halfords
we go the extra mile

Geared for Growth

Halfords Group plc
Annual Report & Accounts for period ending **2 April 2010**

462 STORES
HALFORDS.COM
0845 026 4643
reserve & collect
HOME DELIVERY
224 AUTOCENTRES

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we go the extra mile

halfords.com

See inside back cover for easy reference contents

Introduction

Introduction

About Halfords

About Halfords

Business Review

Business Review

Responsibilities

Responsibility

Financials

Financials

Our Investment Proposition

- UK's leading retailer of automotive and leisure products
- UK's leading independent operator in garage servicing and auto repair
- Consolidation opportunity in attractive, fragmented markets characterised by small independents
- Brands and categories hold number one sales positions
- Strong competencies
  - Unrivalled scale and national coverage
  - Leveraging brand equity and maximising marketing opportunities
  - Unique service proposition
  - Multi-channel integration
  - Agile international sourcing

Our Strategy

Organic growth plan:

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

Augmented by disciplined merger and acquisition opportunities

Group Long-Term Vision

- Grow earnings at a sustainable 15% CAGR
- Maintain Halfords' leading core retail position achieving earnings growth 8% CAGR
- Expand the Halfords brand into automotive aftercare
- Leverage core capabilities in the retail sector
- Increase multi-channel penetration and operating revenues
- Identify and develop international opportunities
- Maintain an efficient Balance Sheet across the financing cycle

Watch the overview video › www.investinginhalfords.com

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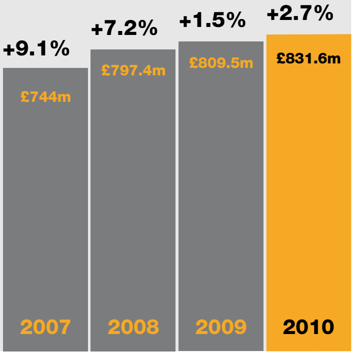
Financial and Operational Highlights

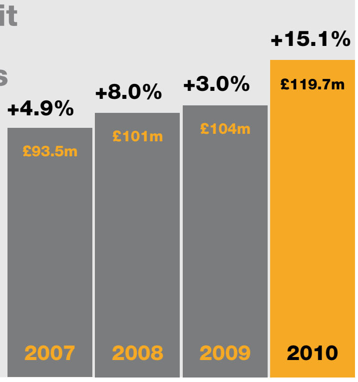
Revenue

+2.7%
at £831.6m
(2009: £809.5m)



Operating Profit before non-recurring items

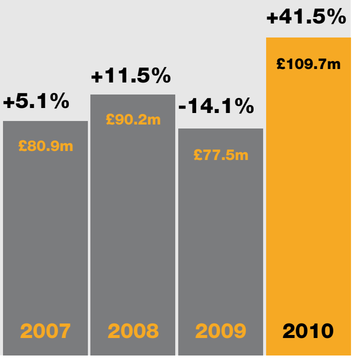
+15.1%
at £119.7m
(2009: £104m)



Operating profit was £112.3m (2009: £91.7m).

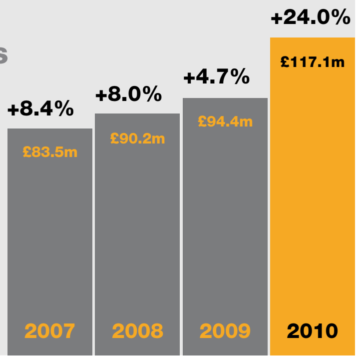
Profit before tax

+41.5%
at £109.7m
(2009: £77.5m)

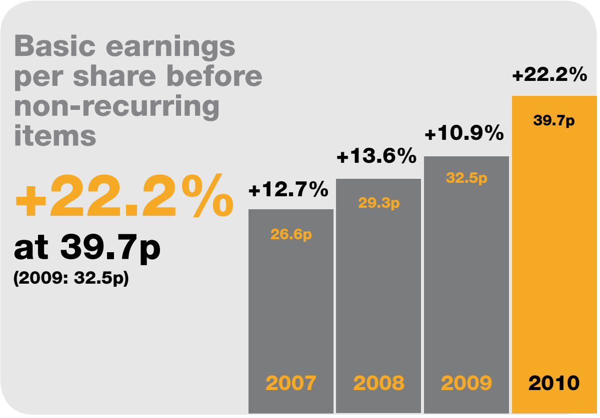


Profit before tax and non-recurring items

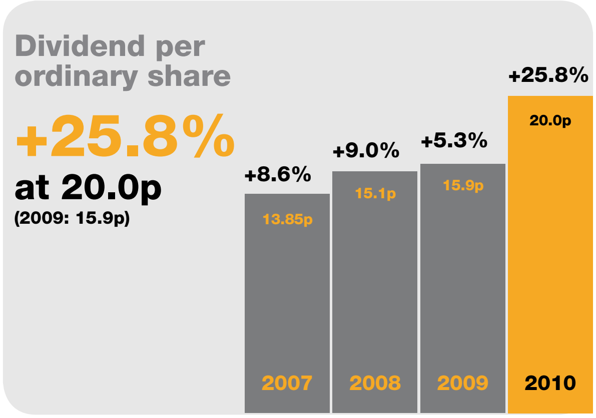
+24.0%
at £117.1m
(2009: £94.4m)

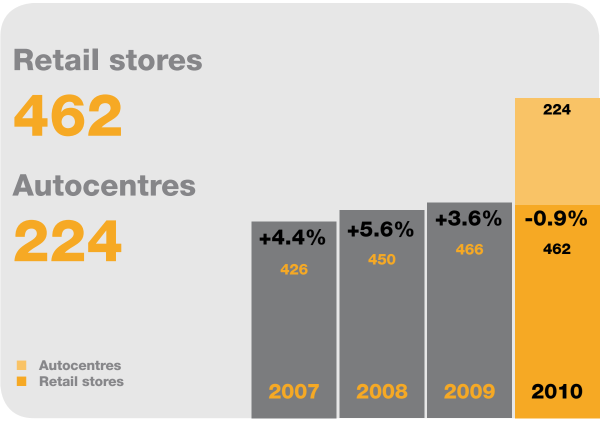


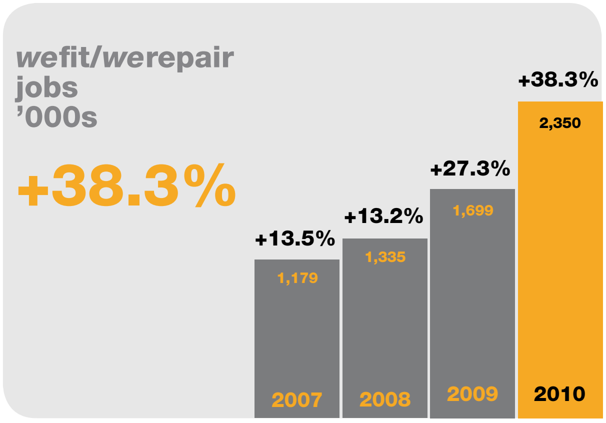
For comparative purposes, 2009 underlying earnings before tax (profit before tax and non-recurring items adjusted for the 53rd week) were £92.4m.



Basic earnings per share was 36.8p (2009: 26.6p). For comparative purposes 2009, Basic earnings per share before non-recurring items adjusted for the 53rd week were 31.8p.







- 462 Halfords stores now trading
- Core Car Maintenance & Cycling categories sales and market growth
- Strong performance in Services (***we***fit uptake +30% on 2009 figures)
- Cost control measures implemented
- halfords.com — Significant '*Reserve & Collect*' growth. '*Order & Collect*' launched
- Strategic supply chain optimisation from 3 to 2 UK distribution centres
- Acquisition of 224 Nationwide Autocentres
- Closure of loss making European operations announced

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How We Report

Stay up to date with what's happening. Throughout the year we publish a range of corporate reporting material to ensure we remain open and transparent.

Our statements of material information are circulated by regulatory announcement through a regulatory information service approved by the FSA and are shown on our corporate website. Our primary audited annual statement is the Annual Report which is reviewed by our Auditors. In conjuction with the Annual Report we reproduce an online version which contains the same core information as the printed version but in addition has links to non-audited supplementary information to help better explain the Company and our strategic plans, this additional information is clearly marked as unaudited.

As a contemporary source of information we update our corporate website (*www.halfordscompany.com*) with a range of information to inform and educate a broad range of stakeholders in our activities, management and social responsibility. The corporate website has a dedicated area for investors which contains our latest updates with links to online Annual Reports and non-audited supplementary information.

Our reporting media

Types of information available	Corporate / IR Website	Online Annual Report	Printed Annual Report
Introduction	✓ Summary of financial performance	✓✓ Full Highlights	✓✓ Full Highlights
About Halfords	✓✓ Contemporary source of strategic information	✓ Point in time strategic information	✓ Point in time strategic information
Business Review	✗ Link to online annual report	✓✓ Full review of the year with video links	✓ Full text of business review
Responsibilities	✓✓ Contemporary source of risk management policy	✓ Summary of corporate governance	✓ Summary of corporate governance
Financials	✗ Link to online annual report	✓✓ Full accounts with spreadsheet downloads	✓ Full accounts

View › www.halfordscompany.com

View › halfords.annualreport2010.com

Chairman's Statement

I'm pleased to report a successful and exciting year for Halfords delivering a strong financial performance and our first acquisition as a listed company.

This has been a year of significant achievement for Halfords. Revenue and profit growth was strong, our strategic priorities were pursued vigorously and our first major acquisition was completed. This pleasing performance is testament to the strength of the Halfords brand, our leading market positions and unique and extensive product offerings and the dedication of our colleagues.

On a comparable basis revenues grew by 4.6% against the backdrop of a very challenging trading environment. A healthy margin expansion was achieved and proactive initiatives saw our cost base reduce and productivity increase. As a result, strong growth in both underlying earnings before tax of 26.7% and in earnings per share of 24.8% was achieved. Importantly, cash generation was strong and the Group's financial position remains very sound.

These results and confidence in the future prospects for Halfords has enabled the board to maintain its progressive dividend policy. A final dividend of 14.0 pence per share has therefore been recommended which would amount to a total of 20.0 pence for the year. This represents an increase of 25.8% over the dividend of 15.90 pence paid last year.

In February 2010, we completed the acquisition of Nationwide Autocentres ("Nationwide") for £75m, effectively funded out of free cash flow generated in the year. Nationwide has a network of 224 servicing and repair centres throughout the UK. The intention is to re-brand the business as "Halfords Autocentres" and to continue the expansion of our servicing and repair network by adding *c.*80 outlets over the next three years. Acquisitions will be a key component of our growth strategy.

After a thorough review, it was decided to close our 7 Central European stores. The case for further expansion into this region was considered to be unattractive with weak end markets and severe difficulty in sourcing the quality sites that would be necessary to lay down a meaningful footprint. Furthermore, it was felt that the Group's resources could be better employed by investment in our activities in the UK market.

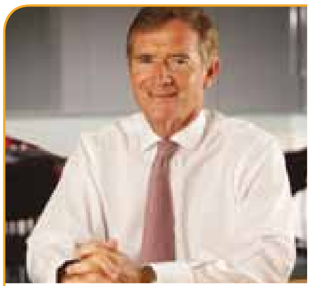
Another key element to the success of Halfords this year has been the tight management of the supply chain. Inventories have been reduced and sourcing and availability has improved. A further initiative in the year ahead will be the commissioning in July of a new 320,000 sq.ft. warehouse and distribution facility near Coventry. Significant cost savings will be achieved and productivity and effectiveness improved when fully operational.

David Wild, our Chief Executive Officer, and his very experienced executive team have driven the growth of Halfords in a year of significant change and pursued our four point strategy with vigour and precision. We will continue to do so and the aim of this strategy is to deliver growth in earnings of 15% per annum over the medium term. The marked increase in shareholder value over the year is the most cogent measure of our achievement and a firm endorsement by our shareholders. I would like to thank my board for their role in the continuing success of Halfords and their support and counsel in my first year as chairman.

On behalf of the board, I would also like to thank the 9,300 loyal and dedicated Halfords colleagues in the store network, head office and distribution centres who have responded so positively to the needs of our customers and to the many initiatives implemented this year. I extend a warm welcome to our 1,500 Nationwide colleagues and am heartened by their dedication to service excellence. The excellent results for the year just ended are testament to the hard work and enthusiasm of the entire Halfords team.

Since the beginning of the new financial year, the trading environment has remained challenging. The recent change in UK government and the precise nature and timing of their measures to reduce government spending, and the impact this will have on trading, is still uncertain. We have nonetheless drawn up our plans on the assumption that conditions will remain tough. Last year we faced similar challenges and prospered — this year we will continue to build on Halfords' unique market-leading positions.

Dennis Millard
Chairman
10 June 2010



Dennis Millard
Chairman

Capability to drive value

Each element of our value chain is focused on consumer demand. Understanding the market allows us to design products and services to support evidenced need. Our store formats, websites, autocentres and in-store services promote, cross sell and accessorise the products we have economically and efficiently sourced through our value-added supply chain.

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462 STORES | HALFORDS.COM | 0845 026 4643 | reserve & collect | HOME DELIVERY | 224 AUTOCENTRES

Markets and Brands

Use your phones' bar code app and go directly to the relevant page on our website.

halfords.annualreport2010.com/markets

Markets and Brands

1

Our Markets


462
retail stores
UK and ROI

growing
female and family audience

£9bn
car
maintenance market

The UK & ROI are our core markets. Halfords continues to grow market share in attractive markets and, through its unique service proposition, differentiate itself from it's competition.

United Kingdom ("UK") and Republic of Ireland ("ROI") Summary

The UK has been the core market since the inception of the Company in 1892 and the successful UK model has been largely replicated in the ROI since 2006 with a similar mix of products and services promoted through stores and a website.

Reportable segments

The Halfords Group operates through two reportable segments or strategic business units — Retail and Car Servicing. The Car Servicing segment covers the operations of the Nationwide Autocentres business acquired in February 2010.

Retail

The Halfords retail business is split across "Car Maintenance", "Car Enhancement" and "Leisure" categories and includes in-store services like ***we***fit.

We retail from 462 stores in the UK and ROI, of which 403 are "Superstores", 26 are mid-sized "Compact" stores and 33 are the smaller high street 'Metro' stores. Our formats of choice are the larger "Superstore" and "Compact" store which carry approximately 10,000 and 6,000 lines respectively. Ninety percent of the UK population are within a 20 minute drive of one our stores.

Our most comprehensive product presentation is now our UK and ROI websites which currently display 12,000 product lines and received 30 million visitors in the year to March 2010. Our web traffic is growing at an annual rate of almost 40% and our industry leading *Reserve and Collect* offer successfully drives 80% of online customers to stores. This enhances the customer relationship and allows us to improve sales of related products and accessories (attachment rates). In addition, the web attracts new customers, with a higher ratio of female buyers than is seen in stores.

Of the product categories, **Car Maintenance** is market-led where the consumer generally makes a purchase based upon a need to meet legislative, manufacturer guidelines or safety concerns. The market has relatively robust demand. **Car Enhancement** is more product led and thus susceptible to changes in discretionary income and to a degree fashion and technology led innovations. **Leisure** covers a wide range, of which cycling is the largest proportion but also includes travel solutions, child safety and camping products where we drive business through both awareness and promotional activities.

Car servicing

Our Autocentres operation is the largest independent car service agent in the country, comprising 224 garages. The car maintenance market is worth approximately £9bn annually, of which Nationwide has approximately 1% market share. The market is fragmented: at one end the more expensive franchised dealers and at the other small independent garages. Being market-led and needs driven, our activity is split between broadscale awareness campaigns and more proactive customer relationship management.

The majority of the business is from direct retail clients where most of the cars are over three years old. Advanced client relationship systems manage the retention of this type of business and our brand is expected to add further value to an already successful service offer.

Fleet customers, which are a growing proportion of revenue, tend to operate cars under three years old and recognise the cost saving benefits of a non-franchised, high quality, national organisation.

Range Identification Process

Consumer Trends

Our contributions towards, and feedback from, product segment audits coupled with an array of economic data allow trends to be identified for further investigation.

Analysis of Behaviours

Many of our product and service strategies are impacted by consumer behaviour. For example, the increasing complexity of cars has driven consumers to become less involved in complex car service. This has highlighted opportunities for our ***we***fit service and our Autocentres acquisition.

Growth Potential

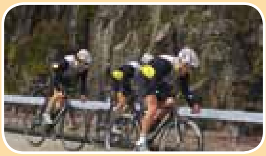
We operate in large markets and we analyse the potential for future expansion, whether through organic growth of the market or our growth in market share.

Sustainability

The sustainability of product categories has a significant impact on shareholder value; consequently, we are developing deep insight and working practices. Increasingly our expertise in managing fast moving technological change (e.g. SatNav life cycle) has value generation benefits when managed well.

Product Selection and Service Design

Once an opportunity has been identified our category managers develop contingent specification and key characteristics for the products and services. These can then be sourced with the extensive knowledge of our UK and Far East-based teams.



The Halfords Brand

Trading as Halfords since 1902

1st choice in core markets

* Data from ABA Brand Tracking Dec 2009

Over 5,000 own brand SKU's

Over the past 108 years we have developed one of the most recognised UK retail brands.

We go the extra mile

Our brand and its values serve the Company both internally and externally. With 108 years of heritage our brand began as being associated with bikes. Through development our offer is now accepted and synonymous as a broader trusted retailer. Recent research has identified the following characteristics:

- Halfords is seen as unique given its combination of products sold — there is nowhere else like Halfords.
- For many markets, e.g. car parts, car accessories, kids and family bikes, Halfords is clearly the number one choice.
- Most will recognise that Halfords offers "car and bike bits". When fully probed then a connection with personal transport, or journeys emerges and with camping the connection with outdoor leisure or great trips.

Products and services

Brand perception research has enabled us to position our brand to products from every category, and across our good, better, best placement strategy.

Using our own brand customised as "*Halfords Value*", "*Halfords*" and "*Halfords Advanced*" has proved successful in lifting average transaction values.

Building the brand requires a combination of promotion, customer service and product quality. The scale and scope of our store operations has also contributed to our category successes where the blend of trust, competence, accessibility and range has taken us to the No.1 sales positions in many of our product categories.

Extending the brand

In-store our branded services like ***we***fit have garnered more rapid acceptance through the strength of our brand and the competence to package an idea effectively and rapidly.

Autocentres

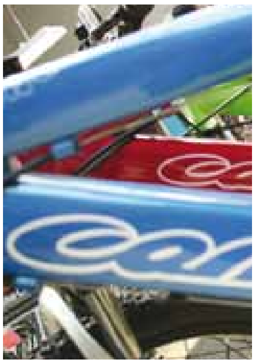
Our brand values lend themselves to extension into adjacent markets where there is a demand for reliability and trust. Car servicing therefore is a natural fit and should allow us to build upon another market-leading offer.

"Retail marketing is a tough environment, our service offer gives us a competitive advantage in almost all product categories"

Head of Marketing

Branding and Marketing

APOLLO



No.1*
UK Bike Brand Apollo
* Data from GFK NOP Consumer Research

Own label products
40%
of revenue FY10

Exclusive distribution of
Boardman
Brand in UK

Competence in brand management and marketing is a key factor in retailing. We have successfully developed brands and campaigns which appeal to strategically targeted market segments.

Our marketing competence not only tells us what we can do with the brand but, as importantly, what we should not. Managing brand values means keeping a watchful eye on where brand extension becomes a stretch too far. This has the potential to dilute the clarity of brand values and to limit sales in the target market.

