Halfords** hosted applications, such as SAP. • **Halfords**' key trading systems are hosted securely within data centres operated by a specialist company and in specialist cloud services operated by Microsoft. These systems are supported by disaster recovery arrangements, including comprehensive backup and patching strategies. IT recovery processes are tested regularly.	• Continue progression towards a fully cloud-based hosting structure with a transfer of risk to cloud-based service providers who can maintain higher levels of contracted availability. • Deep-dive analysis into targeted areas of infrastructure, managed through the Risk Committee.

Our Principal Risks and Uncertainties

Critical Physical Infrastructure Failure (including supply chain disruption)	
Severe damage or failure of physical infrastructure may disrupt our supply chain and/or business as usual activities and prevent the fulfilment of customer orders.	
Current Mitigation	**Focus in 2022**
• The need to respond to the pandemic in FY21 has tested our business continuity plans and given us confidence in alternative supply chain solutions and resilience. • We maintain security and protection measures at our distribution centres and have business continuity plans to manage any incidents that may occur. Our logistics operations are overseen by a dedicated warehouse and logistics team with extensive experience. • Extensive research is conducted into quality and ethics before the Group procures products from any new country or supplier. A strong management team in the Far East, with an understanding of local culture, market regulations and risks, maintains close relationships with both our suppliers and logistics partners to ensure that disruption to production and supply are managed appropriately.	• Programme of development for warehouse and duty management systems. • Enhanced flexibility across the supplier base, using a wider range of suppliers, where possible, and additional providers of freight and transport solutions. • Revised programme of supplier management for all key suppliers. • Ongoing dialogue with existing and new suppliers to build a joint programme of environmental sustainability.

Key:

Risk increasing

Risk decreasing

No risk movement

Going Concern

In determining the appropriate basis of preparation of the financial statements for the year ended 2 April 2021, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the Going Concern basis, having undertaken an assessment of the financial forecasts.

The Group has significantly outperformed the scenarios reviewed as part of the going concern assessment in the Annual Report and Accounts to 3 April 2020.

Management has updated the assessment of going concern, which included reviewing financial forecasts and projections to 30 June 2022. Within these financial projections, management reviewed profit and net cash flow, and tested financial covenants in the period. No issues were found.

The financial forecasts have been stress tested to determine the required sales decline versus the Going Concern scenario before the covenant conditions were breached. This assessment also included variable and other cost saving measures the Group would employ in this scenario and showed that sales would have to reduce by (24.0%) before the first covenant condition is broken. Management believe that this is a significant material event which is highly unlikely to occur in the next 15 months.

If sales were to reduce by (24%), then further actions could be taken by management to prevent the breach. The key mitigating action would be to halt strategic investment in FY22, which would provide further headroom of c.5% of sales decline.

The Audit Committee recently reviewed the corporate risk register and confirmed that it gave no reason not to adopt the Going Concern principle.

The Group ended the year in a positive net debt position pre-IFRS 16 of £58.1m and continues to be cash generative. The Group has a revolving credit facility of £180m at the date of approval of these financial statements, which expires on 3 December 2023, and has no other debt or facilities. The Board has a reasonable expectation that the Group and Company will be able to continue in operation and meet its liabilities as they fall due; retain sufficient available cash and not breach any covenants under any drawn facilities over the remaining term of the debt facility. They do not consider there to be a material uncertainty around the Group or Company's ability to continue as a Going Concern.

Viability Statement

In accordance with the Corporate Governance Code, the Directors have assessed the viability of the Company over a three-year period to 29 March 2024. 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 considered within a fast-moving retail business. This period is consistent with the approach last year, and with many other retailers' disclosures.

The Directors have assessed the prospects of the Group by reference to its current financial position, its recent and historical financial performance, its business model and strategy, and the principal risks and mitigating factors described on pages 66 to 72. The Board regularly reviews financial headroom and cash flow projections to ensure that the business retains sufficient liquidity to meet its liabilities in full as they fall due.

The Group is, as results demonstrate, financially strong, historically generating cash and profit each year, which was true throughout the year ended 2 April 2021 and is expected to continue. Actions taken during the year have further strengthened the cash position of the business, resulting in a positive net debt position pre-IFRS 16 of £58.1m vs. net debt of £(73.2)m as at 3 April 2020. The business has materially outperformed the scenarios developed as part of the COVID-19 modelling during the year end close process last year. As an essential retailer and services provider, the Group was able to remain open throughout the lockdown periods starting in March 2020. The Group was, and will continue to be, uniquely positioned to keep the UK's cars and bikes on the road.

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

- **The likelihood and impact of the principal risks.** At a recent review by the Audit Committee, Directors agreed that 'the risk register identifies no matters that may jeopardise a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due in the reasonably foreseeable future (i.e. three years)'. The Audit Committee's review included a robust assessment of the impact, likelihood and management of principal risks facing the Group, including those risks that could threaten its business model, future performance, solvency, liquidity or day-to-day operations and existence. Mitigating actions that would serve to protect the sustainability of the business model include the continued focus on reducing underlying costs (e.g. rental costs through property renegotiations) and margin improvement, eliminating unnecessary cost through targeted efficiencies and scale benefits.
- **Financial analysis and forecasts.** The Board recently reviewed the five-year financial plan, including the current financial position and performance, cash flow projections, dividend strategy, funding requirements and funding facilities. Sensitivity and stress testing was subsequently applied to the financial plan to determine the extent to which sales and cash would need to deteriorate before breaching the financial covenants embedded within the Group's bank facilities. The testing indicated that the business could experience a sustained reduction in sales of (23%), amounting to an average of £350m revenue reduction per annum across the next five years, and still remain within existing facilities and covenants. The downside scenario makes an assumption on variable cost savings, assuming that costs equating to 15% of sales, or £54m per annum, are removed. The downside scenario also incorporates a further £55m of fixed and semi fixed costs which would be saved annually were this sales scenario to materialise, with savings across a number of business areas including performance related incentives, transformation programme investment and head office costs. Based on their assessment of the plan, the Directors believe a downside sales scenario of this magnitude and duration is unlikely to materialise. The Group's revolving credit facility was re-negotiated during the year, the new facility was set up from 4 December 2020 for three years, with two options to extend by a further year.

Viability statement

Based on this review, the Directors confirm that they have a reasonable expectation that the Group will continue to meet its liabilities as they fall due over the three-year period.