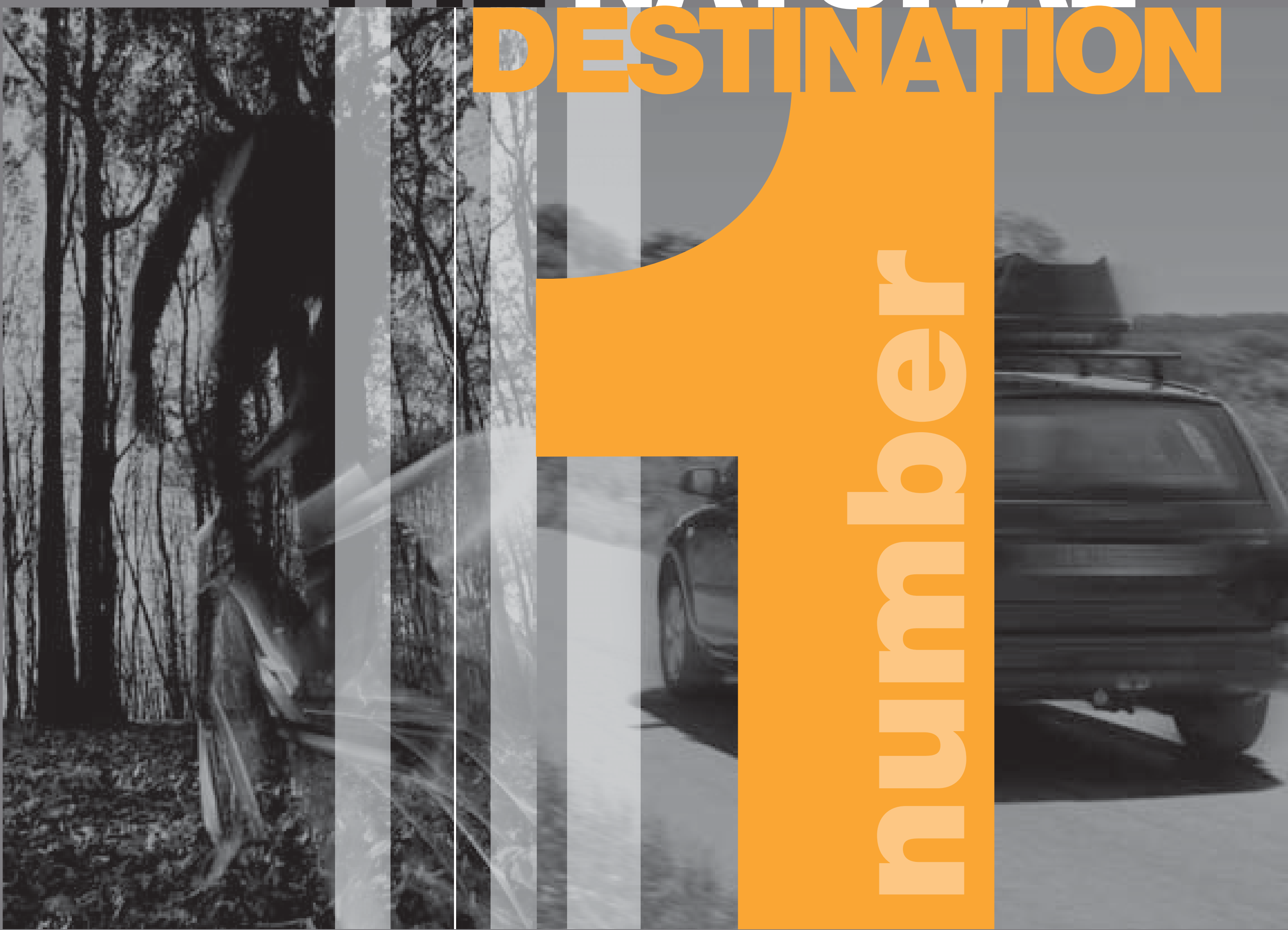
halfords

THE NATURAL DESTINATION

number 1

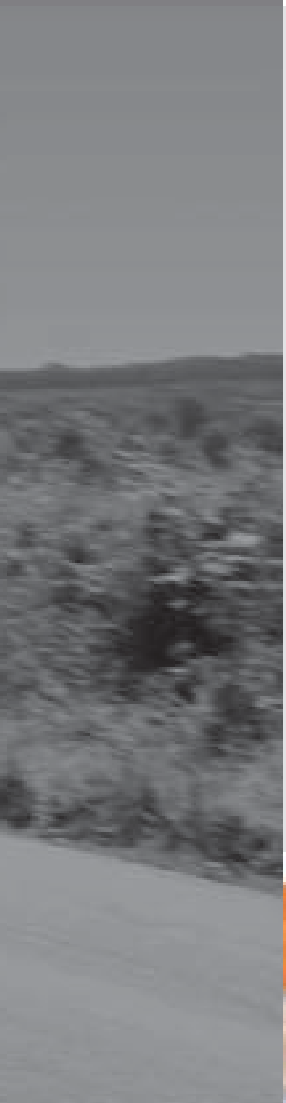


Halfords Group plc Annual Report & Accounts 2009

Halfords Group plc
Annual Report & Accounts 2009

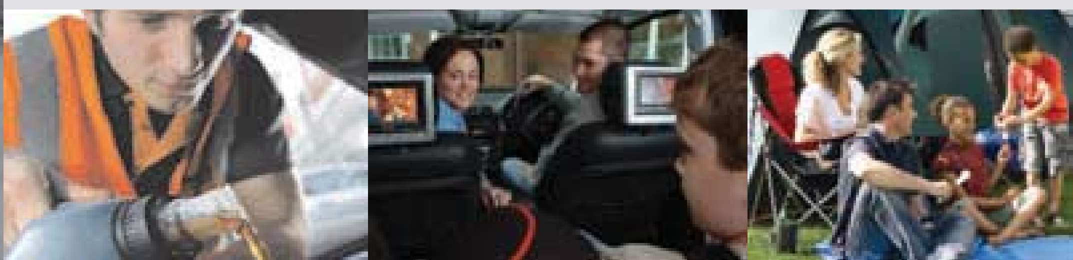
halfords

Resilient
ROBUST
Dynamic



Halfords is the UK's leading retailer, on the basis of turnover, in each of the three product markets in which it operates.

- **Car Maintenance**
- **Car Enhancement**
- **Leisure**

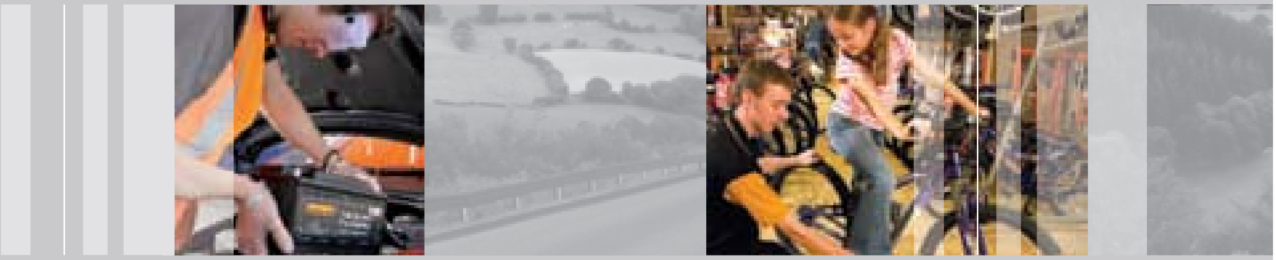


halfords

No.1 DESTI

NUMBER ONE RETAILER OF CAR PARTS

NUMBER ONE RETAILER OF CYCLES



CONTENTS

NATION

NUMBER ONE
RETAILER OF
TRAVEL AND TOURING

wefit

webuild

wedeliver

werepair

weorder

werecycle

wecheck

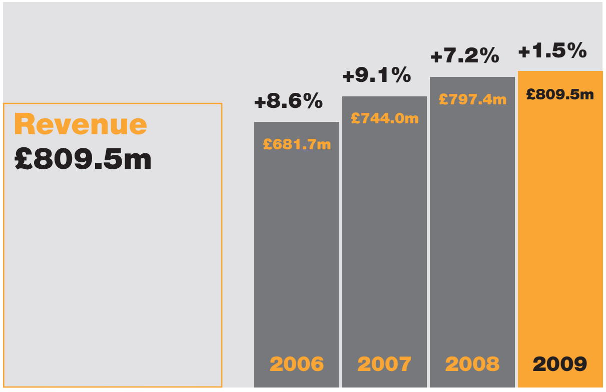
freefit

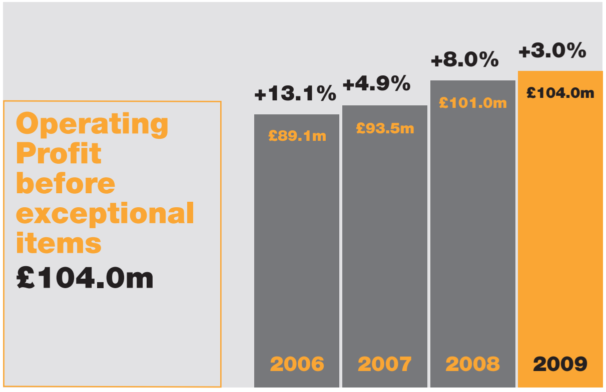
weservice

wemix

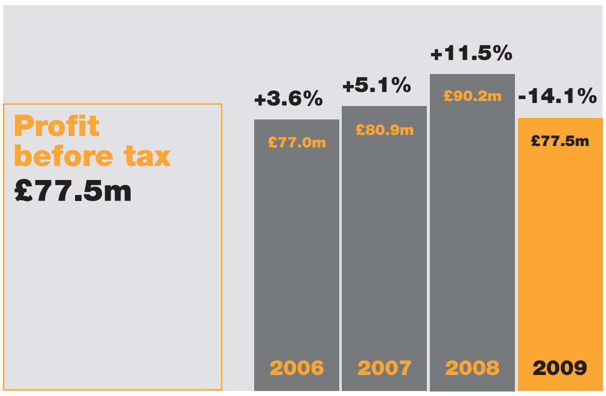
weassemble

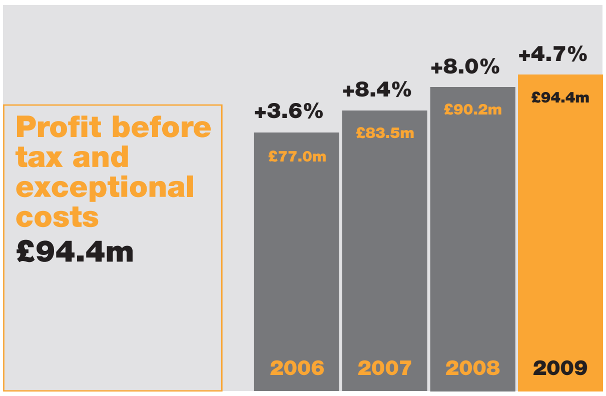
FINANCIAL AND OPERATIONAL HIGHLIGHTS

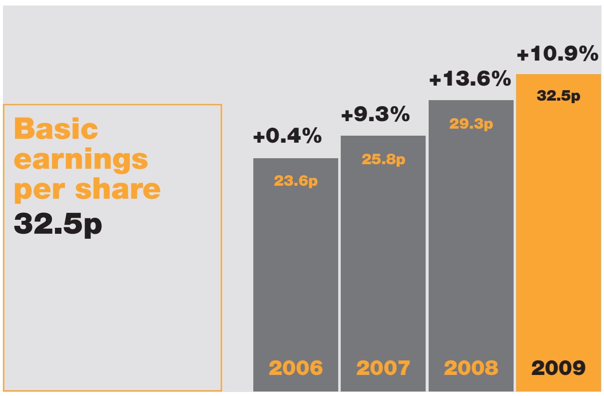


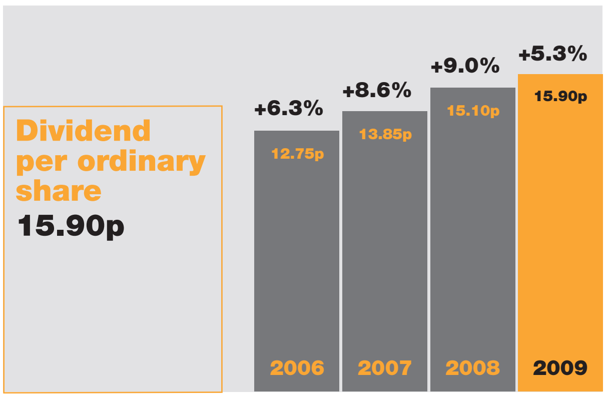


- Revenue up 1.5%, with a like-for-like decline of 3.3%
- Sponsorship of the Great Britain Olympic cycling squad
- First Polish store opened in 2008
- 466 Halfords stores now trading including 22 in the Republic of Ireland, 5 in the Czech Republic and 1 in Poland
- 21 new store openings









HALFORDS AT A GLANCE

Car Maintenance

The car maintenance category represents the largest market that Halfords participates in, with servicing consumables such as car bulbs, wiper blades, batteries and oils driving our market leading offer with unrivalled range and availability.

It continues to be the resilient backbone of our business given the needs driven nature of the product range combined with our unique fitting service and high level of colleague expertise.

Car Enhancement

Halfords continues to retain its position as market leading retailer for car enhancement products ranging from car cleaning products and in-car accessories through to styling and technology products. Halfords also remains the number one destination retailer for sat nav products including the world's best selling Garmin Nuvi 200.

Leisure

The majority of our leisure sales are driven from our cycling category. Once again, Halfords maintains a leading position in this market, selling around one in three cycles in the UK. The *Apollo* brand is firmly established as the UK's biggest cycle brand whilst our *Carrera* own label tops the premium cycle market.

Travel solutions, which includes tents, roof boxes, child seats, roof bars and cycle carriers, continues to deliver strong growth in sales and profitability, with improved in-store displays, new ranges and outstanding customer service underpinned by a store wide training programme engaging over 2,000 store colleagues.

THE NATURAL DESTINATION

Halfords' management team is focused on delivering additional sales growth and improving operating margins by:

- Investing in the store portfolio
- Leveraging the Halfords brand
- Improving the supply chain

CHAIRMAN'S STATEMENT

DENNIS MILLARD
CHAIRMAN

I am delighted to be joining Halfords at a time when it has once again demonstrated its resilience, has delivered a strong set of results and continued to make good progress against each of its strategic priorities.

The strength of the Halfords brand is testament to the leading positions it holds in its core markets and is sustained by a high service based customer proposition, unique and extensive product offerings and a multi-channel sales approach. Knowledgeable store-based colleagues who are dedicated to achieving service excellence for our customers further underpins the attractiveness of Halfords and the opportunities it has for further growth in both its UK and European markets.

It is pleasing to report that sales growth has been achieved in each of our core categories despite the challenging economic conditions we faced, particularly in the retail and automotive sectors. Together with meaningful margin expansion and proactive cost control on a 52-week comparable basis, growth in both underlying earnings before tax of 2.4% and in earnings per share of 8.5% was achieved. Importantly, cash generation was strong and the Group's financial position remains sound.

These results and our confidence in the future prospects for Halfords enable the Board to maintain its progressive dividend policy. The Board has therefore recommended a final dividend of 10.90 pence, which would amount to a total of 15.90 pence for the year and represents an increase of 5.3% over last year's dividend of 15.1 pence.

In August 2008, the Board appointed David Wild as Chief Executive Officer, following the resignation of Ian McLeod in February of that year. David brings to Halfords a wealth of retail and new business development experience that he gained in Tesco and Wal Mart across a number of business disciplines and territories. David has already made an excellent and telling contribution since joining Halfords and has assembled and is supported by a strong and talented management team.

My predecessor Richard Pym resigned in August 2008 to take up an executive position in the financial services industry. On behalf of the Board, I would like to thank Richard for his valuable contribution to Halfords in the two years he was Chairman and wish him well. I would also like to thank Nigel Wilson, our Senior Independent Director, who took up the reins as Acting Chairman until my appointment and to the remainder of the Board for their considerable efforts during the year. In particular, I would like to thank Nick Wharton and Paul McClenaghan who operated most effectively as joint Managing Directors in the six months prior to David Wild's appointment in addition to discharging their other executive duties.

Halfords has approximately 10,000 loyal and dedicated colleagues in its store network, head office and distribution centres, all of whom have responded positively to a challenging retail environment. The results for the year just ended are a credit to the hard work and enthusiasm of the entire Halfords team and their dedication to serving our customers. On behalf of the Board I would like to thank them.

The Board believes that the general economic and consumer environment is likely to remain challenging for the remainder of 2009. However, through its unique market-leading position and customer proposition, Halfords is well positioned to deliver further earnings growth in the year ahead.

DENNIS MILLARD
CHAIRMAN
10 JUNE 2009

The Board believes that the general economic and consumer environment is likely to remain challenging for the remainder of 2009. However, through its unique market-leading position and customer proposition, Halfords is well positioned to deliver further earnings growth in the year ahead.

THE NATURAL DESTINATION

Left: Halfords has approximately 10,000 loyal and dedicated colleagues, all of whom have responded to a challenging retail environment through 2008 and 2009.

PERFORMANCE REVIEW
OUR STORES

STORE CO

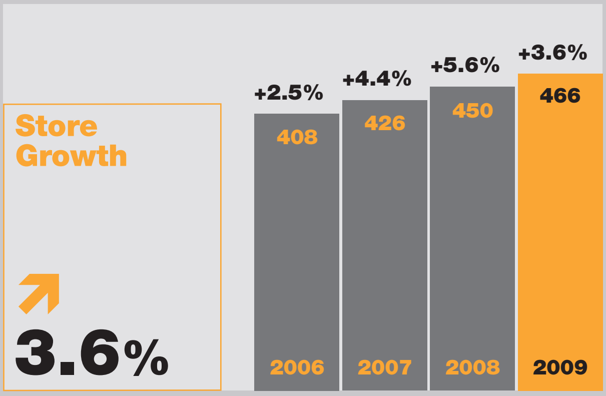
466 Stores
Now Trading

401 Superstores

39 Metro Stores

26 Neighbourhood Stores

"Halfords are committed to the longer-term opportunities present in the Central European markets, which we estimate to be in excess of 150 stores, whilst continuing to open between 10 and 15 stores per annum in the UK."



The Group operates from 466 stores and the strategic focus remains in the development of the two formats of choice, the superstore and the smaller format Compact store, previously referred to as Neighbourhood. Compact stores provide a comprehensive Halfords offer, carrying some 6,000 of the 10,000 lines available within an average superstore, to smaller catchments where a full superstore would not be viable.

OVERAGE

UK&Eire
460 Stores

Locations

1
17 Superstores
1 Neighbourhood Store

2
16 Superstores
1 Neighbourhood Store

3
22 Superstores

4
20 Superstores
1 Neighbourhood Store
1 Metro Store

5
20 Superstores
1 Neighbourhood Store

6
20 Superstores
1 Neighbourhood Store
2 Metro Store

7
17 Superstores
2 Neighbourhood Stores
7 Metro Stores

8
19 Superstores
1 Neighbourhood Store
2 Metro Stores

9
14 Superstores
3 Neighbourhood Stores

10
17 Superstores
5 Neighbourhood Store

11
15 Superstores
2 Neighbourhood Stores

13
18 Superstores
2 Neighbourhood Stores
2 Metro Store

14
16 Superstores
1 Neighbourhood Store

15
17 Superstores
4 Neighbourhood Stores
1 Metro Store

16
11 Superstores
5 Neighbourhood Stores
3 Metro Store

17
18 Superstores
2 Metro Store

18
22 Superstores
1 Metro Store

21
18 Superstores
3 Metro Store

22
17 Superstores
5 Metro Store

23
14 Superstores
5 Metro Store

24
11 Superstores
6 Metro Store

25
17 Superstores
4 Metro Store

26
19 Superstores
1 Metro Store

Czech Republic
5 Stores

Locations

1 Praha
Superstore

2 Pizen
Superstore

3 Jihlava
Superstore

4 Brno
Superstore

5 Brno
Superstore

Poland
1 Store

Locations

1 Wroclaw
Superstore

Our Performance
Our Governance
Our Accounts

BUSINESS REVIEW

DAVID WILD
CHIEF EXECUTIVE

NICK WHARTON
FINANCE DIRECTOR

Halfords achieved earnings growth despite the challenging trading conditions throughout the consumer sector. This performance reflects the strength of the Halfords brand, which is long established with attributes that resonate strongly, namely, quality, reliability and trust, and the combination of value and quality that we deliver to customers across all of our categories.

The retail sector was severely impacted during 2008, with a number of established, household brand names disappearing from the High Street. Halfords has not escaped the global recession and has itself experienced a year-on-year decline in revenues for the first time in over 20 years. Through proactive and decisive management throughout the business, however, the Group has delivered year-on-year underlying operating profit growth, particularly in its core UK operations, and has demonstrated that the Halfords business is adaptable, successful and resilient throughout the economic cycle.

The Group's success reflects its status as the natural destination for the automotive and leisure products and services that it offers. Over time, Halfords has consolidated product ranges from disparate markets to give a unique blend of categories in each of which we hold a leading position. These vary between the low average transaction values, needs-driven resilient core car maintenance area to the resurgent cycling market. In all of these we offer a great selection, with exciting seasonally relevant sales promotions backed by excellent in-store customer service and fitting where appropriate. This offer provides both counter cyclical protection and all year round revenue.

The business clearly benefits from scale, offering unrivalled breadth and depth of product range, with a national portfolio of superstores that provides a natural barrier to entry. The Group constantly seeks to enhance its position as store of first choice in each of the markets that it serves. This is achieved through constant product innovation and a market leading service proposition that, through the training and development of knowledgeable store colleagues, ensures a fitting capability at a lower cost to our customers than that provided elsewhere.

Successful businesses must adapt to a changing environment. Early recognition by management of the position in the current economic cycle led to the Group developing a clear near term plan to adapt, as part of a strategy to deliver sustainable earnings growth and value creation. This plan does not represent a rethink of the Group's strategic plan, rather a focus and emphasis in areas that will underpin Halfords' resilience now and enhance its growth prospects and earnings in the future.

The four elements of the Group's strategy are:

- Extending range and service advantage
- Investing in the store portfolio
- Ongoing focus on cost control
- Leveraging the Halfords brand in multi-channel

EXTENDING RANGE AND SERVICE ADVANTAGE

Automotive

The automotive aftermarket is the largest market in which Halfords participates, being estimated at an addressable market of approximately £1bn, with positive long-term drivers. These core drivers including the increasing number of cars in the UK, which has grown by 4.5% over the past four years, increased levels of private ownership and time spent in cars, each favourably impact across the Group's product range.

More specifically, clearly evidencing the natural protection that our broad product coverage provides, while higher ticket elements of the car enhancement category have been impacted by declining levels of consumer expenditure, the car maintenance market is presently benefiting from the ageing of the car parc as new car sales decline, reinforced by the economic migration towards do-it-yourself or, for less confident customers, to our **we***fit* proposition.

In each of its automotive categories, the Group continues to consolidate these highly fragmented markets as small, less financially strong independent retailers continue to exit.

Car maintenance

Ongoing active trading of this category ensured another successful year, delivering strong like-for-like sales growth, which saw Halfords continue to grow its market share.

The category is characterised by substantially "needs-driven", low average transaction value products such as car bulbs, windscreen wiper blades and batteries. Halfords' winning proposition is based on extended range, with products for the most popular 90% of vehicles ranged in each store, and excellent availability ensuring that customer needs are satisfied. Supported by knowledge-based customer service and reflecting high participation of own label product, this category yields above Company average margin.

"The automotive aftermarket is the largest market in which Halfords participates, being estimated at an addressable market of approximately £1bn."

Excellent availability in a typical period of winter weather, in December and January, benefited the sales of relevant products such as antifreeze, de-icer and scrapers, with a short demand spike that saw many of our competitors, with less sophisticated supply chains, running out of stock.

Range extensions and innovation lie at the heart of the Halfords offer in windscreen wiper blades, car bulbs and batteries, which, together with increases in numbers of fittings has maintained Halfords as the UK's number one parts retailer. Using our scale advantage, through such innovation we are able to introduce the latest technology available on new cars to the aftermarket.

This includes brighter bulbs that use Xenon gas technology and QR (quick response) brake lights that respond more quickly to braking thus enhancing safety. We have also enhanced our range of batteries, introducing a premium line that through higher calcium content delivers greater starting power and carries an extended four-year guarantee. This battery trades at an average £10 premium to the entry version and through colleague training and active promotion has seen participation increase by 800 basis points to 37% over the past year.

The take-up of *Tradecard*, that provides access to a differentiated pricing structure to customers operating in the car trade, continues to grow with almost 100,000 active cards in circulation. This activity is an important development to Halfords as it represents incremental business delivering higher than corporate average transaction values with sales growing year on year by over 10%.

Car enhancement

This category has seen the largest impact from the changing consumer spending patterns as consumers reduce their expenditure on higher ticket discretionary items. The broad range of this category covers staple products, such as car cleaning and car accessories, but the product assortments also contain most discretionary across our product range, such as car audio and sat nav.

The largest impact from the decline in consumer spending has been seen in the area of in-car technology where Halfords remains the market leader and where revenue has been substantially impacted by the performance of satellite navigation devices. Excluding the benefit from the 53rd week, year-on-year satellite navigation unit volumes were broadly flat but were impacted by price deflation that averaged approximately 20% during the year, as the key manufacturers reduced their prices to facilitate significant range changes and reflect the backdrop of reduced discretionary consumer spending.

Despite the short-term decline in revenue, satellite navigation remains an attractive market in which Halfords through exclusive ranges and its unique "set-up and demo" proposition has a clear point of difference to protect its market-leading position.

THE NATURAL DESTINATION

Left: The Group operates from 466 stores, focusing on the development of two formats of choice: the superstore and the smaller format Compact store.

BUSINESS REVIEW CONTINUED

Reflecting the declining value of the satellite navigation market at this time the Group has focused on improving levels of contribution. The margin improvements achieved reflect increased sell up and attachment of accessories that grew by almost 60% and continued reductions in product returns through the "set-up and demo" proposition that accompanies each sale.

We remain confident that further technology products will cascade to the car aftermarket and that the Group's leadership position in this market will secure distribution and provide opportunities for further productive growth.

Leisure

The leisure category experienced mixed fortunes during the year. The cycling market in the UK continues its resurgence benefiting from participation for leisure, health, environment or increasingly economic reasons and the Group continues to expand its share. Sales of our camping ranges and travel accessories achieved record levels as we continue to develop our ranges in this category, although sales of travel solutions products, such as roof boxes, were dampened by the poor summer weather.

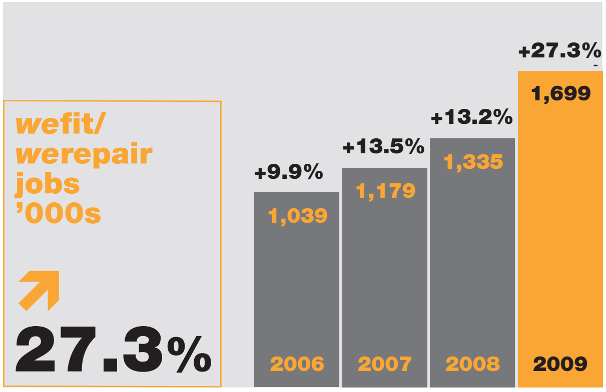
Cycling

The cycling category benefits from range development, Government initiatives and sustainable and positive market drivers. The cycle market, that is estimated in the UK to total approximately £350m, is seeing growth in both value and volume having been materially flat, in value terms, for the first half of the decade.

In 2008 particularly, this was enhanced by the success of Nicole Cooke's Olympic and World Championship successes on a *Boardman* cycle and the broader achievements of the Halfords sponsored Team GB cycling team at the Beijing Olympics. The Group is proud to have been associated with the most successful Olympic cycle team ever.

Halfords is clearly the market leader in the UK selling over 1 million bikes per year representing 1 in 3 of cycles bought in the UK. Halfords' market proposition is at its most effective in the most significant product segment, family leisure, where Halfords' core own brands of *Apollo* and *Carrera* combined with strong pricing, promotional offers and customer service excellence particularly resonate. Halfords continues to strengthen its service proposition, both before and after purchase, with sales of the Group's Bike Care Plan, that provides customers with the certainty of labour-free repairs for a year, increasing by 80% during the period.

While seeking to leverage its position in this core market still further, our focus in 2008 has been on growing market share in two segments where Halfords' share is significantly lower than the company average: children's and premium, specialist bikes.



Development of the children's ranges was undertaken ahead of the key Christmas trading period with an extension to the choice of licensed brands that are key to this market. New introductions such as *Bob the Builder*, *Thomas the Tank Engine* and *Bratz* are complemented by a complete range of similarly branded accessories, allowing children to personalise their cycles. The Group's licensed offer was supported by *Apollo*, the UK's leading bike brand, which is the only children's cycle range designed to comply fully with the stringent European Cycle Safety Standards. This combination of enhanced ranges, quality credentials, together with our service proposition ensuring key differentiation in this market, have proved successful with a 22% uplift in sales of children's cycles, over the key Christmas period, and an increase in Halfords' market share.

Our success within the broader cycling market reflects Halfords' core capability and market-leading position that continues to deliver market share growth. Within the premium sector, these gains primarily reflect the success of our exclusively ranged *Boardman* brand and an ongoing programme of premium brand introductions within the Group's existing core superstores. We are also cognizant of the progressive migration of sales to the Internet, particularly for accessories.

Consequently, during the current financial year we will integrate many of the core extended ranges, such as premium cycles from *Pashley* and *Van Nicholas*, clothing ranges from *Gore* and accessories from *RockShok*, and services present within our stand-alone stores to our most successful superstores. We will also increase the range of cycle accessories available from our website by approximately 2,000 lines over the forthcoming year.

We are confident that this approach will significantly accelerate our achievement of scale presence in the premium sector of the market, will enhance return on capital and will release management resource to focus on other, more significant, opportunities.