Our sub-brands

As an example, in the cycles category, using our "good, better, best" strategy we have *Apollo* (good), *Carrera* (better) and *Boardman* (best). For the largest mainstream sector, where families enjoy cycling as part of family leisure, we created *Apollo*, which has developed as our "good" cycle brand. For the more discerning, we have created *Carrera*, which, both in styling and components, raises standards. At the top end, where it is likely the consumer will have researched the buying decision, we have the exclusive UK distribution licence for *Boardman* branded bikes. *Boardman*, by association with Olympic performance and exemplary components, allows us to raise transaction value further, indeed up to ten times that of a "good" branded bike. This use of brands to attract a broader audience and drive value is evidenced in the fact that *Apollo* is now the best selling UK bike brand.

Value in branding

In summary, we have built a competence and consumer behaviour model which can be used across many types of retail categories. A powerful value add both in existing business and future growth opportunities.

OWN BRANDS

Apollo, Carrera, Ripspeed, Sendai, Urban escape

EXCLUSIVE DISTRIBUTION BRANDS

boardman

SOME OF OUR PARTNER BRANDS

Kenwood, Garmin, TomTom, Sony

Our Customers

"Usually, I am lost when I go into large stores"

I visited your store in the Old Kent Road London SE1 earlier this morning and was delighted by the courteous and knowledgeable advice I received from the Sales Assistant in the Bicycle Department.

I was looking for a Schrader valve inner tube and a 28" tyre and the assistant, who was also a mechanic, kindly stopped what he was doing to pick the items for me.

Usually, I am lost when I go into large stores, but the help shown by your member of staff today has confirmed that I shall be using Halfords in future: for price, for quality and above all, for the stress-free service that came free with the purchase.

Anthony Dennis on Customer Service

"The repairs were carried out promptly and efficiently"

Last week I had occasion to take my daughter's bike into your Rickmansworth cycle branch for a check and service. I am delighted to say that the service I received was exemplary: the repairs were carried out promptly and efficiently and I was immediately informed by phone. Moreover, the gentleman who carried out the work provided me with some invaluable advice concerning bike maintenance, taking time to ensure that I fully understood.

He is clearly someone who really enjoys his job and takes great pride in providing excellent customer service. Needless to say, I will be returning there!

Bill Grimwood on Bikes

"She was passionate about the benefits and delights of Satellite Navigation"

I just wanted to take a few minutes to let you know what a refreshing shopping experience I had before Christmas.

My wife was deciding what to buy me for Christmas so I opted for a Sat Nav device. We knew nothing about Sat Navs and the Store Manager quickly spotted us staring aimlessly at the devices on offer at your Macclesfield store.

Her product knowledge was first rate and it was pretty obvious that she was passionate about the benefits and delights of Satellite Navigation. By the end of the discussion, not only had we decided on which device to purchase (a Garmin), but I too now consider myself to be a Sat Nav expert.

Excellent product knowledge, first-class customer engagement and a great shopping experience.

Peter Morgan on In-Car Technology

"A job well done and all for a modest £6.68"

I telephoned your branch on Queens Road, Sheffield yesterday to check stock and fitting of a brake light for my Citroën. The assistant I spoke to was most helpful, polite and patient.

I visited the store today and received equally great customer service. A member of staff promptly attended to my brake light, a new bulb fitted and working in no time. Fantastic. Excellent customer service, great advice, a job well done and all for a modest £6.68.

Without any doubt, I'll return there as and when needed and recommend Halfords to family and friends.

Marie Collinson-Wallace on *wefit*

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Products and Services

halfords.annualreport2010.com/products

2

Car Maintenance

Blades stocked for
96%
of UK car parc

Bulbs stocked for
98%
of UK car parc

UK sales
No.1*
for engine oil

* Data from GFK Panel Market

As the leading UK retailer of car maintenance products we have seen value growth from both our 3Bs (bulbs, blades and batteries) offer and our good, better, best range strategy.

Market

Much of the car maintenance business is market-led which is in response to needs driven purchasing. Given the nature of consumer behaviour, we need to meet this demand with easy access, comprehensive ranges and a hassle-free experience. Needs driven purchasing has a positive impact given its limited exposure to changes in disposable income and cyclical trends.

The competition in car maintenance is fragmented with no nationally equivalent service provider. Geographically the supermarkets have a national network of outlets but have limited product scope. Competing smaller car parts suppliers lack our brand strength and national accessibility, providing us with significant competitive advantage.

Sustainability

The evolution of vehicle maintenance and complexity of repair in modern vehicles has meant the reduced long-term demand for heavy parts where consumers are driven to use service agents. These trends have also allowed us to build a service backed product range to meet the demand for the more consumable items. This allows our customers to save cost and experience improved convenience.

Offer

Using our retailing competencies, our large ranges follow a good, better, best positioning strategy and in particular our 3Bs (bulbs, blades and batteries) offer has seen an uplift in transaction value. Clearly labelled benefits allow customers to select upgraded product performance, and attachment rates for services are also growing.

Alignment with strategy

Car maintenance is a core element to our product retail offer and not only contributes in margin terms but also drives footfall and thus our ability to promote other ranges. The Halfords brand also has a heritage in car maintenance and allows us to leverage margin from the trust that ‘we go the extra mile’.

No.1*
Sales position for wiper blades

* Industry sources

Own brand is
82%
of 3Bs sales
(Bulbs, Blades and Batteries)

New ‘Flat Blade’ Technology sets now in store

Key Product Groups

Blades	Winter
Bulbs	Tools
Batteries	Metal storage
Oils	Lifting
Spark plugs	
Panel sprays, rust repair	
Haynes manuals	

Key Brands

Halfords (Value, Core & Advanced), Bosch, Castrol, Mobil, Redex, WD40, Haynes, Loctite, Davids, Hammerite, NGK, Champion, Ferodo, Stanley,

BOSCH Invented for life
Castrol
Mobil 1
WD-40

“Selling millions of wiper blades every year, the wefit offer was a logical extension and is particularly attractive to the customer that would otherwise have gone to a main dealer”

Category Manager

halfords

Car Enhancement

No.1*
Sat Nav retailer

* Data from GFK Panel Market

Car Audio
No.1*
retailer

* Data from GFK Panel Market

Sat Nav Accessories sales attachment increased by 50% FY10

As the leading retailer in car enhancement, from car audio to car mats and from alloy wheels to car cleaning, our market position is defensively maintained by sheer scale, scope, multi-channel availability and the knowledge of our colleagues.

Market

As a product led market, car enhancement contains the highest proportion of items affected by levels of discretionary spend. With the range stretching from cleaning products to technology solutions, our promotional activity, inventory and services need to be dynamic and contemporary.

Product maturity is the norm in technology markets as features appear and products merge functionality. Conversely these new features and technologies also create new ranges and the market has many innovations launching over the next few years such as DAB digital radio.

Sustainability

Technological innovation creates constant streams of sales opportunities and lifestyle challenges. The evolution of products and features in core markets like CD Audio and Sat Nav provide upgrade sales well before products mature in a traditional sense. This is countered, however, by increased competition in some ranges where online price comparison can become the norm.

We have developed a series of responses to these market challenges, learning fast and adapting ranges and services.

Offer

Product led categories like car enhancement inherently get more space in most of our advertising media. In stores we have comprehensive range displays and fully trained colleagues to ensure customers get the product they need. Online provides an ideal opportunity to present both our detailed product information and to drive sales through our "*Reserve and Collect*" and "*Order and Collect*" (page 32).

Value contribution

The sustainability of the car enhancement category adds value to our broader product portfolio, driving footfall from our promotional activity on high profile technology, combined with the strong margin contribution of accessories and car cleaning. The scale and breadth of the ranges ensures we are the natural destination for the motorist.

Alignment with strategy

Car Enhancement products are well aligned with our core maintenance products and the Halfords brand is a recognised participant in the category contributing to our No.1 market position in several product areas.

3.5m+
Car Air Fresheners sold FY10

Car Accessories
Store of First Choice
ABA Brand Tracking

Car cleaning
No.1* position
* Data from GFK Panel Market

Key Product Groups

Sat Nav and accessories

In-car DVD players

Audio — includes
- CD audio/speakers/accessories/system building,
- portable media devices (FM transmitters), and
- Bluetooth hands free range

Car Accessories —
- seat covers & mats,
- air fresheners,
- wheel trims,
- internal and external accessories

Performance styling —
- exterior styling,
- gear knobs,
- alloy wheels,
- graphics and lighting

Car polish

Car shampoo

Pressure washers

Alloy wheel cleaners

Key Brands

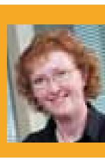
Technology:

Tom Tom, Garmin, Sony, JVC, Kenwood, Sendai, Ripspeed

Car Accessories and Performance Styling:

Type S, Airwick, Magic Tree, Hello Kitty, Prism lighting, Me to You

"We are experts at set-up and demo, and focus on clear explanation of products and benefits to ensure the customer walks away with the product that best suits their needs"



Category Manager

halfords

Leisure: Cycling

1m+
bikes sold

Cycle accessories
8m+
sold

UK bikes
30%*
share

* Data from GFK NOP Consumer Panel

apollo boardman carrera

Cycling is a significant category for Halfords where we sell one in three of all the cycles sold in the UK. Our range continues to expand particularly in the premium and childrens ranges.

Market

The Leisure category comprises two core groups, cycles and travel solutions. In cycling we hold the number one position selling one in three of all bikes in the UK.

Cycling has seen many positive, social, economic and environmental drivers accelerate sales in recent times. With each of these drivers our retail offer has been expanded to accommodate demand. Supporting this demand has been the political moves to support both health and environment through the Cycle2Work scheme.

Through sponsorship and expanded promotion we are expanding our core strengths in mainstream cycling to both children's ranges and the range topping *Boardman* cycles. We have a track record for the creation of complementary services like **we***build*, **we***repair* and **we***service*, which not only add transaction value but increase footfall and brand loyalty.

Sustainability

Underlying consumer trends towards health, leisure and environmental concern make cycling ranges a category with potential to not only sustain into the medium term but offer attractive growth potential.

Offer

Cycles have a strong presence in stores, on the website and in many of our media campaigns. Sales offers are carefully created to draw customers and maintain strong margin contribution. Overall margin contribution is enhanced when combined with repair and maintenance service options.

"Our build and service plans continue to differentiate Halfords in the mid market, while character bikes have improved our sales of kids bikes"

Category Manager

Leisure: Travel Solutions

No.1
in roof bars

* Data from Mont Blanc

3.5m
units sold across the Travel Solutions category

51,000
tent packs sold FY10

Underlying trends have made the leisure market increasingly attractive. We continue to develop our offer towards being the front of mind destination for those on the move.

Market

In travel solutions we participate in product ranges to facilitate journeys, camping, child travel solutions and more recently mobility products.

General travel products include ranges from safety vests to vehicle trailers. These products facilitate convenience and safety whilst on the move. Our roofboxes, for example, have seen improvements in design to reduce drag and thus fuel consumption whilst retaining a strong visual appeal, attracting consumers on an increased aesthetic and environmental basis.

Camping has been supported by an increased trend to holiday closer to home which is economically attractive. As our range develops our retail offer is designed to increase attachment rates. In addition, the seasonal nature of holiday solutions adds balance to our product portfolio.

Child Travel products invoke a parental response which resonates with our ability to not only specify the correct solution but also to use our accredited free fitting service for peace of mind.

Sustainability

Underlying consumer trends towards leisure, safety and economy make our Travel Solutions ranges a category with attractive growth potential. Our brand association continues to grow from core products like roof boxes and cycle carriers, to camping and mobility.

Offer

Travel Solutions is also promoted through our multichannel offer. From both our stores and websites, customers can obtain a breadth of information and accessory options; with the benefit of having many of the products, assembled, fitted and demonstrated by our professionally trained staff.

"Parents get that confidence when child safety products are specified by professionals then fitted and demonstrated to ensure correct use"

Product Manager

Introduction
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Responsibilities
Financials

In-store Services

£11.7m revenue from in-store services

2.35m ***we*fit/*we*repair jobs. An increase of 38.3%**

212,000 **Bike Care Plans sold, up 71.5% on FY09**

The fastest growing area of our business has been in-store services. Cost-effective, fast and professional service meets consumer needs and allows us to recommend related products and accessories.

Services

We have built a compelling service offer to create competitive advantage across a wide range of product categories.

In each case the level of support and service provision required by the customer varies by customer competence, confidence and desire to get involved and by the product complexity and safety needs. We continue to develop a compelling and comprehensive range of support services which make us the natural destination and create a sustainable competitive advantage.

On the following pages we outline many of these service innovations. Our experience in growing the ***we***fit service offer has secured not only increased transaction values but has attracted new consumer groups to Halfords.

Our services have grown in response to social and technological trends, and have in part been designed to complement our growing product portfolio. Our services offer is both a strategic defence and a growth driver.

Strategic defence

Competition from online players, supermarkets, independent product suppliers and car dealers is countered to a significant degree by our service offer. The combination of our geographic reach and product range is complemented by a cost-effective and convenient range of services which check, demo, fit and service many of our products.

***we*fit**

Year on year we have seen growth in the ***we***fit offer. The offer allows a close contact relationship with the customer to be fostered. It improves safety for the consumer by having parts professionally fitted, it builds loyalty to the brand and it allows our colleagues to enhance the customer experience by recommending related products as issues are discovered in the fitting process. For example, demonstration and fitting of our child safety products provides peace of mind to parents and the more complex audio systems frequently require professional fitting; so in both cases, our offer adds value to the customer.

***we*assemble**

The build and assembly of products is another key differentiator, especially where safety and complexity is concerned. Cycles and trailers are examples of product groups where the assembly and testing service enhances the customer experience.

1.3m
3Bs fittings

2,430
RoSPA trained car seat fitters

Child travel
72,000
child seats fitted

wecheck

***we*check** is a service most commonly provided free of charge which allows all customers to ensure the part required is not only in need of replacement, but also to ensure the correct part is supplied. It forms a wider role in expanding the audience we see visiting our stores. The increased audience from a wider family group are reassured in the knowledge that our colleagues help them every step of the way; whether checking screen wash or oil level, we help keep them on the move.

werepair

Our ***we*repair** offer is perhaps the most under-utilised area of service, but one which has potential to grow significantly as customers become more aware of what can be delivered by our store colleagues. From cycle repairs and maintenance to the car scratch and dent service many of our colleagues have been trained to deliver to high standards of quality and safety.

weservice

Cycles has seen the most significant implementation of our maintenance offer. When purchasing a cycle or at the free six week check stage, customers can purchase a plan to have the labour element of regular maintenance covered. Policies are issued lasting between one and three years. The customer gets peace of mind and a higher level of safety in the product usage, our stores get increased footfall, product sales for the consumable items used and a higher level of customer loyalty. It is also a service not offered by online and supermarket competitors so has growth and defensive potential

"Being increasingly time pressured, the 'do it for me' group of consumers are increasingly attracted to Halfords with our wide service offer"

Andy Torrance
Director – Store Ops and Logistics

Channels

halfords.annualreport2010.com/channels

Channels

3

Stores

462
stores

23
ROI Stores

located
20 min
from 90% of the UK population

Our retail stores remain the backbone of our product and service offer, with national coverage and optimised formats. We are within 20 minutes' drive of 90% of the UK population.

Location, Location, Location

Halfords operates 462 stores which include 403 superstores, 26 compact stores and 33 metro stores.

Central to our retail offer, the physical stores not only allow us to present goods in prime locations but serve as the consolidation point drawing in web customers with the *Reserve and Collect* and *Order and Collect* services. They also facilitate our range of retail services for checking, building and fitting products.

Our stores are within 20 minutes' travelling time of 90% of the UK population. We have consolidated store operations in the UK and ROI.

Superstores

Our superstores are typically 7,500–10,000 sq.ft. of retail space located on out of town retail shopping parks. Of the 403 superstores, 240 have a mezzanine floor. On average superstores employ 20 colleagues with speciality training across most areas of service. A superstore has a typical range of 10,000 products.

Compact stores

Our 26 compact stores (formerly neighbourhood) are designed to service smaller catchment areas where a superstore would not be viable. With typically 4,000 sq.ft. of retail space the compact stores carry around 6,000 product lines and employ 20 colleagues and cover all of our key service areas.

Metro stores

Our 33 Metro stores are the smallest format and are created only where there is edge of town alternative. Typically carrying 4,200 product lines our metro stores provide both a local footprint and a local ability to leverage our *Reserve and Collect* and *Order and Collect* web offer.

3.8m
sq.ft. of retail space

c.9,300
in-store colleagues

240
stores with mezzanine

Store Locations

462 Stores

1
17 Superstores
1 Compact Store

2
16 Superstores
2 Compact Store

3
22 Superstores

4
21 Superstores
1 Compact Store
1 Metro Store

5
20 Superstores
1 Compact Store

6
20 Superstores
1 Compact Store

7
18 Superstores
2 Compact Stores

8
19 Superstores
1 Compact Store
2 Metro Stores

9 *
14 Superstores
4 Compact Stores

10
18 Superstores
1 Compact Store

11
18 Superstores
2 Compact Stores

13
19 Superstores
2 Compact Stores

14
16 Superstores
1 Compact Store

15
16 Superstores
4 Compact Stores

16
12 Superstores
4 Compact Stores
4 Metro Stores

17
18 Superstores
2 Metro Stores

18
22 Superstores
1 Metro Store

21
18 Superstores
3 Metro Stores

22
17 Superstores
4 Metro Stores

23
14 Superstores
5 Metro Stores

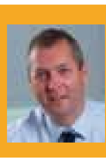
24
13 Superstores
6 Metro Stores

25
15 Superstores
3 Metro Stores

26
20 Superstores
1 Metro Store

* Includes 3 superstores and 1 compact store situated in ROI.

"When a 'Reserve & Collect' order arrives our store colleagues respond as if the client was in-store, calling to check suitability and ancillary requirements"



Andy Torrance
Director — Store Ops and Logistics

halfords

Autocentres

Pictured:
Unit 1, Saxondale Park, London Road, Derby.

Pictured:
Unit 7, Wyvern Way, Wyvern Retail Park, Derby.

Largest independent garage network in UK

224 Autocentres

667,000 appointments in FY10

With only 1% market share of an estimated £9bn industry, our brand and financial strength will allow us to expand rapidly, meeting consumer needs for a trusted garage providing great service and value, located within easy reach.

Market

As our cars become more technologically complex, the owners' ability to service and maintain them at more than a superficial level diminishes. Whilst modern cars have become more reliable and service intervals extended, the cost of those services has increased.

Nobody would choose to service their car were there no warranty, reliability and resale consequences. In short, it is needs driven. This provides service agents with a market estimated to be worth £9bn annually and customers select them based upon a range of convenience factors. These include level of disruption, cost and location.

The service market consists of three broad segments. At one extreme are the franchised dealers; slick, credible and trusted but very costly and prepared to operate only at their own pace. At the other extreme are the small private garages and mechanics, a generally less polished experience and frequently without the security of a large organisation's resources, but the costs are lower.

Our offer

Halfords Autocentres are the perfect balance. We are always more competitive than the franchised dealers. We have the brand and reputation to put customers at ease, and the diagnostic computer technology to maintain most cars and without affecting warranties. All packaged up with our high standards of customer service.

This balance of franchise quality service and competitive price is attractive to both retail customers and fleet operators alike and we deal very effectively with a number of very large fleets.

Sustainability

With a growing and ageing car parc and cars lasting longer than ever, the need for car service is assured in the medium to long term. We are experienced at consolidating the requirements in fragmented markets and with a long heritage of dealing with retail customers, we are uniquely aligned to take advantage.

"In common with the Halfords retail offer Autocentres have been successful in providing a service which is good value with excellent customer service"

Duncan Wilkes
Autocentres — Chief Executive

halfords

Online

30m
visitors in FY10

Online sales up
35%
in FY10

Upto
12,000
products available online

Our broadest product offer is provided online, supported by detailed product specification, video enhancements and customer testimonials. Uniquely Halfords drives 80% of web customers to our stores.

