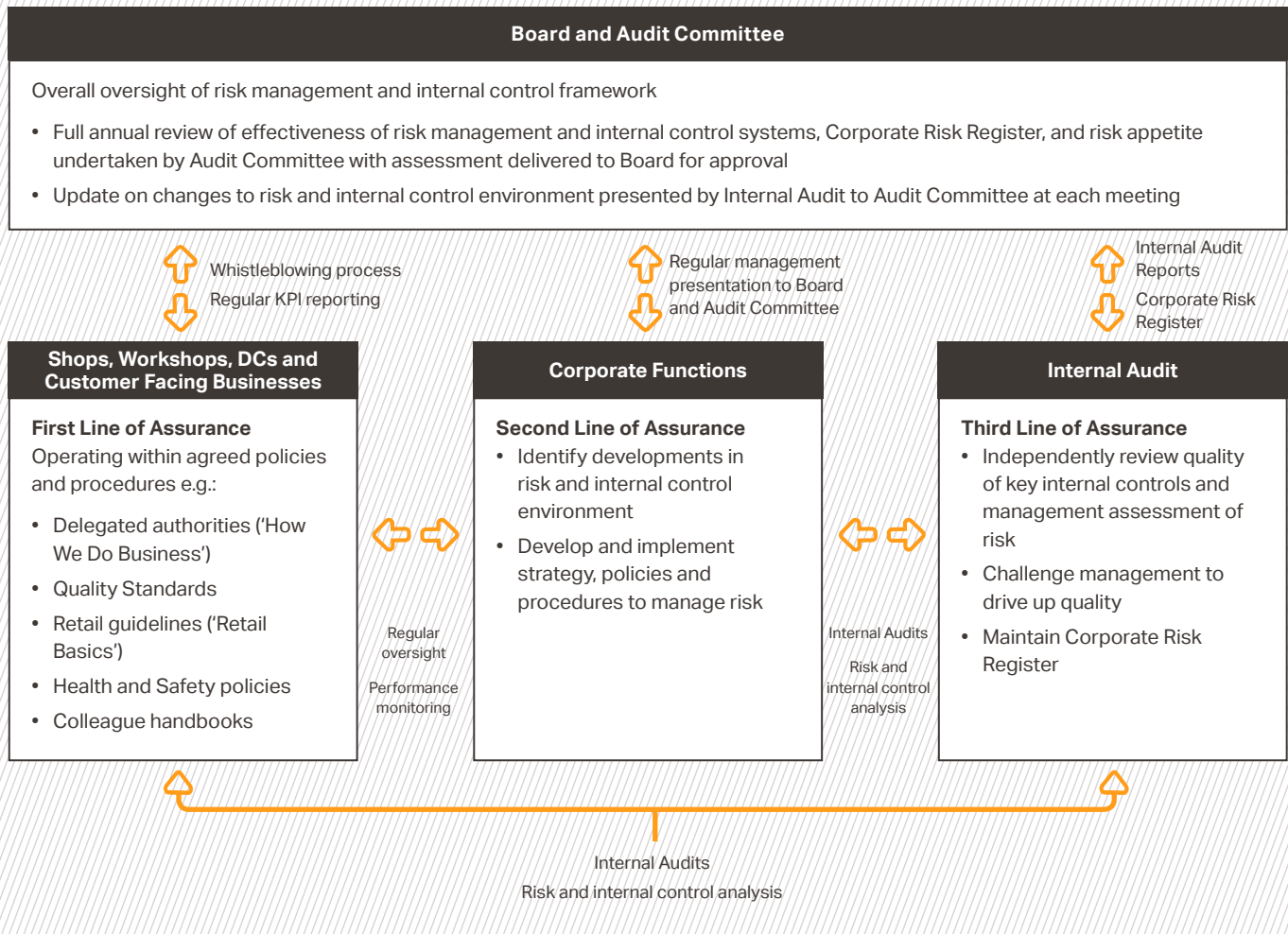


# Our Principal Risks and Uncertainties



## Risk Management Framework

Halfords has a risk management process to protect the interests of key stakeholders and safeguard the delivery of our strategic objectives. Risk is a necessary part of business that can present upside as well as downside potential. It is the responsibility of management to minimise adverse exposure to the Halfords Group and our stakeholders. The Board recognises that the nature and scope of risks can change and so regularly reviews them as well as the systems and processes for mitigation.