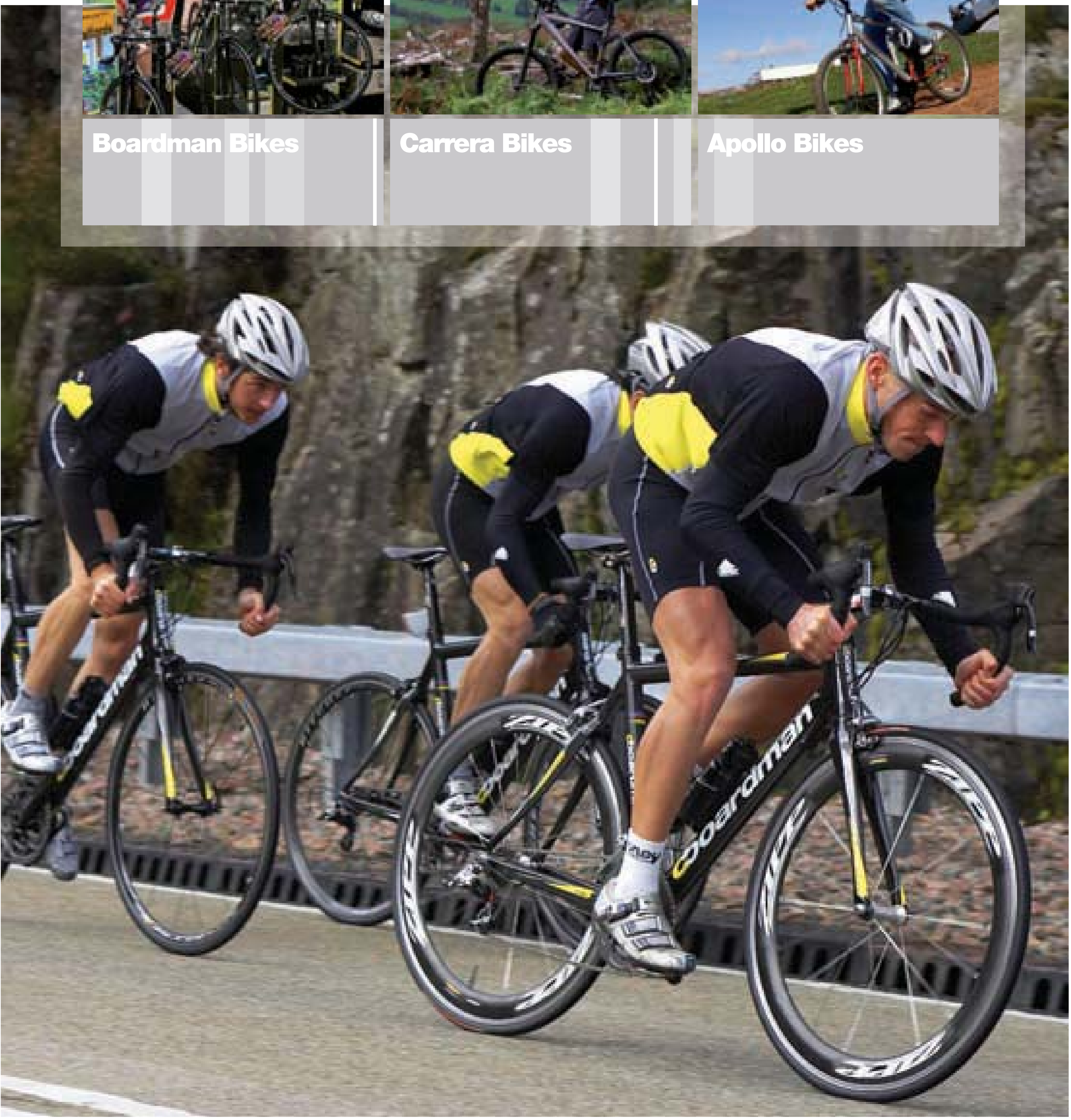
"Our success within the broader cycling market reflects Halfords' core capacity and market-leading position that continues to deliver market share growth."

GREAT MOMENTUM

Boardman Bikes

Carrera Bikes

Apollo Bikes



BUSINESS REVIEW CONTINUED

Travel solutions

As the Halfords brand becomes more established, its participation within the travel solutions market continues to expand, providing substantial market share opportunities in product categories, such as camping and child seats, where Halfords' presence is relatively immature. Combined with the market growth opportunity provided by the anticipated increase in the level of domestic holidays during the current financial year, the Group is confident in achieving further sales growth from travel solutions in the current year.

Within the core travel equipment area, changes to the price and range architecture for roof bars and roof boxes encouraged sales growth and improved profitability. In particular, the removal of the entry point "value" range from the principal roof carrying display within the store has assisted in improving the sales penetration in the core and premium elements of the range. Product innovation also continues with the introduction of a new range of half width roof boxes during the year. In addition to providing space on the roof of the vehicle for other loads, such as cycles, these boxes are more aerodynamic, reducing fuel consumption. Appreciating the clear consumer trend towards fuel economy and reduced carbon emissions, a range specifically designed for its improved drag coefficient will be introduced during the current financial year.

Having only participated in the mainstream camping equipment market for four years, and despite the poor weather throughout the summer, 2008 was Halfords' most successful season to date with further gains in market share achieved. This success reflects the expansion of our core tent pack proposition to our premium *URBAN Escape* brand and the strong levels of consumer take-up of "when bought with" offers giving them access to discounted accessories at the time that they make their major purchase.

The Group will build on this success in 2009 with further range expansion, both in-store and via *Halfords.com*, with, for example, a further 300 equipment lines from *Gelert* being introduced in advance of the key summer season.

The Group continues to grow its share in the child seat market, through a clear focus on the market segments in which the Halfords brand participates most strongly. These segments, being from infant to twelve years, are the largest element of the market, and represent the point where the bespoke combination of car seat and vehicle introduces a technical constituent where Halfords' reputation and knowledgeable colleagues resonate strongly.

With over 2,000 colleagues who are professionally trained and accredited by RoSPA to fit child seats to cars and continued product and marketing innovations, such as the introduction of a range of ISOFIX child seats, Halfords has driven a further increase in market share during the year under review.

INVESTING IN THE STORE PORTFOLIO

The Group operates from 466 stores and the strategic focus remains in the development of the two formats of choice, the superstore and the smaller format Compact store, previously referred to as Neighbourhood. Compact stores provide a comprehensive Halfords offer, carrying some 6,000 of the 10,000 lines available within an average superstore, to smaller catchments.

We remain confident in the long-term economic prospects in each of the territories in which we currently operate and, reflecting the success of our first Compact store in the Republic of Ireland, believe that there is further potential for each core format in each market. While exercising a degree of executional prudence, our intention remains to open stores during the current financial year across all of our territories.

United Kingdom

The Group operates from 438 stores in the UK including 375 superstores, 27 compact stores, together with 28 small format Metro stores located on vibrant high streets where no suitable edge of town retail opportunity is locally available. During the year the Group increased its UK Halfords portfolio by nine stores, having opened 14 stores, including the re-siting of two stores, and closure of three stores.

During the year the Company has replaced and significantly enhanced its demographic modelling system. This new capability has confirmed our previous view that there are up to a further 60 new store opportunities within the UK and is critical to ensuring that we have a detailed understanding of catchment behaviour prior to investing in new stores.

While confident that there remains a material long-term store growth opportunity in the UK, our intention to open between 10 and 15 stores in the UK in the current financial year, reflects the lack of quality new development and the poor quality of recycled property.

At the end of the year 226 stores benefited from trading from a mezzanine. The mezzanine enhances the store environment by creating a spacious, clearly defined sub-shop for cycles, where Halfords' market-leading range and brands can be best presented. Approximately 100 further stores have potential for mezzanine introduction providing the opportunity for further highly cost-effective space expansion.

In addition to new stores, Halfords continues to invest in its existing estate to ensure that it remains contemporary and that the offer reflects our latest learning, particularly in product merchandising, technology to assist selling and selection and adjacencies. We refurbished 26 stores during the year, meaning that 185 stores, of our total UK portfolio of 438, are either new or have been remodelled within the last four financial years.

> ***"The business clearly benefits from scale offering unrivalled breadth and depth of product range, with a national portfolio of stores. The Group constantly seeks to enhance its position as store of first choice in each of the markets that it serves."***

Main Picture: In the financial year to 3 April 2009 we performed over 1.5m **We***fit*/**We***repair* repair jobs, up 27.3% on 2008.

THE NATURAL DESTINATION

BUSINESS REVIEW CONTINUED

Following a strategic review of the Group's participation within the premium cycle market, the Board has taken the decision to focus its efforts on gaining profitable market share in this segment through its existing infrastructure of core superstores and websites.

In line with the return on investment discipline adopted throughout the business the majority of existing stand-alone cycle stores, whether trading under the *Bikehut* or *Cycle Republic* brands, will be reconfigured to a full Halfords offer via the Metro format, where in common with our other small format stores we would anticipate that they will trade profitably.

International

Republic of Ireland

The four years following market entry has seen Halfords develop a portfolio of 22 stores in the Republic of Ireland and establish market-leading positions in each of its core categories. During the financial year Halfords opened a further four stores including the introduction of the compact format that management believe will further extend the reach of the Halfords offer.

Despite the particularly tough economic environment within the Republic of Ireland, that has led to declines in underlying like-for-like sales averaging 25% across the second half of the financial period, the Group continues to invest in this territory to increase scale and improve operating returns.

"We remain committed to the longer-term opportunity present in the Central European markets, which we estimate to be in excess of 150 stores and have recruited an experienced executive to focus solely on our international development."

Reflecting the strong performance base established since market entry and changes to the underlying cost base in response to a deteriorating sales environment, the Group's operations within the Republic of Ireland remain profitable. The strengthening euro during 2008 has further augmented profit performance.

Central Europe

The economies of Central Europe have also been impacted by recession, with a downturn in sales over recent months, but the longer-term strategic factors that led to the selection of this region remain. The markets are material, having a population of approximately 50m across Poland and the Czech Republic and a car parc numbering some 20m, with relatively fast-growing economies, though from a low base. During the last four years Gross Domestic Product has grown at twice the rate of the UK economy and forecasts indicate that recovery from the recession will be quicker with future growth at higher levels than predicted for the UK.

The performance of the Group's Central European stores remains encouraging and progress continues to be made in line with the plan. The Group achieved its intended initial pilot scale during the year, operating from five stores in the Czech Republic and our first store in Wroclaw, Poland. The initial sales performance from our store in Poland, which benefits from our accumulated learning gathered to date, has been particularly pleasing.

We remain committed to the longer-term opportunity present in these markets, which we estimate to be in excess of 150 stores, and continue to invest through store openings, and supporting infrastructure. During the financial year an experienced Executive was recruited to focus solely on our international development and we invested in a scalable and flexible systems infrastructure, centred on the core enterprise systems in use across the business, to enable such growth. Reflecting the investments referred to above and the slowdown in sales in the second half year, the losses from our Central European operations were approximately £3m (2008: £2.2m) in the financial period.

THE NATURAL DESTINATION

Left: The anticipated increase in the level of domestic holidays during the current financial year provides confidence in achieving further growth from travel solutions.

Main Picture: In each of our automotive categories, the Group continues to consolidate these largely fragmented markets as small, less financially strong independent retailers continue to exit.

THE NATURAL DESTINATION

BUSINESS REVIEW CONTINUED

In the forthcoming financial year we plan to open up to 10 further stores across Poland and Czech Republic, more than doubling our operational scale. In order to give us time to monitor the development of our Central European business and to ensure that we secure the optimal sites in both countries, we would not anticipate opening further stores until the autumn.

ONGOING FOCUS ON COST CONTROL

Management continues to focus on cost control, to ensure that the operating base is appropriate for each phase of the economic cycle and provides efficiencies to fund strategic investments. Our approach to cost control is wide-ranging and, by necessity in retail, granular to ensure that the more significant opportunities for operational leverage outlined below are complemented by a culture of cost awareness that provides a constant stream of improvement ideas.

We continue to increase the level of product sourced directly from manufacturers in Asia. Such a strategy delivers increased influence over specification as well as delivering source cost improvements. Having achieved the near term objective of 25% direct sourcing, the Group is now focusing on resourcing products to lower cost environments to further increase penetration. To this end the Group has established a purchasing office in Shanghai to complement its existing sourcing base in Hong Kong.

The Group's agile sourcing model is complemented by an effective policy with regard to foreign currency hedging. In securing forward exchange rates for 75% of its US dollar denominated purchases over a year ahead, the Group has both planning certainty and in the current environment of sterling deflation a commercial advantage against significant portions of its competition.

During 2008 the business completed a detailed review of its operating cost base and has identified and executed two key elements of an ongoing plan that will deliver benefits progressively over the next two financial years and significantly increase profitability once completed.

The first of these resulted in a series of headcount reductions both within stores and our head office, that are anticipated to reduce annual operating costs by approximately £4m. These reflect, in part, the efficiencies across all parts of the business arising from our investment in core enterprise systems over the past four years. Examples include the elimination of an in-store administrative role previously dedicated to the management of inventory and cash and the reduction of core financial processing roles where data integration improvements enhance efficiency.

In addition to the reduction in core headcount, our new store-based systems, that were implemented in the latter part of 2007 and completed in 2008, provide significantly enhanced capability that allows the organisation to more accurately match colleague resource levels across the week. Bespoke, optimal rotas have been established for each store and a formal consultation process has reduced colleague hours in times of low footfall. There has been some reinvestment in busier periods where the opportunity exists to increase customer conversion or enhance service. Over 1,000 colleagues have been impacted by this change.

During the year the Group has also started the next phase of operational improvement which will reconfigure and consolidate its distribution infrastructure. The Group currently operates from three distribution centres, of which two, are managed in-house and located in Redditch, Worcestershire with the third and largest distribution centre managed by a third party logistics partner in Cowley, Oxford.

Recognising the significant cost reduction opportunity available from the optimisation of the Group's logistics infrastructure but aware of the risk inherent within such a migration we have been actively managing towards this event. An initial step in this programme was to create an operational window when contractual relationships mature on existing warehouses.

During 2008 we have worked with a series of external logistics consultancies to identify the optimal distribution network to service the Group now and for the growth, both domestic and international, envisaged over the next ten years.

The migration to a new core distribution centre, located in our centre of gravity, has now started. When the project has been completed the new distribution centre will total approximately 320,000 sq ft and will complement a single retained warehouse in Redditch that will be dedicated to cycles.

This renewed configuration, which will benefit from appropriate mechanisation, is anticipated to deliver annual benefits of approximately £4m once completed in the summer of 2010. These include rent savings from enhanced cube, transport reductions from the superior location and labour efficiencies.

Similar to the successful approach to previous change programmes, we will manage this transition to minimise the risk to the underlying base business. This will include the retention and involvement of advisers expert and experienced in this area and avoiding activities that potentially conflict with times of peak trading.

"During 2008 the business completed a detailed review of its operating cost base and has identified two key elements of an ongoing plan that will deliver benefits progressively over the next two financial years and significantly increase profitability once completed"

Main Picture: Halfords is clearly the market leader in the UK selling over 1 million bikes per year representing 1 in 3 cycles bought in the UK.

THE NATURAL DESTINATION

BUSINESS REVIEW CONTINUED

LEVERAGING THE HALFORDS BRAND IN MULTI-CHANNEL

While customer enthusiasm for the convenience and value that multi-channel shopping provides continues to grow, many of Halfords' customers prefer the experience of shopping in store where they can take full advantage of our range breadth, colleague expertise and added value services such as fitting.

Through its comprehensive store portfolio, which puts 90% of consumers within the UK an average of 18 minutes' drive from their nearest Halfords store, Halfords is uniquely able to deliver a shopping experience which provides the convenience of the web and the store-based service for which Halfords is renowned.

Our "*Reserve & Collect*" service which allows for products researched online to be secured for collection from store as little as one hour later has proven an instant and growing success following its nationwide introduction in the spring of 2008. To date, supported by TV and press advertising, customer reservations have totalled over 1,000,000 products and continue to grow quarter on quarter.

Recognising the resonance of "*Reserve & Collect*" with the consumer we intend to introduce this proposition in the Republic of Ireland during the first quarter of the current financial year via a new dedicated website *Halfords.ie*.

Enhancing our online offer and further extending our multi-channel presence is a clear investment priority. During 2008 our web platform was renewed providing a far more contemporary, functional and user-friendly shopping experience. The impact of this renewal was immediately apparent from improvements in key performance metrics such as visitor numbers, dwell time and customer conversion. Average dwell time on our website increased to seven minutes and the average spend of customers who had researched online and then visited the store was £49, compared with £21 from customers who just visited the store.

During 2009 we will further enhance and expand our multi-channel offering through the introduction of "*Order & Collect*". This proposition, which will be in place in advance of the key Christmas trading period, will make our maximum range available to all stores by allowing customers to order from home or in-store any product sold by Halfords for delivery and collection in a store of their choice.

In parallel to this we intend to extend significantly the range of products available to customers. While holding stock centrally for subsequent delivery to store or home will allow inventory costs and obsolescence risk to be managed, material range extensions from both current and new suppliers are anticipated to provide further impetus to our multi-channel sales.

Summary and Outlook

The Halfords business continues to perform strongly, with healthy like-for-like sales increases from its core product areas of cycling and car maintenance. These markets continue to demonstrate strong potential and Halfords retains clear leadership in these fragmented markets and is growing share. Reinforced by management actions to improve margins and control costs, the delivery of year on year earnings growth, in the present economic turbulence, emphasises the resilient quality and adaptability of the business.

The early action taken by management to reduce costs and maintain a prudent balance sheet provides a solid platform for future earnings growth from Halfords' core strategic growth initiatives. The integration of the stand-alone cycle pilot into the main business signals the Group's intention to focus on enhancing shareholder value through the more material expansion opportunities presented by Central Europe and multi-channel activity, where significant sales growth continues to be generated.

Management continues to target operating cost improvements and over the next two financial years will deliver further cost efficiencies through the reconfiguration of the Group's currently sub-optimal distribution facilities.

While prudent to forecast a consumer environment that will remain challenging, we believe Halfords' unique, market-leading position will allow us to consolidate further the fragmented markets in which we operate. When combined with the ongoing active management of the business to improve operating returns, the Board believes the Group to be well positioned to deliver further earnings growth in the year ahead.

DAVID WILD
CHIEF EXECUTIVE OFFICER
10 JUNE 2009

NICK WHARTON
FINANCE DIRECTOR

"Customer reservation have totalled 1,000,000 products and continue to grow quarter on quarter. Average dwell time on the website increased to seven minutes and the average spend of customers who have researched online and then visited the store was £49."

Our Performance
Our Governance
Our Accounts

Halfords.com

Multi-channel Growth

Boardman Website

ONLINE PRESENCE

FINANCE DIRECTOR'S REPORT

Financial results

Every fifth year the Group reports on a 53-week financial period. In the financial period to 3 April 2009, the 53rd week represented £14.8m of revenue, £2.1m of operating profit and £2.0m of profit before tax. Throughout the Finance Director's Report, references to 2009 relate to the 53 weeks ended 3 April 2009 and for 2008, relate to the 52 weeks ended 28 March 2008, unless otherwise stated.

Group revenue for the 53-weeks to 3 April 2009 was £809.5m. On a 52-week basis Group revenue was £794.7m (2008: £797.4m), a decrease of 0.3%, representing a like-for-like sales decrease of 3.3%, where like-for-like sales are sales from those stores that had traded for more than 365 days.

Gross profit at £421.4m (£402.5m) is 52.1% as a percentage of revenue and compares to last year's figure of 50.5%. The 160 basis points ("bps") accretion in gross profit margin reflects the continued mix effect delivered through the relative sales growth in higher margin categories, such as car maintenance and cycling, compared to the sales decline in lower margin categories, most notably In-car technology. This benefit has been further enhanced by the trading strategies delivered by management within each category, including, increased accessory sales, the flow-through of Far East sourcing benefits and improved penetration of the Group's fitting services.

Operating expenses, excluding exceptional costs, as a per cent of revenue was 140 bps higher than last year at 39.2% (2008: 37.8%). Management recognise that cost control is imperative at this stage of the economic cycle where retail sales are forecast to either decline or grow at rates lower than historic levels, which for Halfords has seen revenue, until 2008, grow at an average of 7% over a 20 year period. This becomes particularly pertinent where the two biggest cost components, store payroll, driven by the increase in the national minimum wage, and store rent and rates, with the majority of stores located on premium park locations, grew significantly above the rate of retail price inflation. Ongoing operational productivity improvements, which have seen our underlying labour costs as a percentage of sales reduce by 50 bps during 2008, together with the close scrutiny of cost throughout the Group, have ensured that underlying cost inflation, excluding the impact of new space, is less than 1%.

Management intervention has now also been undertaken to deliver a step change in the cost base and the details of the measures taken are included in the Exceptional Item section below.

Net finance costs before exceptional finance costs for the year were £9.6m (2008: £10.8m). Finance costs on bank borrowings were £1.5m lower than the prior year reflecting a lower level of average net debt and the fall in LIBOR, during the second half of the year, in response to Base Rate reductions. Similarly, falling LIBID rates have impacted finance income which has fallen to £2.3m from last year's reported £2.7m.

Profit before tax and exceptional items for the 53 weeks to 3 April 2009 was £94.4m. On a 52-week basis, profit before tax and exceptional items for the 52 weeks to 27 March 2009 was £92.4m, an increase of 2.4% on the previous year's £90.2m. Profit before tax for the 53 weeks to 3 April 2009 after exceptional items was £77.5m (2008: £90.2m).

Exceptional items

As noted above in the Business Review, during 2008, the business completed a detailed review of its operating cost base and identified and executed two key elements of an ongoing plan which will deliver benefits progressively over the next two financial years and significantly increase profitability once completed. The costs associated with these initiatives, which have been accounted for as exceptional items in the 53 weeks to 3 April 2009, total £16.9m and are represented by the following:

(a) Headcount reductions announced in November 2008 were completed to plan, with a further tranche of store-based reductions implemented during the fourth quarter of the financial year. These changes reflect, in part, the efficiencies arising from our investment in core enterprise systems over the past four years. The cost of these staffing reductions was £2.8m, with the associated full year reduction in operating costs in excess of £4m, being delivered in the financial year to 2 April 2010.

(b) The Group has commenced the next phase of operational improvement, to reconfigure and consolidate its distribution infrastructure. This programme will incur restructuring costs of approximately £8.3m with anticipated efficiencies from space and transport and improved labour productivity reducing annual distribution costs by approximately £4m from the financial year to 31 March 2012.

(c) The decision to integrate the Group's premium cycle offer into its existing superstore portfolio has led to exceptional costs associated with the closure of the stand-alone cycle stores. Recognising Halfords' disciplined approach to such investments, exit costs total £1.2m, and include costs associated with exiting leases and asset impairment.

(d) As a consequence of the current low interest rate environment and given the medium term forecasts for Base Rate, prior to the year end, the Group closed out its existing interest rate hedging instruments, which were contracted until 2011. At anticipated future interest rates, this will reduce finance charges in the current financial year by approximately £2.0m. The exceptional cost associated with the close out of these instruments was £4.6m.

Landlord contributions

The Group continues to actively manage its store portfolio to maximise value creation through generating cash, making profits and reducing the ongoing rental charge. Landlord contributions from the five transactions completed during the year totalled £2.7m (2008: £4.5m). The year-on-year decline in quantum reflects a reduction in the risk profile of landlords who are now less likely to undertake speculative development in favour of back-to-back deals, which, by their nature, introduces delay in the contract exchange process. This activity still represents a sustainable opportunity for the Group, with in excess of 200 superstores located on A1 parks where demand remains high. The Group expects a similar level of contributions in the forthcoming financial year.

Operating leases

All of the Group's stores are occupied under operating leases, the majority of which are on standard lease terms, typically with a 15-year term at inception. The Group has a total commitment under non-cancellable operating leases of £778.5m (2008: £818.6m).

Taxation

The taxation charge on profit for the financial year was £21.7m (2008: £26.2m), including a £4.6m credit in respect of the tax on exceptional costs, and results in a full year effective tax rate of 28.0% (2008: 29.0%). In this financial period the UK corporation tax standard rate was reduced by 2% to 28% and the tax rate was further reduced due to the release of prior year tax liabilities following the favourable settlement of prior years tax computations.

The underlying tax rate was 29.7% (2008: 31.7%), principally due to the non-deductibility of depreciation charged on capital expenditure in respect of mezzanine floors and other store infrastructure.

Earnings per share ("EPS")

Basic EPS, excluding exceptional items, for the 53 weeks to 3 April 2009 was 32.5 pence, a 10.9% increase on the prior year (2008: 29.3 pence). On a 52-week basis, basic EPS, excluding exceptional items, was 31.8 pence (2008: 29.3 pence), a year-on-year increase of 8.5%. Basic EPS for the 53 weeks to 3 April was 26.6 pence (2008: 29.3 pence).

Capital expenditure

Capital investment in the period totalled £19.4m (52 weeks to 28 March 2008: £29.5m). The Group remains committed to operating at an average level of capital expenditure at £25m per annum, with its peak level of expenditure in financial year 2008 reflecting the investment in completing the roll-out of new store-based systems, together with a higher level of store openings achieved in a more benign property environment. In 2008, reflecting worsening economic conditions, a prudent approach with regard to capital investment has seen a step up in management focus on investments generating the highest returns. This includes reduced investment in new stores within the UK where, as noted in the portfolio section of the Business Review, the marked decline in the supply of quality locations and expected improvement in commercial terms over time each favour a reduced capital programme at this time.

Inventories

The Group continues to manage its stock holding to ensure high levels of availability and range breadth and inventories at 3 April 2009 were £147.0m (2008: £151.6m). Over the economic cycle the Group would intend to increase stocks at approximately 50% of the rate of sales increase adjusted for the necessary inventory investment in new stores. In the current economic climate the Group will seek to reduce inventories in order to protect against obsolescence and enhance working capital. Stock levels have been carefully managed and have reduced year-on-year by 3.0%, 5.7% after inventory investment in new stores, with a consequential improvement in stock turn.

Cash flow, net debt and capital structure

The debt facility comprises a £180m five-year term non-amortising loan, falling due for repayment in July 2011, with a £120m revolving credit facility which also falls due for renewal in July 2011.

Total net bank debt at 3 April 2009 was £164.0m (28 March 2008: £169.3m) and there are further borrowings of £12.2m (2008: £12.4m) in respect of the Head Office finance lease.

The Group continues to generate strong net cash flows from operations, which were £114.2m in the 53 weeks to 3 April 2009. After adjusting for cash flows of £2.3m, in respect of exceptional items, this represents 90.2% (2008: 91.2%) of earnings before exceptional items, interest, tax, depreciation and amortisation ("EBITDA") and after a working capital outflow of £12.7m (2008: £12.1m).

Reflecting the significant cash outflows in the 53rd week of the financial year, total net bank debt at 27 March 2009, which provides a more appropriate comparison to the prior year, was £154.1m (28 March 2008: £169.3m). Excluding cash outflows related to the exceptional items outlined above, total net bank debt at 27 March 2009 was £151.8m. Net cash flow from operations for this more comparable 52-week period to 27 March 2009 totalled £121.8m (2008: £111.6m) representing 95.9% of EBITDA.

Dividend and share buy-back

Halfords remains strongly cash generative. The Company is committed to both a progressive dividend policy and continued investment in the growth of the business, both through organic development and other business development opportunities as they might arise.

The Board is recommending a final dividend of 10.90 pence per share (2008: 10.35 pence), which, in addition to the interim dividend of 5.00 pence per share (2008: 4.75 pence), generates a total dividend of 15.90 pence (2008: 15.10 pence), an increase of 5.3%.

Subject to shareholder approval at the Annual General Meeting the final dividend will be paid on 5 August 2009 to shareholders on the register at the close of business on 19 June 2009.

During the year, Halfords purchased 4.7m of its own shares at a consideration of £13.1m, an average of 276.9 pence per share. In the period from June 2006, when the share buy-back programme commenced, to 3 April 2009 the Group has purchased 23.1m shares at an average of 315.7 pence per share. The Board's intention remains to maintain an efficient capital structure. In the current economic climate, the Board has a preference for financial flexibility and lower gearing whilst pursuing high return investments. The Board has therefore decided, in the short-term, to suspend the share buy-back programme by which excess capital has been returned to shareholders.

Principal risks and uncertainties

The Board considers risk assessment, identification of mitigating actions and internal control to be fundamental to achieving Halfords strategic corporate objectives. The Corporate Governance report on pages 41 to 46 describes the systems and processes through which the Directors manage and mitigate risks. The Board considers that the principal commercial and financial risks to achieving its objectives are those identified below. The Board recognises that the nature and scope of risks can change and so regularly reviews the risks faced by the Group as well as the systems and processes to mitigate them.

FINANCE DIRECTOR'S REPORT CONTINUED

(A) COMMERCIAL

Economic and market conditions

The economy is a major influence on consumer spending. Trends in employment, inflation, taxation, consumer debt levels and interest rates impact consumer expenditure in discretionary areas. Whilst many of the products that Halfords sell are non-discretionary in their nature and predicting future trends is difficult, Halfords reflects the latest independently sourced estimates in its internal plans.

Furthermore, international expansion not only provides opportunities for sustainable growth and returns but also economic diversification.

Competition

The retail industry is highly competitive. The Group competes with a wide variety of retailers of varying sizes and faces competition from UK retailers, as well as international operators. Failure to compete with competitors on areas including price, product range, quality and service could have an adverse effect on the Group's financial results.

We aim to have a broad appeal in price, range and store format in a way that allows us to compete in different markets and to use service as a point of differentiation in each market segment. We have an established training infrastructure to ensure that our colleagues receive ongoing product and service training. We track performance against a broad range of measures that customers tell us are critical to their shopping experience, and monitor customer perceptions of ourselves to ensure we can respond quickly if required.

Dependence on key management personnel

The success of Halfords' business depends upon its senior management closely supervising all aspects of its business, in particular the operation of its stores and the design, procurement and allocation of its merchandise. Retention of senior management is especially important in the Halfords business due to the limited availability of experienced and talented retail executives.

If Halfords were to lose the services of members of its senior management such as David Wild (Chief Executive Officer), Nick Wharton (Finance Director) or Paul McClenaghan (Commercial Director) and were unable to employ suitable replacements in a timely manner, its business could be adversely affected.

Our Remuneration Policy outlined on page 48 details the strategies in place to ensure that high calibre executives are attracted and retained. The Group also operates a talent management process to help individuals achieve their full potential within Halfords and to ensure that appropriate succession plans are in place to meet the future needs of the business.

Reputational risk

The Halfords name is a key asset of the business and as the largest retailer in its markets, expectations of the Group are high. Failure to protect the Group's reputation and brand could lead to a loss of trust and confidence. This could result in a decline in the customer base and affect the ability to recruit and retain good people.

The Group has a Quality Assurance team and legal and regulatory control processes both in-house and externally to advise and take action on existing and emerging risk management issues. We continually monitor loyalty to the Halfords brand through independent surveys and seek through activities such as Charity of the Year to contribute to society more widely. Our various Codes of Practice regulate our behaviour in our dealings with all stakeholders including customers, suppliers and colleagues and the Corporate Social Responsibility report details the Group's attitudes toward such areas as the environment and ethical trading. Ultimately the protection of the Halfords brand and position in its core markets will be sustained by a high service based customer proposition, unique and extensive product offering and a multi-channel approach to sales.

Responsiveness to changing consumer preferences

Some of the products that Halfords sells, particularly in the car enhancement category, are subject to rapidly changing consumer preferences. Halfords has recruited experienced, knowledgeable colleagues who can identify and interpret trends and consequently respond in a timely manner to changes in consumer preferences. Some of the products Halfords sells, such as children's cycles, face competition from alternative products (such as games consoles) and our colleagues monitor developments in these areas.

Reliance on foreign manufacturers

Halfords sources a significant proportion of the merchandise it sells in its stores from outside of the UK, either directly or via third-party suppliers. Consequently, the Group is subject to the risks associated with international trade (particularly those which are common in the import of goods from developing countries) including, but not limited to, inflation, currency fluctuation, the imposition of taxes or other charges on imports and exposure to different legal standards and the burden of complying with a variety of foreign laws and changing foreign government policies.

Extensive research is conducted before the Group procures product from any new country or supplier. The Group's strong management team in the Far East has been recruited from local nationals who understand the local culture, market regulations and risks.

Information technology ("IT") systems and infrastructure

In common with most retail businesses, Halfords is reliant on the reliability and suitability of a number of important IT systems where any sustained performance problems, particularly with regard to store or warehouse and distribution systems, could potentially compromise our operational capability for a period of time.

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 Head Office. These systems are also supported by a number of disaster recovery arrangements including a comprehensive back-up strategy and access to a further data centre elsewhere in the UK in case of a major incident.

Furthermore, the planned reconfiguration to the Group's core distribution structure is a significant and operationally complex change activity. Having successfully replaced each of its core business systems over the past five years, the Group has significant experience in managing the risks associated with such activities.

(B) FINANCIAL

Treasury policy

The Group's Treasury Policy is structured to ensure that adequate financial resources are available for the development of its business whilst managing its currency, interest rate and counterparty credit risks. The Group's treasury strategy, policy and controls are approved by the Board.

The main elements of treasury activity and associated risk are outlined below:

Funding

The treasury function arranges sufficient secure financial resources to enable the Group to meet its medium-term business objectives, whilst arranging facility maturities appropriate to its projected needs.