Our multi-channel strategy has followed the broader move of many consumers to research and purchase goods online. We benchmark our online performance with British Retail Consortium figures for online performance and have consistently outperformed average sales growth rates.

Market

The online market inevitably sets us against many competitors whose key strategy is low cost, high volume and who have very little overhead to support. We have a number of differentiating characteristics which enable our online channel to not only compete but to establish competitive advantage.

Depending on the level of support required and the set-up needs of the product, our other service offers like fitting, demo and assembly can prove persuasive reasons for buying from Halfords. In many other cases the consequence of using our *Reserve and Collect* service from one of 462 stores is also beneficial. On top of both of these service features is our brand value, customers like the trust and reliability which comes from using a well-known company for online transactions.

Product range

The online offer also contributes to the store offer with our free *Order & Collect* service. By allowing customers to select from many thousands of products available on the website, way beyond what even the superstores can stock, we leverage all of our store formats. We can then rapidly supply the local store using our distribution network.

Getting customers into store is our preferred option, allowing us to improve attachment rates through upgrades and accessorisation. In addition, we provide our build and fit services to ensure safe and appropriate product usage. In cases where customers want delivery to home or work, we can also provide a prompt and efficient service.

New technology and social media

To further leverage and convert browsers into customers we have a range of programmes to enhance the experience. From peer reviews, which has proved very compelling, to video on product pages. Our presence on Twitter and Facebook also seeks to keep the more social media savvy customers informed, engaged and listened to.

462 STORES | HALFORDS.COM | 0845 026 4643 | reserve & collect | HOME DELIVERY | 224 AUTOCENTRES

80%
of web customers visit store

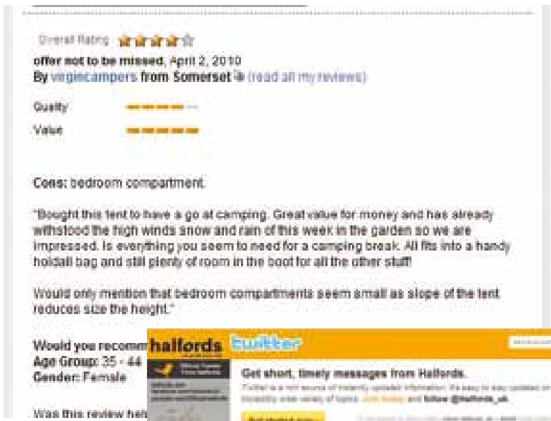
Text and Reserve service launched in
2009

c.33,000
product reviews online

Urban Escape product video on halfords.com

Halfords YouTube Channel

Customer Review example



Halfords Twitter Account

"We're seeing solid increase in conversion through customer reviews, we now have close to 33,000 reviews. Often users sort listings by average customer rating"

Head of Multi-Channel

halfords

462 STORES

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reserve & collect

HOME DELIVERY

224 AUTOCENTRES

Supply Chain

halfords.annualreport2010.com/supplychain

4

Colleagues

c.10,800 colleagues

c.4,000 of our retail staff hold accredited fitting qualifications

Colleague turnover rates have fallen by 21% in the last four years

Delivering development programmes for all colleagues is a valuable competence in retail, we optimise talent in all elements of the value chain to deliver our strategic aims and objectives.

To compete in retail the pace is fast, the targets tough and the need to evolve is constant. Behind the scenes of the retail stores are a core of people monitoring, analysing, communicating, testing, moving, sourcing, negotiating, motivating . . . the list goes on. What is common is a passion to deliver in a relentless competitive environment month in and month out.

This focus and commitment is guided by our clear strategies and most importantly our skills in execution. Our ability to recruit, train and manage thousands of our colleagues is a competence in itself.

Communication

Communication is vital and we have implemented many revised systems both technological and conventional to ensure the goals and objectives of the Group are understood and co-operatively delivered throughout the Company.

Training

Key to maintaining our relentless drive for delivering a genuine service differential to our customers is ensuring that all colleagues, whether on the shop floor, in the distribution centres, or in the head office, have the opportunities and tools to continually develop their skills and capability. In the last year, we have invested in learning and development, to enable line managers to constantly improve the performance of the people in their teams. This has included:

- The Halfords Competency Framework — a clear articulation of what we need to drive forward our brand and deliver the very best performance.
- Colleague Training — A suite of interactive training materials to develop expertise across the complete customer offer and provide our store management teams with a more flexible, talented resource.
- Active Selling Training — Training all colleagues in how to deliver complete solutions to our customers. Driving additional sales and margin through accessory attachment, fitting services and care plans.
- Accredited Fitting Training — A range of technical fitting qualifications, developed with industry bodies such as RoSPA, Cytec & IMI, to provide the very best levels of service that is safe, industry leading and of high quality.

"Through training we've seen an increase in Customers being approached by 8%, together with Customers being offered accessories up by 10%"

Jane Saint
Director — Human Resources

Systems

1.7m
Reserve & Collect
transactions to date

Order & Collect
launched January 2010

Over 400,000 items available to order in store

The technology to drive an increasingly complex multi-channel offer and improve operating efficiencies across the business remains a key area of focus and investment.

Over the past five years Halfords has invested in a core suite of systems, that provide the backbone of our business. Such investments have replaced our point of sale, warehousing, multi-channel and head office systems.

Recognising our risk appetite in the area, we don't look to lead, but to mirror the best in class infrastructure already established in the marketplace.

Our key focus at this time is on a further enhancing of our in-store point of sale experience and further integrating our multi-channel proposition.

Point of sale experience

For point of sale we have two categories of purchase. First, that which you can take from the shelf and pay at the till. Second, that which needs to be cross-referenced to ensure the part is correctly selected. The latter is supported by our market leading product look-up databases supplemented by customer product references and this continues to improve the customer experience.

Multi-channel support

Multi-channel support has been a key area of development. Improving an infrastructure which can now show our product availability per store to web users has supported the increased demand for *Reserve and Collect*. It also creates a seamless experience where a customer orders non-stock items for collection at the local store. Our logistics and in-store processes are designed to be easily managed and allow colleagues in-store to add value through accessories or services.

"The importance of joined up systems has never been greater; our ability to deliver customer access to store inventory information has proved invaluable"

Sourcing

30%
of supply managed direct from Far East

99.8%
of products imported have been audited to our ethical standards

Direct trade with
9
countries

With almost a third of buying now directly from the Far East, our sourcing strategy has benefited from investment in our Hong Kong and Shanghai offices over the past five years.

Our successful retail strategy of strong own brands has increased the need to source large quantities of own brand products at a price structure and quality level to meet customer expectations and brand positioning.

The majority of products are sourced through our UK-based buying teams with mutually beneficial relationships across manufacturers and distributors.

The Far East

A growing source of value has been our ability to deal more directly with the Far East as an economic supply region. Our new offices in China have proven invaluable, in investigating new sources of supply in inland China, compared with our historic sourcing in southern China.

Ethics and quality

We have introduced our own code of conduct based upon established international standards which are regularly audited.

In addition, most of the products are manufactured to EN, BS and ISO standards like ISO 9001 and ISO 14001 which are likewise audited by the international quality audit company BVQI.

The future

We constantly monitor manufacturing migration trends and capabilities of emerging origins as well as the growing domestic demand within certain economies. This helps us map the possible new leaders in manufacturing and export competitiveness and shapes the strategy for future development of our sourcing organisation.

BUREAU VERITAS

"We're Halfords' eyes and ears in the region, enforcing quality and ethical compliance whilst developing true commercial partnerships with key suppliers for mutual benefit."

Head of Far East Sourcing

Distribution

320,000
sq.ft. of new DC

CO_2
1.6%
reduction in 2009/10

increase of
34%
pick rate expected

A programme of improvements and investment in distribution centre structure with modern management systems will deliver significant returns from 2010.

Servicing 462 stores in the UK & ROI carries a significant cost, both financial and environmental. Our responsibility to our shareholders and the broader community will see significant improvements as investments in technology, rationalisation of distribution centres, inventory management and logistics begin to come to fruition.

2010

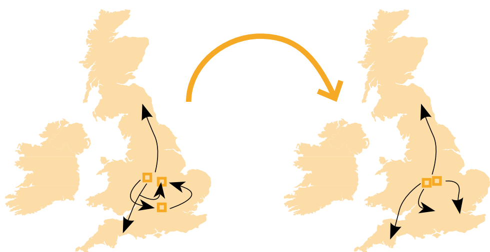
During 2010 the Group will migrate from its current three distribution centres ("DC") to two national distribution centres. One DC, Redditch, will service all bike volumes whilst the new Coventry DC will service all other demand. Through improved location and investments in mechanisation, annualised savings of *c.*£4m are anticipated.

Order collation

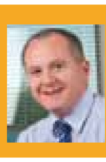
The efficiency of our colleagues in the distribution centres will be improved through intelligent management systems, one feature is the "pick by voice" feature which allows the movement of our colleagues picking orders to be optimised as they are given live instructions via headset by computer. This will enable not only increased pick rates by better planned walks but also the ability to pick for multiple stores concurrently.

Environmental impact

We have outlined our impact on the environment on page 84 and shown how the steps we have taken will make our distribution network more carbon efficient. We have sought to optimise both the operation of the delivery fleet and the warehouse operations. These include shorter, more efficient journeys and warehouse zoned lighting which reduces lighting to 10% output when not needed, but is able to be re-illuminated immediately by motion sensor controls thereby minimising cost.



"Computer driven voice instructions to colleagues in Coventry will allow us to move from picking for a single store to four stores concurrently"



Logistics Controller

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reserve & collect
HOME DELIVERY
224 AUTOCENTRES

Business Review

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Business Review

Business Review

"When combined with the growth opportunity provided through Nationwide, we believe the business is well positioned to deliver sustainable earnings growth, averaging 15% over the medium-term."

The strong earnings growth delivered in 2010 reflects a number of contributory factors. Revenue increases were seen in the core categories of car maintenance and cycling. Gross margin enrichment as a result of mix, improved purchasing prices and a higher participation of the Halfords service offer was also evident. Finally, the successful implementation of a series of initiatives reduced the cost base.

Acquisition activity has been firmly established as an important component of the Group's future growth, following the purchase in February 2010 of Nationwide Autocentres ("Nationwide"). Car servicing and repair under the Halfords brand represents a significant earnings opportunity for the Group.

The lack of quality retail sites to facilitate the rapid scaling of our Central European operations led to the decision to close these operations and signalled the Group's intention to focus its resources on UK growth opportunities in the near term.

The core UK retail operations have generated sustained high single digit operating profit growth, in the 5 years following Halfords flotation on the London Stock Exchange, despite changing consumer spending patterns. We are confident that this can be maintained. This confidence reflects the opportunity through our leading positions in strong markets, and the continued development of our multi-channel offer to grow like-for-like sales. This is backed by active gross margin management and tight cost control leading to increases in operating profit ahead of revenue.

When combined with the growth opportunity provided through Nationwide and from re-investing our strong free cash flow in similar opportunities, we believe the business is well positioned to deliver sustainable earnings growth, averaging 15% over the medium-term.

Group strategy

The four elements of the Group's organic growth plan are:

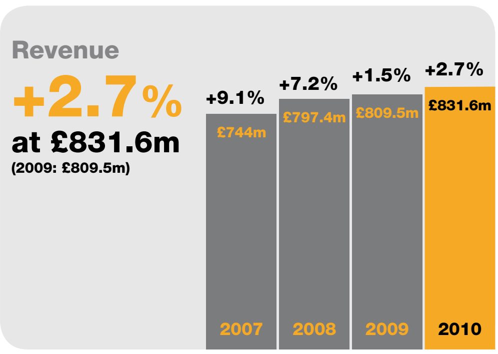
1. Extending range and service advantage
2. Investing in the store portfolio
3. Ongoing focus on cost control
4. Leveraging the Halfords brand in multi-channel

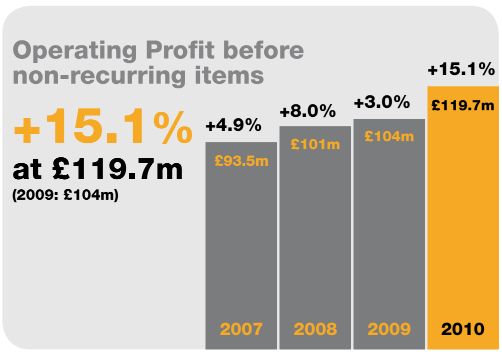
The strength of the Group's cash flows and balance sheet allows us to augment the above organic strategy through the acquisition of quality, adjacent, domestic businesses.

1. EXTENDING RANGE AND SERVICE ADVANTAGE

Halfords Retail maintains market-leading positions across a unique blend of categories with ranges of unrivalled breadth and depth. Halfords constantly strives to enhance its position in each of its markets, seeking out product innovation and new ranges. To complement the product offer, store colleagues are trained to provide expert customer advice and deliver value-for-money ***we***fit services. These factors differentiate the offer from the competition and act as a barrier to market entry.

David Wild
Chief Executive





Operating profit was £112.3m (2009: £91.7m)

Pictured:
Our ***we***fit service proposition continues to gain traction with the customers.

Car Maintenance

Halfords is the UK's number one parts retailer and a destination store for "needs-driven" transactions where customers are looking to purchase replacement products such as car bulbs, windscreen wiper blades and batteries ("3Bs"). Our strategy of introducing greater value, choice and service to our ranges has contributed to another successful year for this category, that represents approximately 30% of total revenue, with 8% growth in like-for-like sales and increased market share.

Our scale provides a unique ability to develop and source high quality, own brand alternatives to branded ranges, and to bring the latest "new car" technology quickly to the after sales market. Innovations include brighter bulbs that use Xenon gas technology and QR (quick response) brake lights that enhance safety. In addition to the existing Halfords three and four year warranty batteries, a top of the range Bosch car battery that generates up to 50% more starting power with a 5-year guarantee, has increased sales and margin through a 25% value premium to a standard battery.

Our *Tradecard* offer continues to be taken up by customers operating in the auto aftermarket trade. These customers are incremental and high spending, growing by a further 10% during 2010 to total 100,000.

The ***we***fit service proposition continues to gain traction with the consumer. Growing customer awareness of Halfords fitting of the 3Bs and high levels of in-store stock availability help to drive revenue, this was particularly evident when the UK experienced the sustained period of severe weather during December and January. This period also saw winter-related products such as anti-freeze, de-icer and scrapers sell in record volumes. Our level of in-store preparation and supply chain excellence helped us to meet customer needs fulfilling the heightened demand.

halfords

Business Review

"... our exclusive ranges and unique "set-up and demo" proposition provide a clear point of competitive differentiation."

Car Enhancement

This category covers staple products, such as car cleaning and car accessories and larger ticket items like car audio and portable satellite navigation devices.

Halfords is the market leader in in-car technology, where our exclusive ranges and unique "set-up and demo" proposition provide a clear point of competitive differentiation. We firmly believe that the ongoing innovation of new technologies for use in the car will provide a constant source of new sales opportunities but equally recognise the natural and relatively short lifecycle of those products. Our revenue performance reflects this trend with strong progress from newer products such as hands-free devices, portable media and in-car DVDs more than offset by declining satellite navigation and CD Audio sales.

The market for satellite navigation devices is mature and although manufacturers continue to innovate, consumers have reduced spending on such discretionary purchases, significantly reducing sales volumes. Reduced revenues have been partly compensated through a focus on significantly increasing sales of higher margin satellite navigation accessories. Overall attachment grew across the year by 50%, with strong promotional activity around *Sendai*, Halfords own brand accessories, further strengthening margin as own brand grew to represent over 40% of accessory sales.

As referred to above, technology innovation provides a flow of important and high value products for the car aftermarket and Halfords' leadership in this market means we can secure distribution from major manufacturers to capitalise on the next wave of development. Many see the introduction of digital (DAB) radio as being the next big opportunity and we are confident that Halfords will be well placed to serve this market and lead to further sales and margin growth.

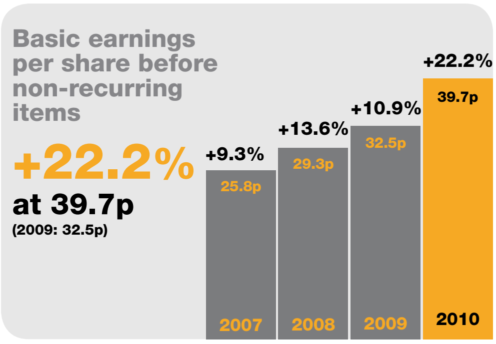
Leisure

The leisure category continued to grow strongly and now accounts for almost 40% of total revenue, with both Cycling and Travel solutions delivering strong like-for-like sales growth during the year.

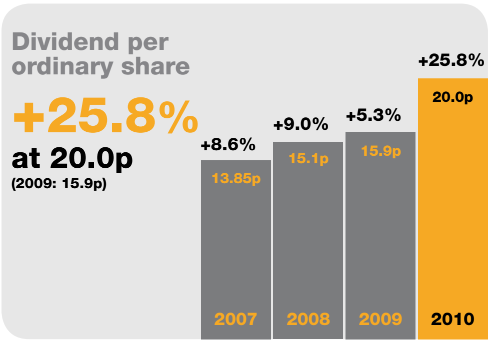
Cycling

Cycling is growing in popularity, powered by demand for a healthier lifestyle, environmental concerns and economic pressures. Our customers want to cycle during their leisure time, as part of everyday life and, supported by a government scheme providing tax relief on bike purchases, by cycling to work.

Halfords' success in the Cycling category, that delivered 15% like-for-like growth in the year, is underpinned by its market leading own brands, including *Apollo* and *Carrera,* with *Apollo* remaining as the biggest selling bike brand in the UK, strong before and after sales service proposition and direct sourcing capability from the Far East.



Basic earnings per share was 36.8p (2009: 26.6p)



Pictured:
Halfords' success in the Cycling category has delivered 15% like-for-like growth in the year.

"Halfords had its best ever Christmas for cycle sales, building and selling almost 250,000 bikes in this key trading period."

Halfords' cycle service proposition continues to be well received by customers, with more than 95% of the bikes we sell being built in-house. All new bikes purchased come with the offer of a free six-week check-up and we aim to develop an ongoing service and repair relationship through the sales of a Bike Care Plan, providing customers with the certainty of labour-free repairs. Sales of these plans increased by over 50% during the year and have contributed to a doubling of our service sales revenue.

Despite selling one in three bikes in the UK, this ratio has not been achieved in the areas of premium and children's cycles. These two categories have been the subject of management focus over the last two years and have generated significant uplifts in cycle sales.

The *Boardman* range, designed by Olympic Champion Chris Boardman, leads our premium bike offer through an exclusivity agreement in the UK. The *Boardman* range has been widely acclaimed for its leading designs, construction and price competitiveness, and is further endorsed through use by World champion riders including Olympian Nicole Cooke and by Alistair Brownlee, the reigning World Triathlon champion. Sales have grown significantly since the launch two and a half years ago, to 21,000 units over the past year, a level that we believe to be in line with some of the more established premium brands distributed via independents.

Halfords had its best ever Christmas for cycle sales, building and selling almost 250,000 bikes in this key trading period. Halfords continued to grow its share of the children's cycle market through an improved range of licensed character bikes including *Ben 10*, *Power Rangers* and *Hello Kitty*. Importantly, these cycles were complemented by full ranges of similarly branded accessories so children could personalise their bikes, thereby increasing overall transaction values.

Travel Solutions

Halfords has established a reputation as the destination store for travel solutions. Products such as roof boxes and bars, cycle carriers and child seats help make our customers' journeys easier, while our camping range means they can enjoy their leisure time more actively. This fragmented market continues to expand through the popularity of domestic holidays, where 5 million families undertook a holiday in Britain in 2009, and provides a continued sales opportunity.