## Risk Oversight and Governance

The Board has overall responsibility for the management of risk and the identification of Principal Risks that may affect the Group's strategic objectives. During the year the Executive Team, supported by management, reviewed all Principal Risks in detail and

provided oversight of how all the Group's key risks are managed. In doing so, it also considered and set its appetite for risk.

In addition to functional risk registers, a Corporate Risk Register is maintained that ensures a 'top down' and 'bottom up' assessment of risks. A review of risk is a standing agenda item at each Audit Committee to allow time for the consideration of changes to the corporate risk register.

The Audit Committee, delegated by the Board, is responsible for the review of the effectiveness of the internal control framework. The Audit Committee review presentations on topics in relation to key risk areas such as GDPR, cyber security and recently Inventory management. Please see page 90 for details of Audit Committee activities during the year.

## Principal Risks




The Board carried out an assessment of the Group's principal risks at the end of the financial year, following a comprehensive strategic review of the business. Principal and emerging risks are monitored and changes to the risk environment discussed by the Board throughout the year. Our principal risks are described on the following pages, along with a summary of our mitigation activities. The Principal Risks are not in a priority order but have been set out against a Principal Risk theme, with arrows denoting the movement from the prior year.



# Our Principal Risks and Uncertainties

Risk Title	Risk Description	Current Mitigation	Focus in 2019 Priorities in 2020
<b>Economic, Environmental and Political</b>			
<b>Brexit</b>	Changes to consumer confidence, the cost of doing business or the way in which we run our operation as a result of Brexit results in materially lower profits or organisational strain.	<p>We constantly measure consumer confidence which can be impacted by many things, including Brexit. In 2018, we launched a new business strategy designed to vitalise our position in the market as a services business (see strategy).</p> <p>Following the announcement of an extension to 31 October 2019 for approval of a withdrawal agreement, the prospect of a hard Brexit has abated although departure from the EU without a free trade deal remains a possibility.</p> <p>We have a Brexit steering committee that evaluates the risk factors to the business in support of the Group's post-Brexit readiness, actions already taken include:</p> <ul style="list-style-type: none"> <li>– authorised Economic Operator ("AEO") status secured in full, allowing lower friction customs procedures;</li> <li>– CCG ("Comprehensive Customs Guarantee") granted in conjunction with AEO allowing deferral of all VAT and Duty payments with a lower guarantee level;</li> <li>– an ongoing 18-month hedging policy;</li> <li>– buffer stocks maintained within Halfords and with Vendors to mitigate border delays;</li> <li>– lead times extended for European vendors;</li> <li>– support provided to our EU workers based in the UK.</li> </ul> <p>In the period to October, we will continue to work on our readiness and have identified areas of focus. We anticipate cost inflation from border transactions and duty and this will affect all importers and exporters. Vendor negotiations or terms changes are likely to be required post a hard Brexit and we will be estimating the sort of costs our suppliers will face to allow us to engage in constructive negotiations.</p> <p>Our Republic of Ireland stores will become an export and therefore we are designing a process to allow continued replenishment and returns to these stores.</p>	<ul style="list-style-type: none"> <li>• Securing Authorised Economic Operator Status reducing exposure to border delays</li> <li>• <b>Progression of the Corporate Strategy to strengthen our appeal to consumers</b></li> <li>• <b>Continued monitoring and flex in readiness for change</b></li> </ul>
<b>Change in Government policy or regulation</b>	A change in Government policy may significantly increase our cost of business or reduce customer demand	<p>During the year, in recognition of the significance of the regulatory framework to the Group, a compliance department was formed with a new role of Head of Compliance. The function is responsible for verifying that business activities are compliant with licensed and regulatory obligations.</p> <p>An assessment of vulnerabilities as part of a refresh of the corporate risk register and horizon scanning across several business areas was undertaken during the year. Visibility of emerging risks will continue to improve as responsibilities are clearly defined through the development of functional risk registers. Brexit, as monitored by the Group's Brexit steering committee, is summarised above.</p>	<ul style="list-style-type: none"> <li>• New Compliance department created</li> <li>• Horizon scanning undertaken in a number of business areas</li> <li>• Brexit risk consolidated and managed by 'Brexit Steering Group'</li> <li>• <b>Consolidate the output of the horizon scanning work to understand the impact on each aspect of the business</b></li> <li>• <b>Create a cross-functional Risk Committee</b></li> <li>• <b>Deep dives into specific areas as part of risk update</b></li> </ul>