The Group has a syndicated five-year term facility, maturing with a "bullet" repayment in July 2011, totalling £300m of committed bank facilities, comprising a non-amortising term loan of £180m and a revolving credit facility of £120m, which, together with cash surpluses, provide adequate funding for the Group's operations.

Currency

The Group's main currency translation exposure is limited to movements in exchange rates to the extent that they affect balances held on its currency bank accounts. Foreign currency bank balances are controlled by the Treasury function and are actively managed to a level that minimises currency translation exposures. The Group's main currency transaction exposure is through movements in exchange rates on its purchases overseas that are not denominated in sterling. These are mainly imports from Asia denominated in US dollars and imports from the Eurozone denominated in euros.

The Treasury Policy sets out a framework through which the majority of the Group's forecast foreign currency transactions are hedged. Historically the Group has operated at a forward purchase of 75% of future dollar requirements for the ensuing 15 months. This policy was extended during 2008 to 18 months and 80% of requirements when dollar exchange rates were at their most favourable and with dollar appreciation against sterling in the final quarter of 2008 the policy returned to its historic norm. The Group's policy continues to be monitored by the Board and the Treasury Committee.

Interest

The Group's bank term debt carries a variable rate of interest linked to prevailing LIBOR rates and at 3 April 2009 operated at a weighted average pre-tax cost of debt at 2.4% (2008: 5.9%) with the full year weighted average at 3.9% (2008: 4.3%). As a consequence of interest rate movements during the latter half of 2008, the Group amended its policy in respect of hedging and closed out its interest rate swaps. As at 3 April 2009 the Group had none (2008: 59%) of its bank debt position carrying a fixed rate of interest and consequently £164.5m (2008: £100m) of net debt was at a floating rate. It remains the Board's policy to protect a material proportion of the Group's borrowing from movements in interest rates and will continue to monitor prevailing and projected interest rates with a view to adopting a hedging instrument where deemed necessary and appropriate.

Counterparty credit risk

The Group actively manages its relationships with a panel of high quality financial institutions. Credit risk is controlled by the treasury function setting counterparty credit limits by reference to published rating agency credit ratings and the Corporate Default Swap market. All such counterparties, which constitute the syndicated bank group, held at least an 'A' credit rating at the time of the facility agreement. The Treasury Policy recognises that an exposure to a counterparty arises in relation to investments, derivatives and financial instruments.

NICK WHARTON
FINANCE DIRECTOR
10 JUNE 2009

CORPORATE SOCIAL RESPONSIBILITY

Halfords is committed to managing its business in a socially responsible manner. Our corporate social responsibility ("CSR") programme is designed to address the important CSR issues that we face, to facilitate appropriate management behaviour and be aligned with the Group's business strategy. Our aim is to continually improve our management of the social, environmental and economic issues within our control or influence throughout the business and our supply network.

We believe management of our CSR is not only the right thing to do, it also makes good business sense, and we see it as a core business consideration as it gives us strategic, commercial and reputational benefits. We aim to achieve standards of responsible care across a number of key areas, including: customers, trading, health & safety, the environment, employee welfare and the community.

Our customers are more likely to enter our stores because they trust our advice and our offer. They are more likely to buy from us because they trust us to provide products of the highest quality, that are safe and easy to use and that have been sourced in an ethical manner ensuring that no community associated with such sourcing has been abused or destroyed, and that the effect of our products on the environment has been minimised as far as possible. Prospective and current employees are more likely to join and stay with us if they feel valued, are treated fairly and equally, and feel that their contributions are recognised and rewarded and that they are helped to realise their potential.

The Group has reviewed its ongoing CSR policy to ensure it meets the needs of the markets and communities in which it operates and that the associated Key Performance Indicators ("KPIs") accurately reflect the Group's success or otherwise in implementing this policy.

For the period to 3 April 2009 the Group has followed an "ACTING RESPONSIBLY" policy that:

- Puts our Customers first:
  - Delivering a consistently high level of customers service;
  - Delivering high quality, safe products that, whilst minimising their environmental impact, provide effective solutions for our Customers;
  - Delivering consistent accessibility to stores, services and products irrespective of gender, race or disability; and
  - Delivering to stores, products that enhance our customers' lifestyles.
- Develops close relationships with our suppliers:
  - Ensuring responsible labour, environmental and social practices are followed by all partners in our supply chain;
  - Ensuring regular updating of the Group's Code of Ethics to meet best practice behavioural standards; and
  - Ensuring our supply chain transportation solutions minimises their environmental impact.
- Provides a working environment in our stores, head office and distribution centres:
  - That is rewarding in its own right;
  - That offers personal and career development;
  - That rates the Group as an employer of choice in the communities in which we operate; and
  - That is conducive to recruitment and retention of high quality staff.
- Provides a working and retail environment that is safe:
  - By ensuring that all our products met exacting quality and safety standards;
  - By continually reviewing Health & Safety standards; and
  - By performing regular Health & Safety audits across our store network
- Creates a working culture throughout the Group that continually assess the Group's impact on the environment by:
  - Minimising our use of natural resources;
  - Reducing waste; and
  - Reducing emissions of greenhouse gases and CO_2 emissions.
- Enables the Group to play apart in the communities it operates through:
  - Partnering charities, both local and national;
  - Sponsorship; and
  - Encouragement of outdoor leisure activities.

The policy commitments are translated into actions and KPIs are used to assess success against our internal targets. Paul McClenaghan, Commercial Director, takes the lead in ensuring that the policy supports the strategic objectives of the business. The Halfords executive monitors performance with regard to these objectives and targets via an internal report. It is, however, the Board's responsibility to ensure that the Group operates in a responsible manner, and the Board reviews the policy and our performance against that policy annually.

PUTTING OUR CUSTOMERS FIRST

Overview

We market high quality products that meet or exceed the requirements of appropriate legislation, international conventions and codes of practice. Where external guidance does not exist, we apply our own exacting standards. With a complex product range of over 10,000 items, we talk with our customers every day to ensure that our range meets their requirements and that they understand how to use our products safely. Recently we have identified that Halfords has a large number of regular customers who see their key drivers of satisfaction being choice of products and brands, store environments and ease of shopping, knowledgeable staff with a will-do attitude and competitive, value-for-money pricing.

CUSTOMERS

In 2008 we monitored customer satisfaction via exit interviews at a representative sample of our stores. These metrics along with other lines of enquiry help us understand which aspects of our offer are working well and which areas would benefit from addressing. Our Customers scored us a respectable average of 79 out of 120, indicating their strong commitment to the Halfords offer. The key drivers of customer satisfaction included range, ease of shopping, helpful and knowledgeable store colleagues, and value-for-money competitive pricing.

The quality of our products is fundamental to the continued growth and success of the Halfords brand. Our aim is to ensure that our product offer exceeds customer expectations in terms of safety, performance and value for money. Through fresh insights and innovation driven by our customer focus groups we also seek to offer customers new products that are stylish, imaginative and which provide effective solutions.

Our products are manufactured to consistently high standards, meeting our own internal standards and complying with or exceeding local regulatory standards. We also aim to develop a programme to manage materials used in own-brand products, and to influence, where possible, the same for proprietary products. We identify and monitor products containing ingredients, which whilst not illegal, are designated as chemicals of concern by non-governmental organisations and work with suppliers to develop or substitute these with lower risk alternatives.

Halfords strives to achieve rapid introduction of new and improved products by adopting a disciplined and customer focused approach to product development. We recognise the importance of keeping abreast of new concepts and technologies within our chosen product ranges and we are keen to work with suppliers who continually bring forward innovative and exciting new concepts.

Service

We are committed to putting our customers first. Our store managers are accountable for delivering consistently high service in our stores, giving our customers complete peace of mind. All store colleagues are required to follow procedures in the Group's Store Operations Manual which details in full: how to offer service and support across all product categories; how we expect our customers to be treated; management of stock; and management of the store. In certain areas, where legislation introduces behavioural standards to our colleagues we offer training programmes via our local intranet and these are monitored to ensure that all colleagues regularly update themselves with the required knowledge.

Stores are fully supported by a dedicated Customer Service team based at our head office in Redditch where our customers are able to contact us by phone, email, letter or fax. This year, we have consolidated our web and store contact centres giving our customers and stores the opportunity to contact us through one single phone number and email address. This piece of work has enabled us to offer increased support to our store colleagues and be more flexible to our customers needs.

All calls, letter, emails and faxes received by our Customer Service team are treated in the order in which they arrive and each customer's query is logged and allocated to an adviser who will personally see the query through to the end. We aim to respond to all queries within five days unless more significant investigation is required, with most telephone queries being resolved the same day. We also use collated feedback data to focus our training and development programmes and further improve the service we provide.

Products and the environment

In developing our products, packaging, procedures and services we continue to make assessments of environmental impacts at appropriate stages, e.g. design, procurement, supply, sale, use and disposal as our business is strongly influenced by consumer choice. We promote good practice in the provision of environmental communication to customers and colleagues.

From July 2007 all UK Retailers are obligated under the Waste Electrical and Electronic Equipment ("WEEE") Regulations to provide recycling facilities for their customers free of charge. Halfords has joined the UK WEEE Distributor Take-back Scheme ("DTS") believing that this was a responsible decision for the environment; making it easier for our customers to recycle, aiming to increase the overall amounts of waste electrical items recycled, and ensuring a secure route for reuse of materials. Our stores in Ireland have also implemented the WEEE regulations which became law last year.

Additionally, customers returning any old car batteries to our stores are now offered a £2 voucher to be spent in the store and in 2008 customers returned over 88,000 batteries. This promotes recycling and assures the correct disposal of hazardous waste as well as allowing proper recycling of a battery's component parts. Further customer awareness of this recycling route is planned for, in respect of the Hazardous Waste — Special Waste Regulations.

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

We also offer customers a £20 money-back replacement service for alternators and starter-motors and 1,512 such products were returned in the year. These are then returned to our distribution centre for refurbishment.

Accessibility

Halfords treats its responsibilities under the Disability Discrimination Act ("DDA") very seriously, in respect of both our customers and colleagues. We have taken various actions in order to help us to fulfil our responsibilities, including training our store colleagues in disability awareness, responding to some of the physical obstacles in our stores and other access issues, and auditing our website for ease of navigation. We have 460 stores in the UK and Ireland in three different formats. Of these, 239 have mezzanine floors and accessibility to these floors is dependent on the age of the stores and whether it has been possible to install lifts. In total, 62% of these stores have lifts. In March 2008 we conducted an intranet-based survey of all of our stores to ensure they were DDA access compliant. The result of which was to improve access solutions across approximately 200 of our stores, from this, in June 2009 we will be conducting an audit of one of our top stores to ensure we can make our stores "disabled customer" friendly. The learnings from this will be cascaded down to our other stores via our Area Manager network.

Halfords is a member of the Employers' Forum on Disability, which is a not-for-profit employers' organisation, with over 400 members; these members employ approximately 20% of the national workforce. The forum brings its members together to share best practice on disability. It provides events at both a regional and national level where members meet, share best practice and keep up to date with disability issues. Additionally, members benefit from a dedicated information line to help them understand and manage both the legislation and the best practice approach to disability.

In 2008 and 2009 we had conversations with a number of disabled customers, and invited them to our stores, asking their advice on how best to ensure we maintain our commitments to them under the Disability Discrimination Act. In February 2009 we launched Mobility Scooters into our top 70 stores.

Lifestyle

At a time when the issues surrounding health and obesity have become increasingly important, Halfords, as the largest retailer of cycling products, actively encourages people to participate in this outdoor activity. We currently stock 178 (2008: 160) different bikes, of which move than 71 (2008: 60) are aimed at children between three and eight years of age. We design these bikes with the customer in mind and our children's bikes are specifically designed for the measurements and stature of a child as the relative dimensions of the bike are very different from those of an adult. In the year to 3 April 2009 we sold over a million bikes for the second year running, approximately 1 out of 3 of all bikes sold in the UK.

Through our Business Services department we continue to market "Cycle 2 Work" schemes, arrangements that allow employers to offer to their employees the use of a bike for work. The scheme offers significant savings, making use of the Government backed initiative to increase more sustainable means of transport to work. We currently manage 1,251 schemes (2008: 869) on behalf of employers, allowing their employees the opportunity to embrace a keep-fit lifestyle.

Four years ago we introduced our Halfords branded range of camping and outdoor equipment and later we complemented these, with the launch of the premium brand *URBAN Escape* range and selected *Gelert* tents and camping accessories. In 2009 we increased the product range by 8% including expanding our tent pack offering and introducing festival tents. We aim to grow this leisure area of our business through product innovation and development, and in 2009 also added a broader range of *Gelert* tents and camping accessories available online.

DEVELOPING RELATIONS WITH OUR SUPPLIERS

Overview

We place great importance on the selection of our suppliers and, where appropriate, will visit manufacturing sources to verify that effective quality procedures are in place and that supply chain costs are minimised. We are always striving for improvement and we believe it is important that our suppliers are responsive to feedback from our customers and store colleagues. Halfords recognises that the development of close supplier partnerships is essential for the ongoing provision of an innovative and value-for-money product offer.

Suppliers

Halfords Asia has a Sourcing Code of Conduct ("the Code"), which can be viewed on the Company's website (*halfordscompany.com*). This is sent to potential new suppliers within the Far East, as part of the Supplier Questionnaire, before orders are placed with the supplier. Compliance with the Code is independently audited. The response to the questionnaire is reviewed and, if the supplier does not provide an acceptable alternative assessment report, an audit by an independent Auditor such as Bureau Veritas is arranged at the supplier's expense.

We recognise that this Code must be developed to reflect practical experience and changing circumstances. We continue to develop and share best practice with our suppliers, other retailers, non-government organisations and Government.

Halfords will only trade with those companies who fully comply with our policy or those taking verifiable steps towards complying with the policy. In the event of any failure to comply, we reserve the right to end the business relationship and cancel outstanding orders. We do, however, recognise that withdrawal of our business in the event of non-compliance may cause severe hardship to those employed. We aim, therefore, to work with our suppliers, to achieve compliance and will carefully review progress made before considering severing the relationship.

Following the independent audit of the Code any supplier that receives a score of D or lower is required to issue a corrective action plan. The corrective action plan is reviewed by Halfords Asia Quality Department, and if approved, a date is set for follow-up with the supplier. Depending on the type of non-compliance this follow-up may include a specific factory visit, or be included at the next planned visit. The timescales will, again, depend on the nature of the non-compliance.

In 2007/08 we conducted 34 audits, representing 25% of our Far East Suppliers by number and 77% by purchase value. In 2008/09, we conducted a further 92 audits and accepted 44 alternative reports, from approved bureaus, representing some 91% by purchase value. Out of the resulting 136 reports, there were no critical failures although 35 corrective action plans were formulated due to minor shortcomings, of which 10 were outstanding at 3 April 2009.

Over the last two years, which is the period of audit validity, the Company has completed 165 audits, being 96.6% (target 95%) of our Far East Suppliers. The Company's target will remain at 95% for 2009/10.

The Code of Conduct assessment results and progress on any corrective action plans are issued in a monthly report and reviewed between Halfords Asia and UK Head Office senior management.

Ethical trading

The Code states our policy on legislation, child labour, conditions of employment, wages and benefits, health and safety and the environmental.

We undertake all reasonable and practical steps, including factory, warehouse and tied accommodation inspections and audits, to ensure that our standards are being implemented throughout the businesses of our suppliers and that local legislation and regulations are complied with. We will assess any instances of non-compliance on a case-by-case basis and will then tailor remedial action appropriately. We will only trade with those who fully comply with this policy or those who are taking verifiable steps towards compliance.

We oppose the exploitation of children and young people. In addition to national employment laws, we insist that our suppliers do not employ, in a full-time capacity, any children that are under the age of 14 years, or alternatively are below the age for completion of compulsory schooling.

We oppose the exploitation of workers and we will not tolerate forced labour, or labour which involves physical, verbal or psychological harassment, or intimidation of any kind. We will not permit the exploitation of, or discrimination against, any vulnerable group. Workers must have the right to form and join organisations to facilitate freedom of association and collective bargaining and all workers must have written employment details, which must pay due regard to their welfare. We support fair and reasonable rewards for workers. Wages should reflect local norms and should meet or exceed any legal minimum wage levels. Wages must be paid in cash, by cheque or bank transfers. Workers must receive full written details of their pay. While local and cultural differences will be observed, workers must not be expected to work in excess of 60 hours per week on a regular basis, including overtime. Any overtime must be voluntary. Workers must be entitled to at least one day off in seven. Individual workers have the right to choose not to take their days off should they so wish.

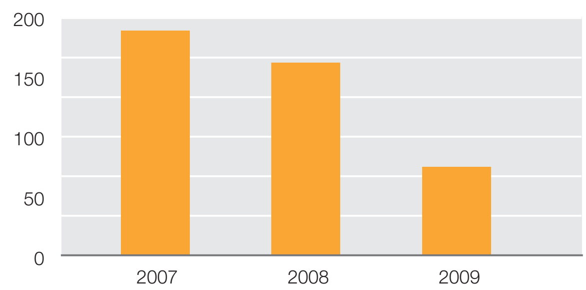
We require that appropriate health and safety training, including training in fire safety, be provided for all people in all working areas. All activities must be carried out under conditions that have proper and adequate regard for the health and safety of those involved. Management arrangements must be in place to detect, avoid and respond to potential threats to health and safety.

We promote our own business objectives with those in our supply chain to minimise the environmental impact of our operations and also encourage the consideration of social issues in business.

Supply chain transportation

Many of the products delivered into our national distribution centres ("NDCs") are imported in containers via sea deliveries for onward road transportation, although some are delivered via air freight. We have worked hard during this year to further reduce the number of containers transferred from ports via road and in 2008/09 2,582 containers, 67% (2007/08: 40.7%) of all containers delivered were moved by rail to a hub in the Midlands for onward transportation to our NDCs.

Air Freight Movements
tonnes



We continue to monitor the air freighting of our products from suppliers, and only do so in cases of extreme urgency. In 2009, through further improvements in supply planning and forecasting volumes we reduced the weight of products shipped in this way from 67,641 kg in 2008 to 29,045 kg in 2009, a reduction of 57%.

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

EMPLOYEE WELFARE

Overview

Our growth in stores and turnover would not have been possible without the unfailing support and commitment of our 10,000 colleagues employed across stores, distribution centres and our office operations in the UK, Asia and Central Europe. Thus we recognise that our colleagues are our single most valuable asset and we are committed to a fair but robust approach to equal opportunities in all areas of our business, with people gaining promotion on merit. We have high expectations of all colleagues and everyone is required to perform and deliver value. This creates an environment that is both challenging and rewarding, enabling colleagues to develop quickly and pursue new opportunities.

We are committed to being seen as an employer of choice within the communities in which we operate, and as well as providing training and development to colleagues, in 2008 we were finalists in the National Council for Work Experience Awards for Best Work Experience Provider. We also offer a range of benefits and incentive schemes.

EMPLOYEE STUDIES

THE CASE:

In order to facilitate communication through all levels of the business and to facilitate interaction between suppliers and colleagues Halfords has, over the years, developed an internet forum: "HalfordsVoice". HalfordsVoice gives all colleagues an opportunity to interact, share and develop ideas, help each other with challenges or concerns, or to obtain support directly from suppliers, all in a private, secure environment, run voluntarily by colleagues, independent of all other Company systems. A typical initiative has been the development of HalWiki, an online Halfords Encyclopedia which is invaluable to colleagues when researching information about the Company, its products and its services."

Reward

Our range of bonus schemes include, within stores, a sales adviser quarterly bonus scheme and store specialist, manager and deputy manager annual bonus schemes. We also operate office and management annual bonus schemes and there is also a bonus scheme in the distribution centres. Bonus payments are dependent on an achievement of a variety of Group, team and individual measures.

All colleagues are eligible to join, after a qualifying employment period, the Group's pension scheme where contributions are made jointly from both employer and colleague. During the year the Company changed its pension arrangements to prepare for the Government's introduction of Personal Accounts. The Halfords Pension Plan moved from a money purchase scheme to a contract based plan, where each member has their own individual pension policy which they monitor independently. The pension scheme currently has approximately 1,100 members in the UK and Republic of Ireland.

The Group actively encourages its colleagues to own its shares and more closely align an element of employee reward to business value enhancement. The Halfords Sharesave scheme has operated each year since 2004, open to all colleagues with three months' service or more. Colleagues are granted a share option and invited to save between £5 and £250 per month for three years. These savings can then be used to purchase shares at a price of up to 20% discount to the market value at the date of the grant.

Two schemes have matured since our IPO in 2004 with over 1,500 colleagues sharing in Halfords' success. Since 2004 the average colleague had saved £75 per month.

There are currently three Sharesave schemes running, started in 2006, 2007 and 2008. All colleagues are invited to participate in the schemes. In 2008 over 800 colleagues in the UK, Republic of Ireland and Hong Kong chose to participate. Since 2004 over 2,000 Halfords colleagues have participated in one of these annual schemes.

We also operate a Company Share Option Scheme ("CSOS"). This scheme was first launched in 2004 to all colleagues with at least three years' service in recognition of their hard work and dedication leading up to the Company's flotation. These colleagues had the opportunity to exercise their options in June 2007. A typical colleague, with 750 share options, made an average tax-free gain of £1,000. Unfortunately, the awards made in 2005 vested in the second quarter of 2008 when the general retail market was suffering one of it worst downturns in recent history and no gains were made.

However, we continue to believe that these Awards are key to retaining and motivating staff and following the Awards granted in 2006 and 2007, in 2008 we granted Awards to over 700 (2007: 640) colleagues at store manager level and at managerial grades in the UK head office, Republic of Ireland, Hong Kong and Czech Republic.

We also mirror to our own colleagues the cycle to work schemes that we provide to other employers (see page 26). The scheme offers significant savings, making use of the Government backed initiative to increase more sustainable means of transport to work. This means that by sacrificing a proportion of their salary our colleagues can save income tax and national insurance that would otherwise have been payable. Colleagues can also make use of their 15% discount to make it an outstanding scheme. This scheme was first made available in 2004 and has been relaunched annually. Each year we see approximately 300 colleagues acquire bikes through the scheme at overall discounts that can exceed 50%. In the year to 3 April 2009 this number exceeded 500.

Development

In order to promote career development, the Group provides all colleagues with access to relevant training and development schemes. With a complex product range of over 10,000 items alongside portfolio reformatting, colleague training and development is seen as crucial to the success of our business. Sales advisers at Halfords need to be experts in many product fields and be able to meet a wide variety of customers' needs. Specialists need to be able provide their 'specialist' services and also demonstrate an ability to sell other products.

Training is key to encouraging our store teams to embrace new initiatives that are critical in delivering our targets. The Halfords point of difference is excellent product knowledge, fitting capability and enthusiasm of our teams to serve and assist the customer. A good example of this is the Institute of Motor Industry certification, for all those who successfully complete training to fit electronic products, for our customers, into their cars and we continue to provide Cytech NVQ Level 2 qualifications for all our *Boardman* cycle specialists.

In addition, a career pathway has been created. This development programme is designed to develop our people and to maximise their opportunities, examples of which are:

- A Deputy Manager Development programme, enabling us to source and develop store-based deputy managers, thus providing opportunity and incentive for our Sales Advisory teams;
- A Store Manager Development programme to create opportunities for deputy managers to further progress their careers;
- A Senior Store Manager Development programme to create a pipeline of future potential Field Managers;
- In our offices, Management Development programmes provide a balance between pragmatic business skills and core people skills for junior and senior managers;
- Graduate Development Programme, on which trainees follow a structured development programme, which gives them:
  - an all-round appreciation of the business, taking in experience both in stores and head office;
  - an in-depth focus in the areas of buying, supply and marketing; and
  - a variety of off-job supporting workshops and seminars.

These programmes are part of Halfords' continued ambition to develop its own senior managers of the future and are supported by active talent and performance management processes.

Through our talent management process, the senior management teams in Head Office have undergone an extensive, objective review of the performance and capability of their teams. This has resulted in some explicit succession planning, an identification of development needs, and will lead to personal development plans in the coming year. This process will feed participants into the Management Development programmes.

There is a performance management process, whereby performance objectives for the year are agreed and reviewed between line manager and colleague. To support this process we run a series of workshops aimed at ensuring that both line managers and colleagues are fully equipped with all of the skills required to make the process effective.

Employer of choice

As well as offering competitive benefits and personal and career development we aim to treat all our colleagues as equal. To this end we are committed to recruit, train, promote and retain skilled and motivated people irrespective of gender, age, marital status, disability, sexual orientation, race, religion, or ethnic or national origin. In line with this commitment we also promote a culture of openness and responsibility within our business. The Group has in place specific disciplinary and grievance procedures, and welcomes the reporting of genuine and serious grievances or alleged breaches of policy. In accordance with the Fraud & Whistle-blowing Policy, no colleague will suffer as a consequence of notifying such alleged breaches. In the period to 3 April 2009 the Company dealt with 12 incidents, all of which were resolved satisfactorily, whilst at all times maintaining the confidentiality of the complainant.

In accordance with our core values, we believe that every colleague should be treated with the same respect and dignity and we are committed to providing a working environment that is free from bullying and harassment. We will not tolerate bullying or harassment in the workplace either as a management style or between work colleagues, and will take disciplinary action against any colleague who is proven to have bullied or harassed others.

HEALTH AND SAFETY

Overview

Halfords is committed to high standards of occupational health & safety to minimise the risk of injuries and ill health to employees, contractors, visitors and others who come into contact with the business. The Group believes that effective occupational health & safety management is fundamental to a successful business and we constantly review our procedures and risk management standards to identify opportunities for further improvement.

Product quality and safety

We have always treated safety and quality as absolute priorities in the products we sell.

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

Halfords operates a rigorous product introduction procedure to ensure that all products are safe, legal, fit for purpose and meet the requirements of our exacting technical specifications. We take into account all appropriate British, European and International standards and ensure compliance with all relevant legislation and codes of practice. Our product testing methodologies vary by product type and are primarily driven by the requirement to ensure safety. For example, our roof bars and cycle carriers are subjected to rigorous testing on automotive test tracks, cycle clothing is assessed to ensure that materials give the desired performance (colour fastness, breathability, waterproofness, etc.) and hand tools are analysed to verify materials are sufficiently robust.

Our *Apollo* children's bikes are designed to the new European Standard for bikes (Comité Européen de Normalisation, "CEN") and are subject to very rigorous fatigue testing, particularly the frame, cranks, and pedals. These tests aim to replicate the use that a customer puts a cycle through.

A key element of the new standards is safety, and all bikes are designed or sourced with this in mind. To ensure safe use we demand a minimum content requirement for the owners manual, which ensures that it is as comprehensive a document for the customer as possible.

Most of our products are subjected to user trials in real life situations, so that we can verify that instructions are correct and easy to understand and most importantly, that the products actually work.

Halfords is committed to not only supplying safe products, but also to ensuring that they are used safely. As one of the UK's leading retailers of child seats, we have invested in the training of more than 2,000 store colleagues in the demonstration and free fitting of child seats and have recently received accreditation from RoSPA for our in-house training programme. We also run roadshows at stores across the UK, working with road safety officers to give free advice and fitting services to parents and guardians, and we also promote our own national child seat safety week at all superstores to raise awareness of the issue.

We continuously review concerns reported by our customers and where improvements are identified, we endeavour to instigate speedy product enhancements.

Targeted risk reduction initiatives

Our philosophy is to enable confident proportionate occupational health & safety management and embed a positive safety culture throughout the organisation. We actively pursue targeted risk reduction measures and our rigorous self-auditing programme informs this process.

We are encouraged by the successes from our risk-focused agenda throughout the year:

Safer site transport

- We have applied a number of additional site transport safety controls and enhancements to the head office and distribution centres; and
- We have maintained momentum on managing the risk from large goods vehicle reversing in public areas at our stores.

Safer storage and handling at height

- We have applied more rigorous and unambiguous routines on high-level racking storage;
- We have run a major awareness campaign on safe storage and access at high-level internal flat roofs; and
- We have in partnership with our facilities maintenance company enhanced the procedure for vetting and auditing contractors' safe operating procedures.

Improved fire safety

- Recognising that our newer stores benefit from the high fire protection standards agreed with our Lead Authority partners we have implemented a programme to enhance the fire safety provision in our older stores.

Safer water systems

- We have completed an extensive programme to revise the hot and cold water systems in our stores to design out legionella risks.

Safer manual handling

- We have assessed and upgraded selected store loading areas or provided mechanical handling equipment to reduce the risks from receiving and handling roll cages on external surfaces.

Safety management enhancements

We have continued to concentrate on producing occupational safety documentation for distribution and retail operational colleagues that is tailored for their effective use. Our first priority is for safety procedures to be suitable for the user rather than compliance with textbook requirements. We have a training plan to develop the ability and confidence of key accountability holders to use these tools effectively.

During the year we accepted that a difficult retailing environment would place differing demands on our colleagues and managers and recognised the need to reinforce health and safety messages:

- We have enhanced and delivered occupational safety and risk assessment workshops to a greater number of store managers, distribution team leaders and store safety coordinators; and
- We have delivered ground-breaking occupational safety leadership workshops to the Company senior management team.

We have continued to build on and benefit from our lead authority partnerships. We have liaised closely with our occupational safety lead authority partners at Stoke-on-Trent City Council on our risk reduction strategy, which has assisted us in setting appropriate targets and timescales. Working within our unique tripartite lead authority partnership with Stoke-on-Trent City Council Building Advisory Services and Staffordshire Fire and Rescue Service has enabled us to consistently and effectively improve fire safety management.

We monitor our safety performance on a range of indicators including our reportable accident statistics and accident rates arising from our "focus hazards". Our overall annual injury incident rate remains below the industry benchmark at 340 per 100,000 employees (2008: 410). This represents an improvement of 17%.

IN THE ENVIRONMENT

Overview

Our stores, offices, and fleet of delivery vehicles have direct impacts on the environment. We also know that there are indirect impacts caused by the production and use of our products.

Our commitment is to understand and to continually improve the performance and management of our environmental impact throughout the Halfords supply chain.

Good environmental performance demonstrates high standards of corporate responsibility and generates cost saving opportunities. We believe that every individual has an important role to perform in ensuring that environmental standards are properly applied. The Group has in place emergency procedures to minimise the environmental impact of potential incidents.

During the year an Environmental Steering Group consisting of senior managers from all operational activities of the business monitored performance in regard to our objectives, targets and indicators and provides advice and guidance, ensuring compliance with relevant environmental legislation.

We aim to create a culture of awareness of the cost and impact of environmental issues across the business, including assessing the environmental impact of capital projects. The Group considers the environmental impact of the products that we sell, taking care to minimise the use of materials that deplete our natural resources, and recognises its responsibility with regard to the use of chemicals in our supply chain. We have developed an energy strategy and this involves evaluating alternative energy sources that we consider to be appropriate to our business needs. We operate a utility reduction programme, the results of which are tracked on a Carbon Trust funded database.

In managing our environmental responsibilities our overall objectives relate to the following key areas:

Minimising our use of natural resources

We place emphasis on resource use, in order to understand and improve the efficiency of our use of raw materials, energy and water throughout Halfords' operations, as well as our products and our packaging. Our goal is to minimise our potential for causing pollution to air, water and land.

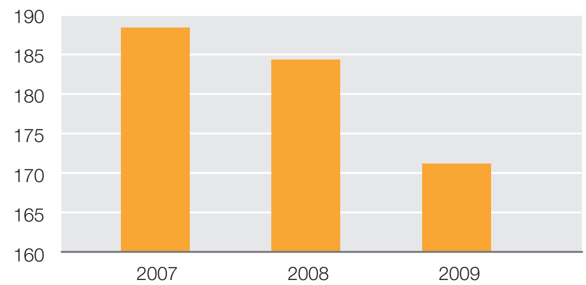
Water — To reduce our overall usage of water in the business

Independent assessments of usage have continued to be carried out in our stores, head office and distribution centres. A water specialist surveyed all of our sites to establish if correct charging is taking place, and also to identify leaks and wastage.