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.

“Our direct sourcing capabilities allow us to provide customers with great value offers like our market leading family tent pack at £99.99.”

Camping had another successful year with record sales in key lines enabling a clean stock exit and achieving further gains in market share. Our direct sourcing capabilities allow us to provide customers with great value offers e.g. like our market leading family tent pack at £99.99. In the current financial year we are building on this success by doubling the number of lines of outdoor leisure products stocked both in-store and via halfords.com and with a further range expansion with brands including *Gelert* and *Wild Country* on offer.

The Group continues to grow its share in the child seat market, through a clear focus on ranging the leading brands and innovative products, such as ISOFIX seats. This range breadth is further enhanced online and supported, in store, by expert advice and fitting where over 2,000 colleagues are professionally trained and accredited by RoSPA to fit child seats to cars.

We have trialled and launched a new range of mobility aids, including scooters, wheelchairs and walking aids. The mobility market is valued at an estimated £500m in the UK and is set to grow with one in three people in the UK forecast to be over 60 years by 2024. In addition, there are currently 9 million permanently or temporarily disabled people in Britain, many of whom also need mobility aids. With a shortage of accessible retail outlets, selling mobility products at competitive prices, this initiative has been welcomed by customers and mobility represents a further opportunity for Halfords as a natural extension of our travel solution ranges.

Service

Expert knowledge, advice and service remain at the heart of the Halfords customer offer and specifically through fitting, differentiates and defends the Halfords offer and generates attractive levels of return.

Recognising that the economic outlook in 2009 made such a value proposition more attractive, we set stretching targets to increase awareness, uptake and service revenue. While all product categories include a core service element, for example Bike Care Plan, Free Bike Build (***we***build) and 6 week service (***we***check) within cycling and “Set-up and Demo” within technology, the foundation of the proposition remains, ***we***fit being the on-demand fitting of Car Bulbs, Windscreen Blades and Batteries.

In advance of driving awareness we invested in colleague training, availability and visibility to ensure customer fitting requirements were met in real time. Our strategy to grow awareness of our fitting capability ensured all advertising contains reference to ***we***fit, together with a dedicated Autumn radio campaign. This holistic approach proved successful with penetration uplifts of 50% in our core 3 Bs, such that approximately 20% of all batteries, bulbs and wiper blades that are sold are also fitted by Halfords in-store colleagues.

While we are encouraged by the annualised run rate of *c.*1.7 million ***we***fit jobs, we are confident in further increasing fitting penetration. However, such progress requires continued strategic investment across the business to ensure that colleague capability is maintained and has included in 2009 an intense training programme for our 5,000 in-store experts — to equip them with the latest technical/product details and sales skills.

2. INVESTING IN THE STORE PORTFOLIO

The Group operates through two discrete store chains:

(1) Halfords Retail

The quality and layout of Halfords Retail 462 store estate is a key element of our customer proposition and a source of competitive advantage. This national scale also supports our position as the store of first choice, as 90% of our customers are with a 20-minute journey of one of our stores.

Accordingly, the Group’s strategic focus remains in the development and progressive refurbishment of the two formats of choice, the superstore and the smaller format Compact store. Compact stores provide a comprehensive Halfords offer to smaller catchments, carrying some 6,000 of the 10,000 lines available within an average superstore.

(2) Nationwide

The Group also operates a national presence from its 224 Autocentres where the strategic focus is on expanding the chain.

Pictured:
Expert knowledge, advice and service remain at the heart of the Halfords customer offer.

"The Group remains confident that there is a long-term opportunity to grow the retail store portfolio in the UK and ROI."

United Kingdom & Republic of Ireland ("UK & ROI")

Halfords Retail operates from 462 stores in the UK and ROI including 403 superstores, 26 compact stores, together with 33 small format Metro stores located on busy high streets where no suitable edge of town retail opportunity is locally available. During the year, excluding the closure of *bikehut* stores, the Group increased its UK and ROI portfolio by four stores, having opened ten stores and closed six, mainly Metro, stores.

At the end of the year 240 stores traded with a mezzanine and we believe a further 100 stores have potential for conversion. The mezzanine is a highly cost-effective route to space expansion. It also enhances the store environment by creating a spacious, clearly defined area where we can display our cycle ranges for maximum impact.

The Group is confident that there is a long-term opportunity to grow the retail store portfolio in the UK and ROI and our intention is to open five to ten stores in the UK in the current financial year. The lack of quality, new development and the poor quality of recycled property, however, provides a challenge in developing new store opportunities.

In addition to new stores, Halfords Retail continues to invest in its existing estate to ensure that it remains contemporary and reflects the latest store navigation signposting and the latest product merchandising. During the year 48 stores were refurbished.

With the acquisition of Nationwide the Group operates garage servicing and auto repair from 224 autocentres. The Group has identified an opportunity to expand the autocentre chain with a further 200 centres in the medium term, with 80 centres anticipated to open in the next three years.

"We control costs, both through cross-functional initiatives as well a culture of cost awareness that provides a constant stream of improvement ideas."

Central Europe

Following a strategic review, the Board decided to close the seven Halfords stores in Central Europe, the costs and impact of which are described in the Finance Director's report. Despite an improvement in recent performance and the possibility that the region could still prove attractive in the longer term, the continuing recession has severely limited the availability of suitable properties and therefore the opportunity to move the operation to a viable scale in the medium term.

Although an international strategy clearly represents an opportunity for future growth, the Board has decided that management time and financial resource are better devoted, at the present time, to the growth opportunities available in the core UK market.

3. ONGOING FOCUS ON COST CONTROL

We are committed to an ongoing focus on cost control. This ensures efficient use of resources, the correct operating base for the prevailing economic environment and provides headroom to fund strategic investments in future growth. We control costs, both through cross-functional initiatives as well a culture of cost awareness that provides a constant stream of improvement ideas.

We continue to increase the level of products sourced directly from manufacturers across Asia. Our Far East team operate an agile sourcing model, moving manufacture, of products designed by the Group's category management resource in the UK, between regions and countries as cost and duty profiles change. They also control all aspects of the supply chain to eliminate unnecessary costs in transport, shipping and stock holding and ensure a seamless coordination with our store operations.

During 2009 the Group progressed a key initiative to reconfigure its logistics infrastructure, replacing our existing three Distribution Centres. Central to the Group's new infrastructure is a new 320,000 sq ft national distribution centre ("DC"), at Coventry, which is our centre of gravity. This facility will commence operation in June 2010 and will become fully operational in September. The new DC is equipped with modern logistics technology such as radio frequency scanning and will ensure more efficient delivery of stock to Halfords stores. The reconfiguration will deliver annualised cost savings in excess of £4m, including rent savings, transport reductions and labour efficiencies. The final element of our revised logistics configuration will be a single warehouse, in Redditch, dedicated to cycles.

Following the initial improvements made to store colleague rotas in the final quarter of the 2009 financial year, a further efficiency programme in stores has been implemented which will result in improved colleague availability and better service for our customers. These improvements will, however, be achieved with a net reduction in colleague hours as resource is removed from low footfall periods and processes are made more efficient. The programme has realigned store grades, rostering and schedules across the store, week and network. The changes, which have impacted, in some way, the majority of store-based colleagues mean we can also provide clearer career paths for colleagues, strengthening our position in the recruitment market. These changes will also differentiate us from our competitors so we are in a strong position to further develop our business and continue to grow sales and operating profit.

The reduced operating profit stimulus from the slowdown in new store openings has been and is anticipated to be mitigated in the future by the favourable impact of rental negotiations at lease renewal ('regears'). From 2012 onward the Group has lease maturities at an average of 25 per annum where the strength of the Halfords covenant, together with reduced demand for such space, provides opportunity for either reduced headline rent or landlord investment for example in the form of a rent free period in order to secure continuity of tenure.

Naturally, our focus on cost control continues and we have identified a number of further areas, including the regear opportunity outlined above, that we plan to target in the current financial year.

Pictured:
In leveraging the Halfords brand in multi-channel, our strategy is to seamlessly integrate halfords.com with our store network.

"Our strong brand, leading internet site and focus on developing this channel have led us to grow our online business at twice the average market rate this year."

4. LEVERAGING THE HALFORDS BRAND IN MULTI-CHANNEL

The Internet is changing the way that our customers shop and providing us with new opportunities to grow our business. Our strong brand, leading Internet site and focus on developing this channel have led us to grow our online business at twice the average market rate this year. Our online sales currently represent approximately 6% of Halfords Retail overall sales and we have ambitious plans to increase this share.

Our strategy is to seamlessly integrate halfords.com and store operations and, following the introduction of a dedicated website in ROI in early 2009, all of our retail territories are so structured. Whether for normally ranged products or for our increasing number of extended ranges held outside of stores, this intent mirrors our customer feedback, which tells us they like the convenience of buying online but also want to visit our stores for expert advice and recommendation and added value services such as fitting.

To cater for all demands we have introduced 3 ways to shop online

1. *Reserve and Collect* — a service where products researched online are reserved for collection at a nearby store. Eighty per cent of online sales now use this channel and more than 1.5 million products have been sold via this route.
2. *Order and Collect* — allows customers to order products from our more extensive online catalogue and have it delivered to their local store for collection free of charge.
3. *Direct delivery* — products ordered online are delivered direct to customers' homes.

In seeking to identify further innovative and convenient ways in which customers can interact with Halfords Retail, we also launched a *Text and Reserve* service so customers can text their car registration to us, to identify and reserve the correct replacement product for their vehicle.

"Halfords has a clearly articulated acquisition strategy for assets that can provide additional avenues for significant growth."

Enhancing our online offer and further extending our multi-channel presence is a clear investment priority. In line with market trends, we continue to increase the amount of advertising dedicated to this medium and this year have added 40,000 customer ratings and reviews to the site together with an "Ask and Answer" facility to allow customers to tap into the expertise and experience of other users.

We have also extended significantly the range of products we offer in areas like bike parts, car seats and camping. In all we carry 2,000 more lines on halfords.com than we do in store. Much of the extra inventory is managed in partnership reducing stock costs and obsolescence risk. This approach provides the model for significant range extension going forward.

Acquisition

In addition to the significant organic growth opportunity provided by the core UK and ROI retail operation, Halfords has a clearly articulated acquisition strategy for assets that can provide additional avenues for significant growth. Our criteria are for quality, domestic businesses in adjacent markets where the Halfords brand would resonate strongly or where we can apply our core capabilities.

Nationwide Autocentres

During this period Halfords made its first significant acquisition, Nationwide Autocentres. Nationwide is a market leading, growing business operating from 224 centres nationally and provides motorists with a full range of auto servicing, MOTs and repairs for both the consumer and fleet markets. Nationwide is the only national operator that offers dealership quality service at more affordable prices.

Nationwide complements Halfords Retail closely and builds on our growing car parts and ***we***fit service business. The acquisition creates the largest specialised UK operator focused on the car maintenance, servicing and car repair market. Car aftercare is a large and highly attractive sector with a value of £9bn. Capacity is shrinking as the number of independent garages declines leading to increasing demand from motorists for a reliable, quality independent operator.

There is significant scope to grow the new Group and we intend to double Nationwide's operating profits in the third year of ownership. Operational scale will significantly increase by opening 200 further centres in key towns over the next seven years. Further growth opportunities exist from cross-marketing the Group's complementary customer base, increased fleet penetration and there will also be cost and purchasing synergies.

Nationwide's business will continue to be driven by their successful management team who have joined the Halfords Group. The first new centres have been launched under the Halfords Autocentre branding and the whole estate will be rebranded during the current year, after a trial to be conducted across May and June.

Pictured:
Loading bays, new Coventry DC.

"We continue to augment such incremental margin, through a continued focus on margin enhancement, operating cost control and capital discipline."

Summary and outlook

Halfords retains clear leadership in its core retail markets of cycling and car maintenance, where it is delivering good like-for-like sale increases and growing market share. We continue to augment such incremental margin, through a continued focus on margin enhancement, operating cost control and capital discipline. Together, these factors mean we have continued to perform strongly, increasing profit before tax and non-recurring items by 26.7%.

Our performance through this period of recession emphasises the resilient quality and adaptability of the business. We believe Halfords' unique, market-leading position provides strong potential for us to consolidate further the fragmented markets in which we operate.

The acquisition of Nationwide Autocentres gives us a market leading entry point into a large and unconsolidated market and opens another exciting avenue of growth for Halfords.

We expect the consumer environment to remain challenging, but we have demonstrated that our business can make good progress in these conditions and improve operating returns. However, our strong market positions, ongoing actions to reduce costs and strong cash flow characteristics provide a solid platform for future sustainable earnings growth through our core strategic growth initiatives and acquisitions that meet our stringent criteria.

Through this focus on creating value for our customers and active management of the business, the Board believes the Group is well positioned to deliver earnings growth. In the year ahead this is anticipated to be in line with market expectations, with sustainable growth across the medium term anticipated to average approximately 15%.

David Wild
Chief Executive Officer
10 June 2010

Finance Director's Report

Halfords Group plc ("the Group" or "Group")

On 17 February 2010 the Group acquired 100% of the issued share capital of Nationwide Autocentres Holdings Ltd ("Nationwide") for cash consideration of £74.9m. This Class 2 transaction has been accounted for by the purchase method of accounting, with the resultant goodwill arising on the acquisition being attributable to the anticipated future profitability and operating synergies from the combination.

Nationwide, the parent company of a Group of companies involved in car servicing and repair, contributed £13.5m revenue and £0.3m to the Group's profit before tax for the period between the date of acquisition and the Group's balance sheet date.

All references to Group represent the consolidation of the Halfords ("Retail") and Nationwide trading entities. Separate commentaries on the performance of the individual entities are not provided as the Group results are 99% attributable to the retail division.

Financial results

The "2010" accounting period represents trading for the 52 weeks to 2 April 2010 with the comparative, "2009", data being for the 53 week financial period to 3 April 2009. Last year's 53rd week represented £14.8m of revenue, £2.1m of operating profit and £2.0m of profit before tax.

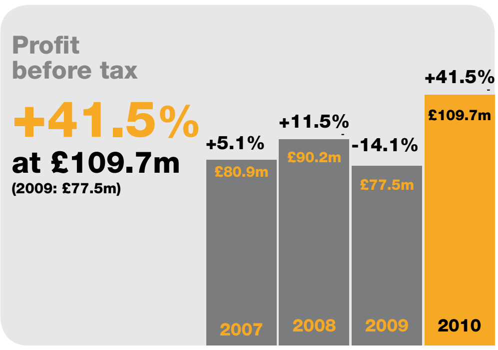
Group revenue for the 52 weeks to 2 April 2010 was £831.6m which compares to a 2009 52-week basis Group revenue of £794.7m. This increase of 4.6%, represents a like-for-like sales increase of 1.3%, where like-for-like sales represent those stores that had traded, within the Group, for more than 365 days.

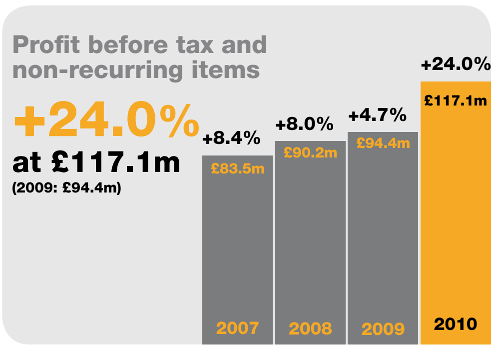
Gross profit at £452.7m (2009: £421.4m) represents 54.4% as a percentage of revenue and compares to last year's figure of 52.1%. The 230 basis points ("bps") accretion in gross profit margin reflects trading strategies delivered by management within each category, including improved penetration of the Group's fitting services, increased accessory sales, and the flow-through of Far East sourcing benefits. Margin has been further enhanced by a continued beneficial mix effect delivered through the relative sales growth in higher margin core categories, such as car maintenance and cycling, compared to the sales decline in lower margin categories, most notably In-car technology.

This mix effect largely annualised during the third quarter and will therefore have a smaller overall impact in the financial year ended 1 April 2011 ("2011"). Despite the challenges provided by the dissipation of the mix effect and cost of goods pressures from the Group's dollar denominated purchases, we remain confident that the ongoing benefits attainable through the self-help measures noted above will contribute to margins being held broadly flat, in percentage terms, in the forthcoming financial year.

Operating expenses, excluding non-recurring costs, represented 40.0% of revenue (2009: 39.2%). The year-on-year increase of approximately 80 bps largely reflects a reduced level of landlord surrender payments, discussed later, together with the transition costs associated with a further tranche of store labour efficiencies executed in the fourth quarter of the year. Underlying operating costs as a percentage of sales were broadly flat year on year.

Nick Wharton
Finance Director





The Group remains focused on controlling day-to-day costs while delivering a number of strategic initiatives that will reduce costs more materially. The cost saving programmes announced in April 2009 have been successful in driving operating cost efficiency with headcount initiatives in both head office and store operations delivering the scheduled £4m annualised savings.

Specifically, in store, despite having increased service related revenues that carry a higher cost to serve, store labour costs as a percentage of revenue reduced by 60 bps during 2010, totalling 10.5% of revenue over the period. During the fourth quarter, store operations have undergone a further review of working practices, labour scheduling, store hierarchy and reward structures that will deliver cost improvements, totalling £2m, in 2011, while providing store colleagues with greater responsibility and opportunities for career progression.

The Group's year-long project to reconfigure its existing warehousing and distribution infrastructure remains on plan, with the new DC in Coventry scheduled to commence operations in June 2010. This significant project, which is being managed in a manner which minimises disruption to the core retail operation, is progressing in line with planned milestones and is on track to deliver annualised savings of £4.0m from the second half of 2011.

Net finance costs before non-recurring finance costs for the period were £2.6m (2009: £9.6m). Finance costs on bank borrowings were £6.7m lower than the prior year reflecting a prevailing lower level of average net debt and significantly lower LIBOR that followed the Base Rate reductions last year. The costs of forward exchange contracts are £1.1m lower than last year reflecting the shortening of forward purchases of US dollars, less volatile currency movements and narrower interest rate differentials.

Profit before tax and non-recurring items for the 52 weeks to 2 April 2010 was £117.1m (2009: £94.4m) On the more comparative period for the 52 weeks to 27 March 2009, 2010 performance represents an increase in profit before tax and non-recurring items of 26.7%. Profit before tax and non-recurring items as a percentage of revenue has increased by 250 bps to 14.1% from 11.6%.

Profit before tax for the 52 weeks to 2 April 2010 after non-recurring items was £109.7m (2009: £77.5m).

Non-recurring items

As noted in the Business Review the decision was taken and announced in March to close the Group's seven-store pilot within Central Europe. Although international expansion remains on the Group's strategic agenda, the Board have stated that in the short to medium term management and financial resource will focus on the UK and Republic of Ireland markets through retail offer expansion, both through new stores and online, developing and delivering the opportunity in garage servicing and identifying quality, domestic businesses with either brand or capability adjacencies for further value creating acquisitions.

The associated exit costs total £7.4m, of which £4.1m are non-cash costs. The principal areas of expenditure relate to asset write-off (£4.7m), vacant property and property exit costs (£2.4m) and redundancy costs (£0.4m).

The Central European operation, included within the 2010 Group Revenue Statement, generated revenues of £5.9m and a loss before taxation of £2.5m, after operating expenses of £4.7m. Consequently, the closure will generate annualised net savings of *c.*£2.8m, with the phased exit during the first quarter of the new financial year resulting in an anticipated saving of *c.*£2.0m impacting the Group's 2011 results.

Portfolio management

The Group continues to actively manage its store portfolio to maximise value creation through generating cash, making profits and reducing ongoing rental charges. However, the property market has proved challenging in 2010, limiting opportunities to both open new stores and to downsize stores where landlords will provide incentives to return excess space.