## Risk movement

 Risk increasing
  Risk decreasing
  No risk movement



Risk Title	Risk Description	Current Mitigation	Focus in 2019 Priorities in 2020
<b>Business Strategy</b>			
<b>Capability and capacity to effect change</b>	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.	Strategic priorities have been clearly defined following an in-depth strategic review supported by comprehensive customer, colleague, market and competitor research and with powerful insights from our single customer view.  A Transformation Board has been formed to institute governance into the change programme necessary for the delivery of the strategy. The 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 effecting change, Halfords is requiring all contributing colleagues to observe the principles of Responsible, Accountable, Consulted and Informed ("RACI").	<ul style="list-style-type: none"> <li>• Clear strategic priorities laid down</li> <li>• Specialist resource brought in to boost existing capability</li> <li>• Robust business case template developed and implemented</li> <li>• Focus on Free Cash Flow to maintain sufficient capital for investment</li> <li>• IT restructure to build in new capability plus senior, experienced Delivery Manager</li> <li>• Annual strategic plan 'refresh' to involve review of progress to date</li> <li>• Capital allocation model to be developed</li> </ul>
<b>Stakeholder support and confidence in strategy</b>	If we fail to secure and maintain our stakeholders' (investors, suppliers, colleagues) support for our strategy, they may lose confidence in the business and withdraw their resources.	<p>The Board holds regular meetings with shareholders and their representatives. Recent discussions have focussed on our strategic ambitions and understanding expectations to enable us to form the best plan.</p> <p>The new strategy for the business was launched to Colleagues through the annual team conference which was streamed live to those who were unable to attend. All colleagues were able to contribute to a Q&amp;A session. The Senior Management Team communicate directly to Support Centre colleagues via a weekly huddle, all colleagues receive a weekly blog from the CEO and a monthly newsletter.</p> <p>An annual conference is held with our suppliers where we inform them of our strategic plans as key partners and listen to their insights and observations to enhance our working relationship.</p>	<ul style="list-style-type: none"> <li>• Conferences relaying strategy to our colleagues and suppliers</li> <li>• Continued engagement with all our stakeholders through regular updates</li> </ul>
<b>Sustainable business model</b>	<p>Changes in the UK economy (including consumer confidence and the value of the £) could materially impact our revenue and / or costs, and therefore the profitability of the business.</p> <p>Unless we can reduce our exposure to these economic variables (e.g. our Forex exposure and fixed cost base) we will not create a sustainable business model.</p>	<p>A number of strategic initiatives are underway to reduce our exposure to changes in the UK economy that adversely impact 'business as usual' and the delivery of our strategy:</p> <ul style="list-style-type: none"> <li>• procurement savings programme in place for direct and indirect costs;</li> <li>• supply chain efficiencies under review with opportunities for strategic sourcing alliances;</li> <li>• developing opportunities to lower warehouse and distribution costs;</li> <li>• working capital reduction programme targeted at stock holding and aligning trade creditor terms;</li> <li>• a formal hedging programme has been extended to reduce foreign exchange risk;</li> <li>• initiatives to drive revenue by extending our service offering to our existing customer base through financial services products and B2B; and</li> <li>• continued evaluation of the impact of the UK's departure from the European Union and the impact on trade tariffs.</li> </ul>	<ul style="list-style-type: none"> <li>• Supply chain review in progress</li> <li>• Working capital reduction via stock/creditors</li> <li>• Active monitoring of tariff situation, especially in a no-deal world</li> <li>• Strategic initiatives designed to secure revenue from existing customer base (e.g. Financial Services, Services, B2B)</li> <li>• Strategic sourcing tie-ups (Norauto etc)</li> <li>• Strategic sourcing strategy (post-Brexit) to understand, end-to-end, the optimum sourcing location for each product category</li> <li>• Review supply chain strategy – i.e. sourcing 'whole bike' vs. components</li> <li>• Implement our revised retail operating model</li> </ul>