The annual billed consumption of water for our stores in the period to 3 April 2009 was 4% lower than last year which represents a reduction per store of 7% year on year. This excludes stores where water billing is to the landlord direct.

	Water Consumption m^3	No. of Stores
2007	80,451	426
2008	83,397	450
2009	79,895	463

Water Consumption per Store
cubic metres



The improvement in water usage comes about following the installation of electronic 'smart' water meters to water infeed pipes. This allows accurate monitoring of water usage patterns throughout the day and identifies water leaks at an early stage.

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

Waste management

We aim to prevent waste generation in our activities, including product and packaging design, warehousing, distribution and sale and reuse of materials, and to maximise recovery and recycling of waste prior to disposal through our management of waste recycling and reduction in the amount of packaging we use in our products.

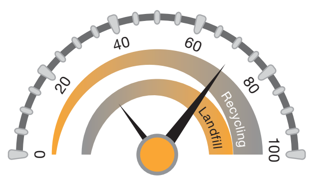
Landfill and recycling — To increase the quantity of cardboard, paper, and plastic waste we recycle in the business and reduce landfill

Stores and NDCs

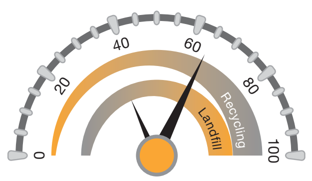
In order to prevent inefficient transportation of waste material the majority of recycling activity is through localised collection from individual stores. Where, however, greater levels of recycling can be achieved cardboard and other materials are backhauled for central recycling at our Redditch distribution centre. This is an addition to recycling 100% of the cardboard produced in both our Redditch-based distribution centres.

As a result of this strategy the volumes of waste material recycled versus that sent to landfill increased from 64.1% to 70.1% during 2009. This follows an increase from 56.4% to 64.1% in 2008.

Landfill v Recycling 2009 %



Landfill v Recycling 2008 %



This represents 6,071 tonnes of waste sent for recycling by our stores (2008: 1,384) and 2,431 tonnes sent by our distribution centres (2008: 580). The Company will continue to make what improvements it can in this area by continually focusing on the small number of stores where recycling is significantly below the Group average and through increased product refurbishment which is subsequently sold from the distribution centres.

In the UK our membership of Valpak and in Ireland of Repak ensures that we meet our responsibility to the environment and to the public of the UK and Ireland by contributing to the national packaging recycling programmes.

IN THE ENVIRONMENT

THE CASE:

Working closely with our Quality Engineers and Far East supplier of our core range of car covers, we have developed a Halfords branded range of Advanced car covers. The new vacuum packed zip-bag packaging means better economies of scale and a reduction in the carbon footprint. We are able to use 60% fewer containers when shipping the product from the Far East.

Offices

The Group continues to use paper recycling and shredding initiatives and from 2008 all desk waste bins have been removed and recycling bins have been introduced for the segregation of aluminium cans, plastics and general waste. This has increased the amount of waste recycled by *circa* 60%.

During the last 12 months all A4 paper usage has been transferred to recycled paper, including stationery and high production paper. Paper shredded and recycled under our confidential waste scheme saved 151 (2008: 135) trees (independently verified by Shred-it Ltd). The use of highly efficient 'airblade' hand dryers continues to save approximately 1,200 kg per annum of landfill.

Product packaging — To achieve an overall reduction in the weight of packaging used year-on-year

We have a proactive Packaging Cost Reduction Project and Halfords complies with the Producer Responsibility Obligations (Packaging Waste) Regulations 1997, which requires UK companies to recover and recycle packaging against specific targets. Halfords meets this obligation through membership of an industry compliance scheme. The Group has been audited by the Environment Agency to ensure full understanding and compliance with the regulations and we passed this audit successfully.

Greenhouse gases and CO_2 emissions

Greenhouse gases ("GHGs") are so called because they contribute towards the greenhouse effect. There are six main GHGs, mainly emitted by burning fossil fuels. CO_2 accounts for some 80% of UK emissions. The contributing role of man-made GHGs to climate change is accepted by most countries. The most significant contributor to GHG production is the combustion of fossil fuels, and like any business that burns fuel, our transport fleet (diesel fuel) and heating (gas) will have direct GHG emissions. Halfords also has indirect GHG emissions incurred in the generation of electricity consumed.

To begin to understand and achieve CO_2 emissions reduction objectives, Halfords has estimated its CO_2 emissions. This is based on DEFRA reporting guidelines for UK business, using conversion factors for energy and fuel usage and these are referred to in the sections below. For future years the turnover conversion factor will also be used to enable the setting of targets and make year-on-year comparisons.

Fuel and transport fleet efficiency

In line with European Emissions Directives, Euro 4 emission standards for commercial vehicles were introduced in October 2006. This aims to improve the levels of Carbon Monoxide, Hydrocarbon, Nitrogen Oxide and particulate emissions that cause harm to the environment. All of Halfords' fleet complies with Euro 3 emissions standard (introduced in October 2003), and new vehicles delivered from September 2006 conform to the new Euro 4 standards.

To more fully understand our impact on GHG emissions, we have converted the transport fleet fuel usage to total CO_2 emissions. In 2009 we drove 9,571,410 kilometres down 80,365 kilometres on last year and we used 2,674,412 litres of diesel. The CO_2 equivalent usage, calculated based on DEFRA reporting guidelines, shows a 23% improvement year on year.

	2009	2008	2007	2006
Kilometres driven	9,571,410	9,651,775	9,491,422	8,725,957
CO_2 equivalent (kg)	7,087,192	9,201,762	9,048,884	8,319,108
CO_2 kg/revenue (£m)	8,829	11,545	12,162	12,216

This improvement has been achieved from a series of activities across the transport operation started in 2008 and these will continue into the forthcoming year. Key initiatives include:

- Continued improvements by operating vehicles with more efficient engines and gearboxes, including leasing of additional tractor units, that have higher fuel efficiency, used for moving trailers at our distribution centres;
- Completing a comprehensive driver training programme carried out with our logistics partner, DHL. This emphasises responsible driving and safe vehicle checking, in addition to fuel efficiency and smooth driving and braking;
- Reductions in the number of empty-running vehicles, by collecting (backhauling) loads from our suppliers following delivery to our stores. This clearly reduces the number of vehicles on the roads, but does not directly contribute to Halfords' fuel reduction or CO_2 emissions. We currently have ten suppliers where we backhaul regularly, returning to one or more of our distribution centres;
- Evaluation of Euro 4 and Euro 5 tractor units and rigid vehicles;
- Evaluation of tyre pressure checks, adjustments and idling time, to assess their impact on fleet fuel economy and efficiency; and
- Continual evaluation of our fleet requirements with DHL. This will ensure the optimum design of transport to maximise capacity, improve aerodynamics, and will consider increased double-decker options.

All company essential user cars must be diesels. Where colleagues can choose a company car as part of their benefits package, CO_2 emissions for the list of cars they can choose from are published and whether those cars are Euro 4 compliant (greener, more tax efficient). The majority of colleagues who can choose a company car continue to choose diesel.

The Group currently provides approximately 200 colleagues with either a company car or car allowance and it is the Company's policy to ensure that all vehicles have emissions less than 160g/km. The average emissions per company car is 151g/km (2008: 160g/km). We are aiming for further reductions, through a variety of measures, including driver training, enforcing an engine efficiency ceiling on car choice and greater control of mileages driven.

Energy

(a) To reduce energy use

We are moving into the second year of a three year bespoke action plan with the Carbon Trust for implementing energy saving measures both in the Redditch head office and in stores.

The first year of this three-year programme has focused on improving measurement of all utilities so that comparisons can be made between stores, thereby leading to understanding of good and bad practice. In order to achieve this we have installed SMART metering into the majority of our stores. This metering allows us to remotely analyse energy used every half hour in every store. The data is loaded into a central database and provided to suppliers as well as feeding a web-based reporting tool to enable us to monitor and target store energy consumption.

Sub-metering has been installed into head office to enable separate monitoring of facilities in the distribution centre and offices. The data from these meters will feed into the online system to provide information that can be used to understand and reduce energy consumption at head office.

We have completely revised the lighting and heating that we install into new stores. Lighting has moved from inefficient Hi bay lighting and halogen spotlights to modern efficient T5 tubes with electronic ballast linked to dimming systems and occupancy sensors. This has been seen on a sample of stores to produce a 15% reduction in energy used per m^2. We are using ECA approved HVAC and Heat Pump systems in order to heat these stores with the highest efficiency.

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

Actions planned for the remainder of the programme include:

- Benchmark and implement online energy management and a 'Monitor & Target' system;
- Develop and implement an energy conscious design guide for store development;
- Engage and empower facilities contractors to participate in the above plan;
- Provide training for store managers;
- Development and dissemination of Energy Use guides for store managers; and
- Develop plans to incorporate renewable energy sources in stores.

(b) To reduce CO_2 emissions

For our stores, we are setting a challenging reduction target of 15% to 20% over three years (5% to 7% per year) against the baseline year of 2007. Individual store targets will be set once the scope for savings has been identified and an action plan and a method of monitoring performance agreed store by store. This target represents a potential 7,000 tonnes of CO_2 savings.

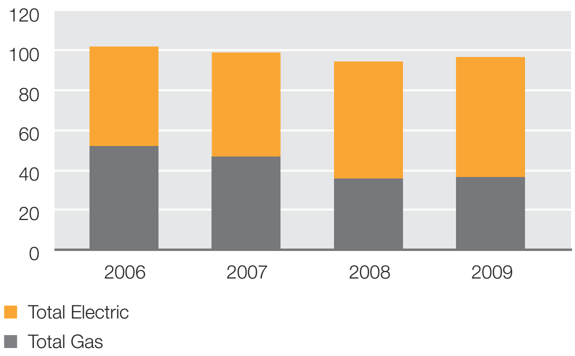
Actions in progress, working in partnership with ENER·G, to deliver this reduction include:

- Developing specific action plans for our 50 highest carbon footprint stores;
- Implementing energy management systems and voltage reduction plans; and
- Installing improved photo-cell and tamperproof timers for store signage.

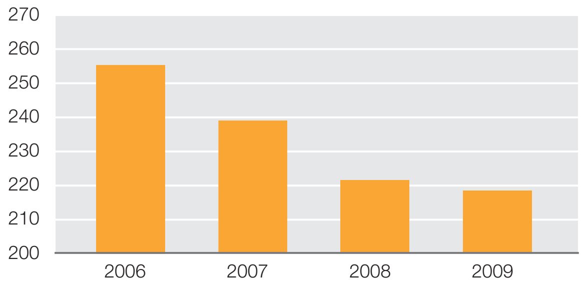
This year our total energy consumption has increased by 1.3%, which when factored alongside the increase in floor area of 3% translates to a decrease of 1.4% per square metre. Carbon equivalent of energy used remains similar to last year, even though the number of stores in the UK and the Republic of Ireland has risen from 447 to 460. Individual store targets will be set for 2010 once store colleagues have been trained to monitor their progress.

The following graph represents the energy used by our stores and by our head office and distribution centre.

Total Energy Useage



Energy Usage per Store
kWh — thousands per store



IN THE COMMUNITY

Overview

Our policy on charitable giving is to concentrate on one main charity. However, we are also committed to supporting the communities we serve and individual stores also support local initiatives.

Charity partnerships

In 2007, the business partnered its first ever "Charity Of The Year", the Meningitis Trust. The charity partnership was so successful that Halfords continued to support the Meningitis Trust for a further 12 months. After two years with the charity, Halfords raised over £140,000. Colleagues reached the fund-raising target with stores selling special pin badges and holding events and individual colleagues undertaking all sorts of challenges ranging from taking part in cycling events and running marathons to charity auctions, car washes and raffle prize draws. The money raised has helped to raise the profile of the Meningitis Trust and highlighted the causes and symptoms of the disease to both colleagues and customers.

In 2009, Halfords has decided to partner a new "Charity Of The Year" — Macmillan Cancer — and will work closely with the charity to raise money and awareness through the sales of pin badges, events and much more.

IN THE COMMUNITY

THE CASE:

In 2008 store colleagues in Londonderry organised events providing fun for all the family, including bouncy castles, face painting and cartoon characters to keep the kids entertained, and retail therapy demonstrations and competitions with prizes donated by suppliers. Support from local emergency services promoted National Child Seat Safety week and helped raise over £1,600 for the Meningitis Trust.

This year, 40 Irish store colleagues teamed up to relay from store to store, riding the length and breadth of Ireland. The cyclists spanned 16 counties, travelled 1,054 kilometres and united 18 stores in a bid to raise funds for the Meningitis Trust. Setting a real challenge for Halfords colleagues, the charity cycle ride proved successful and raised much needed funds for a very worthwhile cause.

We also supported the high profile "Help For Heroes" charity to raise money for wounded servicemen and women returning from Afghanistan and Iraq by becoming the title sponsor of the Halfords Help For Heroes Bike Ride. The ride took place at the end of May 2008, covering all the key First and Second World War battle sites in France before returning to London where thousands of bike riders joined the sponsored team of 300 to ride to the Cenotaph.

Sponsorship

In 2008, an Olympic year, we made history by signing the first ever commercial sponsorship deal with British Cycling. Building on the great success of last year's partnership, Halfords will again be sponsoring a professional bike team run by British Cycling. The 'Halfords *Bikehut*' team takes on a new focus with National Champion Rob Hayles and Olympic Champion Ed Clancy leading the male-based 2009 road squad. The road team will ride a full domestic season of Premier Calendar and National Criterium Series events sporting a new team kit, along with the Tour of Britain and the Tour of Ireland.

For 2009 the squad also extends to include a cross-country mountain bike team, which sees last year's road team member, Sharon Laws, return to her mountain bike roots and joined by riders such as David Fletcher and Ian Bibby.

The full team will continue to ride *Boardman* bikes, from the exclusive *Bikehut* at Halfords range. The road team will take the 2009 *Boardman* Road PRO, and the 2009 *Boardman* Road Team, both from the carbon range. The mountain bike team meanwhile are riding *Boardman* MTB PRO LTD, based on the award-winning MTB PRO.

Team Halfords *Bikehut* had a great year last year with three National Championship titles, a World Championship title and Nicole Cooke's Olympic Gold.

For the first year Halfords are also sponsoring the 'Premier calendar' of road race events, again cementing Halfords' credibility in the enthusiast cycling market.

Halfords plans to build on this success of last year and the team is a key part in its continued commitment to developing cycling as a sport in partnership with British Cycling.

Industry forums

Halfords values opportunities to work closely with trade associations, research institutes, standards authorities, universities and government organisations to improve performance standards and safety. Representatives from the quality department are members of British and International standards technical committees associated with automotive accessories and cycles.

In the future

Halfords will continue to work towards improving our management of the social, environmental and economic issues that are within our control. It makes good business sense that we ensure the right and proper interaction between our Company, our stores and our products, and our customers, their communities and their environment.

THE BOARD

DENNIS MILLARD
CHAIRMAN

Dennis Millard was appointed Chairman of Halfords on 28 May 2009. Dennis was previously a non-executive Director of EXEL plc and EAG Limited and he was Group Finance Director of Cookson Group plc from 1996 to 2005. He is currently Chairman of Smiths News plc, a non-executive Senior Independent Director at both Premier Farnell plc and Xchanging plc and a non-executive Director at Debenhams plc. He is also Chairman of each of these companies' Audit Committees. The Board considers that Dennis has enough time available to perform his duties as Chairman of Halfords.

DAVID WILD
CHIEF EXECUTIVE OFFICER

Prior to joining Halfords David was Senior Vice-President for New Business Development at Wal-Mart US, a position he had held since January 2007. Prior to this appointment he was President and Managing Director of Wal-Mart Germany. Before joining Wal-Mart, David spent eighteen years at Tesco, latterly as Group Supply Chain Director. He spent the six years prior to this focused on the Company's Continental European expansion, both as Chief Executive of Central Europe and, before that, as European Corporate Development Director.

NICK WHARTON
FINANCE DIRECTOR

Nick was appointed as Finance Director in February 2007. He joined Halfords Limited as Finance and Planning Director in March 2002, becoming Business Development Director in 2003. Nick has also held Board responsibility at Halfords Limited for Information Systems and Human Resources. Prior to this Nick held senior finance and general management positions with Boots Opticians, Boots Healthcare International, Do-It-All Limited and also within Cadbury Schweppes. He is a Chartered Accountant. From 1 March 2008 to 22 August 2008 Nick was acting joint Managing Director while maintaining his existing responsibilities.

PAUL McCLENAGHAN
COMMERCIAL DIRECTOR

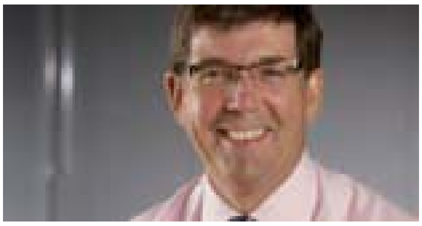
Paul was appointed as Director of Trading in March 2007. He joined Halfords Limited as Trading Director in May 2005. Prior to this Paul worked for the Dixons Group, most recently as Trading Director for its Vision and Audio division. He also held the positions of Buying Director for Brown Goods and Commercial Director for Dixons Asia. From 1 March 2008 to 22 August 2008 Paul was acting joint Managing Director while maintaining his existing responsibilities.

KEITH HARRIS
NON-EXECUTIVE DIRECTOR

Keith joined the Board as a non-executive Director in May 2004. He has been Executive Chairman of Seymour Pierce Limited since its acquisition from Investment Management Holdings plc. Prior to this Keith was Chairman of the Football League and Chief Executive of HSBC Investment Bank plc. Keith is currently on the Boards of Benfield plc and Sellar Investments Limited. The Board considers that Keith has enough time available to perform his duties as a non-executive Director of Halfords and as Chairman of the Company's Remuneration Committee.

NIGEL WILSON
NON-EXECUTIVE DIRECTOR

Nigel joined the Board as a non-executive Director in May 2004 and was appointed Senior Independent Director on 1 April 2006. On 7 May 2009 Nigel resigned as Deputy Chief Executive and Chief Financial Officer of United Business Media plc to take up the position of Group Chief Financial Officer at Legal & General plc. Previous appointments include Group Finance Director and subsequent Managing Director of Viridian Group plc, Group Finance Director at Waste Management International, Head of Corporate Finance and Group Commercial Director at Dixons Group plc and a consultant at McKinsey & Co. From 22 August 2008 to 28 May 2009 Nigel also operated as Chairman. The Board considers that Nigel has enough time available to perform his duties as the Senior Independent Director of Halfords and as Chairman of the Company's Audit Committee.



BILL RONALD
NON-EXECUTIVE DIRECTOR

Bill joined the Board as a non-executive Director in May 2004. He is Chairman of Bezier Limited and Chairman of Europackaging Limited. He is also a non-executive Director of Alfesca and Dialight plc. Previously he was Chief Executive of Uniq plc for three years, prior to which Bill spent 23 years in a variety of roles within the Mars Corporation. His final positions there were Managing Director of the UK confectionery operation and Vice-President of Masterfoods Europe. The Board considers that Bill has enough time available to perform his duties as a non-executive Director of Halfords.

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of Halfords Group plc (the "Company") together with its subsidiary undertakings (the "Group") for the 53 weeks to 3 April 2009.

Principal activities

Halfords Group plc is a public limited company incorporated in England, registered number 04457314, with its registered office at Icknield Street Drive, Washford West, Redditch, Worcestershire, B98 0DE.

The principal activity of the Group is the retailing of automotive, leisure and cycling products. The Group operates from 438 stores (2008: 429) in the UK, and via overseas branches, 22 stores in the Republic of Ireland (2008: 18), five in the Czech Republic (2008: 3) and one in Poland (2008: nil). The principal activity of the Company is that of a holding company.

Business review

The Chairman's statement on page 4, the Business Review on pages 8 to 19 and the Finance Director's report on pages 20 to 23 provide a review of the business and progress against its key performance indicators during the year and descriptions of possible future developments and the principal risks and uncertainties facing the Group, and form part of this Directors' Report. Environmental considerations are reviewed within the Corporate Social Responsibility Report on pages 24 to 35 which also forms part of this Directors' Report.

Corporate governance

The Corporate Governance report on pages 41 to 46 forms part of this Directors' Report.

Profits and dividends

The Group's results for the year are set out in the Consolidated Income Statement on page 56.

The profit before tax on ordinary activities was £77.5m (2008: £90.2m) and the profit after tax amounted to £55.8m (2008: £64.0m).

The Directors propose that a final dividend of 10.90p per ordinary share be paid on 5 August 2009 to shareholders whose names are on the register of members at the close of business on 19 June 2009. This payment, together with the interim dividend of 5.00p per ordinary share paid on 7 January 2009, makes a total for the year of 15.90 pence per ordinary share. The total final dividend payable to shareholders for the year is estimated to be £22.7m. Lloyds TSB Offshore Trust Limited, trustee of the Halfords Employee Share Trust, has waived its entitlement to dividends.

Donations

During the year the Group contributed £26,000 (2008: £30,000) to charities in the UK, including donations to BEN, a charity supporting individuals and families linked to the motor industry and associated trades.

Halfords has continued its partnership, for the second year running, with the Meningitis Trust. Over the two years colleagues throughout Halfords have raised over £140,000 for the Trust with stores selling special pin badges, holding events and individual employees undertaking all sorts of challenges ranging from running marathons to holding charity auctions. The Group also supported the "Help for Heroes" charity to raise money for wounded servicemen and women.

In 2009, Halfords has decided to partner a new "Charity Of The Year", Macmillan Cancer, and will work closely with the charity to raise money and awareness through the sales of pin badges, events and much more.

The Group's policy is not to make any donations for political purposes. However, the Companies Act 1985 defines the term "donations" very widely and, as a result, certain expenses legitimately incurred as part of the process of talking to Government at all levels and making the Group's position known, are now reportable. Although during the year no such expenditure or political donations were made, resolutions were passed at the 2008 Annual General Meeting ("AGM") that provided for limited authority for such expenditure, such authority remaining valid until the earlier of 23 October 2009 or the conclusion of the AGM to be held in 2009, and as such the Company will be asking for this limited authority to be renewed at the AGM to be held on 29 July 2009.

Performance monitoring

The successful delivery of the Group's strategic objectives is monitored by the Board through Key Performance Indicators ("KPIs") and the periodic review of various aspects of the Group operations. The Board considers the following KPIs as appropriate measures for the delivery of the Group's strategy.

Financial and operational	Definition
Revenue and like-for-like sales	Growth in revenue measures delivery against our store growth objectives and, through like-for-like revenue, the strength of our customer offer.
Operating profit	Continued growth of operating profits enables the Group to invest in its future and provides a return for shareholders. Targets are set relative to expected market performance.
Number of store openings	The Group is committed to bringing its products offering to as many consumers as possible through the development of its property portfolio. This also contributes to revenue growth and though international store openings provides economic diversification.
Multi-Channel Profitability	The profitable expansion of the Group's multi-channel footprint is key to retaining existing and attracting new customers, many of whom use the Internet as a key part of their shopping experience. The web facilitates the detailed measurement of the source of sales, through indicators such as visitor numbers, dwell time and rates of conversion.
wefit/***we***repair jobs	Halfords' unique service fitting proposition is key to maintaining our differentiation from more mainstream operators. Fitting and repair jobs completed, together with other service propositions such as Bike Care Plans, represent a good measure of awareness and execution of this core proposition.

Colleagues

The Board seeks to instil high standards of customer care and service in the Group and the commitment of every colleague to this business requirement is considered to be critical. The Group has established a framework of communication for colleagues concerning business performance and Company benefits. Group-wide training reinforces the Group's commitment to colleague involvement and development.

The Group is committed to the principle of equal opportunity in employment and to ensuring that no applicant or colleague receives less favourable treatment on the grounds of gender, marital status, race, ethnic origin, religion, disability, sexuality, or age, or is disadvantaged by conditions or requirements which cannot be shown to be justified. The Group applies employment policies which are fair and equitable and which seek to promote entry into and progression within the Group. Appointments are determined solely by application of job criteria, personal ability and competency.

The Group gives full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities, wherever suitable opportunities exist, and training and career development support are provided, where appropriate. Should a colleague become disabled when working for the Group, efforts are made to continue their employment and retraining is provided, if necessary.

A "whistle-blowing" policy and procedure is in place and has been notified to staff. The policy enables them to report any concerns on matters affecting the Group or their employment, without fear of recrimination, and reduces the risk of things going wrong or of malpractice taking place and remaining unreported. In addition, the Group takes a zero-tolerance approach to matters of discrimination, harassment and bullying in all aspects of its business operations, whether they relate to sex, race, national origin, disability, age, religion or sexual orientation, and policies and procedures are also in place for reporting and dealing with these matters.

Owning shares in the Company is an important way of strengthening colleagues' involvement in the development of the Group's business and bringing together their and shareholders' interests. The Group therefore encourages the Group's colleagues to participate in its Sharesave Scheme.

Directors

The following persons were Directors during the 53 weeks to 3 April 2009 and up to the date of this Report:

Richard Pym (resigned 22 August 2008)
Dennis Millard (appointed 28 May 2009)
David Wild (appointed 4 August 2008)
Nick Wharton
Paul McClenaghan
Nigel Wilson
Keith Harris
Bill Ronald

In accordance with the Company's Articles of Association, Bill Ronald, Nick Wharton and Paul McClenaghan are retiring by rotation at the forthcoming AGM and, being eligible, will offer themselves for re-election at that meeting.

In addition, David Wild and Dennis Millard, having been appointed to the Board since 23 July 2008, will seek reappointment at the forthcoming AGM.

Directors' interests

The Directors' interests in shares and options over shares in the Company are shown in the Directors' Remuneration Report on pages 47 to 53.

No Director had a material interest at any time during the year in any contract with the Company or any of its subsidiary undertakings, other than his service contract.

Directors' indemnities

Article 144 of the Company's Articles of Association provides that every Director is entitled to be indemnified out of the assets of the Company against all costs and liabilities incurred by him in the execution of his duties or the exercise of his powers or otherwise in connection with his duties, powers or office including any liability incurred by him in defending any proceedings, civil or criminal, which relate to anything done or omitted to have been done or omitted by him as an officer of the Company and in which judgement is given in his favour or in which he is acquitted.

During the year the Company maintained liability insurance for its Directors and officers. The Directors of the Company, and the Directors of each of the Company's subsidiaries, have the benefit of an indemnity provision in the Company's Articles of Association. The indemnity provision, which is a qualifying third-party indemnity provision as defined by section 234 of the Companies Act 2006, has been in force throughout the year.

Directors' Responsibilities

The statement of Directors' responsibilities in preparing the Annual Report and the Financial Statements can be found on page 54 of the Annual Report.

Disclosure of information to Auditors

The Directors of the Group have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any information needed by the Group's Auditors in connection with preparing their report and to establish that the auditors are aware of that information and so far as the Directors are aware there is no such information of which the Group's Auditors are unaware. The Directors are responsible for maintaining the integrity of financial information which includes the Annual Report, together with other financial statements, presentations and announcements on the Group's website *halfordscompany.com*. Legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' REPORT CONTINUED

Supplier payment policy

The Group does not follow any formal code or standard on payment practice, but agrees terms and conditions for its business transactions when orders for goods and services are placed, and includes the relevant terms in contracts, where appropriate. These arrangements are adhered to when making payments, subject to the terms and conditions being met by suppliers. The number of trade creditor days outstanding at the period end for the Group was 39 days (2008: 43 days). The Company is a holding company and had no trade creditors at the end of the financial year.

Major Shareholders

At 10 June 2009, the Company's share register of substantial shareholdings showed the following interests in 3% or more of the Company's issued ordinary shares:

Holder	Number of shares	% of issued shares
M & G Investment Management Ltd	15,306,401	7.33%
Bank of New York Mellon Corporation (Institutional Group)	12,605,477	6.00%
Ameriprise Financial (Institutional Group)	11,773,143	5.60%
Artemis Investment Management Ltd	9,536,391	4.54%
Capital Research Global Investors	9,306,000	4.43%
Legal & General Investment Management Ltd (UK)	9,134,643	4.35%
F&C Asset Management plc	8,064,963	3.84%
Aberforth Partners LLP	7,392,544	3.52%
Rathbone Investment Management Ltd	7,127,889	3.39%

The Takeover Directive

As at 3 April 2009 and 28 March 2008, the Company's authorised share capital was £2,950,000 divided into 295,000,000 ordinary shares of 1p each nominal value ("ordinary shares"). On 3 April 2009 there were 209,786,251 (2008: 214,348,661) ordinary shares in issue. These ordinary shares are listed on the London Stock Exchange.

All ordinary shares rank equally with respect to voting rights and the rights to receive dividends. Shares acquired through Company shares schemes and plans rank *pari passu* with the shares in issue and have no special rights.

The holders of ordinary shares are entitled to receive the Company's Annual Report and Financial Statements; to attend and speak at general meetings of the Company; to appoint proxies; and to exercise voting rights.

There are no restrictions on transfer or limitations on the holding of any class of shares and no requirements for prior approval of any transfers. None of the shares carry any special rights with regard to control of the Company.

There are no known arrangements under which the financial rights are held by a person other than the holder of the shares and no known agreements on restrictions on share transfers or on voting rights.

The rules about the appointment and replacement of Directors are contained in the Company's Articles of Association. Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board holds office only until the next AGM. At each AGM one-third of the Directors (rounded down) will retire by rotation and be eligible for re-election. The Directors to retire will be those who wish to retire and those who have been longest in office since their last appointment or reappointment, with the proviso that all must retire within a three year period.

Changes to the Articles of Association must be approved by the shareholders in accordance with the legislation in force from time to time.

The Company does not have agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plan may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

The Company has Term and Revolving facilities and under the terms of these credit facilities, the Company is required, in the event of a change of control, to give notification to the facility agent and if so required by the majority lenders the facilities may be cancelled.

Authority to purchase shares

On 8 June 2006 the Company announced a share buy-back programme, to be effected over the following two years, of up to £50m. At the AGM on 23 July 2008 shareholders approved a special resolution authorising the Company to purchase a maximum of 21,118,112 shares, representing 10% of the Company's issued share capital at 18 June 2008, such authority expiring at the conclusion of the AGM to be held in 2009. The £50m share buy-back programme was completed ahead of schedule on 31 January 2008. The Directors intend to optimise the Group's balance sheet to enhance shareholder returns using where appropriate share buy-back as a flexible tool in balance sheet management. In the 53 weeks to 3 April 2009 4,687,816 shares of 1p each (2008: 9,453,738), representing a nominal value of £46,878 (2008: £94,537), have been purchased and cancelled, representing 2.8% of the Company's issued share capital as at 3 April 2009. The aggregate consideration (including stamp duty) paid for the shares was £13.1m.

Auditors

Having retained the services of PricewaterhouseCoopers LLP as statutory Auditors since 2003, the Group has reviewed, in line with corporate governance best practice, the rotation of its external Auditors. As a result of this process KPMG LLP will be recommended for appointment as Auditors for the forthcoming year. A resolution proposing their appointment is contained in the Notice of the AGM and will be put to shareholders at the meeting.

Going concern

The Directors confirm that they are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Annual General Meeting

The AGM will be held at the Alveston Manor Hotel, Clopton Bridge, Stratford-upon-Avon, Warwickshire, CV37 7HP, on Wednesday 29 July 2009 at 12.30 pm. The notice of the AGM and explanatory notes regarding the special business to be put to the meeting are set out in a separate circular to shareholders accompanying the Annual Report and Financial Statements.