With regard to new stores, the economic recession has reduced fresh development, while overall market capacity has increased as a result of business failures, but not on the quality parks or locations that Halfords is targeting for future expansion.

Portfolio transactions still represent a sustainable opportunity for the Group, with in excess of 200 superstores located on A1 parks where demand remains relatively high. However until the economic recovery is more in evidence landlords are less likely to undertake speculative development in favour of back-to-back deals which, by their nature, introduce delay in the contract exchange process. Accordingly, landlord surrender payments from the two transactions completed during the year totalled £1.1m (2009: £2.7m) and management expect a similar level of surrender payments in the forthcoming financial year.

Finance Director's Report

Operating leases

With the exception of nine long leasehold and two freehold properties within Nationwide, the Group's operating sites 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 £811.5m (2009: £776.1m).

Taxation

The taxation charge on profit for the financial year was £32.7m (2009: £21.7m), including a £1.4m credit (2009: £4.6m) in respect of the tax on non-recurring items, representing a full year effective tax rate of 29.8% (2009: 28.0%). The underlying tax rate was 29.4% (2009: 29.7%), principally due to the non-deductibility of depreciation charged on capital expenditure in respect of mezzanine floors and other store infrastructure.

The increase in the Group's effective tax rate, to a level more in line with the Group's underlying rate, reflects the relatively low level of credit in respect of favourable tax structures in place during the year. This position is expected to reverse in 2011.

Earnings per share ("EPS")

Basic EPS, excluding non-recurring items, was 39.7 pence (2009: 32.5 pence), a 22.2% increase on the reported prior year value. On a more comparative 52-week basis, basic EPS, excluding non-recurring items, increased by 23.8% from the prior year position of 31.8 pence.

Basic EPS for the 52 weeks to 2 April 2010 was 36.8p pence, a 38.3% increase.

Capital expenditure

Capital investment in the period totalled £20.4m (2009: £19.4m). During 2010 management have continued to adopt a prudent approach with regard to capital investment and have focused on investments generating the highest returns.

Investment in new stores, where there has been a marked decline in the supply of quality locations, has reduced compared to recent years. However, management also continue to invest in the existing store portfolio to ensure it remains contemporary and despite a smaller level of new store openings, the Group has expended £7.4m on the store portfolio.

The largest single element of expenditure during 2010 has been the DC project, in which the Group has invested, in line with the plan, £6.7m. The Group continues to invest in its internal business systems, ensuring that it has the infrastructure to support the changing demands of the business and expanding the functionality of the Halfords website, which saw the successful introduction of the *Order and Collect* proposition.

The forthcoming financial year will see the completion of the DC project at an anticipated additional investment of £2m and will see the execution of the initial elements of the three-year plan to significantly increase the scale of the Nationwide business. This will include the re-branding to Halfords Autocentres at a cost of *c.*£2.5m and the opening of between 12 and 15 centres.

Reflecting the capital "light" nature of Nationwide expansion, Group capital expenditure is anticipated to remain in line with historic norms at approximately £25m.

Inventories

The Group continues to manage its stock holding to ensure high levels of availability and range breadth, and inventories at 2 April 2010 were £138.5m (2009: £147.0m). Management has continued to implement the inventory control programmes that were developed in the previous financial year, and have achieved further reductions in stock with a consequential improvement in stock turn. Stock levels continue to be carefully managed and have reduced year-on-year by 6.7%, 7.2% after inventory investment in new stores and a limited investment in additional stock to ensure availability during the period of changeover in supply to the new distribution infrastructure.

Over the economic cycle the Group has stated its intention to increase stocks at approximately 50% of the rate of sales increase adjusted for the necessary inventory investment in new stores.

Cash flow, net debt and capital structure

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

The Group continues to generate strong operational net cash flows, which, in 2010, were £148.1m (2009: £73.8m), representing 103.0% (2009: 57.2%) of earnings before non-recurring items, interest, tax, depreciation and amortisation ("EBITDA"). The significant improvement in operational cash flow reflects the increase in the Group's profitability and a working capital inflow of £33.1m (2009: Outflow £19.0m), which reflects the inventory reduction and an increase in trade creditors.

Total net bank debt at 2 April 2010 was £143.5m (3 April 2009: £164.0m) and there are further borrowings of £12.0m (2009: £12.2m) in respect of the Head Office finance lease that in total generates net debt at £155.5m (2009: £176.2m). This reduction in net debt has been achieved after cash outflows totalling £72.3m arising from the acquisition of Nationwide.

The Group 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. It is also committed, over the long term, to maintaining an efficient balance sheet, returning any surplus capital not required to fund Group growth, to its shareholders.

As part of this capital structure, management are currently reviewing, with the Group's brokers, the optimal capital structure for the enlarged Group that will provide the necessary flexible funding to deliver its strategic agenda. Management envisage that renewed debt facilities will be agreed and in place in the second half of the financial year ended 1 April 2011.

Dividend

In line with the Group's progressive dividend policy, the Board is recommending a final dividend of 14.00 pence per share (2009: 10.90 pence), which, in addition to the interim dividend of 6.00 pence per share (2009: 5.00 pence), generates a total dividend of 20.00 pence (2009: 15.90 pence), an increase of 25.8%.

Subject to shareholder approval at the Annual General Meeting the final dividend will be paid on 6 August 2010 to shareholders on the register at the close of business on 2 July 2010.

Principal risks and uncertainties

The Corporate Governance report on pages 66 to 70 describes the systems and internal control processes through which the Directors identify, assess, manage and mitigate risks. 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.

The Board's primary assessment of risk is against the Group's strategic corporate objectives that are summarised below.

1) Extending range & service advantage.
2) Ongoing focus on cost control.
3) Leveraging the Halfords brand in multi-channel.
4) Investing in the store portfolio.

With reference to the strategic objectives, the Board considers that the principal commercial and financial risks to achieving its objectives are those identified below.

(a) Commercial

Economic and market conditions (1,4)

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.

The Group constantly seeks to enhance its position as store of first choice in each of the markets that it serves. Halfords continues to invest in both its existing estate to ensure that it remains contemporary and in constant product innovation to meet customer needs. In addition, the Group's market leading ***we***fit proposition provides a range of services at a lower cost to our customers than that provided by competitors.

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.

Competition (1,2,3)

The retail industry is highly competitive and dynamic. The Group competes with a wide variety of retailers of varying sizes and faces competition from UK retailers, both in stores and online, 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.

The Company adopts a granular approach to its wide-ranging cost control activities to ensure that significant opportunities for operational cost management are complimented by a culture of cost awareness.

Reputational risk (1,3)

The Halfords name is a key asset of the business and as the largest operator 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 offerings and a multi-channel approach to sales.

Finance Director's Report

Responsiveness to changing consumer preferences (1)

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 (2)

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 (2)

In common with most 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 ongoing project to reconfigure 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 six years, the Group has significant experience in managing the risks associated with such activities and is applying similar governance processes. The project is firmly on track to achieve occupation and commence operation in the summer of 2010.

Dependence on key management personnel (1,2,3,4)

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

If the Group 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 72 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.

(b) Financial

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 of 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 while ensuring 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 EBITDA and the strength of the balance sheet.

Interest rate risk

The Group's policy is 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 through direct sourced purchases of its supplies from the Far East with most of the trade being in US dollars. 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 52 weeks to 2 April 2010, the foreign exchange management policy was to hedge via forward contract purchase between 75% and 80% of the material foreign exchange transaction exposures on a rolling 12-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. In executing this policy, the Group ensures that such counterparties, who all sit within the syndicated Group, that are used for credit transactions and ancillary business held at least an A credit rating at the time of syndication (July 2006).

The Treasurer is responsible for determining credit worthiness 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.

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.

The Group manages capital by operating within debt ratios. These ratios are lease adjusted net debt to EBITDAR and fixed charge cover. Lease adjusted net debt is calculated as 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 therefore operates favourably to these target metrics.

Nick Wharton
Finance Director
10 June 2010

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Responsibilities

halfords.annualreport2010.com/responsibilities

Responsibility

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Executive Directors

DAVID WILD

Chief Executive Officer

David was appointed Chief Executive Officer on 4 August 2008. Prior to joining Halfords David was Senior Vice-President for New Business Development at Wal-Mart US, a position he has 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 positions with Boots Opticians, Boots Healthcare International, Do-It-All Limited and also within Cadbury Schweppes. He is a Chartered Accountant. On 14 August Nick was appointed to the Board of Dunelm plc as a Non-Executive Director. He also chairs the Audit Committee at Dunelm plc.

PAUL McCLENAGHAN

Commercial Director

Paul was appointed as Commercial Director in March 2007. He joined Halfords Limited as Director of Trading 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.

Non-Executive Directors

DENNIS MILLARD

Chairman

Dennis joined the Board and was appointed Chairman on 27 May 2009. Mr Millard is currently non-executive Chairman of Smiths News plc and non-executive Senior Independent Director and Chairman of the Audit Committees of Debenhams plc, Premier Farnell plc and Xchanging plc. He was previously Finance Director of Cookson Group plc from 1996 to 2005 and a non-executive Director of Exel plc from 2003 to 2005.

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. He is currently Chief Financial Officer at Legal & General plc, having previously been Deputy Chief Executive and Chief Financial Officer of United Business Media. Other 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. He is also, currently, a non-executive Director at Capita Group plc where he is the Senior Independent Director.

BILL RONALD

Non-Executive Director

Bill joined the Board as a non-executive Director in May 2004. He is currently also a non-executive Director on the Boards of Dialight plc, Alfesca and Bezier Group. 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.

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 Cooper Gay (Holdings) Limited and Sellar Investments Limited.

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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 52 weeks to 2 April 2010.

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 activities of the Group are the retailing of automotive, leisure and cycling products, which it does from 469 retail stores (2009: 466) and car servicing and repair performed from 224 autocentres. The principal activity of the Company is that of a holding company.

Business review

The Chairman's statement on page 5, the Business Review on pages 42 to 51 and the Finance Director's report on pages 52 to 57 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 81 to 85 and also form part of this Directors' Report.

Corporate governance

The Corporate Governance report on pages 66 to 70 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 90.

The profit before tax on ordinary activities was £109.7m (2009 £77.5m) and the profit after tax amounted to £77.0m (2009: £55.8m).

The Directors propose that a final dividend of 14.0p per ordinary share be paid on 6 August 2010 to shareholders whose names are on the register of members at the close of business on 2 July 2010. This payment, together with the interim dividend of 6.00p per ordinary share paid on 25 January 2010, makes a total for the year of 20.0p pence per ordinary share. The total final dividend payable to shareholders for the year is estimated to be £29.3m. Lloyds TSB Offshore Trust Limited, trustee of the Halfords Employee Share Trust, has waived its entitlement to dividends.

Performance monitoring

The 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 market positions and customer offer.
Operating profit	Continued growth of operating profits enables the Group to invest in its future and provide a return for shareholders. Targets are set relative to expected market performance.
Number of store and centre openings	The Group is committed to bringing its products and servicing offering to as many consumers as possible through the development of its property portfolio. This also contributes to revenue growth.
wefit/***we***repair jobs	Halfords' unique service fitting proposition is key to maintaining our differentiation from more mainstream operators. Fitting and repair jobs completed represents a good measure of awareness and execution of this core proposition.

Donations

During the year the Group contributed £82,800 (2009: £26,000) to charities in the UK, including donations to BEN, a charity supporting individuals and families linked to the motor industry and associated trades.

In May 2009 Halfords commenced a two-year partnership with Macmillan Cancer Support. In the 52-week period to 2 April 2010 the Company raised over £56,000 for the charity with stores selling carrier bags and sweets, holding events and individual employees undertaking fund-raising events ranging from running marathons to holding charity auctions.

The Group's policy is not to make any donations for political purposes. However, the Companies Act 2006 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 2009 Annual General Meeting ("AGM") that provided for limited authority for such expenditure, such authority remaining valid until the earlier of 29 October 2010 or the conclusion of the AGM to be held in 2010, and as such the Company will be asking for this limited authority to be renewed at the AGM to be held on 27 July 2010.

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, 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 all retail colleagues. 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 52 weeks to 2 April 2010 and at the date of this Report:

Dennis Millard (appointed 28 May 2009)
David Wild
Nick Wharton
Paul McClenaghan
Nigel Wilson
Keith Harris
Bill Ronald

In accordance with the Company's Articles of Association, Nigel Wilson, Senior Independent Director, Bill Ronald and Keith Harris are retiring by rotation at the forthcoming AGM and, being eligible, will offer themselves for re-election at that meeting.

Directors' interests

The Directors' interests in shares and options over shares in the Company are shown in the Directors' Remuneration Report on pages 71 to 80.

In response to the requirements of the Companies Act 2006 introduced in October 2008, each Director has notified the Company of any situation in which he or she has, or can have a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company (a situational conflict). These interests were considered and approved by the Board in accordance with the Company's Articles of Association and each Director was informed of the authorisation and the terms on which it was given.

Directors' Report

Directors' indemnities

Article 141 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 236 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 88 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.

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 49 days (2009: 39 days). The Company is a holding company and had no trade creditors at the end of the financial year.

Contractual or other arrangements

The Directors consider that there are no contractual or other arrangements, such as those with major suppliers, which are likely to influence, directly or indirectly, the performance of the business and its value.

Major Shareholders

At 30 April 2010, the Company's share register of substantial shareholdings showed the following interests in three per cent or more of the Company's issued ordinary shares:

Holder	Number of shares	% of issued shares
Bank of New York Mellon	16,071,282	7.6%
Artemis Investment Management Ltd.	15,779,497	7.5%
M & G Investment Management Ltd.	11,833,108	5.6%
BlackRock Advisors	10,297,666	4.9%
Capital (Institutional Group)	8,817,100	4.2%
Ameriprise Financial	8,614,568	4.1%
L&G Investment Management Ltd. (UK)	8,262,839	3.9%
Rathbone Investment Management Ltd.	8,080,177	3.8%
Ignis Asset Management Limited	6,956,301	3.3%

The Takeover Directive

As at 2 April 2010 and 3 April 2009, 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 2 April 2010 there were 210,710,960 (2009: 209,786,251) 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 share 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. Following the publication of a revised Combined Code on 28 May 2010, the Board has agreed that all Directors will stand for re-election at the AGM on 27 July 2010.

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

At the AGM on 29 July 2009 shareholders approved a special resolution authorising the Company to purchase a maximum of 20,983,577 shares, representing 10% of the Company's issued share capital at 19 June 2009, such authority expiring at the conclusion of the AGM to be held in 2010. The Directors intend to optimise the Group's balance sheet to enhance shareholder returns although at present the Board has no intention of exercising the authority to purchase the Company's ordinary shares it will keep the position under review in light of it's desire to maintain an efficient capital structure and retain financial flexibility. In the 52 weeks to 2 April 2010 the Company purchased no shares (2009: 4,687,816), representing a nominal value of £nil (2009: £46,878).

Auditors

At the AGM held on 29 July 2009 Pricewaterhouse Coopers resigned and KPMG Audit Plc were appointed as the Company's external Auditors. KPMG Audit Plc has indicated its willingness to accept reappointment as the external Auditor of the Company. A resolution proposing its reappointment 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 Tuesday 27 July 2010. The notice of the AGM and explanatory notes regarding the special business to be put to the meeting will be set out in a separate circular to shareholders.

By order of the Board

Alex Henderson
Company Secretary
10 June 2010

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Corporate Governance

The Board of Halfords Group plc is responsible for determining the long-term direction and strategy of the Group in a framework of sound and robust 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 2 April 2010. This report describes how the Group has complied with the Code.

Board Structure, Directors and their interests

The Board is currently composed of seven members, consisting of a non-executive chairman, three non-executive Directors and three executive Directors. Dennis Millard was appointed Chairman on 28 May 2009, following an executive search process. Nigel Wilson as the Company's Senior Independent Director held the position of acting Chairman from 22 August 2008 until 28 May 2009.

Dennis Millard was considered on appointment to meet the independence criteria as set out in paragraph A.3.1 of the Code and continued with his existing commitments (as disclosed on page 61).

The 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 and Chief Executive respectively as described above and job descriptions delineating a clear division of responsibilities between the two have been compiled and issued.

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 agreed goals and targets and satisfying 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.

The following Directors held office during the financial period to 2 April 2010:

Non-executive Directors are appointed for specified terms (normally three years) and their 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 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 operational sites. Documentation and training on their duties as Directors are also available to all Directors. All Directors are 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.

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. No Directors have been appointed since the last AGM. The articles also require that every Director must retire and seek re-election at least every three years. Following the publication of the revised Combined Code on 28 May 2010, the Board has agreed that all Directors will stand for re-election at the AGM on 27 July 2010.

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 71 to 80. The Directors have wide experience and expertise and their biographical details are given on pages 60 and 61.

In response to the requirements of the Companies Act 2006 introduced in October 2008, each Director has notified the Company of any situation in which he or she has, or can have a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company (a situational conflict). These interests were considered and approved by the Board in accordance with the Company's Articles of Association and each Director was informed of the authorisation and the terms on which it was given. All Directors are aware of the need to consult with the Company Secretary regarding any further possible situational conflict that may arise so that prior consideration can be given by the Board to whether or not such conflict will be approved.

	Designation	Appointment/Reappointment date
Dennis Millard	Chairman	Appointed 28 May 2009
David Wild	Chief Executive Officer	29 July 2009
Nick Wharton	Finance Director	29 July 2009
Paul McClenaghan	Commercial Director	29 July 2009
Nigel Wilson	Senior Independent Director	23 July 2008
Keith Harris	Non-executive Director	23 July 2008
Bill Ronald	Non-executive Director	29 July 2009

Operation of the Board

The Board has a formal schedule of matters reserved for the Board, which it has reviewed during the year and considered fit for purpose. The Board's primary 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 key senior management positions and to establish and monitor the Group's policies and performance in the area of corporate social responsibility.

Meetings

The Board had nine scheduled meetings this year and others as required. During 2009 three additional Board meetings were held to consider the acquisition of Nationwide Autocentres. Whilst the Board has specific responsibility for those matters reserved for its consideration, in certain areas, specific responsibility is delegated to committees of the Board within defined terms of reference.

During the year the Board committees, Audit, Nomination and Remuneration, scheduled two, three and five meetings respectively. Individual Director attendance is shown below.

	Group Board	Audit	Nomination	Remuneration
Dennis Millard	12	1*	2[1]	6
David Wild	12	2*	3	4*
Nick Wharton	12	2*		
Paul McClenaghan	11			
Nigel Wilson	11	2	2	6
Keith Harris	10	1	2[1]	6
Bill Ronald	11	1	3	5

* Indicates attendance by invitation.

(1) Dennis Millard and Keith Harris attended all the Audit and Nomination Committee meetings they were entitled to attend.

To enable the Board to function effectively and assist Directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of Board meetings, this consists of a comprehensive set of papers, including regular business progress reports and discussion documents regarding specific matters. In addition, individual Directors meet with senior management and are encouraged to make periodic site visits. Senior managers are regularly invited to Board meetings and make business presentations. The Chairman, supported by the Company Secretary, maintains a rolling twelve-month agenda for Board meetings to ensure all relevant matters are planned in to the cycle of meetings and considered at the appropriate time.

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 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. Nick Wharton, the Company's Finance Director, was appointed as a non-executive director to the Board of Dunelm Group plc, on 14 August 2009, where he also chairs the Audit Committee.

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.

Within this evaluation process, the Senior Independent Director discusses with the Chairman feedback on his annual performance, whilst the Chairman discusses the non-executive Directors' performance evaluation with the individual non-executive Directors.

Following a review of these responses by the Board or by the appropriate Committee, appropriate action is 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.