# Our Principal Risks and Uncertainties

Risk Title	Risk Description	Current Mitigation	Focus in 2019 Priorities in 2020
People 			
<b>Skills shortage</b>	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.	<p>Our strategy requires us to attract and retain colleagues who can inspire and support our customers and encourage them to build a lifetime relationship with the brand. Through our in-house resourcing team we have developed a recruitment website which highlights the importance of the Halfords behaviours and details the skills and experience required of our future colleagues. There are clear and detailed recruitment processes in place which are reviewed regularly to respond to changes in the business. We train our managers in recruitment best practice and support them by providing up-to-date and engaging recruitment collateral to enable local attraction. In the last year, we have updated our induction programme for large parts of the business and given prominence to our development offer.</p> <p>In our stores, our Gears training programme provides our colleagues with structured training taking them through their first 18 – 24 months. By linking the development of skills to qualifications and reward, we use our training programme to enhance skill, reinforce our behaviours, keep colleagues engaged and reach a competitive hourly rate of pay. The quality of the Gears Training programme has led to us receiving a Princess Royal Training Award and an Ofsted Inspection outcome of 'Good' in FY19. Gears is in continual review with our in-house team of learning designers working with our commercial and operations teams to develop the programme to meet the dynamic needs of the business. This year, our in-house team developed and launched our first gamified e-learning module which was a popular and effective tool for training knowledge and behavioural change.</p> <p>In our Autocentres, training is a fundamental part of our business and a great attraction tool for applicants. We support the training of colleagues ranging from our Apprentices right through to a Level 3 Technician. We provide in-house Hybrid and MOT tester courses ensuring that we can service the full car parc.</p> <p>Conscious of the future talent requirements for our business, and especially the desire to increase the proportion of female colleagues, we are visiting 50 schools in FY20 to engage and inspire emerging talent for the future. We will create an ongoing relationship with the students we meet through an interactive digital platform and our digital mentors.</p>	<ul style="list-style-type: none"> <li>Improved induction and performance development opportunities for colleagues</li> <li>Creating a pathway for young talent to join our business</li> </ul>

## Risk movement

 Risk increasing
  Risk decreasing
  No risk movement

Risk Title	Risk Description	Current Mitigation	Focus in 2019 Priorities in 2020
<b>Staff engagement/culture</b>	Our employment model may not be sufficiently attractive to recruit and retain the talent that we need	<p>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. We run an annual engagement survey, administered and analysed by a third party, which provides us with reports at team level. We create an environment which encourages colleagues to feed back to us about how we can make Halfords an even better place to work and this is clearly successful as last year we had a survey response rate of 94%. Our engagement index of 79% demonstrates that the vast majority of our colleagues enjoy working at Halfords.</p> <p>Following the distribution of reports across the business, every team produces an engagement action plan which includes actions that they can take locally to improve colleague engagement. Key themes are also pulled out at a Company level in order to inform improvements for the year ahead. This could include changes to reward, learning and development, tools and equipment, leadership development right through to physical changes to buildings or our IT provisions. Managers who achieve significant improvements to colleague engagement receive recognition and for those managers who receive poor engagement results a development plan is put in place to support them to improve this.</p> <p>Our Retail business enters the Sunday Times Best Companies Survey and in 2019 we achieved 15th place in the Best 25 Big Companies to Work For category.</p>	<ul style="list-style-type: none"> <li>Responsive action taken to address observations of colleagues from our engagement survey</li> <li>Continued development of the business tools available to our colleagues, to improve their experience in the workplace</li> </ul>