By order of the Board

ALEX HENDERSON
COMPANY SECRETARY
10 JUNE 2009

CORPORATE GOVERNANCE

The Board of Halfords Group plc is responsible for the Group's system of corporate governance. The Board is committed to high standards of corporate governance not only in the areas of accountability and risk management but also as a positive contribution to its' business strategy. The Board believes in conducting the Group's affairs in a fair and transparent manner and in maintaining the highest ethical standards in its business dealings.

Statement of compliance with the Combined Code

The Directors consider that the Group has applied the principles and complied with the provisions of Section 1 of the Combined Code 2006 ("the Code") for the financial period to 3 April 2009. This report describes how the Group has complied with the Code.

THE BOARD

Board structure

The Board is currently composed of seven members, consisting of a non-executive chairman and three non-executive Directors and three executive Directors. During the year the Company has operated, on occasions, without a specific Chief Executive Officer or Chairman. Following the resignation of Ian Mcleod on 29 February 2008 Nick Wharton and Paul McClenaghan were appointed acting joint Managing Directors until 22 August 2008 when David Wild took over as the Company's new Chief Executive Officer. On 22 August 2008 the Company's Chairman, Richard Pym, resigned and Nigel Wilson, the Company's Senior Independent Director, was appointed acting Chairman until 28 May 2009 when Dennis Millard was appointed Chairman.

Dennis Millard was considered on appointment to meet the independence criteria as set out in paragraph A.3.1 of the Code and the three other non-executive Directors are considered by the Board to be independent in character and judgement and within the definition of the Code. Accordingly, no individual or group of individuals dominates the Board's decision-making and the requirement of the Combined Code that at least half of the Board (excluding the chairman) should comprise independent non-executive Directors is satisfied. At the same time in accordance with the Combined Code, separate individuals have been appointed to the positions of Chairman, Acting Chairman and Chief Executive respectively as described above and job descriptions delineating a clear division of responsibilities between the two has been compiled and issued. Nigel Wilson remains the Company's Senior Independent Director.

The Chairman and the non-executive Directors contribute external expertise and experience in areas of importance to the Group such as marketing, customer and consumer focus, corporate finance, general finance and corporate governance. They also contribute independent challenge and rigour to the Board's deliberations and assist in the development of the Company's strategy, scrutiny of the performance of management in meeting, agree goals and targets and satisfy themselves of the integrity of the Company's internal controls and risk management systems. The Board believes that all of the Directors devote sufficient time and attention as is necessary in order to perform their duties.

Directors and their interests

The following Directors held office during the financial period ended 3 April 2009:

	Designation	Appointment/ Reappointment date
Richard Pym	Chairman	Resigned 22 August 2008
David Wild	Chief Executive Officer	Appointed 4 August 2008
Nick Wharton	Finance Director	3 February 2007
Paul McClenaghan	Commercial Director	31 March 2007
Nigel Wilson	Senior independent Director	23 July 2008
Keith Harris	Non-executive Director	23 July 2008
Bill Ronald	Non-executive Director	8 June 2007

Details of the Directors' service contracts, emoluments, the interests of the Directors and their immediate families in the share capital of the Company and options to subscribe for shares in the Company are shown in the Directors' remuneration report on pages 47 to 53. The Directors have wide experience and expertise and their biographical details are given on pages 36 and 37.

CORPORATE GOVERNANCE CONTINUED

Operation of the Board

The Board's role is to determine the long-term direction and strategy of the Group, create value for shareholders, monitor the achievement of business objectives, monitor risk and ensure that good corporate governance is practised and that the Group meets its other responsibilities to its shareholders, customers, employees and other stakeholders. The Board is also responsible for ensuring that appropriate processes are in place in respect of succession planning for appointments to the Board and to senior management positions.

The Board has a formal schedule of reserved powers, which it retains for Board decision-making on a range of key issues, including the formulation of strategy, financial reporting and controls, corporate governance matters, and treasury and risk management. The Board meets on a regular basis. During the financial period to 3 April 2009, the Board met formally ten times. Details of the number of Board and Committee meetings and the attendance at those meetings are set out on page 43. The Board is supplied in a timely manner with information appropriate to enable it to discharge its duties. Appropriate management reports and financial information are provided to the Board on a monthly basis and in advance of each Board meeting. These normally include monthly management reports, accounts, reports on current trading and papers on matters in respect of which the Board makes decisions or is invited to give its approval. Specific presentations on business, strategic issues and risk are made regularly.

The Chairman is primarily responsible for the workings of the Board and is not involved in day-to-day operational issues. He sets the agendas in consultation with the executive Directors and Company Secretary. Board papers are circulated in advance of each meeting. The Chairman periodically holds meetings with the non-executive Directors without the executive Directors present.

Save for matters reserved for decision by the Board, the executive Directors are responsible for the running of the Group's business, carrying out the agreed strategy adopted by the Board and implementing specific Board decisions relating to the operation of the Group.

Whilst Chairman Richard Pym was a non-executive Director of Old Mutual plc and Chairman of Brighthouse Group Ltd. The Board was satisfied that these appointments did not conflict with the his ability to carry out his duties and responsibilities effectively for the Group.

Nigel Wilson was the Senior Independent Director throughout the period under review and acted as Chairman from 22 August 2008 until the appointment of Dennis Millard on 28 May 2009. The Senior Independent Director is available to meet shareholders upon request if they have concerns that contact through the normal channels of the Chairman or the executive Directors has failed to resolve, or for which such contact is inappropriate.

Dennis Millard who was appointed as Chairman of the Board on 28 May 2009 also holds the position of Chairman of Smiths News plc. He is also a non-executive Director of Debenhams plc, Xchanging plc and of Premier Farnell plc. Prior to this appointment, Nigel Wilson in his capacity as Acting Chairman consulted some of the Group's top twenty shareholders and discussed Dennis Millard's prospective appointment and his existing commitments. The Board also considered these commitments and were satisfied that they would not conflict with Dennis's ability to carry out his duties and responsibilities effectively for the Group.

The Group is supportive of executive Directors who wish to take on non-executive Directorship with a company outside the Group, as exposure to such duties can broaden experience and knowledge, which will be to the benefit of the Group. Executive Directors may retain any fees they receive. The Group's executive Directors do not currently hold any non-executive Directorships

As well as helping the Chairman to set agendas, the Company Secretary is responsible for ensuring that proper information is made available to the Board and to individual Directors, for liaising between senior management and non-executive Directors as necessary, for advising the Board on governance best practise and for facilitating induction and Director training as required. A procedure has been adopted for Directors to obtain independent professional advice where appropriate, at the cost of the Company, and all Directors have unrestricted access to the Company Secretary, who is an employee of the Company.

Where a Director has a concern over any unresolved business he is entitled to require the Company Secretary to minute that concern. Should that Director later resign over this issue, the Chairman will bring it to the attention of the Board.

The Group purchases Directors' and officers' liability and indemnity insurance to cover its Directors and officers against the costs of defending themselves in civil proceedings taken against them in that capacity and in respect of damages resulting from the unsuccessful defence of any proceedings.

Meetings

The following table sets out the number of meetings of the Board and its Committees and individual attendances thereat during the financial period to 3 April 2009. In addition to the meetings detailed below, additional Board or Board Committee meetings were held during the year for the consideration of specific business. The Board considers that all Directors have enough time to devote to the business of Halfords Group plc.

	Group Board	Audit	Nomination[(1)]	Remuneration
Number of meetings held	10	3	7	5
Richard Pym[(2)]	4	1*	4	3
David Wild[(3)]	6	—	3	1*
Nick Wharton	10	3*	—	1*
Paul McClenaghan	9	—	—	—
Nigel Wilson	10	3	6	4
Keith Harris	10	3	5	5
Bill Ronald	10	3	6	5

(1) Certain of the Nomination Committee meetings dealt with the search for either a new Chief Executive Officer or a new Chairman, and all Directors attended all the meetings they were entitled to attend.
(2) Richard Pym resigned from the Board on 22 August 2008 and had attended all Board and committee meetings up to that date.
(3) DavidW ild was appointed to the Board on 4 August 2008 and attended all Board and committee meetings from that date.

* Indicates attendance by invitation.

Directors' interests in contracts

The Companies Act 2006 ("the Act") provides that a director must avoid situations where he can have a direct or indirect interest that conflicts or might conflict with the interests of the Company. The Directors of Halfords Group plc underwent a training programme to allow them a better understanding of their obligations under the Act and completed a questionnaire issued by the Company Secretary to ascertain whether there were or might have been an actual or potential conflict of interest. At 10 June 2009 no Director had a material interest at any time during the year in any contract of significance, other than a service contract (see Directors' remuneration report on pages 47 to 53), with the Company or any of its subsidiary undertakings.

The Company's Articles of Association, adopted in Annual General Meeting ("AGM") on 23 July 2008, contains provisions that allow the Directors of Halfords Group plc to authorise a conflict or potential conflicts of interest. In the period to 3 April 2009, the Board did not need to make use of such provisions.

Remuneration

The Directors' Remuneration report sets out the status of the Company's compliance with the requirements of the Combined Code with regard to remuneration matters and includes a statement on the Company's policy on Directors and senior managers' remuneration, benefits, share scheme entitlements and pension arrangements. A resolution to approve the Directors' Remuneration report will be proposed at the forthcoming AGM.

Appointment of Directors

The Company's Articles of Association require Directors appointed by the Board during the year to retire and offer themselves for reappointment at the first AGM following their appointment. David Wild and Dennis Millard were appointed on 4 August 2008 and 28 May 2009 respectively and as required by the Company's Articles will offer themselves for re-election at the AGM on 29 July 2009.

Under article 76 of the Company's Articles of Association there is also a process of retirement by rotation, which ensures that approximately one-third of all Directors (rounded down) are required to retire and seek re-election at each AGM and that no Director serves for more than three years without being proposed for re-election at an AGM. Accordingly Bill Ronald, Paul McClenaghan and Nick Wharton will retire and offer themselves for re-election at this year's AGM.

Non-executive Directors are appointed for specified terms (normally three years) and these Terms and Conditions of Appointment are available on the Group's website, *halfordscompany.com*. They are subject to reappointment under the Company's Articles of Association and subject to the Companies Act provisions relating to the removal of a Director.

The Chairman confirms to shareholders when proposing an appointment or reappointment that, following formal performance evaluation, the individual's performance continues to be effective and they demonstrate commitment to the role.

The Board has formally adopted an induction programme for new Directors, which will be tailored to each new Director who joins the Board and includes briefings regarding the activities of the Group and visits to stores. Documentation and training on their duties as Directors are also available to all Directors. In the period to 3 April 2009 the Directors attended two training days. The first concerning the Companies Act 2006 and Directors' Conflicts of Interests and the second concerning Directors' responsibilities in certain commercial situations. All Directors are also members of the Deloitte Academy, a training resource that provides support and guidance to Boards, individual directors and company secretaries. In addition, Directors are also informed regularly on relevant material changes to laws and regulations affecting the Group's business. All Directors have access to the advice and services of the Company Secretary, who is also responsible for advising the Board on all governance matters.

CORPORATE GOVERNANCE CONTINUED

Board Committees

The Board has established an effective Committee structure to assist in the discharge of its responsibilities. The terms of reference of these Audit, Nomination and Remuneration Committees comply with the provisions of the Combined Code and are available for inspection on the Company's website, *halfordscompany.com*.

The Company Secretary acts as secretary to the Audit, Nomination and Remuneration Committees. Only the members of each Committee are entitled to attend its meetings, although other Directors, professional advisers and members of the senior management team attend when invited to do so. The Audit Committee will invite the external Auditor to certain of its meetings. In the cases of the Nomination and Remuneration Committees, no member is present when business pertinent to them is under discussion. A Treasury Committee, composed of senior members of the finance and treasury teams and chaired by the Finance Director, has been established to manage the day-to-day treasury needs of the Group. When the need arises, separate ad hoc committees may be set up by the Board to consider specific issues.

Audit Committee

For the financial period to 3 April 2009, the Audit Committee comprised Nigel Wilson, Keith Harris and Bill Ronald, all of whom are independent non-executive Directors. The Committee chairman is Nigel Wilson, who, having been Chief Financial Officer of United Business Media plc, is considered by the Board to have recent and relevant financial experience. Each of the other independent non-executive Directors on the Committee has, through their other business activities, significant experience in financial matters.

The Audit Committee meets at least three times a year, according to the requirements of the Company's financial calendar. The meetings of the Audit Committee also provide the opportunity for the independent non-executive Directors to meet without the executive Directors present and also the opportunity to raise any issues of concern with the Company's external Auditor.

The Audit Committee is responsible for making recommendations to the Board on the appointment of the external Auditors and their remuneration, for reviewing the accounting principles, policies and practices adopted in the preparation of the Interim Report and Annual Report and Financial Statements and reviewing the scope and findings of the audit. The Committee assists the Board in achieving its obligations under the Combined Code in areas of risk management and internal control, focusing particularly on compliance with legal requirements, accounting standards and the Listing Rules, and ensures that an effective system of internal financial and non-financial controls is maintained. The ultimate responsibility for reviewing and approving the Annual Report and Financial Statements remains with the Board.

The Committee will keep under review the external Auditors' independence including any non-audit services that are to be provided by the external Auditors. The Auditors are also requested to confirm their independence at least annually. A formal policy has been developed and implemented, which ensures that the nature of the advice to be provided could not impair the objectivity of the external Auditors' opinion on the Group's financial statements. The policy incorporates a fee limit of £25,000, above which a formal tender process must be undertaken and approval of the Committee obtained prior to any proposed appointment.

The Committee has approved a formal whistle-blowing policy whereby staff may, in confidence, disclose issues of concern about possible malpractice or wrongdoings by any of the Group's businesses or any of its employees without fear of reprisal. This includes arrangements to investigate such matters and for appropriate follow-up action.

In addition to ensuring the integrity of the Group's half-year and full-year financial statements before publication, during the financial year to 3 April 2009 the committee:

- Considered the external Auditors report for the period ended 28 March 2008 and 26 September 2008;
- Received regular reports from the internal Auditors and agreed the annual audit plan;
- Conducted an internal review of its own effectiveness;
- Reviewed, amended and approved its own Terms of Reference;
- Reviewed and approved the Company's whistle-blowing policy;
- Reported to the Board on matters it had identified as requiring action or improvement;
- Approved responses to the Financial Reporting Review Panel, in respect of informal enquiries on the Group's Annual Report and Financial Statements for the year ended 29 March 2007;
- Recommend for approval the Group's risk management and internal control policies; and
- Approved the external Auditors' audit strategy and audit fee for the period to 3 April 2009.

Having retained the services of PricewaterhouseCoopers LLP as statutory Auditors since 2003, the committee has progressed a complete review of such services available to the Group. As a result of this process, KPMG LLP will be recommended to the shareholders at the AGM as Auditors for the forthcoming financial year.

Nomination Committee

For the financial period to 3 April 2009 the Nomination Committee comprised Keith Harris, Bill Ronald, Nigel Wilson, Richard Pym prior to his resignation and David Wild following his appointment. Richard Pym chaired the committee up to his resignation and as acting Chairman Nigel Wilson chaired the committee for the rest of the year. Keith Harris, Nigel Wilson and Bill Ronald are considered independent non-executive Directors. The Combined Code states that the test of independence is not appropriate in relation to the Chairman after his appointment and the Board feels it is appropriate, as all non-executive Directors sit on the committee, that the committee should be chaired by the Chairman of the Group. Dennis Millard will chair the committee going forward.

The Committee, which will normally meet not less than twice a year, has responsibility for considering the size, structure and composition of the Board of the Company, retirements and appointments of additional and replacement Directors and making appropriate recommendations so as to maintain an appropriate balance of skills and experience on the Board.

The Nomination Committee has established a process for Board appointments that it considers to be formal, rigorous and transparent and involves the use of external executive recruitment agencies. This process includes a review of the skills, experience and knowledge of the existing Directors, to assess which of the potential shortlisted candidates would most benefit the balance of the Board having regard also to the need for succession planning. During the search for a new Chief Executive Officer and a new Chairman, the committee used the services of the executive recruitment agencies, The Miles Partnership and Egon Zehnder and included on its shortlist candidates who were nationally and internationally available.

In recommending Dennis Millard to be appointed Chairman of the Group, the Nomination Committee assessed the time commitment required by the Chairman. In approving the appointment the Board took this into account and also considered Dennis's other commitments. The Board concluded that he had enough time to fulfil his commitments to the Group and his other commitments would not affect his ability to carry out his duties and responsibilities effectively for the Group.

During the financial year to 3 April 2008, the committee:

- Approved the search process for a new Chief Executive Officer.
- Evaluated the skills and experience required by a new Chief Executive Officer.
- Recommended to the Board the appointment of David Wild as Chief Executive Officer.
- Discussed the resignation of the Chairman and approved the search process for a new Chairman.
- Evaluated the skills, experience and time commitment required by a new Chairman.
- Reviewed, amended and approved its own Terms of Reference.
- Approved Directors for reappointment and re-election at the AGM.
- Considered the composition of the Board's committees.
- Conducted an internal review of its own effectiveness.

The terms of appointment for the non-executive Directors are available for inspection on the Company's website *halfordscompany.com*.

In view of the appointment of Dennis Millard on 28 May 2009 the discussion on Board size, structure, composition and succession has been held over for future consideration.

Remuneration Committee

For the financial period to 3 April 2009, the Remuneration Committee comprised Keith Harris (Chairman), Nigel Wilson, Bill Ronald and prior to his resignation Richard Pym. Keith Harris, Nigel Wilson and Bill Ronald are all independent non-executive Directors.

Executive Directors attend Remuneration Committee meetings at the invitation of the Committee Chairman. The Remuneration Committee will normally meet at least twice a year.

The Remuneration Committee has responsibility for making recommendations to the Board on the Company's policy on remuneration of executive Directors, the Company Secretary and senior managers. It also determines, within agreed terms of reference, specific remuneration packages for each of the Chairman, the executive Directors and the Company Secretary of the Company and such members of senior management as it is delegated to consider. This includes pension rights; any compensation payments; and the implementation of executive incentive schemes. In accordance with the Committee's terms of reference, no Director may participate in discussions relating to their own terms and conditions of service or remuneration.

Further information on the activities of the Remuneration Committee is set out in the Directors' remuneration report on pages 47 to 53.

Evaluation of the Board and its Committees

The Board has established a formal process for the annual evaluation of the performance of the Board, its principal committees and individual Directors. Questionnaires are drawn up, which provide the framework for the evaluation process. Each member of the Board or appropriate Committee is invited to comment on the performance of the individual, the Board, or the appropriate Committee and submits replies to the questionnaires, which are then collated. Following a review of these responses by the Board or by the appropriate Committee, appropriate action will be taken to ensure that the performance of the Board as a whole, its principal committees and individual Directors is such that each can perform at the optimum level for the benefit of the Company.

The Senior Independent Director discusses with the Chairman the responses to the Chairman's effectiveness questionnaire, whilst the Chairman discusses the non-executive Directors' performance evaluation with the individual non-executive Directors.

Relationships with shareholders

The Board recognises the importance of establishing and maintaining good relationships with all of the Company's shareholders. The Chief Executive and Finance Director meet regularly with analysts and institutional shareholders to keep them informed of significant developments and report to the Board accordingly on the views of the major shareholders. The Chairman and the Senior Independent Director are also available to attend such meetings, if required. Each of the other non-executive Directors is also offered the opportunity to attend meetings with major shareholders and would do so if requested by any major shareholder. The Company's investor relations programme includes formal presentations of full year and interim results. Feedback from these meetings is provided to the Board. The Company Secretary is also charged with bringing to the attention of the Board any material matters of concern raised by the Company's shareholders, including private investors.

CORPORATE GOVERNANCE CONTINUED

The Interim Report and the Annual Report and Financial Statements are the primary means used by the Board for communicating during the year with all of the Company's shareholders. The Board also recognises the importance of the Internet as a means of communicating widely, quickly and cost-effectively and an investor relations website (*halfordscompany.com*) has been developed to facilitate communications with shareholders. Information available online includes copies of the full and half-year financial statements, press releases and Company news, corporate governance information and statements and the terms of reference for the Audit, Nomination and Remuneration Committees.

The Board is committed to the constructive use of the AGM as a forum to meet with shareholders and to hear their views and answer their questions about the Group and its business. The AGM of the Group is to be held on 29 July 2009 at The Alveston Manor Hotel, Stratford-upon-Avon. Notice of this meeting together with an explanatory circular describing any items of special business, will be sent out at least 21 days before the date of the meeting. The Chairmen of the Remuneration, Nomination and Audit Committees will normally attend the meeting and will answer questions that may be relevant to the work of those Committees. If they are unable to attend they will appoint a deputy to attend in their place. It is the Company's practice to propose separate resolutions on each substantially separate issue at the AGM. The Chairman will advise shareholders on the proxy voting details for each resolution after it has been put to the meeting.

The Company's financial calendar is set out on the inside back cover.

Internal control and risk management

The Board has overall responsibility for the system of internal control and for reviewing its effectiveness throughout the Group and ensuring that there is a process in accordance with the guidelines laid down by the Turnbull Report to identify, evaluate and manage any significant risks that may affect the achievement of the Group's strategic objectives.

The assessment of effectiveness has been carried out this year. The system of internal control is designed to manage, rather than eliminate, the risk of failing to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. The Board and the Audit Committee have reviewed the effectiveness of the Group's systems of internal control and risk management in accordance with the Combined Code for the financial period to 3 April 2009, and up to the date of approving the Annual Report and Financial Statements.

Deloitte LLP, as independent advisers, are formally engaged to provide internal audit services, reporting to the Board, via the Audit Committee. Their principal role in fulfilling the Internal Audit function is to review the effectiveness of the controls operating within the business by undertaking an agreed schedule of independent audits each year. The nature and scope of this annual audit programme is determined by the Audit Committee at the beginning of each calendar year and may be revised from time to time according to changing business circumstances and requirements.

The findings of these risk-based audits are reported initially to executive management and any necessary corrective actions are agreed. Summaries of these reports are presented to, and discussed with, the Audit Committee along with details of progress against action plans as appropriate.

The Board considers risk assessment and control to be fundamental to achieving its corporate objectives within an acceptable risk/reward profile and there is an ongoing process for identifying and evaluating the significant risks faced by the Group and the effectiveness of related controls. The key elements of this process are:

- a comprehensive system of monthly reporting from key executives, identifying performance against budget, analysis of variances, major business issues, key performance indicators and regular forecasting;
- well-defined policies governing appraisal and approval of capital expenditure and treasury operations;
- reviews of key business risks and of management's controls and plans to mitigate these risks; and
- an annual corporate governance confirmation made to the Board by all Directors on the effectiveness of the identification of major risks and of the monitoring of internal controls within their areas of responsibility.

As part of the ongoing process for identifying, evaluating and managing the key business risks faced by the Group the Board has established a Risk Management Group to oversee the implementation of the risk management framework, co-ordinate risk management activities throughout the business and to report to the Board and Audit Committee on risk issues. The Risk Management Group is chaired by the Company Secretary and includes senior managers from Store Operations, Business Systems, Health & Safety, Human Resources, Finance, Store Assurance, Business Services, International, Multichannel, Logistics and Supply Chain functions. The Group is advised by Deloitte LLP, the Group's internal Auditors.

Through its normal business operations, the Company is exposed to a number of principal risks and uncertainties which could impact the on the results of the Company. These, together with their mitigating controls, are described in the Finance Director's report on pages 20 to 23.

By order of the Board

ALEX HENDERSON
COMPANY SECRETARY
10 JUNE 2009

DIRECTORS' REMUNERATION REPORT

This report, prepared by the Remuneration Committee ("the Committee") on behalf of the Board, has been prepared pursuant to s420 of the Companies Act 2006 and Schedule 7A of the Companies Act 1985. Part 3 of Schedule 7A requires designated parts of the Remuneration Report to be subject to audit. In preparing this report, consideration has been given to the Listing Rules issued by the Financial Services Authority and to the Combined Code on Corporate Governance 2006.

The report has been approved both by the Remuneration Committee and by the Board, and a resolution to approve the report will be proposed at the Annual General Meeting ("AGM") of the Company on 29 July 2009.

PART A — UNAUDITED INFORMATION

Remuneration Committee

Membership

The Committee comprised the following non-executive Directors during the financial period to 3 April 2009:

Keith Harris (Committee Chairman)
Richard Pym (resigned 22 August 2008)
Bill Ronald
Nigel Wilson

Meetings

During the financial period to 3 April 2009 the Committee met on five occasions. The executive Directors are invited to attend the Committee's meetings, when appropriate, but are not present when their own remuneration is discussed.

Role

The Board has delegated to the Remuneration Committee responsibility for reviewing and recommending the pay and benefits and contractual arrangements of the Chairman, executive Directors and the Company Secretary and for overseeing the Group's share schemes.

The Committee recommends and monitors the structure and levels of remuneration for senior managers throughout the Group and ensures that contractual terms on termination, and any payments made, are fair to the individual and the Company, ensuring that failure is not rewarded and that the departing manager's duty to mitigate loss is fully recognised.

It is committed to principles of accountability and transparency to ensure that remuneration arrangements demonstrate a clear link between reward and performance. In its work, the Committee considers fully the principles and provisions of the Combined Code on Corporate Governance and its terms of reference are available on the Group's website, *halfordscompany.com*.

Responsibilities

- To review and recommend the remuneration policy of executive Directors and senior managers;
- Within the remuneration policy agreeing individual remuneration packages for the Chairman, executive Directors and senior managers, including the Company Secretary;
- Reviewing and recommending the terms and conditions to be included in service agreements for executive Directors;
- Reviewing and recommending any employee share-based incentive schemes and any changes to the rules of such schemes; and
- Reviewing and recommending appropriate performance conditions and targets for the variable element of remuneration packages.

Advisers

During the year the Hay Group have continued to provide advice to the Committee on matters relating to remuneration, including market comparison data and best practice. During the year the Committee has also received advice from The Miles Partnership in connection with the recruitment of a new Chief Executive Officer and Egon Zehnder in connection with the search process for a new Chairman. None of these companies has any other connection with the Group.

During the year the Committee also consulted with the Chief Executive, and prior to his appointment with the acting joint Managing Directors, as appropriate, and is also supported by the Director of Human Resources.

Activities

During the financial year to 3 April 2009 the Committee:

- Recommended the salary and incentive package for the new Chief Executive Officer;
- Carried out salary reviews for executive Directors and senior managers, including the Company Secretary;
- Reviewed and recommended the annual bonuses for the executive Directors and senior managers in respect of the financial year ended 28 March 2008;
- Approved proposals and targets to the variable discretionary bonus schemes that affect the Chief Executive Officer, other executive Directors and senior managers in respect of the 2009 financial period;
- Reviewed the performance conditions of the Halfords Performance Share Plan 2005 ("PSP") for awards under the Long-Term Incentive Plans ("LTIP");
- Granted awards under the LTIP 2008 to a maximum of 21 senior managers. In addition David Wild was granted an award equivalent of 200% of his salary as a consequence of his appointment as a Director on 4 August 2008;
- Approved the maturity of options granted to employees under the Company Share Option Scheme ("CSOS") 2005, having first taken advice on determination of the performance conditions;
- Approved the granting of awards over Halfords Group plc shares under the CSOS 2008;
- Granted awards under the employee sharesave scheme ("SAYE") 2008, which included all eligible employees in the United Kingdom and Republic of Ireland;
- Considered the principles behind the establishment of SAYE share option schemes in 2009;
- Reviewed the remuneration policy for executive Directors and senior managers, including the Company Secretary;

DIRECTORS' REMUNERATION REPORT CONTINUED

- Conducted an internal effectiveness review, which concluded that there were no items of concern needing to be considered by the committee;
- Reviewed and amended the committee's Terms of Reference and in response to the Combined Code made these available on the Company's website; and
- Approved the Directors' Remuneration Report for inclusion in the Annual Report and Financial Statements 2008.

Remuneration policy

The remuneration policy of the Committee and of the Board is to provide remuneration packages for the executive Directors and other senior managers in the Group which are appropriate to the size and nature of the Group's business and which will attract and retain high calibre executives. The Board also considers this policy annually as part of its risk review process and obtains benchmarking information to ensure that the levels of remuneration for executive Directors and senior managers are sufficient to achieve the above objectives.

It is the policy of the Committee and the Board to maintain the above approach to remuneration packages for executive Directors and other senior executives of the Group for the current financial year and future financial years, subject to review in the light of any changes in relevant legislation, regulations or market practice. No significant changes to the remuneration arrangements for executive Directors are currently anticipated except for changes to the LTIP, see page 49. However, the Committee will continue to review base salaries and performance targets to ensure that they align with the remuneration policy of the Committee and the Board and with the Company's strategic objectives. The individual salary, bonus and benefit levels of the executive Directors are, and will continue to be, reviewed annually by the Committee.

Annual salaries continue to be rigorously tested and reviewed and set at levels not normally exceeding median. In relation to bonuses and long-term incentive plans, the policy will continue to be to provide an opportunity for executives to earn total remuneration packages in the upper quartile range, provided that stretching and demanding performance conditions are met.

The Committee has reviewed all aspects of the remuneration policy, including pay benchmarking for the most senior roles and consideration of the performance measures used, and have not made any changes to the remuneration policy.

While committed to the use of equity-based performance-related remuneration as a means of aligning Directors' interests with those of shareholders, the Committee is aware of shareholders' concerns on dilution through the issue of new shares to satisfy such awards. Therefore, when reviewing remuneration arrangements, the Committee takes into account the effects such arrangements may have on dilution.

In determining the remuneration arrangements for executive Directors, the Committee is sensitive to the pay and employment conditions elsewhere in the Group, especially when determining base salary increases.

Shareholding

The shareholding guidelines require executive Directors, in post at the time of the adoption of the LTIP, to retain shares to a value equal to 200% of their basic annual salary. Newly appointed executive Directors will be required to acquire and retain shares to a value equal to 100% of their basic annual salary over a five year period following their appointment to the Board.

Remuneration for executive Directors

It is the Company's policy that a substantial proportion of the executive Directors' remuneration should be performance related in order to encourage and reward superior business performance and shareholder returns and that remuneration should be linked to both individual and Company performance. The executive Directors in position at the time of the IPO have, in the past, also benefited from participation in the CSOS as set out below, on page 53. No further awards have or will be made under this share option scheme to the executive Directors but they are able to participate in the LTIP. The executive Directors are also able to participate in an all-employee SAYE scheme (the "Halfords Sharesave Scheme"), referred to on page 52.

In arriving at the balance between fixed and variable remuneration it is agreed that the fixed portion will relate only to annual salary, whilst the variable portion includes both annual bonuses and long-term incentive arrangements.

Base salaries

Basic salary for executive Directors takes into account the individual's experience, roles, responsibilities and performance. This is normally reviewed annually unless responsibilities change. For an executive Director who is experienced and fully effective in his role, basic salary is targeted at the retail market median for comparable roles. In April 2008 the salaries of Nick Wharton and Paul McClenaghan were increased to £255,000 and on appointment David Wild was awarded a salary of £500,000. There have been no increases since these dates, but in line with the rest of the organisation these salaries will be reviewed in October 2009.

Annual bonus

Executive Directors may earn up to an additional 100% (120% in the case of the Chief Executive Officer) of their basic salaries as a performance bonus. 80% of the entitlement is dependent upon Earnings before Tax ("EBT") targets and 20% is dependent upon Earnings per Share ("EPS") targets. The Remuneration Committee believes that this is a very stretching and demanding performance schedule, with the maximum bonus only being achievable for exceptional performance, being 106% of target. Bonuses are not pensionable.