Corporate Governance

The key actions taken to further enhance Board performance during the year and the principal observations from the recently completed Board evaluation are summarised below:

2009 Performance Review

Observation	Action
Board Composition	
Continually review the balance of the Board to ensure that the Board has the right composition and mix of knowledge and skills to maximise performance.	A new Chairman was appointed in May 2009. The Board composition and skill sets were kept under continual review during this appointment process. Subsequent Board Evaluation confirmed that the structure, size and composition was appropriate but would be subject to ongoing consideration to ensure the Board continued to possess skills that complemented the Company's strategy and allowed for orderly succession.
Succession Planning	
(i) Increase Board visibility and input to succession planning for executive roles and key senior management positions to ensure they adequately reflect the challenges and opportunities facing the Company and identify future skills and expertise required by the Group.	The Board received an annual update from the CEO on development of executive roles and senior management positions, identifying areas of additional succession planning and capability requirements. The CEO, assisted by the Chairman, conducts formal reviews of the development needs of senior executives.
(ii) Increase the exposure of the non-executive Directors to key senior managers.	A mentoring programme is to be introduced, with each non-executive Director assigned a number of key executives below Board level.
Governance	
Ensure Board knowledge on key governance topics remains contemporary and relevant.	Seminars on Directors' Conflicts of Interest and on M&A class transactions were held in 2009 and the Remuneration Committee Chairman meet with shareholders and investors to discuss current trends in executive remuneration.

2010 Performance Review

The key findings of the above performance evaluation process, which will be the subject of focus in the forthcoming financial year, are as follows:

- To align the Company with the recommendations made by the Financial Reporting Council as a result of its review of the Combined Code, the Board felt that the process for identifying, reviewing and monitoring risk could be made more dynamic and the Board's "risk appetite" should be defined.
- Given the Company's strategic objective of leveraging the Halfords brand within its multi-channel offer, it was felt that the Board would benefit from greater exposure to trends within this fast-moving environment.

Board Committees

The Board has established an effective Committee structure to assist in the discharge of its responsibilities. The terms of reference of the 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.

Remuneration Committee

For the financial period to 2 April 2010, the Remuneration Committee comprised Keith Harris (Chairman), Nigel Wilson, Bill Ronald and, following his appointment as Chairman on 28 May 2009, Dennis Millard. 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 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 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 71 to 80. 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.

Nomination Committee

The Nomination Committee comprised Dennis Millard, Keith Harris, Bill Ronald, Nigel Wilson and David Wild. As acting Chairman, Nigel Wilson chaired the committee until 28 May 2009 when Dennis Millard was appointed Chairman of the Committee. 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. Senior members of management and advisers are invited to attend meetings as appropriate.

The Committee has responsibility for considering the size, structure and composition of the Board of the Company, for reviewing senior management succession plans, 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 Chairman, the committee used the services of the executive recruitment agency Egon Zehnder.

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.

Audit Committee

For the financial period to 2 April 2010, 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, as Chief Financial Officer of Legal & General 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. Senior members of management and advisors are invited to attend meetings as appropriate.

The Audit Committee meets 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 Statement 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, and the rollout to our autocentre colleagues.

Relationships with shareholders

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.

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Corporate Governance

The Board recognises the importance of establishing and maintaining good relationships with all of the Company's shareholders. During the period under review the Chief Executive, Finance Director, Chairman and Remuneration Committee Chairman have met with analysts and institutional shareholders to keep them informed of significant developments and report to the Board accordingly on the views of these stakeholders. The Senior Independent Director is 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. Independent 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.

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 Tuesday 27 July 2010 at The Alveston Manor Hotel, Stratford-upon-Avon. 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 at the meeting.

The Company's financial calendar is set out on page 136.

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 2 April 2010, and up to the date of approving the Annual Report and Financial Statements.

The internal audit function provides internal audit reports to the Board, via the Audit Committee. Whilst directed by Nick Wharton, the Company's Finance Director, it is independent in action and reporting, and has a direct line of communication to the Audit Committee Chairman. The 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 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 senior executives 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, Multi-channel, Logistics, and Supply Chain functions. During the financial period to 2 April 2010 and up to the date of this report the Group considered the Company's Risk Register and its alignment with the Company's key strategic objectives.

Linked to the Group's Strategy and through its normal business operations, the Company is exposed to a number of commercial, financial risks and other uncertainties which could impact on the results of the Company, as described in the Finance Directors' Report on pages 52 to 57. This is not an exhaustive list and there may be other risks that have not been considered or that the Board considers are immaterial in nature.

By order of the Board

Alex Henderson
Company Secretary
10 June 2010

Directors' Remuneration Report

This report, prepared by the Remuneration Committee ("the Committee") on behalf of the Board, has been drawn up in accordance with the Combined Code on Corporate Governance, Schedules 5 and 8 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 and the UK Listing Authority Listing Rules.

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 27 July 2010.

PART A — UNAUDITED INFORMATION

Remuneration Committee

Membership

The Committee comprised the following non-executive Directors during the financial period to 2 April 2010:

Keith Harris (Committee Chairman)
Dennis Millard (Appointed 28 May 2009)
Bill Ronald
Nigel Wilson

Details of non-executive Directors' experience and their other roles are set out in the Directors' biography section on page 61. The Board believes that these Directors have suitable experience to serve on the Remuneration Committee.

Meetings

During the financial period to 2 April 2010 the Committee met on six occasions. The executive Directors are invited to attend the Committee's meetings, when appropriate, but are not present when their own remuneration is discussed. The Company Secretary is the secretary to the Committee.

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 such other senior managers as the Board may designate and for overseeing the Group's share schemes.

The Remuneration Committee 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

The Remuneration Committee's core responsibilities include:

- Reviewing and recommending the remuneration policy of executive Directors and senior managers;
- Within this policy agreeing individual remuneration packages for the Chairman, executive Directors and senior executive managers, including the Company Secretary;
- Reviewing and recommending the terms and conditions to be included in service agreements for executive Directors and senior executive managers;
- Reviewing and recommending any employee share-based incentive schemes and any changes to the rules of such schemes;
- Reviewing and recommending appropriate performance conditions and targets for the variable element of remuneration packages for the executive Directors and senior executive managers; and
- Reviewing annual and long-term performance against targets to determine the level of reward that should be delivered to executive Directors and senior executive managers.

During the year the Committee conducted an internal effectiveness review and it was concluded that there were no items of concern that needed to be considered by the Committee. The Committee will continue to review effectiveness of an annual basis.

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. Hay Group does not provide any other services to the Group. The Committee also received advice from Deloitte LLP on the design of the share-based long-term incentive plans and other remuneration matters. Deloitte do not provide any other services to the Group. The Committee is satisfied that the advice received by Hay and Deloitte is independent.

During the year the Committee also consulted with the Chief Executive and was supported by the Director of Human Resources and the Company Secretary (who is secretary to the Committee).

Directors' Remuneration Report

Remuneration policy

The remuneration policy of the Committee and of the Board is to provide remuneration packages for executive Directors and other senior managers in the Group which:

- Align management's interests with those of shareholders by incentivising management to deliver the Group's long-term strategy and enhance shareholder value.
- Provide management with the opportunity to earn competitive remuneration through variable based pay.
- Provide upper quartile rewards compared to other general retail companies of a similar size subject to above upper quartile performance being delivered.
- Enable the Group to attract and retain management of the calibre required to run the business and drive exceptional shareholder value creation.

The Board reviews this policy annually and whether remuneration arrangements appropriately reflect this policy. During the year the Committee has worked with Deloitte LLP to review the current remuneration arrangements to ensure that they reflect this policy and our long-term business strategy. The Committee concluded that, while a number of elements of the remuneration arrangements remained appropriate, our current structure was not aligned with the philosophy of delivering upper quartile remuneration to executives if they achieve above upper quartile performance for our shareholders. A review of market practice also indicated that the maximum total compensation opportunity was not fully competitive, particularly at maximum levels, when compared to our key retail comparators.

The Company is at a very important stage in its development and the Company has the opportunity to achieve strong levels of growth and generate significant shareholder value in the future. In this context, the Committee believes that our policy of upper quartile pay for upper quartile performance is therefore appropriate. We are mindful of shareholder views on ensuring that remuneration arrangements do not incentivise excessive risk taking. However, we believe that our Board decision-making process ensures that there are sufficient safeguards to prevent this.

In this context it is intended that an award "multiplier" will be introduced to the Performance Share Plan ("PSP"). This will allow executives to earn an incremental reward if performance is above upper quartile levels. This is explained in more detail in the section relating to the Performance Share Plan on page 75. The Company has discussed these changes with its major shareholders and a resolution to amend the rules of the Company's PSP to incorporate this multiplier will be put before the Company's shareholders at the Annual General Meeting on 27 July 2010.

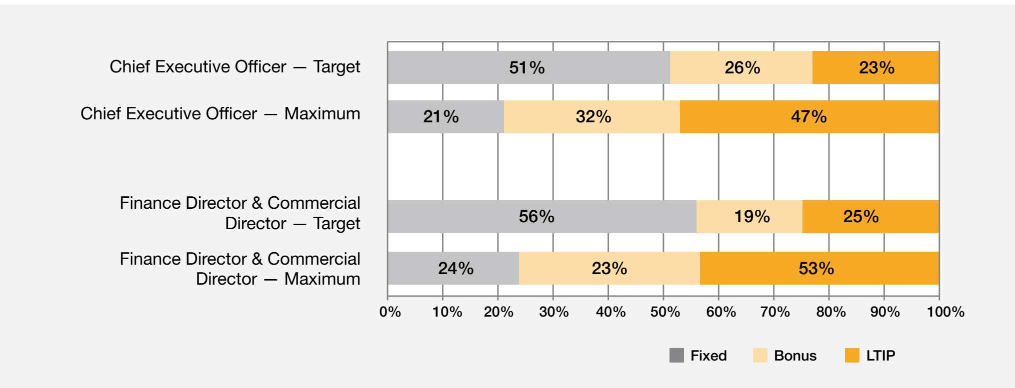
In addition, during the year the Committee has also made changes to the annual bonus arrangement for the CEO and to salary levels for executive Directors. Further details are provided on page 74.

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.

The Committee will continue to monitor and review the remuneration policy and remuneration arrangements to ensure that the structure and associated performance measures remain appropriately aligned 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.

Balance of fixed vs. variable remuneration

It is the Company's policy that a substantial proportion of the executive Directors' remuneration should be variable and 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 following illustrates the balance between fixed and variable remuneration based on the remuneration policy for 2010:



Summary of remuneration

The Remuneration Committee selects performance measures that are designed to be aligned with the Group's strategic goals and that are transparent to Directors and shareholders. Each element of remuneration is designed to support the achievement of different corporate objectives as outlined in the following table:

Element	Purpose and link to remuneration policy	Maximum award	Changes for 2010	Key features
Base salary	■ Reflects the competitive market salary level for the individual and their roles ■ Takes account of personal performance and contribution to corporate performance	■ n/a	■ Increases in salary during the year to reflect positioning against market practice	■ In cash ■ Based on individual contribution ■ Reviewed annually
Annual Bonus	■ Rewards the achievement of annual earnings targets	■ 120% of base salary for CEO ■ 100% of base salary for Finance Director and Commercial Director	■ For 2010/11 increase in bonus from 120% to 150% of base salary for CEO ■ For the CEO, previously all cash, for 2010/11 one-third of bonus deferred into shares for three years	■ Based on EBT and EPS performance ■ Full bonus in cash for Finance Director and Commercial Director ■ For CEO, two-thirds of bonus in cash and one-third of bonus deferred into shares for three years
Performance Share Plan ("PSP")	■ Aligns with shareholder interests through the delivery of shares ■ Rewards growth in shareholder value and earnings	■ Maximum core award of 150% of base salary	■ Performance multiplier of up to maximum of 1.5 ×, (i.e. 225% of base salary), introduced for the delivery of exceptional performance ■ The maximum core award for the CEO will be 150% of base salary	■ 50% TSR and 50% EPS performance
Company Share Option Scheme ("CSOS")	■ Direct link to value creation through share price growth as major objective ■ Aligns with shareholder interests through the delivery of shares	■ It is currently intended that the executive Directors will not participate in the CSOS	■ No changes	■ Based on EPS performance

Further details are provided about each element of remuneration below.

Directors' Remuneration Report

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.

During the year the Committee undertook a benchmarking review and following this review it was agreed to increase executives' salaries to the following level with effect from 1 October 2009.

Role	Salary (with effect from 1 October 2009)
Chief Executive	£507,500 (1.5% increase)
Finance Director	£300,000 (17% increase)
Commercial Director	£285,000 (12% increase)

The Finance Director and the Commercial Director have been on the Board for a number of years and are both very experienced and valued executives. Their contribution, as joint Managing Directors of the business, during the period of recruiting a new CEO (February 2008–August 2008) was exceptional and during this period both executives passed up any salary increases (their last increase in salary was with effect from April 2008). The review of salaries showed, however, that their salaries were substantially lower than those at other retail companies of similar size and complexity. The Committee recognises that in the current economic environment such increases are unusual but given the experience and calibre of the incumbents and the performance of the Company, the Committee considered that this approach was appropriate. This increase brings salaries to approximately the median when compared to other retailers of similar size and complexity. Base salaries will next be reviewed in October 2010.

Annual bonus

Executive Directors may earn up to an additional 100% of their basic salaries (150% of base salary for the CEO) as a performance bonus. 80% of the entitlement is dependent upon Earnings before Tax ("EBT") targets and 20% is dependent upon Earnings per Share targets ("EPS"). The Committee believes that these two measures strike a good balance between providing line of sight for executives and alignment with shareholder value creation. The target entry point for the annual bonus is 97% of target which will elicit zero bonus payment, with a straight-line determination to full payment at 106%. The Committee calibrates targets to ensure that they are very stretching and demanding, with the maximum bonus only being achievable for exceptional performance. Bonuses are not pensionable.

After very careful consideration, the Remuneration Committee concluded that it was appropriate to increase the bonus opportunity for the CEO from 120% of salary to 150% of base salary given the calibre of the incumbent, his performance to date and his overall remuneration package relative to his peers in the retail sector. The increased bonus opportunity will further incentivise the CEO to deliver exceptional short-term performance. The Committee believes that it is consistent with our remuneration policy of delivering median levels of remuneration compared to our retail peers for target performance and delivering upper quartile remuneration for exceptional performance. The Committee, however, is mindful of the importance of striking an appropriate balance between incentivising executives to deliver annual performance and managing risk while creating long-term alignment with shareholders. In light of this, one-third of any bonus earned by the CEO will be delivered in Halfords' shares which will be deferred for a period of three years from the date of the award subject to continued employment and other applicable terms. The maximum cash opportunity will therefore be decreased from 120% of salary to 100% of salary. The CEO's bonus will continue to be based on the metrics outlined above.

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 on the same basis as the executive Directors.

Senior executives immediately below the Board also benefit from participation in the PSP, with other key senior managers participating in the CSOS.

Share plans

The Company has adopted three share plans. In May 2004 the Company adopted the Halfords Company Share Option Scheme ("CSOS"), a market value share option plan, and the Halfords Sharesave Scheme and in July 2005 the Company adopted the Performance Share Plan ("PSP"). The PSP is intended to be the main incentive vehicle for executive Directors and senior executives immediately below the Board, with awards generally made on an annual basis. CSOS is used to reward employees below the Board and it is not the current intention to grant awards under the CSOS to executive Directors. The executive Directors are also eligible to participate in the Halfords Sharesave Scheme, an all-employee SAYE scheme.

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. Halfords intends to comply with the ABI guidelines relating to the issue of new shares for equity incentive plans. The current ten years shareholder dilution is 4.32%.

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. For the last four annual awards the EPS target has been RPI + 3.5%. The Committee believes that EPS is an appropriate performance target as it incentivises senior executives to drive earnings performance.

As noted above, as the executive Directors primarily participate in the PSP, it is currently intended that no further awards are made to them under the Company Share Option Scheme. In the event that awards are made under the CSOS to executive Directors, the Committee would review the performance measures and would set targets which are suitably stretching.

Halfords Sharesave Scheme

During the year the Committee considered the principles behind the establishment of the SAYE scheme in 2009 and concluded that the current scheme remains appropriate. 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 (normally three or five years) from the date of commencement of the savings contract. Executive Directors may also join the Halfords Sharesave Scheme. During the year awards were granted under the SAYE to participating eligible employees in the United Kingdom, Ireland and Hong Kong.

Performance Share Plan

Under the PSP, conditional rights to receive shares or nil cost options over shares are awarded to participants. PSP Awards have been made in every year since 2005.

Awards under the PSP vest subject to the achievement of stretching earnings per share ("EPS") and total shareholder return ("TSR") targets. The vesting of 50% of the awards will be determined by the Group's relative TSR performance when measured against a general retailers comparator group chosen from the FTSE 350. The vesting of the other 50% will be determined by the Group's absolute EPS growth performance against RPI. The Committee believes that total shareholder return and earnings per share remain appropriate measures for the PSP as they are strongly aligned with shareholder interests.

Vesting for each measure is assessed independently. Thirty per cent of the awards vests for achieving median TSR performance and EPS growth of RPI plus 4% per annum. One hundred per cent of the award vests for achieving upper quartile TSR and EPS growth of RPI plus 11% per annum. Straight-line vesting applies between these points.

The companies included in the TSR comparator group for awards granted in 2009 are as follows:

- Brown Group
- Carpetright
- Carphone Warehouse
- Debenhams
- Dignity
- DSG International
- Dunelm Group
- Game Group
- Greggs
- HMV Group
- Home Retail Group
- Kesa Eletrics
- Kingfisher
- Marks & Spencer
- Morrison
- Mothercare
- Next
- Sainsburys
- Sports Direct
- Tesco
- WH Smith

The comparator group for awards in previous years was similar to the above group but did not include food retailers.

Prior to 2009 the maximum award policy was 100% of base salary (although the plan rules allowed for awards up to 200% of base salary). In 2009 the Committee reviewed award levels and considered, after consultations with shareholders, that it was appropriate to increase award levels for the Finance Director and the Commercial Director to 150% of base salary. It had previously 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 shareholding guidelines (see page 76) more quickly.

For 2009 awards onwards, the Committee 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.

Amended operation of the Performance Share Plan for 2010

As noted above, during the year the Committee reviewed the structure of the executive remuneration arrangements to ensure that they continued effectively to incentivise and retain key executives in a way which is aligned with our long-term strategy and the creation of shareholder value.

Subject to shareholder approval at the AGM on 27 July 2010, for awards granted in 2010 onwards, the core award for all executive Directors will be 150% of base salary (representing a decrease in the core award level for the CEO which is currently 200% of base salary). In addition, there will be a vesting multiplier of up to 1.5 × which will be applied to the TSR and EPS elements of awards. The multiplier will apply on a straight-line basis for performance between upper quartile and upper decile. The maximum multiplier will only apply if performance is at upper decile levels. The core award for all executives will be 150% of base salary. The maximum possible award that can be earned will therefore be 225% of base salary.

For the EPS element the multiplier will only apply if EPS growth exceeds RPI plus 11% per annum, with the maximum multiplier only being achieved if EPS growth equals RPI plus 16% per annum. These targets are significantly in excess of current targets and the Committee believes that these targets represent an appropriate level of stretch. The targets are set out in the table below:

		TSR Performance Element (50% of award)	EPS Performance Element (50% of award)
Award "Multiplier" (up to 1.5 x initial award)	1.5 x initial award vesting	Upper Decile performance	16% growth p.a. above RPI
	Straight-line vesting	Between Upper Quartile and Upper Decile	Between 11% growth p.a. and 16% growth p.a. above RPI
Core Award (150% of salary)	100% vesting	Upper Quartile performance	11% growth p.a. above RPI
	Straight-line vesting	Between Median and Upper Quartile	Between 4% growth p.a. and 11% growth p.a. above RPI
	30% vesting	Median	4% growth p.a. above RPI
	0% vesting	Below Median	Below 4% growth p.a. above RPI

Directors' Remuneration Report

TSR and EPS performance will continue to be assessed on an independent basis. However, to ensure that the PSP continues to support sustainable performance, the multiplier for one measure will only be applied if performance is at least at the threshold level for the other measure. For example, if TSR was above upper quartile the TSR multiplier would generally only apply if EPS growth exceeded RPI plus 4% per annum, unless the Remuneration Committee determined otherwise.