#### Information Technology Systems and Infrastructure



<b>Cyber and data security</b>	<p>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; reputational damage.</p> <p>If we fail to adequately protect customer (and others') data, we may breach GDPR legislation.</p>	<p>We review our IT security processes and risk assessments on an ongoing basis and our IT team has dedicated IT security and continuity experts. We utilise appropriate firewalls and we have undertaken network penetration testing.</p> <p>In addition to ongoing Company-wide training and awareness, SIEM ("Security Information and Event Management") and IDS ("Intrusion Detection Software") tools have been introduced in-part across the Group's technology estate. Further deployment of these tools (along with the introduction of Intrusion Prevention Software) will continue once the decision regarding outsourcing elements of the IT function has been confirmed and established.</p> <p>The Audit Committee is briefed by senior IT management on the business' IT security framework and continues to closely monitor this area.</p>	<ul style="list-style-type: none"> <li>System enhancements to improve our resilience to cyber-attacks</li> <li>Awareness training delivered to all colleagues on Information security and cyber security threats</li> <li>Maintaining our training and awareness programme</li> <li>Increasing our sophistication through new system developments</li> </ul>
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# Our Principal Risks and Uncertainties



Risk Title	Risk Description	Current Mitigation	Focus in 2019 Priorities in 2020
<b>IT infrastructure failure</b>	Failure in our IT system(s) may cause significant disruption to, or prevention of, normal business-as-usual activities	<p>Extensive controls are in place to maintain the integrity of our systems and to ensure that systems changes are implemented in a controlled manner. Halfords' key trading systems are hosted within a secure data centre operated by a specialist company remote from our Support Centre. These systems are also supported by several disaster recovery arrangements including a comprehensive backup and patching strategy, and a hotlink secure data centre hosted in a different location. IT recovery processes are tested regularly.</p> <p>We are increasingly hosting more of our data in the cloud and rely on cloud-based security services from Microsoft and other third parties to protect that data.</p>	<ul style="list-style-type: none"> <li>Recovery processes verified and desktop testing performed quarterly</li> <li>Continued progression towards cloud-based security services</li> <li>Testing of our continuity plan</li> </ul>

## Risk movement

 Risk increasing
  Risk decreasing
  No risk movement



Risk Title	Risk Description	Current Mitigation	Focus in 2019 Priorities in 2020
<b>Product and Service Quality and Brand Reputation</b>			
<b>Brands appeal and market share</b>	If we continue to lose brand relevance we will be unable to maintain and grow our customer base and build market share.	<p>We have an acute understanding of the factors which can influence its currency, and we focus constantly on protection, enhancement and penetration.</p> <p>Our strategy – To Inspire and Support a Lifetime of motoring and cycling – is the way in which we articulate our brand values and we do so in ways which attract, engage and retain customers.</p> <p>To differentiate ourselves in a competitive retail market, our super-specialist sub-brand proposes a customer experience that benefits from a unique and convenient approach to service in both our Retail and Autocentre businesses.</p> <p>To create and maintain top-of-mind awareness, we strategically partner with organisations that possess credibility and gravitas, whilst simultaneously enabling reach and relevance.</p> <p>In the online space, we partner with Google to build and maintain a sophisticated understanding of our current and future audiences in order to better reflect their digital needs and behaviours.</p> <p>At the same time, we drive quality content through our social media channels which focuses less on direct response activity in favour of a more inspirational and motivational approach.</p> <p>Both of these maximise our cost-effective reach and inform our future targeted digital activity.</p> <p>In the offline space, we have this year partnered with ITV and Channel 4.</p> <p>Going forward, our ITV collaboration – continuing to sponsor three-times daily weather forecast bulletins – will deliver high-volume, engaged and relevant audiences.</p> <p>We also partner with New Global Media; sponsoring national radio traffic and travel broadcasts.</p> <p>In the community too, our brand is strong and present. Halfords has been the official cycling retail partner of Bikeability, the Government-backed UK-wide cycle training programme, which promotes accessibility of cycling and safety training for young children and families.</p> <p>We are aligned with Netmums, the UK's biggest parenting website, which endorses our brand and our products, and which benefits from reciprocal support and advice on getting children into the saddle.</p> <p>Finally, across our physical stores and Autocentres estate, we deliver a connected, omni-channel customer journey and experience designed to improve accessibility and customer engagement.</p> <p>To underpin and intensify that approach in FY20, an integrated Group website will be launched that will provide an easy route to the consumption all of our services and products in a single location; driving brand awareness and encouraging cross-shop.</p> <p>The development of a customer loyalty scheme in FY20 will also both enhance and extend the reach and power of our brand going forward.</p>	<ul style="list-style-type: none"> <li>• Reaching new audiences through our partnerships in the community</li> <li>• Investment in our store formats</li> <li>• Development of a new customer experience strategy</li> <li>• A new digital platform offering seamless access to the brand's services and products</li> <li>• Introducing a loyalty programme for the benefit of our customers</li> </ul>