Remuneration for senior managers

As for executive Directors it is the Company's policy that a substantial proportion of remuneration should be performance related in order to encourage and reward superior business performance and shareholder returns and that remuneration should be linked to both individual and Company performance. Basic salary is targeted at the retail market median for comparable roles and is benchmarked on a regular basis. Bonuses of up to 100% of salary can be earned based on the Company's performance. 80% of the entitlement is dependent upon EBT targets and 20% is dependent upon EPS targets. Maximum bonus only being paid at 106% of target.

The senior managers also benefit from participation in the 2005 Performance Share Plan, the Company's LTIP.

Share plans

Halfords Group plc has adopted three share option schemes. In May 2004 the Company adopted the Halfords CSOS and the Halfords Sharesave Scheme, under which employees are eligible for the grant of options to acquire ordinary shares in the Company. In July 2005 the Company adopted the PSP, under which annual awards are made to senior executives.

Halfords Company Share Option Scheme

Options are granted at an exercise price not less than market value at the date of grant and may normally only be exercised if performance conditions set at the time of grant have been achieved. These performance conditions require EPS for the financial year last preceding the third anniversary of the grant date to equal or exceed the percentage growth in Retail Price Index ("RPI") plus an additional percentage determined as appropriate at the time of the grant. These additional percentages were 3.5% for options granted in 2006, 2007 and 2008 respectively.

The executive Directors participate in the PSP and no further awards will be made to them under the Company Share Option Scheme.

Halfords Sharesave Scheme

Options are granted at an exercise price not less than 80% of market value at the date of grant. Options may not normally be exercised until the option holder has completed his or her savings contract, which will normally be three or five years, from the date of commencement of the savings contract. Executive Directors may also join the Halfords Sharesave Scheme.

Performance Share Plan

Under the PSP, approved by shareholders at the AGM in 2005, conditional rights to receive shares will be awarded to participants. Awards have been made in every year since 2005.

The extent to which such rights vest will depend upon the Group's performance over the three-year period following the award date. The vesting of 50% of the awards will be determined by the Group's relative total shareholder return ("TSR") performance and the vesting of the other 50% by the Group's absolute earnings per share performance against RPI. The Group's TSR performance will be measured against the FTSE 350 general retailers as a comparator group.

No retesting will be permitted. In order to ensure that the performance targets for the current live schemes (2006, 2007 and 2008) remain stretching but achievable, the earnings per share performance spread will be RPI plus 4% compound at entry to RPI plus 11% per annum compound at maximum.

Annual awards under the LTIP are normally 100% of base salary. David Wild was appointed to the Board of Halfords Group plc on 4 August 2008 and in deliberating on the remuneration package for the new Chief Executive Officer, the Remuneration Committee believed that it was necessary, in attracting the right calibre of individual to lead the Company's business strategy, to offer awards in excess of the usual maximum. Therefore it recommended to the Board that the new Chief Executive Officer should receive an award of 200% of salary in the first and second years of his tenure, reverting to the normal level for executive Directors thereafter. This is in line with the plan rules approved by shareholders. These awards will be subject to the same stretching performance conditions as all other awards made under this plan. On the vesting of any of this award David Wild will be encouraged to retain shares, so enabling him to achieve the Group's shareholding guidelines more quickly.

Following best practice, the Group's LTIP design has been kept under regular review in order to ensure the design is relevant and appropriate. The remuneration policy as stated above is for total remuneration to be upper quartile provided that stretching and demanding performance conditions are met. The benchmarking exercise carried out by the Remuneration Committee's advisers, The Hay Group, suggests that this objective is not being met, that the market has moved in terms of long-term incentive award quantum and that upper quartile total remuneration is not being achieved. As a consequence, the Committee's recommendation is to increase the level of normal awards made within the rules of the scheme and the Company will be consulting with shareholders about award quantum before the next LTIP award is made.

It should also be noted that because of the difficult market conditions, the Remuneration Committee did consider whether the challenging EPS performance condition range was still appropriate. It decided in the interests of strong shareholder alignment to leave it unchanged at a range of RPI +4% to RPI +11%.

The Committee has also recommended the reinvestment of dividends earned on award shares. This is in line with best practice as contained in the ABI guidelines on executive remuneration.

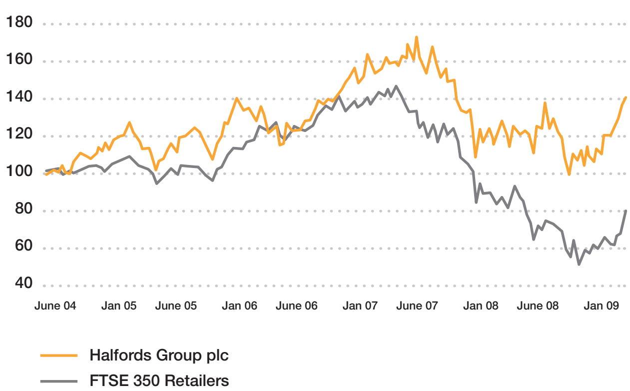
Details of options granted to executive Directors that are outstanding and further details of the share option schemes, including performance conditions, are set out on page 53.

Performance graph

The following graph shows the TSR performance of the Company since listing in July 2004, against the FTSE 350 General Retailers (which was chosen because it represents a broad equity market index of which the Company is a constituent).

TSR was calculated by reference to the growth in share price, as adjusted for reinvested dividends.

Cumulative TSR Based to 100



DIRECTORS' REMUNERATION REPORT CONTINUED

Directors' interests in ordinary shares

The beneficial interests of Directors, serving at the end of the financial period, in shares in Halfords Group plc were:

	Fully paid Ordinary Shares of 1p each As at 3 April 2009	As at 28 March 2008
Richard Pym (Resigned 22 August 2008)	**—**	31,538
David Wild (Appointed 4 August 2008)	**40,000**	—
Nick Wharton	**237,812**	227,850
Paul McClenaghan	**26,679**	15,000
Nigel Wilson	**20,396**	20,000
Keith Harris	**3,846**	3,846
Bill Ronald	**11,538**	11,538

Directors' share interests include the interests of their spouses, civil partners and infant children, or stepchildren as required by section 822 of the Companies Act 2006. There were no changes in the beneficial interests of the Directors in the Company's shares between 3 April 2009 and 10 June 2009.

Pensions

During the year the Company changed its pension arrangements to prepare for the Government's proposed introduction of Personal Accounts. The Halfords Pension Plan moved from a defined contribution scheme to a contract based plan, where each member has their own individual pension policy which they monitor independently. Both schemes were open to the executive Directors. The Group's contributions during the year are shown in the table on page 51.

Other benefits

Executive Directors are entitled to be provided with a company car or an equivalent allowance, contribution to a personal pension scheme, permanent health insurance, life assurance cover, membership of a private medical insurance scheme and travelling and other expenses.

Other Directorships

The Group is supportive of executive Directors who wish to take on a non-executive Directorship with a publicly quoted company in order to broaden their experience. They are entitled to retain any fees they may receive. No Director held any such positions during the year.

Service agreements

The Committee periodically reviews the Group's policy on the duration of Directors' service agreements, and the notice periods and termination provisions contained in those agreements. Whilst the Company is aware that companies are strongly encouraged to consider notice periods of less than 12 months, the Committee believes that the current policy whereby notice periods contained in executive Directors' service contracts should be limited to 12 months (other than in exceptional circumstances, such as for the purposes of recruitment) is more in line with the Company's overall remuneration policy that is designed to attract and retain high calibre executives.

	Date of service agreement	Notice period
David Wild[1]	19 June 2008	12 months
Nick Wharton	17 May 2004	12 months
Paul McClenaghan	9 May 2005	12 months

(1) David Wild was appointed to the Board on 4 August 2008 and his Service Agreement was effective from that date.

The Company may terminate any of the above service agreements by giving not less than 12 months' notice. In the event of early termination (other than for a reason justifying summary termination in accordance with the terms of the service agreement) the Company may (but is not obliged to) pay to the executive Director, in lieu of notice, a sum equal to the annual value of the executive Director's then salary, benefits, pension contributions and on-target bonus (calculated on a pro rata daily basis) which he would have received during the contractual notice period, the sum of which shall be payable in 12 monthly instalments. In such instances the executive Director shall use his best endeavours to secure an alternative source of remuneration, thus mitigating any loss to the Company, via the provision of his services as expediently as possible in the prevailing circumstances and shall provide the Board with evidence of such endeavours upon their reasonable request. If the Director fails to provide such evidence the Board may cease all further payments of compensation. To the extent that the executive Director receives any sums as a result of alternative employment or provision of services while he is receiving such payments from the Company, the payments shall be reduced by the amount of such sums.

No compensation would be payable if a service contract were to be terminated by notice from an executive Director or for lawful early termination by the Company.

The service contracts of executive Directors do not provide for any enhanced payments in the event of a change of control of the Company.

Details of individual Directors' remuneration and share options are set out on pages 47 to 53.

Non-executive Directors

The Board as a whole, following a recommendation by the Chief Executive Officer, determines the fees of the non-executive Directors.

None of the non-executive Directors have employment contracts with the Company. However, each has entered into a letter of appointment with the Company confirming their appointment for a period of three years, unless terminated by either party giving the other not less than three months' notice or by the Company on payment of fees in lieu of notice. The appointments are subject to the provisions of the Companies Act 1985 and 2006 and the Company's Articles of Association, in particular the need for periodic re-election. Continuation of an individual non-executive Director's appointment is also contingent on that non-executive Director's satisfactory performance, which will be evaluated annually. No compensation would be payable to a non-executive Director if his engagement were terminated as a result of him retiring by rotation at an Annual General Meeting, not being elected or re-elected at an Annual General Meeting or otherwise ceasing to hold office under the provisions of the Articles of Association of the Company.

There are no provisions for compensation being payable upon early termination of an appointment of a non-executive Director.

Details of non-executive appointment periods appear below:

	Date of appointment	Date of current reappointment	Expiry date	Unexpired term at the date of this report
Richard Pym	17 May 2004	8 June 2007	Resigned 22 August 2008	—
Nigel Wilson	17 May 2004	8 June 2007	7 June 2010	12 months
Keith Harris	17 May 2004	8 June 2007	7 June 2010	12 months
Bill Ronald	17 May 2004	8 June 2007	7 June 2010	12 months

PART B: AUDITED INFORMATION

The following section provides details of the remuneration, pension and share interests of the Directors for the 53 weeks to 3 April 2009 and has been audited.

Remuneration of executive Directors

Details of the payments made to executive Directors were as follows:

	53 weeks to 3 April 2009				
	Salary & fees £'000	**Bonuses £'000**	**Benefits £'000**	**Total £'000**	2008 Total £'000
David Wild[1]	**333**	**300**[2]	**166**[2]	**799**	—
Nick Wharton[3]	**253**	**116**	**15**	**384**	364
Paul McClenaghan[3]	**253**	**116**	**14**	**383**	365
Ian McLeod[4]	**—**	**—**	**—**	**—**	417
	839	**532**	**195**	**1,564**	1,146

(1) David Wild was appointed on 4 August 2008.

(2) The Remuneration Committee believed that it was necessary in attracting the right calibre of individual to lead the Company's business strategy to offer certain terms as part of the new Chief Executive Officer's initial employment terms. It therefore recommended to the Board that the new Chief Executive Officer should receive in the period to 3 April 2009 a bonus of 60% of his annual salary and a one-off relocation allowance of £150,000 to cover his expenses of relocating from California, USA to the UK.

(3) Nick Wharton and Paul McClenaghan joined the new Halfords Pension Plan and sacrificed some of their salary for like-for-like pension contributions.

(4) Ian McLeod resigned on 29 February 2008.

Benefits include payments made in relation to private health insurance and the provision of a company car.

Pension entitlements

Pension contributions made by the Group during the 53 weeks to 3 April 2009 in respect of executive Directors were as follows:

	53 Weeks to 3 April 2009 £'000	52 Weeks to 28 March 2008 £'000
David Wild[1]	**50**	—
Nick Wharton	**69**[3]	58
Paul McClenaghan	**40**[3]	33
Ian McLeod[2]	**—**	58
	159	149

(1) David Wild was appointed on 4 August 2008.

(2) Ian McLeod resigned on 29 February 2008.

(3) Includes two months of employee contributions reclassified as employer contributions under the new personal contract-based Halfords Pension Plan.

DIRECTORS' REMUNERATION REPORT CONTINUED

Remuneration of non-executive Directors

The remuneration of the Chairman is determined by the Remuneration Committee, whilst the Board as a whole, following a recommendation by the Chief Executive Officer, determines the fees of the non-executive Directors. These fees are reviewed every two years and were last reviewed in May 2008. Details of the payments made to non-executive Directors are shown below:

	53 weeks to 3 April 2009			
	Fees £'000	Committee Chairman's Fees £'000	Total £'000	2008 Total £'000
Richard Pym[(1)]	**65**	**—**	**65**	150[(2)]
Nigel Wilson[(3)]	**60**	**5**	**65**	60
Keith Harris	**45**	**5**	**50**	45
Bill Ronald	**45**	**—**	**45**	40
	215	**10**	**225**	295

(1) Richard Pym resigned on 22 August 2008.

(2) Included in Richard Pym's fees was an additional lump sum of £25,000 to recompense him for additional duties undertaken during the absence of a Chief Executive Officer.

(3) Nigel Wilson volunteered to receive no additional pay in stepping upto Chairman.

In April 2008, fees for the Chairman and non-executive Directors were increased and fixed for a further two years. The basic fee for the Chairman was increased to £165,000 with no additional fee for his Chairmanship of the Nominations Committee, for the Senior Independent Director it was increased to £60,000 and for non-executive Directors to £45,000. The Chairmen of the Remuneration and the Audit Committees continue to receive an additional £5,000.

The Chairman and the other non-executive Directors are not eligible to participate in the Company's bonus arrangements, share option schemes, long-term incentive plans or pension arrangements.

Directors' interests in share options

At the beginning of the year and at 3 April 2009, the following Directors had options to subscribe for shares granted under the terms of the Halfords SAYE scheme:

	Options as at 28 March 2008	Granted in the period	Exercised in the period	Lapsed in the period	**Options as at 3 April 2009**	Exercise Price £	Exercisable from	Exercisable to
Nick Wharton								
2007 SAYE	2,934	—	—	2,934	**—**	3.22	1 Oct 2010	1 April 2011
2008 SAYE	—	4,878	—	—	**4,878**	1.93	1 Oct 2011	1 April 2012
Total	2,934	4,878	—	2,934	**4,878**			
Paul McClenaghan								
2006 SAYE	3,106	—	—	3,106	**—**	3.01	1 Sept 2009	1 Mar 2010
2008 SAYE	—	4,878	—	—	**4,878**	1.93	1 Oct 2011	1 April 2012
Total	3,106	4,878	—	3,106	**4,878**			

The SAYE scheme is open to all full-time Directors and employees with eligible employment service. Options may be exercised under the scheme at £3.01 per share (2006 scheme), £3.22 per share (2007 scheme) and £1.93 per share (2008 scheme) if the option holder completes his saving contract for a period of three years and then not more than six months thereafter.

At the beginning of the year and at 3 April 2009, no Directors had options to subscribe for shares granted under the terms of the Halfords CSOS. The executive Directors have since 2005 participated in the PSP and no further awards will be made to them under the CSOS.

The table below shows gains made by individual Directors from the exercise of share options during the financial period ended 3 April 2009. The gains are calculated as at the exercise date, although the shares may have been retained.

	2009 £'000	2008 £'000
2004 CSOS		
Ian McLeod	**—**	264
Nick Wharton	**—**	171
2004 SAYE		
Nick Wharton	**—**	4
2005 LTIP		
Nick Wharton	**51**	—
Paul McClenaghan	**61**	—
Total gains on share options	**112**	439

Long-Term Incentive Plan

The following table shows the executive Directors' interests in shares awarded under the long-term incentive plan.

These figures represent the maximum potential award.

	Award date	Mid-market price on date of awards £	Awards held 28 March 2008	Awarded during the period	Lapsed during the period	Exercised during the period	**Awards held 3 April 2009**	Performance period 3 years to
David Wild	7 August 2008[1]	2.96	—	337,643	—	—	**337,643**	1 April 2011
Nick Wharton	4 August 2005[2]	3.07	47,321	—	30,436	16,885	**—**	1 April 2008
	11 July 2006	3.01	50,000	—	—	—	**50,000**	1 April 2009
	12 July 2007	4.02	54,726	—	—	—	**54,726**	1 April 2010
	7 August 2008	2.96	—	86,099	—	—	**86,099**	1 April 2011
Paul McClenaghan	4 August 2005[2]	3.07	55,375	—	35,579	19,796	**—**	1 April 2008
	11 July 2006	3.01	60,465	—	—	—	**60,465**	1 April 2009
	12 July 2007[3]	4.02	109,452	—	—	—	**109,452**	1 April 2010
	7 August 2008	2.96	—	86,099	—	—	**86,099**	1 April 2011

(1) The Remuneration Committee believed that it was necessary in attracting the right calibre of individual to lead the Company's business strategy to offer awards in excess of the usual maximum. Therefore it recommended to the Board that the new Chief Executive Officer should receive an award of 200% of salary in the first and second years of his tenure. This is in line with the plan rules approved by shareholders. On the vesting of any of this award David Wild will be encouraged to retain shares, so enabling him to achieve the Company's shareholding guidelines outlined on page 48.

(2) After measurement of the performance conditions of the awards made in August 2005, 37.5% of the award vested in August 2008.

(3) Paul McClenaghan was appointed to the Board of Halfords Group plc on 31 March 2007. In order to more closely align him with shareholders and with the equity participation of other current Board members, the Remuneration Committee decided to make a one-off award of 200% of base annual salary under the LTIP. On the vesting of any of this award Paul McClenaghan will be encouraged to retain shares, so enabling him to achieve the shareholding guidelines, outlined on page 48.

Vesting of awards is subject to the fulfilment of two performance conditions; 50% of the award is subject to the fulfilment of a TSR-based performance conditions measured over a three-year period against appropriate comparators. Relative TSR performance will be measured against a FTSE 350 general retailer comparator group.

The vesting of the remaining 50% of the award will be subject to the minimum requirement that Halfords Group plc's EPS performance spread will be RPI plus 4% compound at entry to RPI plus 11% per annum compound at maximum.

After measurement of the performance conditions of the awards made in July 2006, 87.6% of the award will vest in July 2009.

The Register of Interests, which is open to inspection, contains full details of Directors' shareholdings and options. No options have expired unexercised during the financial year to 3 April 2009 and there were no changes in the options held by the Directors between 3 April 2009 and 10 June 2009.

On 3 April 2009 the market price of ordinary shares of Halfords Group plc was 305.00p and the range during the financial year was 205.25p to 319.00p. For details of the grant dates of options see note 21 on page 82.

KEITH HARRIS
CHAIRMAN OF THE REMUNERATION COMMITTEE
10 JUNE 2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Group and the parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The Group and parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Group financial statements comply with IFRSs as adopted by the European Union, and with regard to the parent Company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the Group and parent Company financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 1985 and 2006 (as relevant) and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed on pages 36 and 37, confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Business Review on pages 8 to 19 and the Finance Director's report on pages 20 to 23 and which forms part of the Directors' Report contained in within this Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HALFORDS GROUP plc

We have audited the Group financial statements of Halfords Group plc for the 53 weeks to 3 April 2009 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Shareholders' Equity, the Accounting Policies and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Company financial statements of Halfords Group plc for the 53 weeks to 3 April 2009 and on the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, Business Review and the Finance Director's Report that is cross-referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code 2006 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Financial and Operational Highlights, Halfords at a Glance, Chairman's Statement, Business Review, Finance Director's Report, Corporate Social Responsibility, The Board, Director's Report, Corporate Governance, Directors' Remuneration Report, Statement of Directors' Responsibilities, Independent Auditor's Report ("the Group"), Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Changes in Shareholders' Equity, Consolidated Cash Flow Statement, Notes to Consolidated Cash Flow Statement, Accounting Policies, Notes to the Financial Statements, Five Year Record, Independent Auditors' Report ("the Company"), Company Balance Sheet, Accounting Policies, Notes to the Financial Statements, Shareholder Information, Company Information and all elements listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 3 April 2009 and of its profit and cash flows for the 53 weeks then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Group financial statements.

PRICEWATERHOUSECOOPERS LLP
CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS
BIRMINGHAM
10 JUNE 2009

CONSOLIDATED INCOME STATEMENT

For the period	Notes	53 weeks to 3 April 2009 Before exceptional items £m	53 weeks to 3 April 2009 Exceptional items (note 5) £m	53 weeks to 3 April 2009 Total £m	52 weeks to 28 March 2008 Before exceptional items £m	52 weeks to 28 March 2008 Exceptional items (note 5) £m	52 weeks to 28 March 2008 Total £m
Revenue		**809.5**	**—**	**809.5**	797.4	—	797.4
Cost of sales		**(388.1)**	**—**	**(388.1)**	(394.9)	—	(394.9)
Gross profit		**421.4**	**—**	**421.4**	402.5	—	402.5
Operating expenses	2	**(317.4)**	**(12.3)**	**(329.7)**	(301.5)	—	(301.5)
Operating profit	3	**104.0**	**(12.3)**	**91.7**	101.0	—	101.0
Finance costs	6	**(11.9)**	**(4.6)**	**(16.5)**	(13.5)	—	(13.5)
Finance income	6	**2.3**	**—**	**2.3**	2.7	—	2.7
Profit before tax		**94.4**	**(16.9)**	**77.5**	90.2	—	90.2
Taxation	7	**(26.3)**	**4.6**	**(21.7)**	(26.2)	—	(26.2)
Profit for the financial period		**68.1**	**(12.3)**	**55.8**	64.0	—	64.0
Earnings per share							
Basic	9	**32.5p**		**26.6p**	29.3p		29.3p
Diluted	9	**32.5p**		**26.6p**	29.3p		29.3p

All results relate to continuing operations of the Group.

CONSOLIDATED BALANCE SHEET

	Notes	3 April 2009 £m	28 March 2008 £m
Assets			
Non-current assets			
Goodwill	10	**253.1**	253.1
Other intangible assets	10	**6.4**	3.7
Property, plant and equipment	11	**107.5**	116.2
Deferred tax asset	18	**2.7**	—
		369.7	373.0
Current assets			
Inventories	12	**147.0**	151.6
Trade and other receivables	13	**37.6**	41.6
Derivative financial instruments	19	**14.0**	1.9
Cash and cash equivalents	14	**15.5**	10.0
		214.1	205.1
Total assets		**583.8**	578.1
Liabilities			
Current liabilities			
Borrowings	16	**(0.2)**	(0.2)
Derivative financial instruments	19	**(0.3)**	(0.3)
Trade and other payables	15	**(94.1)**	(121.3)
Current tax liabilities		**(12.2)**	(12.3)
Provisions	17	**(8.0)**	(2.0)
		(114.8)	(136.1)
Net current assets		**99.3**	69.0
Non-current liabilities			
Borrowings	16	**(191.5)**	(191.5)
Derivative financial instruments	19	**(0.4)**	—
Deferred tax liabilities	18	**—**	(1.0)
Accruals and deferred income — lease incentives		**(28.3)**	(27.8)
Provisions	17	**(4.4)**	—
		(224.6)	(220.3)
Total liabilities		**(339.4)**	(356.4)
Net assets		**244.4**	221.7
Shareholders' equity			
Share capital	20	**2.1**	2.1
Share premium account		**145.6**	145.6
Capital redemption reserve		**0.2**	0.2
Retained earnings		**96.5**	73.8
Total equity		**244.4**	221.7

The notes on pages 67 to 85 are an integral part of these consolidated financial statements.

The financial statements on pages 56 to 85 were approved by the Board of Directors on 10 June 2009 and were signed on its behalf by:

DAVID WILD
CHIEF EXECUTIVE OFFICER

NICK WHARTON
FINANCE DIRECTOR

CONSOLIDATED
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings (hedging reserve) £m	Retained earnings £m	Total equity £m
Balance at 30 March 2007	2.2	133.2	0.1	(0.6)	68.2	**203.1**
Profit for the period	—	—	—	—	64.0	**64.0**
Shares issued	—	12.4	—	—	—	**12.4**
Purchase of own shares — share buy-back	(0.1)	—	0.1	—	(30.3)	**(30.3)**
Purchase of shares for Employee Trust	—	—	—	—	(0.6)	**(0.6)**
Cash flow hedges:						
Fair value losses in the period	—	—	—	(1.2)	—	**(1.2)**
Transfers to inventory	—	—	—	3.2	—	**3.2**
Transfers to net profit:						
Cost of sales	—	—	—	0.2	—	**0.2**
Finance costs	—	—	—	1.2	—	**1.2**
Employee share options	—	—	—	—	1.0	**1.0**
Tax on employee share options	—	—	—	—	0.1	**0.1**
Dividends	—	—	—	—	(31.4)	**(31.4)**
Balance at 28 March 2008	2.1	145.6	0.2	2.8	71.0	**221.7**
Profit for the period	—	—	—	—	55.8	**55.8**
Purchase of own shares — share buy-back	—	—	—	—	(13.1)	**(13.1)**
Cash flow hedges:						
Fair value gains in the period	—	—	—	22.8	—	**22.8**
Transfers to inventory	—	—	—	(11.8)	—	**(11.8)**
Transfers to net profit:						
Cost of sales	—	—	—	(5.0)	—	**(5.0)**
Finance costs	—	—	—	4.6	—	**4.6**
Employee share options	—	—	—	—	1.7	**1.7**
Dividends	—	—	—	—	(32.3)	**(32.3)**
Balance at 3 April 2009	**2.1**	**145.6**	**0.2**	**13.4**	**83.1**	**244.4**

CONSOLIDATED CASH FLOW STATEMENT

	Notes	**53 weeks to 3 April 2009 £m**	52 weeks to 28 March 2008 £m
Cash flows from operating activities			
Cash generated from operations	I	**114.2**	111.6
Finance income received		**2.5**	2.9
Finance costs paid before exceptional swap close out costs		**(12.8)**	(12.3)
Swap close out costs		**(4.6)**	—
Taxation paid		**(25.5)**	(27.1)
Net cash generated from operating activities		**73.8**	75.1
Cash flows from investing activities			
Purchase of intangible assets		**(5.4)**	(1.7)
Purchase of property, plant and equipment		**(17.3)**	(25.0)
Net cash used in investing activities		**(22.7)**	(26.7)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital		**—**	12.4
Purchase of own shares		**(13.1)**	(30.9)
Finance lease principal payments		**(0.2)**	(0.3)
Dividends paid to shareholders		**(32.3)**	(31.4)
Net cash used in financing activities		**(45.6)**	(50.2)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts	II	**5.5**	(1.8)
Cash, cash equivalents and bank overdrafts at the beginning of the period		**10.0**	11.8
Cash, cash equivalents and bank overdrafts at the end of the period	II	**15.5**	10.0

NOTES TO CONSOLIDATED CASH FLOW STATEMENT

I. Cash generated from operations

For the period	53 weeks to 3 April 2009 £m	52 weeks to 28 March 2008 £m
Operating profit before exceptional items	**104.0**	101.0
Exceptional operating items	**(12.3)**	—
	91.7	101.0
Depreciation — property, plant and equipment	**22.4**	19.2
Amortisation — intangible assets	**2.7**	2.2
Loss on sale of property, plant and equipment	**0.3**	0.4
Share-based payments	**1.7**	1.0
Fair value gain on derivative financial instruments	**(2.3)**	(0.5)
Decrease/(increase) in inventories	**4.6**	(10.0)
Decrease/(increase) in trade and other receivables	**3.8**	(9.2)
(Decrease)/increase in payables	**(21.1)**	7.1
Increase in provisions	**10.4**	0.4
	114.2	111.6

II. Analysis of movements in the Group's net debt in the period

	At 28 March 2008 £m	Cash flow £m	Other non-cash changes £m	At 3 April 2009 £m
Cash at bank and in hand	10.0	5.5	—	**15.5**
Debt due after one year	(179.3)	—	(0.2)	**(179.5)**
Total net debt excluding finance leases	(169.3)	5.5	(0.2)	**(164.0)**
Finance leases due within one year	(0.2)	0.2	(0.2)	**(0.2)**
Finance lease due after one year	(12.2)	—	0.2	**(12.0)**
Total finance leases	(12.4)	0.2	—	**(12.2)**
Total net debt	(181.7)	5.7	(0.2)	**(176.2)**

Non-cash changes relate to finance costs of £0.2m in relation to the amortisation of capitalised debt issue costs and changes in classification between amounts due within and after one year.

ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of Halfords Group plc ("the Company") and its subsidiary undertakings (together "the Group") are prepared under the historical cost convention, on a going concern basis, except where International Financial Reporting Standards ("IFRSs") require an alternative treatment. The principal variations relate to financial instruments (IAS 39 "Financial instruments: recognition and measurement") and share-based payments (IFRS 2 "Share-based payment").

The financial statements are prepared in accordance with IFRSs and International Finance Reporting Interpretation Committee ("IFRIC") interpretations as adopted by the European Union and with those parts of the Companies Act 1985 applicable to those companies reporting under IFRSs.

The accounts of the Group are prepared for the period up to the Friday closest to 31 March each year. Consequently, the financial statements for the current period cover the 53 weeks to 3 April 2009, whilst the comparative period covered the 52 weeks to 28 March 2008.

The preparation of consolidated financial statements in conformity with Generally Accepted Accounting Principles requires the use of accounting estimates and management to exercise its judgement in the process of applying the Group's accounting policies. These judgements and estimates are based on historical experience and management's best knowledge of the amounts, events or actions under review and the actual results may ultimately differ from these estimates. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are, where necessary, disclosed separately.

Basis of consolidation

Subsidiaries

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They cease to be consolidated from the date that the Group no longer has control. All subsidiaries have been consolidated.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The financial statements of all subsidiaries are prepared to the same reporting date as the Company using consistent accounting policies.

The principal subsidiary undertakings of the Company at 3 April 2009 are as follows:

	Principal activity	% Ownership
Halfords Holdings (2006) Limited	Intermediate holding company	100
Halfords Holdings Limited	Intermediate holding company	100
Halfords Finance Limited	Intermediate holding company	100
Halfords Limited	Retailing of auto parts, accessories, cycles and cycle accessories	100

Segmental reporting

The Group has one main business segment, which is retail, and one main geographical segment, which is the United Kingdom. The business segmental reporting format reflects the Group's management and internal reporting structure.

Income from overseas operations will be disclosed as separate business segments when their activities become material to the Group.

Revenue recognition

Revenue comprises the fair value of the sale of goods and services to external customers, net of value added tax, rebates, promotions and returns. Revenue is recognised on the sale of goods when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue on goods delivered is recognised when the customer accepts delivery. The Group operates a variety of sales promotion schemes that give rise to goods being sold at a discount to standard retail price. Revenue is adjusted to show sales net of all related discounts. A provision for estimated returns is made, representing the profit on goods sold during the year, which will be returned and refunded after the year end based on past experience. Revenue is reduced by the value of sales returns provided for during the year.

Exceptional items

Income or costs that are both material and non-recurring, whose significance is sufficient to warrant separate disclosure in the financial statements, are referred to as exceptional items. These items are included and separately identified within their relevant income statement category.

ACCOUNTING POLICIES CONTINUED

Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in sterling, which is the Group's functional and presentation currency. Items included in the financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

Transactions and balances

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the balance sheet date. Translation differences on monetary items are taken to the income statement with the exception of differences on transactions that are subject to effective cash flow hedges.

Translation differences on non-monetary items are reported as part of the fair value gain or loss and are included in either equity or the income statement as appropriate.

Share-based payments

The Group operates a number of equity-settled, share-based compensation plans.