The Committee recognises that a plan that incentivises higher levels of performance involves a larger degree of inherent risk; however, the Committee believes that the Board decision-making process provides appropriate safeguards to ensure that this structure does not incentivise executives to take an inappropriate level of risk.

The Company has consulted with key shareholders in relation to the changes to remuneration arrangements and were pleased with the level of support received. As noted above, a resolution to change the PSP rules to incorporate the multiplier will be put for shareholder approval at the AGM.

Details of options granted to executive Directors are set out on page 80.

Shareholding

The shareholding guidelines require executive Directors to acquire and retain shares to a value equal to 200% of their basic annual salary. Newly appointed executive Directors will be appointed to retain shares to a value equal to 100% of their basic salary over a five year period following their appointment to the Board. The executive Directors' shareholding at 2 April 2010 is shown on page 76.

Remuneration delivered in respect of performance in 2009/10

Halfords has performed strongly this year. Annual EBT and EPS performance was significantly in excess of targets for the annual performance bonus representing significant delivery of value for shareholders. Given this performance, 100% of the maximum bonus in respect of 2009/10 was paid. The bonus payments made in respect of 2009/10 are set out on page 78.

Performance for PSP awards granted in 2007 was tested in respect of the financial year 2009/10. TSR performance was in the upper decile (Halfords were ranked first) when compared to the comparator group of selected other retail companies and EPS growth over the three-year performance period of 40.8% exceeded RPI plus 11% per annum. This performance represents significant earnings and total return growth for shareholders. The PSP awards granted in 2007 therefore vested in full.

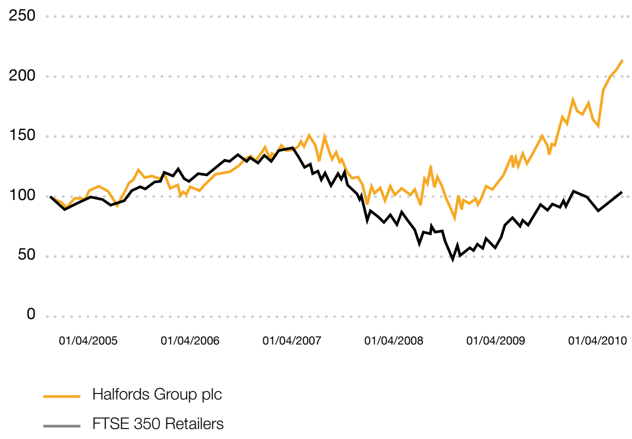
Performance for CSOS awards granted in 2007 to below Board employees was also tested in respect of the financial year 2009/10. The EPS growth target attached to this award were met and the options vested in full. Participants will have a further seven years in which to exercise these options.

Performance graph

The following graph shows the TSR performance of the Company since May 2005, 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' 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 2 April 2010	As at 3 April 2009
Dennis Millard (Appointed 28 May 2009)	**25,000**	–
David Wild	**100,000**	40,000
Nick Wharton	**270,100**	237,812
Paul McClenaghan	**124,744**	26,679
Nigel Wilson	**41,333**	20,396
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 2 April 2010 and 10 June 2010.

Pensions

During 2008/9 the Company 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, each member could also benefit from salary sacrifice arrangements. Both schemes were open to the executive Directors. The CEO and the Commercial Director receive a pension contribution of 15% of base salary per annum. The Finance Director receives a pension contribution of 26.25% of base salary per annum reflecting his legacy contractual entitlements.
The Group's contributions during the year are shown in the table on page 78.

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. On 14 August 2009 Nick Wharton was appointed a non-executive director of Dunelm Group plc, where he is also Chairman of the Audit Committee. He received a fee of £18,000 during the year.

Service agreements

The Company's policy in relation to contractual terms on termination, and any payments made, is that they should be fair to the individual, the Company and shareholders. Failure should not be rewarded and the departing executive's duty to mitigate loss should be fully recognised. 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 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 their 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 incentives are set out on pages 78 to 80.

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 has an employment contract 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 and 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.

In May 2010 fees for the Chairman and non-executive Directors were reviewed and it was agreed that there would be no increases. It is intended to review these fees again in April/May 2011. Halfords' policy in relation to non-executive Director fees is as follows:

Role	Fees
Chairman	£165,000
Senior Independent Director	£60,000
Basic Fee	£45,000
Additional fee for Chairmanship of the Audit and Remuneration Committee	£5,000

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

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

Directors' Remuneration Report

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
Dennis Millard	28 May 2009	28 July 2009	27 May 2012	24 months
Nigel Wilson	17 May 2004	23 July 2008	22 July 2011	13 months
Keith Harris	17 May 2004	23 July 2008	22 July 2011	13 months
Bill Ronald	17 May 2004	29 July 2009	28 July 2012	25 months

PART B: AUDITED INFORMATION

The following section provides details of the remuneration, pension and share interests of the Directors for the 52 weeks to 2 April 2010 and has been audited.

Remuneration of executive Directors

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

	52 weeks to 2 April 2010				
	Salary & Fees £'000	**Bonuses £'000**	**Benefits[2] £'000**	**Total £'000**	2009 Total £'000
David Wild	**504**	**604**	**26**	**1,134**	799
Nick Wharton[1]	**264**	**278**	**13**	**555**	384
Paul McClenaghan[1]	**257**	**270**	**13**	**540**	383
	1,025	**1,152**	**52**	**2,229**	1,566

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

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

Pension entitlements

Pension contributions to defined contribution pension schemes made by the Group during the 52 weeks to 2 April 2010 in respect of executive Directors were as follows:

	52 Weeks to 2 April 2010 £'000	53 Weeks to 3 April 2009 £'000
David Wild[1]	**75**	50
Nick Wharton[2]	**86**	69
Paul McClenaghan[2]	**53**	40
	214	159

(1) Payments made to David Wild are made into a personal fund, the purpose of which is to provide additional retirement benefits.

(2) As members of the Halfords Pension Plan 2009 Nick Wharton and Paul McClenaghan have sacrificed some of their salary for like-for-like pension contributions.

Remuneration of non-executive Directors

Details of the payments made to non-executive Directors are shown below:

	52 weeks to 2 April 2010			
		Committee		
		Chairman's		2009
	Fees	Fees	Total	Total
	£'000	£'000	£'000	£'000
Dennis Millard[(1)]	138	–	138	–
Nigel Wilson	60	5	65	65
Keith Harris	45	5	50	50
Bill Ronald	45	–	45	45
Richard Pym[(2)]	–	–	–	65
	288	10	298	225

[(1)] Appointed 28 May 2009.
[(2)] Resigned 22 August 2008.

Directors' interests in share options

At the beginning of the year and at 2 April 2010, the following Directors had options to subscribe for shares granted under the terms of the Halfords SAYE.

	Options as at 3 April 2009	Granted in the period	Exercised in the period	Lapsed in the period	Options as at 2 April 2010	Exercise Price £	Exercisable from	Exercisable to
Nick Wharton								
2008 SAYE	4,878	–	–	–	4,878	1.93	1 Oct 2011	1 April 2012
Total	4,878	–	–	–	4,878			
Paul McClenaghan								
2008 SAYE	4,878	–	–	–	4,878	1.93	1 Oct 2011	1 April 2012
Total	4,878	–	–	–	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 the exercise price outlined above normally for a period of six months following the conclusion of the three-year saving contract.

At the beginning of the year and at 2 April 2010, 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 it is currently intended that no further awards will be made to them under the CSOS.

Performance Share Plan

The following table shows the executive Directors' interests in shares awarded under the Performance Share Plan.

These figures represent the maximum potential award.

	Award date	Mid-market price on date of awards £	Awards held 3 April 2009	Awarded during the period	Lapsed during the period	Dividend Reinvestment[2]	Exercised during the period	**Awards held 2 April 2010**	Performance period 3 years to
David Wild	7 August 2008	2.96	337,643	—	—	—	—	**337,643**	1 April 2011
	3 August 2009	3.46	—	289,159	—	4,500	—	**293,659**	1 April 2012
Nick Wharton	11 July 2006	3.01	50,000	—	6,173	—	43,827[1]	**—**	1 April 2009
	12 July 2007	4.02	54,726	—	—	—	54,726[4]	—	1 April 2010
	7 August 2008	2.96	86,099	—	—	—	—	**86,099**	1 April 2011
	3 August 2009	3.46	—	110,603	—	1,721	—	**112,324**	1 April 2012
Paul McClenaghan	11 July 2006	3.01	60,465	—	7,467	—	52,998[1]	**—**	1 April 2009
	12 July 2007	4.02	109,452[3]	—	—	—	109,452[4]	**—**	1 April 2010
	7 August 2008	2.96	86,099	—	—	—	—	**86,099**	1 April 2011
	3 August 2009	3.46	—	110,603	—	1,721	—	**112,324**	1 April 2012

(1) After measurement of the performance conditions of the awards made in July 2006, 87.65% of the award vested in July 2009.

(2) Following the recommendation of the Committee to reinvest dividends earned on shares awarded in 2009, dividends of 6p per share were reinvested in shares at a cost of £3.86 per share.

(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 PSP. 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 76, more quickly.

(4) The performance conditions of the awards made in July 2007, for which the performance period was the three financial years ended 2 April 2010 were measured in April 2010 and 100% of the award vested.

Gains made by Directors

The table below shows gains made by individual Directors from the exercise of share options during the financial period ended 2 April 2010. The gains are calculated as at the exercise date, although the shares may not have been retained.

	2010 £000	2009 £000
2005 PSP		
Nick Wharton	**–**	51
Paul McClenaghan	**–**	61
2006 PSP		
Nick Wharton	**146**	—
Paul McClenaghan	**177**	—
2007 PSP		
Nick Wharton	**260**	—
Paul McClenaghan	**520**	—
Total gains on share options	**1,103**	112

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 2 April 2010 and there were no changes in the options held by the Directors between 3 April 2009 and 10 June 2010.

On 2 April 2010 the market price of ordinary shares of Halfords Group plc was 482.40p and the range during the financial year was 294.75p to 483.90p. For details of the grant dates of options see Note 22 on page 126.

Keith Harris
Chairman of the Remuneration Committee
10 June 2010

Corporate Social Responsibility

Halfords' corporate social responsibility ("CSR") programme is aligned with the Group's business strategy, addresses the important CSR issues that we face and informs appropriate management and colleague behaviour.

We believe effective management of our CSR makes good business sense. In doing so, we will seek to ensure that Halfords, which is a household brand, has a positive impact on the communities and environment in which we work, be it through our operations, products and services or through our interactions with our customers, colleagues and suppliers. We are proud of our business and we see CSR as a core business consideration as it derives 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.

We are concerned to ensure we do the right things and our aim is to continually improve our management of the social, environmental and economic issues within our control or influence these throughout the business and our wider supply network. 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 its policy.

In 2009 Halfords engaged with Business in the Community ("BITC") to review and advise on the Group's current CSR strategy and activities with the view to driving continual improvement and integration within the business. This will be reported on fully in next year's Annual Report. For the period to 2 April 2010 the Group continued to follow its "ACTING RESPONSIBLY" policy.

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.

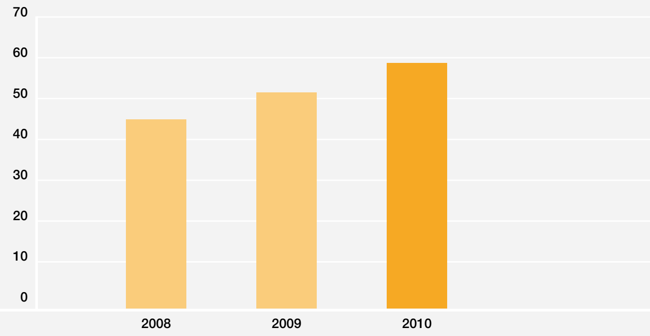
CSR OVERVIEW & KEY PERFORMANCE INDICATORS

CUSTOMERS

Stores & customer service

We market high quality products that we believe 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 around 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. 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. Surveys are regularly carried out across our customer base, asking customers to score certain questions, such "Would you definitely use Halfords again?" or "How likely is it you would recommend Halfords to a friend?" In 2009/10 59% of customers asked said they were very likely or extremely likely to use Halfords again.

Percentage of customers who would "definitely use" Halfords stores again



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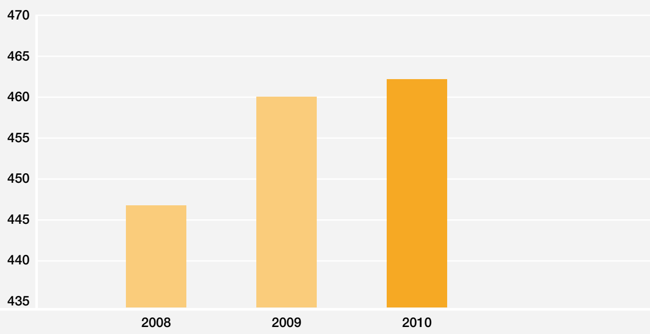
Our store network is extensive and we endeavour to locate a Halfords store within 20 miles of any UK customer. At the time of writing 99% of the UK population live within 20 (straight-line) miles of a Halfords store and 90.4% live within a 20 minute drive of a store. Our store portfolio continues to grow in quality and quantity.

Number of Halfords Stores in the UK and ROI



This network is 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, e-mail, 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 e-mail address. This has enabled us to offer increased support to our store colleagues and be more flexible to our customers' needs.

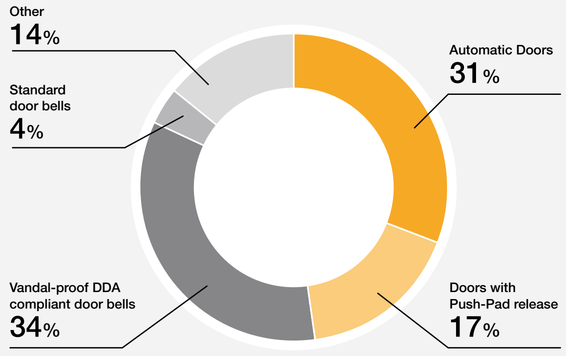
halfords

Corporate Social Responsibility

Accessibility

We treat our responsibilities under the Disability Discrimination Act ("DDA") very seriously and we recently introduced mobility products into 248 of our stores. We are committed to ensuring that both customers and colleagues have access to our stores and 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. In 2009 we committed to annual audits of all of our stores to ensure consistent levels of accessibility. The most recent results are shown below.

Accessibility for disabled customers

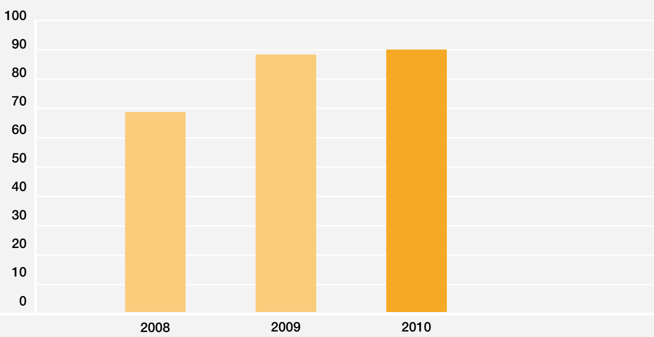


PRODUCTS AND THE ENVIRONMENT

We continually assess the environmental impacts of our products, packaging, procedures and services at all 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.

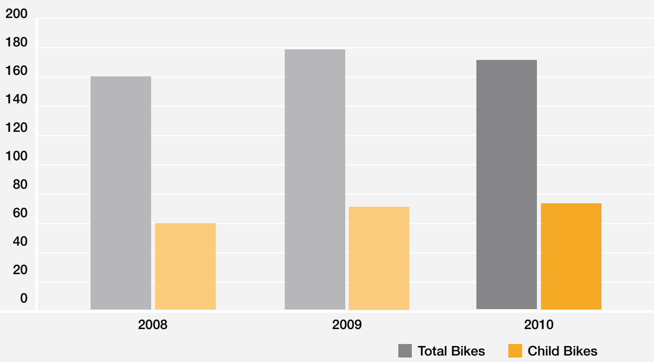
We also ensure, that, where possible, customers can contribute to product recycling. As an example, customers returning old car batteries to our stores for recycling by us are offered a £2 voucher to be spent in the store to encourage recycling. In the period to 2 April 2010 our customers returned 90,000 batteries, an increase of 2.3% over 2009.

Number of Batteries/Alternators returned by Customers for recycling ('000s)



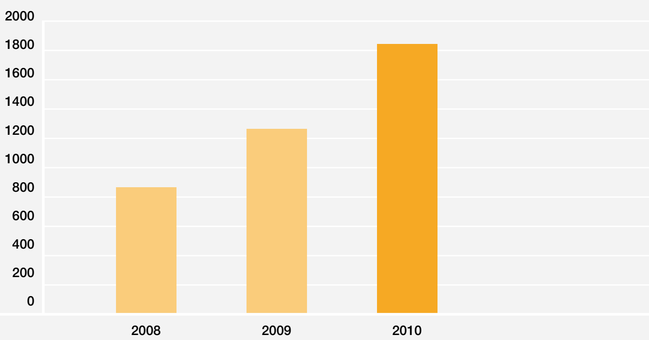
At a time when the issues surrounding health and obesity have become increasingly important, Halfords, as the largest retailer of cycling products, actively encourages people to participate in this outdoor activity. We currently stock 170 different models of bicycles, of which 73 are aimed at children 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 2 April 2010, we sold over a million bikes for the third year running, approximately 1 out of 3 of all bikes sold in the UK.

Number of bicycle models stocked



We continue to market "Cycle 2 Work" schemes that allow employers to offer to their employees the use of a bicycle for work. The scheme offers significant savings, making use of the Government backed initiative to increase more sustainable means of transport to work. Over the last three years, we have increased the number of schemes that we manage on behalf of employers by over 113%, thereby allowing their employees the opportunity to embrace a healthy, keep-fit lifestyle.

Number of "Cycle 2 Work" schemes managed by Halfords

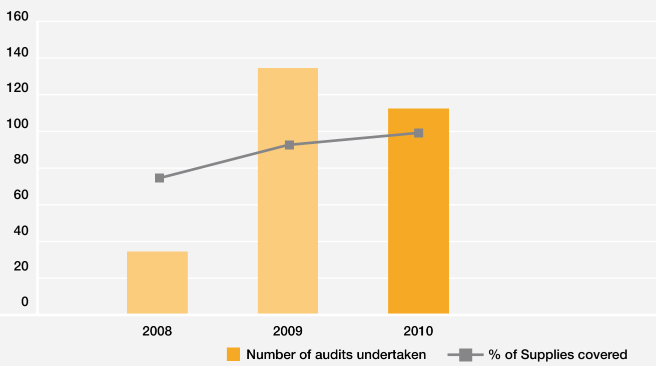


SUPPLIERS

Ethical trading

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. Halfords has a Sourcing Code of Conduct (“the Code”), which can be viewed on the Company’s website (*halfordscompany.com*). This is sent to all potential new suppliers 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. Over the last few years we have substantially increased the supplier audit coverage in the Far East where a significant amount of our products are now sourced. This ensures that the majority of our sourced products are covered by such audits, both in line with the growth of our business and our demand for greater compliance.