# Our Principal Risks and Uncertainties

Risk Title	Risk Description	Current Mitigation	Focus in 2019 Priorities in 2020
<b>Service quality</b>	The service we provide to customers may fail to meet regulatory / safety requirements resulting in harm to customer and / or legal / financial penalty.	<p>All our 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 Autocentre operations.</p> <p>We provide centralised training for our Retail colleagues through our Gears 1 &amp; 2 programme to ensure they are consistently knowledgeable about our products and able to deliver a quality service to our customers and colleagues also complete an annual assessment of their understanding of our quality procedures. We have four equipped training academies where in 2018 we delivered 1,800 days of training for Autocentre technicians. The technician grading assessment is linked to quality of workmanship as well as skills and qualifications.</p> <p>Our products are risk assessed and rigorously tested for quality and safety by qualified engineers in our dedicated quality team. We monitor customer comments and complaints and, when necessary, we have established recall processes.</p> <p>In 2018, a new till system was introduced to our Retail stores empowering colleagues to move more freely around store and improve their interaction with customers using mobile tablets. In our Autocentres we introduced industry-leading parts ordering and stock control and a new eDiary mechanism to optimise labour availability.</p> <p>We continue to invest in our estate, and this is enabling us to enhance our service offering to customers by evolving the layout of our stores in addition to further developments in IT Infrastructure, training and online functionality.</p>	<ul style="list-style-type: none"> <li>• New strategy identifying service led super-specialism as a key component</li> <li>• Continued development of our colleagues and our estate to provide high levels of customer service</li> </ul>
<b>Critical physical infrastructure failure (including supply chain disruption)</b>	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.	<p>Extensive research is conducted into quality and ethics before the Group procures products from any new country or supplier. The Group's strong management team in the Far East blends expatriate and local colleagues. It understands the local culture, market regulations and risks and we maintain very close relationships with both our suppliers and shippers to ensure that disruption to production and supply are managed appropriately.</p> <p>We work with suppliers in a number of territories to reduce the risks of disruption, and we monitor sourcing opportunities nearer to the UK.</p> <p>We maintain firm security and protection measures at our distribution centres. We have business continuity plans to manage any incidents that may occur. Our logistics are overseen by an experienced, dedicated warehouse and logistics team who maintain contacts with a range of logistics businesses who could be utilised if necessary. We are closely monitoring Brexit developments and preparing contingency plans for any changes in the nature of the border between the UK and the Republic of Ireland.</p>	<ul style="list-style-type: none"> <li>• Close cooperation to convey adjustments to our business model following the launch of our new strategy</li> <li>• Continued development of relationships with current and potential new suppliers</li> </ul>

## Risk movement

 Risk increasing
  Risk decreasing
  No risk movement