The fair value of the employee services received under such schemes is recognised as an expense in the income statement. Fair values are determined by use of an appropriate pricing model. The amount to be expensed over the vesting period is determined by reference to the fair value of share incentives, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of share incentives that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of share incentives that are expected to vest. The impact of the revision of original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity, over the remaining vesting period.

Equity dividends

Final dividends are recognised in the Group's financial statements in the period in which the dividends are approved by shareholders. Interim equity dividends are recognised in the period they are paid.

Property, plant and equipment

Property, plant and equipment are held at cost less accumulated depreciation and any impairment in value.

Depreciation of property, plant and equipment is provided to write-off the cost, less residual value, on a straight-line basis over their useful economic lives as follows:

- Leasehold premises with lease terms of 50 years or less are depreciated over the remaining period of the lease;
- Motor vehicles are depreciated over 3 years;
- Store fixtures are depreciated over the period of the lease to a maximum of 25 years;
- Fixtures, fittings and equipment are depreciated over 4 to 10 years according to the estimated life of the asset;
- Computer equipment is depreciated over 3 years; and
- Land is not depreciated.

Residual values, remaining useful economic lives and depreciation periods and methods are reviewed annually and adjusted if appropriate.

Goodwill and intangible assets

Goodwill is the excess of the fair value of the consideration payable for an acquisition over the fair value of the Group's share of identifiable net assets of a subsidiary acquired at the date of acquisition. Fair value is attributed to the identifiable assets, liabilities and contingent liabilities that existed at the date of acquisition, reflecting their condition at that date. Adjustments are made where necessary to bring the accounting policies of acquired businesses into alignment with those of the Group.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is stated at cost less any impairment. Goodwill is not amortised but is tested annually for impairment. An impairment charge is recognised for any amount by which the carrying value of goodwill exceeds its fair value.

The Group took the exemption available under IFRS 1 "First time adoption of International Financial Reporting Standards" for business combinations occurring before 3 April 2004. The carrying value of goodwill at 2 April 2004 under UK GAAP was deemed to be cost at 3 April 2004.

Costs that are directly associated with identifiable and unique software products controlled by the Group, and that will generate economic benefits beyond one year are recognised as intangible assets. These intangible assets are stated at cost less accumulated amortisation and impairment losses. Software is amortised over three to five years depending on the estimated useful economic life.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet and measured at amortised cost.

Accounting for derivative financial instruments and hedging activities

Derivatives are recognised at fair value on the date a contract is entered into and are subsequently remeasured at their fair value.

The Group uses the derivatives to hedge highly probable forecast transactions and therefore the instruments are designated as cash flow hedges.

The Group documents the relationship between hedging instruments and hedged items at the hedge inception stage, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flow hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast purchase that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of hedged item is more than 12 months and as a current asset or liability, if the remaining maturity of the hedged item is less than 12 months.

Fair value estimation

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate to their fair values.

Trade receivables

Trade receivables are recognised and carried at original invoice amount less provision for impairment. They are discounted at the Group's prevailing cost of capital if the impact of discounting is material.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the income statement.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost comprises the purchase cost of goods, adjusted for rebates, settlement discounts, and costs related to distribution.

Impairment of assets

Intangible assets that are attributed an indefinite useful life are not subject to amortisation but are tested annually for impairment. Other tangible and intangible assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are Grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Each store is deemed to be a cash-generating unit.

ACCOUNTING POLICIES CONTINUED

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. For the purpose of the consolidated cash flow statement, cash and cash equivalents are as defined above, net of outstanding bank overdrafts.

Borrowings and borrowing costs

All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowing. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowing costs are expensed in the period in which they are incurred, except for issue costs, which are amortised over the period of the borrowing. Commitment fees on borrowings not drawn down are expensed in the period in which they are incurred.

Finance income and costs

Interest receivable/payable is credited/charged to the income statement using an effective interest method.

Basis of charge for taxation

The tax base of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.

The tax base of a liability is its carrying amount, less any amount that will be deductible for tax purposes in respect of that liability in future periods. In the case of revenue which is received in advance, the tax base of the resulting liability is its carrying amount, less any amount of the revenue that will not be taxable in future periods.

Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred taxation arises from initial recognition of an asset or liability in a transaction other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred taxation is calculated using rates that are expected to apply when the related deferred asset is realised or the deferred taxation liability is settled.

Deferred taxation assets are recognised to the extent that it is more likely than not that future taxable profit will be available against which the temporary differences can be utilised.

Provisions

Provisions are recognised when:

- The Group has a present legal or constructive obligation as a result of past events;
- It is more likely than not that an outflow of resources will be required to settle the obligation; and
- The amount can be reliably estimated.

Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset when the reimbursement is certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Leases

Finance leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as a finance lease. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other payables. The interest element of the rental is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and its lease term. In determining whether a lease is a finance lease, the building and land elements of the lease are reviewed separately.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Incentives from lessors are recognised as a systematic reduction in the charge over the lease term. The benefit of incentives from lessors are recognised on a straight-line basis over the term of the lease.

Landlord contributions

Contributions received from landlords in respect of the surrender of all or part of Units previously occupied by the Group, that do not represent an incentive for future rental commitments are recognised in the income statement on the exchange of contracts, where there are no further substantial acts to complete.

Sublease income

The Group leases properties from which it no longer trades. These properties are often sublet to third parties. Rents receivable are recognised by offsetting the income against rental costs accounted for within selling and distribution costs in the income statement.

Pensions

Employees are offered membership of Halfords Pension Plan. During the period the Group changed its pension arrangements to prepare for the government's introduction of Personal Accounts. The Halfords Pension Plan moved from a defined contribution scheme to a contract based plan, where each member has their own individual pension policy, which they monitor independently. The costs of contributions to the scheme are charged to the income statement in the period that they arise.

Estimates and judgements

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the estimates.

The judgement and key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are detailed below:

Impairment of assets

Goodwill and other assets are subject to impairment reviews based on whether current or future events and circumstances suggest that their recoverable value may be less than their carrying value. Recoverable amount is based on a calculation of expected future cash flows, which includes management assumptions and estimates of future performance. Details of the assumptions used in the impairment review of goodwill are explained in note 10.

Allowances against the carrying value of inventories

The Group reviews the market value of and demand for its inventories on a periodic basis to ensure that recorded inventory is stated at the lower of cost and net realisable value. In assessing the ultimate realisation of inventories, the Group is required to make judgements as to future demand requirements and to compare these with the current or committed inventory levels. Factors that could impact estimated demand and selling prices are the timing and success of product ranges.

Provisions

Provisions have been estimated for distribution and warehousing reorganisation, onerous leases and estimated sales returns. These provisions are estimates of the actual costs of future cash flows and are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

NEW ACCOUNTING STANDARDS

The following standards, amendments and interpretations became effective in the 53 weeks to 3 April 2009:

IFRIC 11 IFRS 2 "Group and treasury share transactions" — This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments, to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The adoption of this interpretation did not have any effect on the financial position or performance of the Group.

ACCOUNTING POLICIES CONTINUED

Interpretations effective in the 53 weeks to 3 April 2009 but not relevant to the Group's operations
The following interpretations to published standards are mandatory for adoption in the year ended 3 April 2009 but they are not relevant to the Group's operations:

— IFRIC 12 "Service concession arrangements"
— IFRIC 14 "IAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction"

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group
The following standards, amendments and interpretations to existing standards have been published but are not effective for the periods presented and the Group has chosen not to early adopt:

IFRS 8 "Operating segments" (effective for accounting periods beginning on or after 1 January 2009) — This standard replaces IAS 14 "Segment reporting" and aligns the segment information on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in detail by management. As goodwill is allocated to groups of cash-generating units based on segment level, the new standard may result in a reallocation of goodwill to any new segments. Management does not anticipate that this will result in any material impairment to the goodwill balance.

Revised IAS 1 "Presentation of financial statements" (effective for accounting periods beginning on or after 1 January 2009) — The new standard requires "non-owner changes in equity" to be presented separately from owner changes in equity. The revised IAS 1 also states that entities making restatements or reclassifications of comparative information will be required to present a restated balance sheet at the beginning of the comparative period in addition to the current requirements. These revised presentation and disclosure requirements are not anticipated to have an impact on the Group's reported results.

IFRS 2 (Amendment) "Share-based payments transactions" (effective for accounting periods beginning on or after 1 January 2009). The expected impact is still being assessed in detail by management, but is not anticipated to result in a material impact on the Group results.

The following standards, amendments to standards and interpretations that have been published, are relevant to the Group but are not expected to have a material impact on the Group's reported results or financial statements:

— IAS 23 (Amendment) "Borrowing costs";
— Amendment to IFRS 3 "Business combinations" and consequential amendments to IAS 27 "Consolidated and separate financial statements", IAS 28 "Investments in associates" and IAS 31 "Interests in joint ventures";
— IFRIC 17 "Distribution of non-cash assets to owners"; and
— IFRIC 18 "Transfer of assets from customers".

The following interpretations to existing standards have been published but are not relevant to the Group's operations:

— IFRIC 13 "Customer loyalty programmes";
— IAS 32 (Amendment) "Financial instruments: presentation";
— IFRIC 15 "Agreements for the construction of real estate"; and
— IFRIC 16 "Hedges of a net investment in a foreign operation".

NOTES TO THE FINANCIAL STATEMENTS

1. Segmental reporting

The Group has one main business segment, which is retail, and one main geographical segment, which is the United Kingdom. The business segmental reporting format reflects the Group's management and internal reporting structure.

2. Operating expenses

For the period	**53 weeks to 3 April 2009 £m**	52 weeks to 28 March 2008 £m
Selling and distribution costs before exceptional items	**271.3**	256.7
Exceptional selling and distribution costs	**10.3**	—
Selling and distribution costs	**281.6**	256.7
Administrative expenses before exceptional items	**46.1**	44.8
Exceptional administrative expenses	**2.0**	—
Administrative expenses	**48.1**	44.8
	329.7	301.5

3. Operating profit

For the period	**53 weeks to 3 April 2009 £m**	52 weeks to 28 March 2008 £m
Operating profit is arrived at after charging/(crediting) the following expenses/(incomes) as categorised by nature:		
Operating lease rentals:		
— plant and machinery	**1.3**	0.8
— property rents	**82.1**	74.8
— rentals receivable under operating leases	**(7.6)**	(8.2)
Landlord contributions	**(2.7)**	(4.5)
Loss on disposal of property, plant and equipment	**0.3**	0.4
Amortisation of intangible assets	**2.7**	2.2
Depreciation of:		
— owned property, plant and equipment	**21.8**	18.5
— assets held under finance leases	**0.6**	0.7
Trade receivables impairment	**0.1**	0.1
Staff costs (see note 4)	**128.9**	124.5
Cost of inventories consumed in cost of sales	**379.2**	391.1

The total fees payable by the Group to PricewaterhouseCoopers LLP and their associates during the period was £0.3m (2008: £0.3m) in respect of the services detailed below:

For the period	**53 weeks to 3 April 2009 £'000**	52 weeks to 28 March 2008 £'000
Fees payable for the audit of the Company's accounts	**30**	33
Fees payable to PricewaterhouseCoopers LLP and their associates for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	**137**	125
Other services supplied pursuant to such legislation	**23**	23
Other services relating to taxation	**113**	95
Fees in respect of the audit of Halfords Pension Plan	**21**	20
All other services	**—**	19
	324	315

Fees payable by the Group to Deloitte & Touche LLP with regard to internal audit services totalled £0.2m (2008: £0.2m).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. Staff costs

For the period	**53 weeks to 3 April 2009 £m**	52 weeks to 28 March 2008 £m
The aggregated remuneration of all employees including Directors comprised:		
Wages and salaries	**110.2**	112.5
Social security costs	**7.8**	7.8
Share-based payment charge (note 21)	**1.7**	1.0
Other pension costs (note 23)	**3.2**	3.2
Exceptional redundancy costs (see note 5)	**6.0**	—
	128.9	124.5

	Number	Number
Average number of persons employed by the Group, including Directors, during the period:		
Stores	**9,573**	9,676
Central warehousing	**192**	197
Head office	**551**	544
	10,316	10,417

Full details of Directors' remuneration and interests are set out in the Directors' Remuneration Report on pages 47 to 53 which form part of these financial statements.

Key management compensation

For the period	**53 weeks to 3 April 2009 £m**	52 weeks to 28 March 2008 £m
Salaries and short-term benefits	**2.2**	2.0
Compensation for loss of office	**0.2**	—
Social security costs	**0.3**	0.3
Pensions	**0.2**	0.2
Share-based payment charge	**0.6**	0.3
	3.5	2.8

Key management compensation includes the emoluments of the Board of Directors and the emoluments of the Halfords Limited Management Board.

5. Exceptional items

For the period	53 weeks to 3 April 2009 £m	52 weeks to 28 March 2008 £m
Exceptional operating expenses:		
Head Office rationalisation[a]	**2.0**	—
Store rationalisation[a]	**0.8**	—
Exit of standalone cycle store pilot[b]	**1.2**	—
Distribution and warehousing reorganisation[c]	**8.3**	—
Exceptional operating expenses	**12.3**	—
Exceptional finance costs:		
Swap close out costs[d]	**4.6**	—
	4.6	—
Exceptional items before tax	**16.9**	—
Tax on exceptional items[e]	**(4.6)**	—
Exceptional items after tax	**12.3**	—

[a] Cost of staffing reductions in Head Office and stores, to access efficiencies arising from the Group's investment in core enterprise systems over the past four years.
[b] Exit costs associated with the cessation of the Group's stand-alone cycle concept, including the closure of stores where necessary.
[c] Costs associated with the re-configuration and consolidation of the Group's distribution infrastructure.
[d] On 1 April 2009, the Group closed out its existing interest rate hedging instruments, which were contracted until 2011, at a cost of £4.6m.
[e] This represents the tax credit on these exceptional costs; this credit is lower than the UK corporation tax standard rate of 28% due to the non-deductibility of certain legal expenses and depreciation associated with store infrastructure.

The £12.3m exceptional operating expenses above consists of £6.0m redundancy costs, £0.8m impairment charges, £2.3m onerous lease costs and £3.2m of other costs.

6. Net finance costs

For the period	53 weeks to 3 April 2009 £m	52 weeks to 28 March 2008 £m
Finance costs:		
Bank borrowings	**(9.4)**	(10.9)
Amortisation of issue costs on loans	**(0.2)**	(0.2)
Commitment and guarantee fees	**(0.2)**	(0.2)
Costs of forward foreign exchange contracts	**(1.2)**	(1.2)
Interest payable on finance leases	**(0.9)**	(0.8)
Interest payable on rent reviews	**—**	(0.2)
Finance costs before exceptional finance costs	**(11.9)**	(13.5)
Exceptional finance costs:		
Swap close out costs[1]	**(4.6)**	—
	(4.6)	—
Finance costs	**(16.5)**	(13.5)
Finance income: Bank and similar interest	**2.3**	2.7
Net finance costs	**(14.2)**	(10.8)

[1] On 1 April 2009, the Group closed out its existing interest rate hedging instruments, which were contracted until 2011, at a cost of £4.6m.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7. Taxation

For the period	**53 weeks to 3 April 2009 £m**	52 weeks to 28 March 2008 £m
Current taxation		
UK corporation tax charge for the period	**27.6**	27.4
Adjustment in respect of prior periods	**(2.2)**	(0.5)
	25.4	26.9
Deferred taxation		
Origination and reversal of timing differences	**(4.2)**	(0.6)
Adjustment in respect of prior periods	**0.5**	(0.1)
	(3.7)	(0.7)
Total tax charge for the period	**21.7**	26.2

The tax charge is reconciled with the standard rate of UK corporation tax as follows:

For the period	**53 weeks to 3 April 2009 £m**	52 weeks to 28 March 2008 £m
Profit before tax	**77.5**	90.2
UK corporation tax at standard rate of 28% (2008: 30%)	**21.7**	27.1
Factors affecting the charge for the period:		
Depreciation on expenditure not eligible for tax relief	**0.9**	0.9
Employee share options	**0.2**	0.2
Impact of intra-Group financing	**—**	(1.8)
Other disallowable expenses	**0.6**	0.5
Change in deferred tax rate to 28%	**—**	(0.1)
Adjustment in respect of prior periods	**(1.7)**	(0.6)
Total tax charge for the period	**21.7**	26.2

In this financial period, the UK corporation tax standard rate was reduced by 2% to 28%. The underlying tax rate on trading was 29.7% (2008: 31.7%), principally due to the non-deductibility of depreciation charged on capital expenditure in respect of mezzanine floors and other store infrastructure. This level of tax non-deductibility is anticipated for the foreseeable future.

The lower tax rate of 28.0% (2008: 29.0%) in this financial period is mainly due to the release of prior year tax provisions following the favourable settlement of tax computations, in particular relating to capital allowance claims. The lower tax rate in the previous financial period was mainly due to the financing structure put in place as part of the re-finance on 14 July 2006, the benefit of which ceased on 15 November 2007.

The tax charge of £21.7m includes a £4.6m credit in respect of the tax on exceptional costs, as detailed in note 5.

8. Dividends

For the period	**53 weeks to 3 April 2009 £m**	52 weeks to 28 March 2008 £m
Equity — ordinary shares		
Final for the 52 weeks to 28 March 2008 — paid 10.35p per share (2008: 9.5p)	**21.8**	21.0
Interim for the 53 weeks to 3 April 2009 — paid 5.0p per share (2008: 4.75p)	**10.5**	10.4
	32.3	31.4

In addition, the Directors are proposing a final dividend in respect of the financial period ended 3 April 2009 of 10.90p per share (2008: 10.35p per share), which will absorb an estimated £22.7m (2008: £21.8m) of shareholders' funds. It will be paid on 5 August 2009 to shareholders who are on the register of members on 18 June 2009.

9. Earnings per share

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. The weighted average number of shares excludes shares held by an Employee Benefit Trust (see note 20) and has been adjusted for the issue/purchase of shares during the period.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the 53 weeks to 3 April 2009.

For the period	**53 weeks to 3 April 2009 Number m**	52 weeks to 28 March 2008 Number m
Weighted average number of shares in issue	**210.6**	219.3
Less: shares held by the Employee Benefit Trust	**(1.1)**	(0.9)
Weighted average number of shares for calculating basic earnings per share	**209.5**	218.4
Weighted average number of dilutive shares	**0.3**	—
Total number of shares for calculating diluted earnings per share	**209.8**	218.4

For the period	**53 weeks to 3 April 2009 £m**	52 weeks to 28 March 2008 £m
Basic earnings attributable to equity shareholders	**55.8**	64.0
Exceptional items (see note 5):		
Operating expenses	**12.3**	—
Finance costs	**4.6**	—
Tax on exceptional items	**(4.6)**	—
Underlying earnings before exceptional items	**68.1**	64.0

Earnings per share is calculated as follows:

For the period	**53 weeks to 3 April 2009**	52 weeks to 28 March 2008
Basic earnings per ordinary share	**26.6p**	29.3p
Diluted earnings per ordinary share	**26.6p**	29.3p
Basic earnings per ordinary share before exceptional items	**32.5p**	29.3p
Diluted earnings per ordinary share before exceptional items	**32.5p**	29.3p

The alternative measure of earnings per share is provided because it reflects the Group's underlying performance by excluding the effect of exceptional items.

In the 52 weeks to 27 March 2009 the Group's underlying earnings before exceptional items was £66.7m. This converts to a basic earnings per ordinary share before exceptional items, using a consistent number of shares in issue, of 31.8 pence (2008: 29.3 pence).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10. Intangible assets

	Computer software £m	Product rights £m	Goodwill £m	Total £m
Cost				
At 30 March 2007	9.5	0.2	274.8	284.5
Additions	1.2	—	—	1.2
At 28 March 2008	10.7	0.2	274.8	285.7
Additions	5.4	—	—	5.4
At 3 April 2009	**16.1**	**0.2**	**274.8**	**291.1**
Amortisation				
At 30 March 2007	4.8	0.2	21.7	26.7
Charge for the period	2.2	—	—	2.2
At 28 March 2008	7.0	0.2	21.7	28.9
Charge for the period	2.7	—	—	2.7
At 3 April 2009	**9.7**		**0.2 21.7**	**31.6**
Net book value at 3 April 2009	**6.4**	**—**	**253.1**	**259.5**
Net book value at 28 March 2008	3.7	—	253.1	256.8

Included in computer software are internally generated assets of £0.6m (2008: £0.8m).

The goodwill arose on the acquisition of Halfords Holdings Limited by the Company on 31 August 2002. The goodwill relates to a portfolio of sites, which have been allocated to groups of cash-generating units on a regional basis within the UK according to the level at which management monitors that goodwill.

The recoverable amount of goodwill is determined based on "value-in-use" calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period with growth no higher than past experience and after consideration of all available information.

The key assumptions used to determine value-in-use of goodwill held at 3 April 2009 and 28 March 2008 are as follows:

	Note	**2009**	2008
Discount rate	1	**12.6%**	12.6%
Growth rate	2	**0.0%**	0.0%

Notes:
1. Pre-tax discount rate applied to the cash flow projections.
2. Growth rate used to extrapolate cash flows beyond the budget period.

11. Property, plant and equipment

	Short leasehold land and buildings £m	Fixtures, fittings and equipment £m	Payments on account and assets in course of construction £m	Total £m
Cost				
At 30 March 2007	45.5	247.5	5.3	298.3
Additions	2.0	26.0	0.3	28.3
Disposals	(0.2)	(1.8)	(0.1)	(2.1)
Reclassifications	0.3	4.8	(5.1)	—
At 28 March 2008	47.6	276.5	0.4	324.5
Additions	1.5	12.4	0.1	14.0
Disposals	(0.1)	(1.3)	—	(1.4)
Reclassifications	0.1	0.2	(0.3)	—
At 3 April 2009	**49.1**	**287.8**	**0.2**	**337.1**
Depreciation				
At 30 March 2007	16.3	174.5	—	190.8
Depreciation for the period	2.2	17.0	—	19.2
Disposals	(0.1)	(1.6)	—	(1.7)
At 28 March 2008	18.4	189.9	—	208.3
Depreciation for the period	2.4	20.0	—	22.4
Disposals	—	(1.1)	—	(1.1)
At 3 April 2009	**20.8**	**208.8**	**—**	**229.6**
Net book value at 3 April 2009	**28.3**	**79.0**	**0.2**	**107.5**
Net book value at 28 March 2008	29.2	86.6	0.4	116.2

Included in the above are assets held under finance leases as follows:

	Short leasehold land and buildings £m	Fixtures, fittings and equipment £m	Total £m
As at 3 April 2009			
Cost	12.7	0.8	13.5
Accumulated depreciation	(2.5)	(0.8)	(3.3)
Net book value	**10.2**	**—**	**10.2**
As at 28 March 2008			
Cost	12.7	0.8	13.5
Accumulated depreciation	(2.0)	(0.7)	(2.7)
Net book value	**10.7**	**0.1**	**10.8**

No fixed assets are held as security for external borrowings.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12. Inventories

	2009 £m	2008 £m
Finished goods for resale	**147.0**	151.6

Finished goods inventories include £6.6m (2008: £5.8m) of provisions to carry inventories at fair value less costs to sell where such value is lower than cost. The Group did not reverse any unutilised provisions during the period.

13. Trade and other receivables — current

	2009 £m	2008 £m
Falling due within one year:		
Trade receivables	**7.4**	4.8
Less: provision for impairment of receivables	**(0.1)**	(0.1)
Trade receivables — net	**7.3**	4.7
Other receivables	**6.5**	10.3
Prepayments and accrued income	**23.8**	26.6
	37.6	41.6

During the period the Group created a provision of £0.1m (2008: £0.1m) for the impairment of trade receivables and utilised £0.1m (2008: £0.3m).

14. Cash and cash equivalents

	2009 £m	2008 £m
Cash at bank and in hand	**15.5**	10.0

The Group's banking arrangements are subject to a netting facility whereby credit balances may be offset against the indebtedness of other Group companies.

15. Trade and other payables — current

	2009 £m	2008 £m
Trade payables	**52.2**	59.3
Other taxation and social security payable	**7.9**	18.0
Other payables	**2.2**	9.1
Accruals and deferred income — lease incentives	**3.2**	3.4
Accruals and other deferred income	**28.6**	31.5
	94.1	121.3

16. Borrowings

	2009 £m	2008 £m
Current		
Finance leases	**0.2**	0.2
Non-current		
Bank loan — unsecured	**179.5**	179.3
Finance leases	**12.0**	12.2
	191.5	191.5

The above borrowings are stated net of unamortised issue costs of £0.5m (2008: £0.7m).

The Group completed a debt refinancing exercise on 14 July 2006. The debt facility comprises a £180m five-year non-amortising loan, maturing with bullet repayment on 13 July 2011 and a £120m revolving credit facility. This facility is underwritten by The Royal Bank of Scotland Group plc and the syndication Group allocations were effected from 29 September 2006.

The term loan attracts an interest rate of LIBOR plus a fixed margin of 0.45%. This rate is set at the most competitive market price points, in line with the term facility agreement, and this can range from two weeks to six months.

The revolving credit facility permits further borrowings to a maximum of £120m. This facility matures on 13 July 2011 and drawings under the facility attract interest at LIBOR plus 0.45%–0.50% dependent upon covenant fulfilment.

17. Provisions

	Distribution reorganisation £m	Vacant property £m	Returns £m	Total £m
At 28 March 2008	—	1.1	0.9	2.0
Charged during the period	8.3	2.7	0.9	11.9
Utilised during the period	—	(0.6)	(0.9)	(1.5)
At 3 April 2009	**8.3**	**3.2**	**0.9**	**12.4**
Analysed as:				
Current liabilities	6.4	0.7	0.9	8.0
Non-current liabilities	1.9	2.5	—	4.4

The distribution reorganisation provision represents the costs associated with the re-configuration and consolidation of the Group's distribution and warehousing infrastructure.

The vacant property provision represents recognition of the net costs arising from vacant properties and sub-let properties. During the period an additional provision of £2.1m was made in this respect.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2008: 28%).

	2009 £m	2008 £m
The movement on the deferred taxation asset/(provision) is shown below:		
At the beginning of the period	**(1.0)**	(0.9)
Income statement credit (note 7)	**3.7**	0.7
Debit to equity	**—**	(0.8)
At the end of the period	**2.7**	(1.0)

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax liabilities:

	Accelerated tax depreciation £m
At 30 March 2007	(7.9)
Credit to the income statement	0.7
At 28 March 2008	(7.2)
Credit to the income statement	1.5
At 3 April 2009	**(5.7)**

Deferred tax assets:

	Provisions and share options £m
At 30 March 2007	7.0
Debit to equity	(0.8)
At 28 March 2008	6.2
Credit to the income statement	2.2
At 3 April 2009	**8.4**
Net deferred tax asset/(liability)	
At 3 April 2009	**2.7**
At 28 March 2008	(1.0)

19. Financial instruments and related disclosures

Treasury policy

The Group's treasury department's main responsibilities are to:

- Ensure adequate funding and liquidity for the Group;
- Manage the interest risk of the Group's debt;
- Invest surplus cash;
- Manage the clearing bank operations of the Group; and
- Manage the foreign exchange risk on its non-sterling cash flows.

Treasury activities are delegated by the Board to the Finance Director ("FD"). The FD controls policy and performance through the line management structure to the Group Treasurer and by reference to the Treasury Committee. The Treasury Committee meets regularly to monitor the performance of the Treasury function. Monthly Treasury Reports provide management information relating to treasury activity.

Policies for managing financial risks are governed by Board approved policies and procedures, which are reviewed on an annual basis.

The Group's debt management policy is to provide an appropriate level of funding to finance the Business Plan over the medium term at a competitive cost and ensure flexibility to meet the changing needs of the Group. The Group has a syndicated five-year term facility totalling £300m that provides the Group with committed bank facilities until July 2011.

The key risks that the Group faces from a treasury perspective are as follows:

Financial risk

The Business Plan and cash flow forecasts are subject to key assumptions such as interest rates and the significance of these risks is dependent upon the level of earnings before interest, tax, depreciation and amortisation and the strength of the balance sheet.

Interest rate risk

The Group's policy aims to manage the interest cost of the Group within the constraints of the Business Plan and its financial covenants. The Group's borrowings are currently subject to floating rate and the Group will continue to monitor movements in the swap market.

Foreign currency risk

The Group has a significant transaction exposure with increasing, direct source purchases of its supplies from the Far East, with most of the trade being in US dollars. The Group's policy is to manage the foreign exchange transaction exposures of the business to ensure the actual costs do not exceed the budget costs by 10% (excluding increases in the base cost of the product). The Group does not hedge either economic exposure or the translation exposure arising from the profits, assets and liabilities of non-sterling businesses whilst they remain immaterial.

During the 53 weeks to 3 April 2009, the foreign exchange management policy was to hedge between 75% and 80% of the material foreign exchange transaction exposures on a rolling 15–18 month basis. Hedging is performed through the use of foreign currency bank accounts, spot rates and forward foreign exchange contracts.

Credit risk

The Group's policy is to minimise the risk that foreign exchange and interest rate derivative counterparties, the holders of surplus cash and the providers of debt will be unable to fulfil their obligations and also, in the case of lenders, unwilling to extend the loan facilities when they expire. The Group ensured that such counterparties used for credit transactions held at least an A credit rating at the time of syndication (July 2006). Ancillary business, in the main, is directed to the eight banks within the syndicated group.

The Treasurer is responsible for determining creditworthiness of each counterparty, based on the overall financial strength of the counterparty. The counterparty credit risk is reviewed in the Treasury report, which is forwarded to the Treasury Committee and the Treasurer reviews credit exposure on a daily basis.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19. Financial instruments and related disclosures continued

Liquidity risk

The Group ensures that it has sufficient cash or loan facilities to meet all its commitments when required. The Group ensures that there is sufficient cash or working capital facilities to meet the cash requirements of the Group for the current Business Plan. The minimum liquidity level is currently set at £30.0m.

Forecast liquidity is reviewed each month by the Treasurer to determine whether there are sufficient credit facilities to meet forecast requirements.

Covenants are monitored on a regular basis to ensure there are no significant breaches, which would lead to an "Event of Default". Calculations are submitted at least bi-annually to the syndication agent. Reporting on covenant compliance forms part of the Treasury Report. There have been no breaches of covenants during the reported periods.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Since June 2006 and until September 2009, the Group managed its capital structure partly through a share buy-back scheme, details of which are given in note 20.

The Group manages capital by operating within debt ratios. These ratios are lease adjusted net debt to Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") and fixed charge cover. Lease adjusted net debt is calculated as being net debt and leases capitalised at eight times, as a multiple of EBITDA plus operating lease charges. Fixed charge cover is calculated as being EBITDA plus operating lease charges as a multiple of interest and operating lease charges. As a result of the current economic conditions and the attitude towards debt the Group has decided to reduce the level of net debt and operates favourably to these target metrics.

The following table is a comparison by category of the carrying amounts and the fair values of the Group's financial assets and financial liabilities at 3 April 2009 and 28 March 2008.

	2009 Carrying value £m	**2009 Fair value £m**	2008 Carrying value £m	2008 Fair value £m
Cash and cash equivalents	**15.5**	**15.5**	10.0	10.0
Loan and receivables:				
Trade and other receivables	**10.0**	**10.0**	7.1	7.1
Held at fair value:				
Derivatives designated as accounting hedges				
Forward contracts	**14.0**	**14.0**	1.9	1.9
Total financial assets	**39.5**	**39.5**	19.0	19.0
Financial liabilities measured at amortised cost:				
Long-term borrowings	**(179.5)**	**(179.5)**	(179.3)	(179.3)
Finance leases	**(12.2)**	**(12.2)**	(12.4)	(12.4)
Trade and other payables	**(77.5)**	**(77.5)**	(94.7)	(94.7)
Provision for vacant property	**(3.2)**	**(3.2)**	(1.1)	(1.1)
Held at fair value:				
Derivatives designated as accounting hedges				
Forward contracts — current liabilities	**(0.3)**	**(0.3)**	(0.3)	(0.3)
Forward contracts — non-current liabilities	**(0.4)**	**(0.4)**	—	—
Total financial liabilities	**(273.1)**	**(273.1)**	(287.8)	(287.8)
Net financial liabilities	**(233.6)**	**(233.6)**	(268.8)	(268.8)

19. Financial instruments and related disclosures continued

Fair value assumptions

Trade receivables, trade payables and finance lease obligations	The fair value on these items approximate to their carrying value.
Short-term deposits and borrowings	The fair value of short-term deposits, loans and overdrafts approximates to the carrying amount because of the short maturity of these instruments.
Long-term borrowings	The fair value of bank loans and other loans approximates to the carrying value reported in the balance sheet as the majority are floating rate where payments are reset to markets rates at intervals of less than one year.
Forward currency contracts	The fair value of forward currency contracts are calculated by using the closing spot rate and respective forward points as of the balance sheet date and comparing this to the outright contract rate.
Interest rate swaps	The fair value of interest rate swaps is calculated by taking the closing UK market rate for the outstanding period and comparing this to the outright contract rate.

Trade and other receivables

The following table reconciles trade and other receivables that fall within the scope of IAS 39 to the relevant balance sheet amounts. Other assets include prepayments and accrued income that are outside the scope of IAS 39. The financial assets are non-interest bearing.

	2009 £m	2008 £m
Trade and other receivables	**37.6**	41.6
Analysed as:		
Financial assets in the scope of IAS 39	**10.0**	7.1
Other assets	**27.6**	34.5
	37.6	41.6

The following table shows the age of such financial assets that are past due and for which no provision for bad or doubtful debts has been raised:

	2009 £m	2008 £m
Past due by 1–30 days	**0.9**	0.8
Past due by 31–90 days	**0.7**	0.4
Past due by 91–180 days	**1.1**	0.2
	2.7	1.4

The Group has not raised bad or doubtful debt provisions against these amounts as they are considered to be recoverable based on previous trading history.

Trade and other payables and other non-current liabilities

The following table reconciles trade and other payables that fall within the scope of IAS 39 to the relevant balance sheet amounts. Other liabilities include deferred income, lease incentives and tax and social security that are outside the scope of IAS 39. The financial liabilities are non-interest bearing.

	2009 £m	2008 £m
Trade and other payables	**94.1**	121.3
Analysed as:		
Financial liabilities in the scope of IAS 39	**77.5**	94.7
Other liabilities	**16.6**	26.6
	94.1	121.3

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19. Financial instruments and related disclosures continued

Sensitivity analysis

Financial instruments affected by market risk include borrowings, deposits, trade payables and derivative financial instruments. The following analysis is intended to illustrate the sensitivity of such financial instruments to changes in relevant foreign exchange and interest rates.

Foreign exchange sensitivity

The table below shows the Group's sensitivity to foreign exchange rates on its US dollar financial instruments, the major currency in which the Group's financial instruments are denominated.

	2009 Increase/ (decrease) in equity £m	2008 Increase/ (decrease) in equity £m
10% appreciation of the US dollar	**11.5**	10.0
10% depreciation of the US dollar	**(9.4)**	(8.2)

There are no material movements in the income statement. The movements in equity relates to the fair value movements on the Group's forward contracts that are used to hedge future stock purchases.

It should be noted that the sensitivity analysis reflects the impact on income and equity on all financial instruments held at the balance sheet date. It does not reflect changes in sales or costs that may result from changing interest or exchange rates.

Interest rate sensitivity

The table below shows the Group's sensitivity to interest rates changes.

	2009 Increase in finance cost £m	**2009 Reduction in equity £m**	2008 Increase in finance cost £m	2008 Reduction in equity £m
1% increase in sterling interest rates	**(1.8)**	**—**	(1.1)	(1.8)

A 1% decrease in interest rates would have an equal and opposite effect.

The movement in the income statement reflects the effect on finance costs on the unhedged borrowings of the Group as shown in the table below. In 2008 the movement in equity includes the fair value movement on the fixed leg of the Group's interest rate swap; this swap was closed out on 1 April 2009 (see note 5).

Interest rate movements on deposits, obligations under finance leases, trade payables, trade receivables, and other financial instruments do not present a material exposure to the Group's balance sheet.

The exposure of borrowings to interest rate changes when borrowings re-price is as follows:

	1 year £m	**1–5 years £m**	**Total £m**
Total bank borrowings as at 3 April 2009	**180.0**	**—**	**180.0**

	1 year £m	1–5 years £m	Total £m
Total bank borrowings as at 28 March 2008	180.0	—	180.0
Effect of interest rate swaps	(70.0)	70.0	—
	110.0	70.0	180.0

19. Financial instruments and related disclosures continued

The following is an analysis of the anticipated contractual cash flows, including interest payable, for the Group's non-derivative financial liabilities on an undiscounted basis. Interest is calculated based on debt held at the 3 April 2009 (28 March 2008) and is estimated using the prevailing interest rate at the balance sheet date.

	2009 Bank borrowings £m	**2009 Finance leases £m**	**2009 Trade and other payables £m**	**2009 Vacant property provision £m**	**2009 Total £m**
Due less than one year	**3.5**	**1.0**	**77.5**	**0.7**	**82.7**
Expiring between 1 and 2 years	**3.5**	**1.0**	**—**	**0.7**	**5.2**
Expiring between 2 and 5 years	**181.0**	**3.1**	**—**	**1.8**	**185.9**
Expiring after 5 years	**—**	**17.0**	**—**	**—**	**17.0**
	188.0	**22.1**	**77.5**	**3.2**	**290.8**

	2008 Bank borrowings £m	2008 Finance leases £m	2008 Trade and other payables £m	2008 Vacant property provision £m	2008 Total £m
Due less than one year	11.0	1.0	94.7	1.1	107.8
Expiring between 1 and 2 years	11.2	1.0	—	—	12.2
Expiring between 2 and 5 years	196.9	3.1	—	—	200.0
Expiring after 5 years	—	18.0	—	—	18.0
	219.1	23.1	94.7	1.1	338.0

The contractual obligations under finance leases include £9.9m (2008: £10.7m) of future finance charges to arrive at the present value of finance lease liabilities of £12.2m (2008: £12.4m).

The following table provides an analysis of the anticipated contractual cash flows for the Group's forward currency contracts. Cash flows receivable in foreign currencies are translated using spot rates as at 3 April 2009 (28 March 2008).

	2009		2008	
	Receivables £m	**Payables £m**	Receivables £m	Payables £m
Due less than one year	**90.5**	**(76.7)**	80.6	(79.9)
Expiring between 1 and 2 years	**13.0**	**(13.4)**	9.2	(9.5)
	103.5	**(90.1)**	89.8	(89.4)

Cash flow hedges

Forward currency contracts

Forward dated foreign exchange contracts are undertaken to hedge known exposure to foreign purchases in US dollars. The fair value of such derivatives are shown in the table on page 78.

Borrowing facilities

The Group has the following undrawn committed borrowing facilities available during the period in respect of which all conditions precedent had been met at that date:

	2009 £m	2008 £m
Expiring within 1 year	**1.0**	1.0
Expiring between 2 and 5 years	**120.0**	120.0
	121.0	121.0

The facilities expiring within one year were annual facilities subject to review at various dates during the period. The facility of £120.0m relates to the Group's revolving credit facility which was arranged to help finance the proposed expansion of the Group's activities. All these facilities incurred commitment fees at market rates.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20. Equity share capital

Ordinary shares of 1p each:	**2009 Number of shares**	**2009 £000**	2008 Number of shares	2008 £000
Authorised	**295,000,000**	**2,950**	295,000,000	2,950
Allotted, called up and fully paid	**209,786,251**	**2,097**	214,348,661	2,143

Allotted, called up and fully paid share capital decreased during the period due to the Company's share repurchase programme. During the period the Company acquired 4,687,816 (2008: 9,453,738) shares at a cost of £13.1m (2008: £30.3m). Distributable reserves have been reduced by £13.1m (2008: £30.3m), being the consideration paid for the shares.

During the current period the Company's share capital increased by 3,000 shares (2008: 3,888,848 shares) due to the exercise by employees of share options at £2.60 under the 2004 Halfords Share Option Scheme. In addition, a further 122,406 nil cost options were exercised under the 2005 Long Term Incentive Plan. In 2008 a further 867,014 options were exercised at £2.65 by members of the 2004 Halfords Sharesave Scheme and in total the Company received proceeds of £12.4m from the exercise of share options.

Interest in own shares

At 3 April 2009 the Company held in Trust 1,113,985 (2008: 1,114,374) of its own shares with a nominal value of £11,140 (2008: £11,144). The Trust has waived any entitlement to the receipt of dividends in respect of its holding of the Company's ordinary shares. The market value of these shares at 3 April 2009 was £3.4m (2008: £3.3m).

21. Share-based payments

At present the Group has three share award plans:

1. Halfords Company Share Option Scheme ("CSOS")
2. Halfords Sharesave Scheme ("SAYE")
3. The Long-Term Incentive Plan ("LTIP")

1. Halfords Company Share Option Scheme

The CSOS was introduced in June 2004 and the Company has made annual grants since. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. The contractual life of an option is ten years.

Options granted will become exercisable on the third anniversary of the date of grant, subject to the achievement of a three year performance condition. For grants up to 150% of basic salary the options can only be exercised if the increase in earnings per share ("EPS") over the period is not less than the increase in the Retail Price Index ("RPI") plus 5% per year for the 2005 scheme and 3.5% for options granted in 2006, 2007 and 2008 respectively. In the case of grants in excess of 150% of basic salary, the excess can only be exercised in full if the increase is not less than RPI plus 10% per year. Exercise of an option is subject to continued employment.

The expected volatility is based on historical volatility of a peer group of companies since the IPO in June 2004. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK government bonds.

21. Share-based payments continued

Options were valued using the Black–Scholes option-pricing models. No performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculations were as follows:

Grant date	7 August 2008	12 July 2007	6 July 2006	13 July 2005	2 June 2004
Share price at grant date	£3.0725	£3.9875	£3.010	£2.955	£2.600
Exercise price	£3.0725	£3.9875	£3.010	£2.955	£2.600
Number of employees	740	673	36	42	3598
Shares under option	1,881,467	1,600,591	252,000	294,000	6,556,953
Vesting period (years)	3	3	3	3	3
Expected volatility	27%	23%	35%	37%	40%
Option life (years)	10	10	10	10	10
Expected life (years)	4.85	4.85	4.85	4.85	3.85
Risk-free rate	4.61%	5.67%	4.70%	4.68%	4.68%
Expected dividend yield	4.83%	4.10%	4.00%	4.00%	4.00%
Possibility of ceasing employment before vesting	32%	32%	32%	32%	34%
Expectations of meeting performance criteria	100%	100%	100%	100%	100%
Fair value per option	£0.56	£0.75	£0.77	£0.79	£0.70
Number of options outstanding at 3 April 2009	1,801,918	1,454,925	189,000	—	292,950

2. Halfords Sharesave Scheme

The SAYE is open to all employees with eligible employment service. Options may be exercised under the scheme if the option holder completes his saving contract for a period of three years and then not more than six months thereafter. Special provisions allow early exercise in the case of death, injury, disability, redundancy, retirement or because the company or business which employs the option holder is transferred out of the Group, or in the event of a change in control, reconstruction or winding-up of the Company.

The fair value per option granted and the assumptions used in the calculations were as follows:

Grant date	7 August 2008	7 August 2007	1 August 2006	11 August 2005
Share price at grant date	£2.4083	£4.02	£3.01	£3.07
Exercise price	£1.9267	£3.22	£3.01	£3.07
Number of employees	821	1,064	343	573
Shares under option	1,491,586	929,890	173,558	269,037
Vesting period (years)	3	3	3	3
Expected volatility	29%	22%	22%	36%
Option life (years)	3	3	3	3
Expected life (years)	3.5	3.5	3.5	3.5
Risk-free rate	4.58%	5.54%	4.75%	4.68%
Expected dividend yield	4.83%	4.10%	4.10%	4.00%
Possibility of ceasing employment before vesting	44%	44%	44%	53%
Expectations of meeting performance criteria	100%	100%	100%	100%
Fair value per option	£0.61	£1.01	£0.44	£0.81
Number of options outstanding at 3 April 2009	1,349,562	287,118	65,082	1,370

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21. Share-based payments continued

3. The Long-Term Incentive Plan

The introduction of a Long-Term Incentive Plan ("LTIP") was approved at the Annual General Meeting in August 2005 awarding the executive Directors and certain senior management conditional rights to receive shares. To date four schemes have been approved for 2005, 2006, 2007 and 2008.

The extent to which such rights vest will depend upon the Company's performance over the three-year period following the award date. The vesting of 50% of the awards will be determined by the Company's relative total shareholder return ("TSR") performance and the vesting of the other 50% by the Company's absolute EPS performance against RPI. The Company's TSR performance will be measured against the FTSE 350 general retailers as a comparator Group. No retesting will be permitted.

The TSR element of the options granted under the 2007 scheme has been valued using a model developed by Deloitte. The Deloitte model uses the Group's share price volatility, the correlation between comparator companies and the vesting schedule attaching to the LTIP tranche rather than generating a large number of simulations of share price and TSR performance to determine the fair value of the award using a Monte Carlo model. For the 2005 and 2006 schemes the TSR element of the options were valued using a Monte Carlo simulation option pricing model. The fair value per option granted and the assumptions used in the calculation were as follows:

Grant date	7 August 2008	12 July 2007	11 July 2006	8 August 2005
Share price at grant date	£2.962	£4.02	£3.01	£3.07
Number of employees	20	21	18	17
Shares under option	866,340	539,893	596,908	537,417
Vesting period (years)	3	3	3	3
Expected volatility	30%	22%	22%	31%
Option life (years)	3	3	3	3
Expected life (years)	3	3	3	3
Expected dividend yield	4.83%	4.10%	4.25%	4.00%
Possibility of ceasing employment before vesting	30%	30%	30%	30%
Expectations of meeting performance criteria	100%	100%	100%	50%
Fair value per option	£1.97	£2.69	£1.82	£2.19
Number of shares outstanding 3 April 2009	796,719	352,914	351,102	—

As the LTIP awards have a nil exercise price the risk free rate of return does not have any effect on the estimated fair value and therefore is excluded from the above table.

A reconciliation of option movements for the CSOS, SAYE and LTIP performance plans over the year to 3 April 2009 are shown below:

	3 April 2009 Number ('000)	**3 April 2009** Weighted average exercise price	28 March 2008 Number ('000)	28 March 2008 Weighted average exercise price
Outstanding at start of year	**4,558**	**£2.59**	7,455	£2.32
Granted	**4,239**	**£2.04**	3,070	£3.05
Forfeited	**(173)**	**—**	(553)	£1.07
Exercised	**(126)**	**£0.07**	(4,756)	£2.61
Lapsed	**(1,555)**	**£2.58**	(658)	£2.79
Outstanding at end of year	**6,943**	**£2.36**	4,558	£2.59
Exercisable at end of year	**294**	**£2.60**	334	£2.60

21. Share-based payments continued

3 April 2009				28 March 2008			
Weighted average exercise price	**Number of shares (000)**	**Weighted average remaining life (years) Expected**	**Contractual**	Weighted average exercise price	Number of shares (000)	Weighted average remaining life (years) Expected	Contractual
£1.93	**1,350**	**2.3**	**2.8**	—	—	—	—
£2.60	**293**	**—**	**5.2**	£2.60	329	—	6.2
£2.65	**—**	**—**	**—**	£2.65	5	—	—
£2.95	**—**	**—**	**—**	£2.95	224	2.1	7.3
£3.01	**254**	**1.8**	**5.5**	£3.01	346	2.7	5.9
£3.07	**1,803**	**4.2**	**9.3**	£3.07	149	0.8	0.3
£3.22	**287**	**1.8**	**1.3**	£3.22	799	2.8	2.3
£3.99	**1,455**	**3.1**	**8.3**	£3.99	1,556	4.1	9.3
£0.00	**1,501**	**1.6**	**1.6**	£0.00	1,150	1.3	1.3

The weighted average exercise price during the period for options exercised was £0.07 (2008: £2.61). The total charge for the year relating to employee share-based payment plans was £1.7m (2008: £1.0m), all of which related to equity-settled share-based payment transactions.

22. Commitments

	2009 £m	2008 £m
Capital expenditure: Contracted but not provided	**1.5**	1.5

At 3 April 2009, the Group was committed to making payments in respect of non-cancellable operating leases in the following periods:

	Land and buildings 2009 £m	**Other assets 2009 £m**	Land and buildings 2008 £m	Other assets 2008 £m
Within one year	**79.8**	**1.2**	77.7	0.6
Later than one year and less than five years	**305.9**	**1.2**	302.3	0.7
After five years	**390.4**	**—**	437.3	—
	776.1	**2.4**	817.3	1.3

The operating lease commitments are shown before receipts of sublet income.

23. Pensions

Employees are offered membership of the Halfords Pension Plan. During the period the Group changed its pension arrangements to prepare for the government's introduction of Personal Accounts. The Halfords Pension Plan moved from a defined contribution scheme to a contract based plan, where each member has their own individual pension policy, which they monitor independently. The costs of contributions to the scheme are charged to the income statement in the period that they arise. The contributions to the scheme for the period amounted to £3.2m (2008: £3.2m).

24. Contingent liabilities

The Group's banking arrangements include the facility for the bank to provide a number of guarantees in respect of liabilities owed by the Group during the course of its trading. In the event of any amount being immediately payable under the guarantee, the bank has the right to recover the sum in full from the Group. The total amount of guarantees in place at 3 April 2009 amounted to £2.9m (2008: £2.9m).

The Group's banking arrangements are subject to a netting facility whereby credit balances may be offset against the indebtedness of other Group companies.

FIVE YEAR RECORD

	52 weeks to 1 April 2005 £m	52 weeks to 31 March 2006 £m	52 weeks to 30 March 2007 £m	52 weeks to 28 March 2008 £m	**53 weeks to 3 April 2009 £m**
Revenue	628.4	681.7	744.0	797.4	**809.5**
Cost of sales	(292.0)	(335.0)	(367.9)	(394.9)	**(388.1)**
Gross profit	336.4	346.7	376.1	402.5	**421.4**
Operating expenses	(247.1)	(257.6)	(282.6)	(301.5)	**329.7**
Operating profit before exceptional items	89.5	89.1	93.5	101.0	**104.0**
Exceptional operating expenses	(0.2)	—	—	—	**(12.3)**
Operating profit	89.3	89.1	93.5	101.0	**91.7**
Net finance costs	(15.0)	(12.1)	(12.6)	(10.8)	**(14.2)**
Profit before tax and exceptional items	74.0	77.0	83.5	90.2	**94.4**
Exceptional operating expenses	(0.2)	—	—	—	**(12.3)**
Exceptional finance costs	0.5	—	(2.6)	—	**(4.6)**
Profit before tax	74.3	77.0	80.9	90.2	**77.5**
Taxation	(23.8)	(23.4)	(24.3)	(26.2)	**(26.3)**
Taxation on exceptional items	0.6	—	0.8	—	**4.6**
Profit attributable to equity shareholders	51.1	53.6	57.4	64.0	**55.8**
Basic earnings per share	23.7p	23.6p	25.8p	29.3p	**26.6p**
Basic earnings per share before exceptional items	24.1p	23.6p	26.6p	29.3p	**32.5p**
Weighted average number of shares	215.6m	227.1m	222.9m	218.4m	**209.5m**

KEY PERFORMANCE INDICATORS

	52 weeks to 1 April 2005	52 weeks to 31 March 2006	52 weeks to 30 March 2007	52 weeks to 28 March 2008	**53 weeks to 3 April 2009**
Revenue growth		+8.6%	+9.1%	+7.2%	**+1.5%**
Gross margin	53.5%	50.9%	50.6%	50.5%	**52.1%**
Operating margin	14.2%	13.1%	12.6%	12.7%	**11.4%**

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HALFORDS GROUP plc ("THE COMPANY")

We have audited the Company financial statements of Halfords Group plc for the 53 weeks to 3 April 2009, which comprise the reconciliation of Movement in Shareholders' funds, Company Balance Sheet, Accounting Policies and the related notes. These Company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of Halfords Group plc for the 53 weeks to 3 April 2009.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Company financial statements give a true and fair view and whether the Company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Company financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, the Business Review and the Finance Director's Report that is cross-referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Company financial statements. The other information comprises only the Financial and Operational Highlights, Halfords at a Glance, Chairman's Statement, Business Review, Finance Director's Report, Corporate Social Responsibility, The Board, Directors' Report, Corporate Governance, Directors' Remuneration Report, Statement of Directors' Responsibilities, Independent Auditor's Report ("the Group"), Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Changes in Shareholders' Equity, Consolidated Cash Flow Statement, Notes to Consolidated Cash Flow Statement, Accounting Policies, Notes to the Financial Statements, Five Year Record, Independent Auditors' Report ("the Company"), Company Balance Sheet, Accounting Policies, Notes to the Financial Statements, Shareholder Information, Company Information and all elements listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Company financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Company financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 3 April 2009;
- the Company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Company financial statements.

PRICEWATERHOUSECOOPERS LLP
CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS
BIRMINGHAM
10 JUNE 2009

COMPANY BALANCE SHEET

	Notes	3 April 2009 £m	28 March 2008 £m
Fixed assets			
Investments	4	**7.0**	5.3
Current assets			
Debtors falling due within one year	5	**0.3**	0.2
Debtors falling due after one year	5	**207.3**	217.9
Cash at bank and in hand		**—**	0.4
		207.6	218.5
Creditors: amounts falling due within one year	6	**(3.3)**	(4.1)
Net current assets		**204.3**	214.4
Net assets		**211.3**	219.7
Capital and reserves			
Called up share capital	7	**2.1**	2.1
Share premium account	8	**145.6**	145.6
Capital redemption reserve	8	**0.2**	0.2
Profit and loss account	8	**63.4**	71.8
Total shareholders' funds		**211.3**	219.7

The notes on pages 90 to 92 are an integral part of the Company's financial statements.

The Company has elected to prepare its financial statements under UK GAAP and the accounting policies are outlined on page 89.

The financial statements on pages 88 to 92 were approved by the Board of Directors on 10 June 2009 and were signed on its behalf by:

DAVID WILD
CHIEF EXECUTIVE OFFICER

NICK WHARTON
FINANCE DIRECTOR

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the period	53 weeks to 3 April 2009 £m	52 weeks to 28 March 2008 £m
Profit for the period	**35.3**	64.1
Shares issued	**—**	12.4
Purchase of own shares — share buy-back	**(13.1)**	(30.3)
Purchase of own shares for Employee Trust	**—**	(0.6)
Employee share options	**1.7**	1.0
Dividends	**(32.3)**	(31.4)
Net (decrease)/increase in shareholders' funds	**(8.4)**	15.2
Opening shareholders' funds	**219.7**	204.5
Closing shareholders' funds	**211.3**	219.7

ACCOUNTING POLICIES

Basis of preparation

The accounts of the Company are prepared for the period up to the Friday closest to 31 March each year. Consequently, the financial statements for the current period cover the 53 weeks to 3 April 2009, whilst the comparative period covered the 52 weeks to 28 March 2008. The accounts are prepared under the historical cost convention on an ongoing basis, except where Financial Reporting Standards require an alternative treatment, in accordance with the Companies Act 1985, applicable accounting standards and specifically in accordance with the accounting policies set out below. The principal variation to the historical cost convention relates to share-based payments.

A consolidated cash flow statement has been included in the Halfords Group plc consolidated accounts. The Company has therefore taken advantage of the exemption under FRS 1 (revised 1996) “Cash flow statements” not to produce a cash flow statement.

The Company has taken the available exemption not to adopt FRS 29 “Financial instruments: disclosures”.

Share-based payments

The Company operates a number of equity-settled, share-based compensation plans that are awarded to employees of the Company’s subsidiaries.

In accordance with UITF Abstract 44 “FRS 20 (IFRS 2) — Group and treasury share transactions”, the fair value of the employee services received under such schemes is recognised as an expense in the subsidiary financial statements, which benefit from the employee services. The Company has recognised the fair value of the share based payments as an increase to equity with a corresponding adjustment to investments.

Fair values are determined using appropriate option pricing models. The total fair value recognised is determined by reference to the fair value of share incentives, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of share incentives that are expected to vest. At each balance sheet date, the Company revises its estimates of the number of share incentives that are expected to vest. The impact of the revision of original estimates, if any, is recognised as an adjustment to equity, with a corresponding adjustment to investments, over the remaining vesting period.

Investments

Investments in subsidiary undertakings are stated at the original cost of the investments. Provision is made against cost where, in the opinion of the Directors, the value of the investments has been impaired.

Equity dividends

Final dividends are recognised in the Company’s financial statements in the period in which the dividends are approved by shareholders. Interim equity dividends are recognised in the period they are paid.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. Profit and loss account

The Company made a profit before dividends for the financial period of £35.3m (52 week period to 28 March 2008: £64.1m). The Directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and not presented a profit and loss account for the Company alone.

2. Audit fees

The audit fees payable by the Group to PricewaterhouseCoopers LLP and their associates during the period were borne by Halfords Limited. In the 53 weeks to 3 April 2009 and the 52 weeks to 28 March 2008 the Company did not expense any fees relating to PricewaterhouseCoopers LLP.

3. Staff costs

The Company has no employees other than the Directors. Full details of the Directors' remuneration and interests are set out in the Remuneration Report on pages 47 to 53 which form part of the audited information.

4. Investments

	£m
Shares in Group undertaking	
Cost	
As at 28 March 2008	5.3
Additions — share-based payments	1.7
At 3 April 2009	**7.0**

The investment represents shares in the following subsidiary undertaking as at 3 April 2009 and the fair value of share-based compensation plans that are awarded to employees of the Company's subsidiaries.

	Incorporated in	Ordinary shares percentage owned %	Principal activities
Halfords Holdings (2006) Limited	Great Britain*	100	Intermediate holding company

* Registered in England and Wales.

In the opinion of the Directors the value of the investment in the subsidiary undertaking is not less than the amount shown above.

Principal subsidiaries

The principal subsidiary undertakings of the Company at 3 April 2009 are as follows:

	Principal activity	% Ownership
Halfords Holdings (2006) Limited	Intermediate holding company	100
Halfords Holdings Limited	Intermediate holding company	100
Halfords Finance Limited	Intermediate holding company	100
Halfords Limited	Retailing of auto parts, accessories, cycles and cycle accessories	100

All the above subsidiaries are incorporated in Great Britain and registered in England and Wales. All other subsidiary undertakings are dormant and did not trade during the year.

5. Debtors

	2009 £m	2008 £m
Falling due within one year:		
Amounts owed by Group undertakings	**0.3**	0.2
Falling due after more than one year:		
Amounts owed by Group undertakings	**207.3**	217.9

Amounts owed by Group undertakings that fall due after one year are subject to interest. At 3 April 2009 the amounts bear interest at a rate of 3.4% (2008: 6.4%).

6. Creditors: amounts falling due within one year

	2009 £m	2008 £m
Bank overdraft	**0.1**	—
Corporation tax	**3.2**	3.5
Accruals and deferred income	**—**	0.6
	3.3	4.1

7. Equity share capital

Ordinary shares of 1p each:	2009 Number of shares	2009 £000	2008 Number of shares	2008 £000
Authorised	**295,000,000**	**2,950**	295,000,000	2,950
Allotted, called up and fully paid	**209,786,251**	**2,097**	214,348,661	2,143

Allotted, called up and fully paid share capital decreased during the period due to the Company's share repurchase programme. During the period the Company acquired 4,687,816 (2008: 9,453,738) shares at a cost of £13.1m (2008: £30.3m). Distributable reserves have been reduced by £13.1m (2008: £30.3m), being the consideration paid for the shares.

During the current period the Company's share capital increased by 3,000 shares (2008: 3,888,848 shares) due to the exercise by employees of share options at £2.60 under the 2004 Halfords Share Option Scheme. In addition, a further 122,406 nil cost options were exercised under the 2005 Long Term Incentive Plan. In 2008 a further 867,014 options were exercised at £2.65 by members of the 2004 Halfords Sharesave Scheme and in total, the Company received proceeds of £12.4m from the exercise of share options.

Potential issue of ordinary shares

The Company has three employee share option schemes, which were set up following the Company's flotation. Further information regarding these schemes can be found in note 21 of the Group's financial statements.

Interest in own shares

At 3 April 2009 the Company held in Trust 1,113,985 (2008: 1,114,374) of its own shares with a nominal value of £11,140 (2008: £11,144). The Trust has waived any entitlement to the receipt of dividends in respect of its holding of the Company's ordinary shares. The market value of these shares at 3 April 2009 was £3.4m (2008: £3.3m).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8. Reserves

	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 28 March 2008	145.6	0.2	71.8	217.6
Profit for the financial period	—	—	35.3	35.3
Purchase of own shares	—	—	(13.1)	(13.1)
Employee share options	—	—	1.7	1.7
Dividends	—	—	(32.3)	(32.3)
At 3 April 2009	**145.6**	**0.2**	**63.4**	**209.2**

The Company settled dividends of £32.3m (2008: £31.4m) in the period, as detailed in note 8 of the Group's financial statements.

9. Related party disclosures

Under FRS 8 "Related party disclosures" the Company is exempt from disclosing related party transactions with entities over which it has 90% control or more.

10. Contingent liabilities

The Group's banking arrangements include the facility for the bank to provide a number of guarantees in respect of liabilities owed by the Group during the course of its trading. In the event of any amount being immediately payable under the guarantee, the bank has the right to recover the sum in full from the Group. The total amount of guarantees in place at 3 April 2009 amounted to £2.9m (2008: £2.9m).

The Company's banking arrangements are subject to a netting facility whereby credit balances may be offset against the indebtedness of other Group companies.

SHAREHOLDER INFORMATION

Analysis of shareholders

As at 3 April 2009, the number of registered shareholders was 2,863 and the number of ordinary shares in issue was 210,066,115.

	Number of holdings	% of total shareholders	Number of shares	% of issued share capital
Range of holdings				
1–5,000	2,335	81.6	3,051,488	1.4
5,001–10,000	119	4.2	871,735	0.4
10,001–50,000	148	5.0	3,527,515	1.7
50,001–100,000	56	2.0	4,202,644	2.0
100,001–500,000	127	4.4	31,491,528	15.0
500,001 and above	78	2.7	166,920,849	79.5
Total	2,863	100.0	210,066,115	100.0
Held by				
Individuals	1,452	50.71	2,532,992	1.2
Institutions	1,411	49.29	207,533,123	98.8
Total	2,863	100.0	210,066,115	100.0

The data above includes 279,864 shares awaiting cancellation, as part of the share buy-back programme.

Results and financial diary

Annual General Meeting: 29 July 2009
Final dividend payable: 5 August 2009
Record date: 19 June 2009
Ex dividend date: 17 June 2009
Pre-close statement: 8 October 2009
Half year report: 26 November 2009
Ex dividend date: 2 December 2009
Record date: 4 December 2009
Interim dividend payable: 11 January 2010

Annual General Meeting

The Annual General Meeting will be held at 12.30 pm on Wednesday 29 July 2009 at the Alveston Manor Hotel, Clopton Bridge, Stratford upon Avon, Warwickshire, CV37 7HP.

Each shareholder is entitled to attend and vote at the meeting.

COMPANY INFORMATION

Registered and Head Office

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