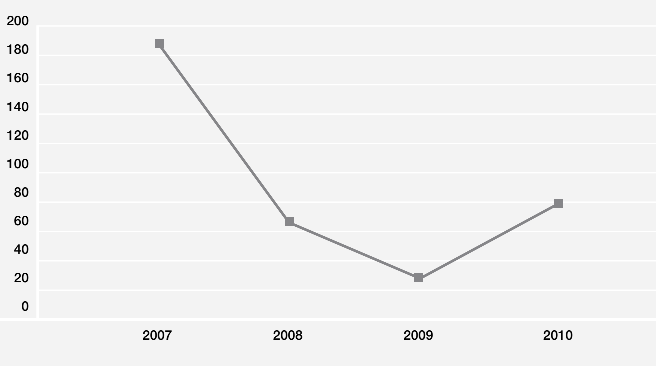
Far East Supplier Audits



Supply chain transportation

Given that so many of our products are imported we pay particular attention to the carbon footprint that this could create. We continue to monitor the air freighting of our products from suppliers, and only do so in cases of extreme urgency.

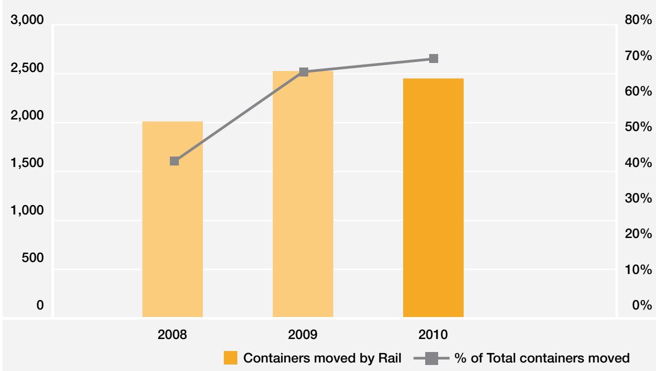
Product Airfreighted (tonnes)



Since 2007 we have significantly reduced the weight of products shipped in this way, although there are occasions that necessitate the use of airfreight as an efficient and fast means of delivery to ensure products are always available to our customers. In 2009/10 we airfreighted more high value, core products as consumer demand out-performed against our forecasts.

Generally, we concentrate on ensuring that containers that are delivered into our distribution centres (“DCs”) are done so via sea deliveries for onward transportation via road or rail. We work hard each year to reduce our reliance on road transportation and, in 2009/10, 69% of all containers delivered were moved by rail to a hub in the Midlands for onward transportation to our DCs

Number of Containers moved by Rail



HUMAN RESOURCES

Employer of choice

Our growth in stores and turnover would not have been possible without the unfailing support and commitment of our colleagues employed across stores, distribution centres, and our head office operations. 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 challenging and rewarding, enabling colleagues to develop quickly and pursue new opportunities. Our staff turnover rates have fallen by 21% in the last four years.

We are committed to being seen as an employer of choice within the communities in which we operate. We seek to employ people, who are passionate about customers, love coming to work, strive to achieve their best and enjoy dealing with customers. By ensuring colleagues have interesting jobs, with real accountability, Halfords can provide the opportunity to develop careers. We recognise and reward high performance, with six different bonus schemes spread across the business, and a range of competitive benefits and incentive schemes. Our colleagues are people who consistently look for opportunities to deliver a first-class service, going the extra mile for our customers. Some 4,000 of our staff hold accredited fitting qualifications,

HEALTH AND SAFETY

Safety management

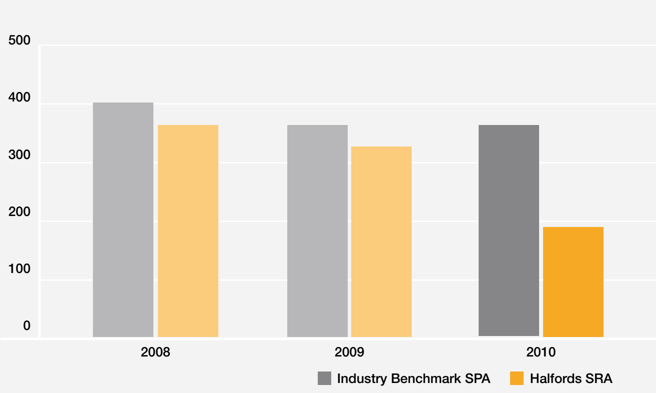
Halfords is committed to high standards of occupational health and safety to minimise the risk of injuries and ill health to employees, contractors, visitors and others who come into contact with the business. The Group believes that effective occupational health and

Corporate Social Responsibility

safety management is fundamental to a successful business and we constantly review our procedures and risk management standards to identify opportunities for further improvement.

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 190 per 100,000 employees (2009: 340). This represents an improvement of 44% in 2010 and continues a downtrend of the last few years.

Colleague major accidents per 100,000 colleagues



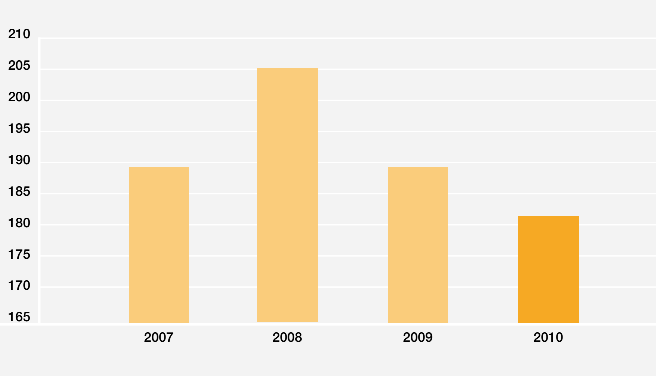
ENVIRONMENT

Our stores, offices, and fleet of delivery vehicles have direct impacts on the environment. We also understand 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.

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

(a) Minimising our use of natural resources — water
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. Our goal is to minimise our potential for causing pollution to air, water and land.

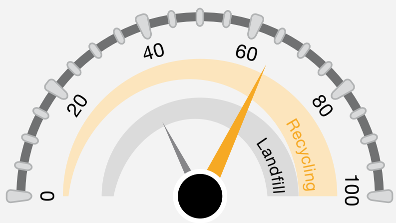
Water consumption per store (cubic metres)



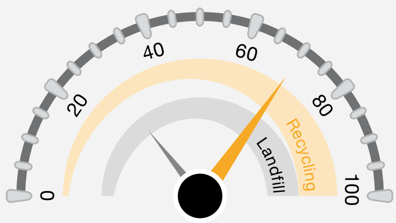
(b) Minimising our use of natural resources — waste
We aim to prevent waste generation in our activities, including product and packaging design, warehousing, distribution and sale and reuse of materials, and to maximise recovery and recycling of waste prior to disposal. We achieve this by increasing the quantity of cardboard, paper and plastic waste we recycle in the business and reducing our use of landfill sites.

As a result, the volumes of waste material recycled versus that sent to landfill increased from 56.4% in 2007 to 74.5% in 2010.

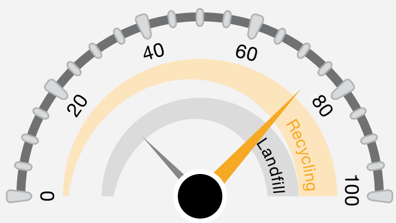
Landfill v Recycling 2008 %



Landfill v Recycling 2009 %



Landfill v Recycling 2010 %



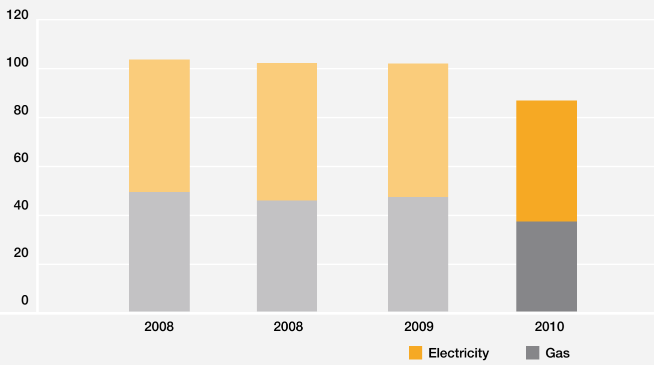
(c) Minimising our use of natural resources — Energy & reducing CO_2 emissions

For our stores, we are setting a challenging reduction target of reducing our CO_2 emissions by 15% to 20% over three years 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.

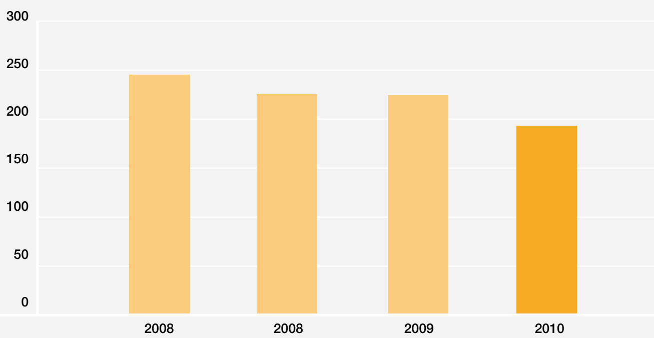
This year our total energy consumption has decreased by 13.9% as the action plans and performance monitoring by store begin to take affect.

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

Total Energy Usage (kWh millions)



Energy Usage per Store (kWh 000's)



(d) Fuel and transport fleet efficiency & reducing carbon emissions

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. Working with DHL, our carrier, we ensure that all of the 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 Greenhouse Gas ("GHG") emissions, we have converted the transport fleet fuel usage to total CO_2 emissions. In 2009/10, DHL drove, on our behalf, 9,393,452 kilometres, a reduction of 2% on last year and we used 49,724 less litres of diesel. The CO_2 equivalent usage, calculated based on DEFRA 's 2009 Freight Transport conversion factor, shows a 1.6% improvement year on year. The transfer to our new DC in Coventry provides us with further opportunity to cut CO_2 emissions.

	2007	2008	2009	2010
Kilometres driven	9,491,422	9,786,649	9,571,380	9,393,452
CO_2 equivalent (kg)	7,932,414	8,311,283	7,711,390	7,585,301
CO_2kg/revenue (£m)	10,662	10,423	9,526	9,272

IN THE COMMUNITY

Overview

Our policy on charitable giving is to concentrate on supporting one main charity and, in the year to 2 April 2010, we have worked with Macmillan Cancer Support. We have supported a number of their initiatives including the Macmillan Coffee Morning and the Macmillan Big Picnic, as well as creating our own fund-raising activities. The biggest event was a Halfords/Macmillan Cycle challenge, which saw *c.*400 colleagues take part in a Cycle Relay linking our store in Elgin with our store in Penzance via 50 of our stores. We are also committed to supporting the communities we serve and individual stores also support local initiatives. We will continue to support Macmillan Cancer Support for the next financial year.

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 Halfords 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 its management of the social, environmental and economic issues that are within its control and will continue to work with BiTC to ensure that we focus on the core areas of Corporate Responsibility whilst at the same time being proud custodians of the Halfords brand and its impact on its stakeholders. 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.

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halfords.annualreport2010.com/financials

Financial Report

Financials

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

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

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

Directors' responsibility statement in respect of the annual financial report

Each of the Directors, whose names and functions are listed on pages 60 and 61, confirms that, to the best of their knowledge:

- the Group and Parent Company financial statements in the Annual Report, which have been prepared in accordance with applicable UK law and with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company and Group as a whole; and
- the Business Review on pages 42 to 51 and the Finance Directors' report on pages 52 to 57 and which forms part of the Directors' Report contained 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.

Approved by order of the Board

Denis Millard
10 June 2010

Independent Auditors' Report to the Members of Halfords Group plc

We have audited the financial statements of Halfords Group plc for the period ended 2 April 2010 set out on pages 90 to 134. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 88, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKP.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 2 April 2010 and of the Group's profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 66 to 70 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 65, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 66 to 70 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

G Watts (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
10 June 2010

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Consolidated Income Statement

For the period	Notes	52 weeks to 2 April 2010 Before non-recurring items £m	52 weeks to 2 April 2010 Non-recurring items (Note 5) £m	52 weeks to 2 April 2010 Total £m	53 weeks to 3 April 2009 Before non-recurring items £m	53 weeks to 3 April 2009 Non-recurring items (Note 5) £m	53 weeks to 3 April 2009 Total £m
Revenue	1	**831.6**	**–**	**831.6**	809.5	–	809.5
Cost of sales		**(378.9)**	**–**	**(378.9)**	(388.1)	–	(388.1)
Gross profit		**452.7**	**–**	**452.7**	421.4	–	421.4
Operating expenses	1, 2	**(333.0)**	**(7.4)**	**(340.4)**	(317.4)	(12.3)	(329.7)
Results from operating activities	3	**119.7**	**(7.4)**	**112.3**	104.0	(12.3)	91.7
Finance costs	6	**(4.6)**	**–**	**(4.6)**	(11.9)	(4.6)	(16.5)
Finance income	6	**2.0**	**–**	**2.0**	2.3	–	2.3
Net finance expense		**(2.6)**	**–**	**(2.6)**	(9.6)	(4.6)	(14.2)
Profit before income tax		**117.1**	**(7.4)**	**109.7**	94.4	(16.9)	77.5
Income tax expense	7	**(34.1)**	**1.4**	**(32.7)**	(26.3)	4.6	(21.7)
Profit for the financial period attributable to equity shareholders		**83.0**	**(6.0)**	**77.0**	68.1	(12.3)	55.8
Earnings per share							
Basic	9	**39.7p**		**36.8p**	32.5p		26.6p
Diluted	9	**39.4p**		**36.6p**	32.5p		26.6p

All results relate to continuing operations of the Group.

The notes on pages 103 to 128 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Notes	**52 weeks to 2 April 2010 £m**	53 weeks to 3 April 2009 £m
Profit for the period		**77.0**	55.8
Other comprehensive income			
Foreign currency translation differences for foreign operations		**0.4**	–
Cash flow hedges:			
Fair value changes in the period		**(5.1)**	22.8
Transfers to inventory		**(7.3)**	(11.8)
Transfers to net profit:			
Cost of sales		**1.5**	(5.0)
Finance costs		**–**	4.6
Income tax on other comprehensive income	7	**(0.6)**	–
Other comprehensive income for the period, net of income tax		**(11.1)**	10.6
Total comprehensive income for the period attributable to equity shareholders		**65.9**	66.4

The notes on pages 103 to 128 are an integral part of these consolidated financial statements.

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Consolidated Statement of Financial Position

	Notes	2 April 2010 £m	3 April 2009 £m
Assets			
Non-current assets			
Intangible assets	10, 11	**348.7**	259.5
Property, plant and equipment	12	**102.9**	107.5
Deferred tax asset	19	**—**	2.7
Total non-current assets		**451.6**	369.7
Current assets			
Inventories	13	**138.5**	147.0
Trade and other receivables	14	**42.9**	37.6
Derivative financial instruments	20	**3.0**	14.0
Cash and cash equivalents	15	**36.5**	15.5
Total current assets		**220.9**	214.1
Total assets		**672.5**	583.8
Liabilities			
Current liabilities			
Borrowings	16	**(0.2)**	(0.2)
Derivative financial instruments	20	**(0.8)**	(0.3)
Trade and other payables	17	**(131.5)**	(87.8)
Current tax liabilities		**(17.5)**	(12.2)
Provisions	18	**(20.4)**	(14.3)
Total current liabilities		**(170.4)**	(114.8)
Net current assets		**50.5**	99.3
Non-current liabilities			
Borrowings	16	**(191.8)**	(191.5)
Derivative financial instruments	20	**—**	(0.4)
Accruals and deferred income — lease incentives		**(28.0)**	(28.3)
Provisions	18	**(3.3)**	(4.4)
Deferred tax liabilities	19	**(0.5)**	—
Total non-current liabilities		**(223.6)**	(224.6)
Total liabilities		**(394.0)**	(339.4)
Net assets		**278.5**	244.4
Shareholders' equity			
Share capital	21	**2.1**	2.1
Share premium	21	**146.5**	145.6
Other reserves	21	**2.5**	13.6
Retained earnings		**127.4**	83.1
Total equity attributable to equity holders of the Company		**278.5**	244.4

The notes on pages 103 to 128 are an integral part of these consolidated financial statements.

The financial statements on pages 90 to 128 were approved by the Board of Directors on 10 June 2010 and were signed on its behalf by:

David Wild
Chief Executive

Nick Wharton
Finance Director

Company Number 04457314

Consolidated Statement of Changes in Shareholders' Equity

	Share capital £m	Share premium account £m	Translation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
		Attributable to the equity holders of the Company					
			Other reserves				
Balance at 28 March 2008	2.1	145.6	—	0.2	2.8	71.0	**221.7**
Total comprehensive income for the period							
Profit for the period	—	—	—	—	—	55.8	**55.8**
Other comprehensive income							
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**
Total other comprehensive income for the period net of tax	—	—	—	—	10.6	—	**10.6**
Total comprehensive income for the period	—	—	—	—	10.6	55.8	**66.4**
Transactions with owners, recorded directly in equity							
Purchase of own shares — share buy-back	—	—	—	—	—	(13.1)	**(13.1)**
Share-based payment transactions	—	—	—	—	—	1.7	**1.7**
Dividends to equity holders	—	—	—	—	—	(32.3)	**(32.3)**
Total transactions with owners	—	—	—	—	—	(43.7)	**(43.7)**
Balance at 3 April 2009	2.1	145.6	—	0.2	13.4	83.1	**244.4**
Total comprehensive income for the period							
Profit for the period	—	—	—	—	—	77.0	**77.0**
Other comprehensive income							
Foreign currency translation differences for foreign operations	—	—	0.4	—	—	—	**0.4**
Cash flow hedges:							
Fair value gains in the period	—	—	—	—	(5.1)	—	**(5.1)**
Transfers to inventory	—	—	—	—	(7.3)	—	**(7.3)**
Transfers to net profit:							
Cost of sales	—	—	—	—	1.5	—	**1.5**
Income tax on other comprehensive income	—	—	—	—	(0.6)	—	**(0.6)**
Total other comprehensive income for the period net of tax	—	—	0.4	—	(11.5)	—	**(11.1)**
Total comprehensive income for the period	—	—	0.4	—	(11.5)	77.0	**65.9**
Transactions with owners, recorded directly in equity							
Share options exercised	—	0.9	—	—	—	—	**0.9**
Share-based payment transactions	—	—	—	—	—	2.5	**2.5**
Income tax on share-based payment transactions	—	—	—	—	—	0.1	**0.1**
Dividends to equity holders	—	—	—	—	—	(35.3)	**(35.3)**
Total transactions with owners	—	0.9	—	—	—	(32.7)	**(31.8)**
Balance at 2 April 2010	**2.1**	**146.5**	**0.4**	**0.2**	**1.9**	**127.4**	**278.5**

The notes on pages 103 to 128 are an integral part of these consolidated financial statements.

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Consolidated Statement of Cash Flows

	Notes	52 weeks to 2 April 2010 £m	53 weeks to 3 April 2009 £m
Cash flows from operating activities			
Profit after tax for the period before non-recurring items		**83.0**	68.1
Non-recurring items		**(6.0)**	(12.3)
Profit after tax for the period		**77.0**	55.8
Depreciation — property, plant and equipment		**21.9**	22.4
Impairment charge		**5.0**	—
Amortisation — intangible assets		**2.2**	2.7
Foreign exchange loss		**0.6**	—
Net finance costs		**2.6**	14.2
Loss on sale of property, plant and equipment		**0.7**	0.3
Equity-settled share based payment transactions		**2.5**	1.7
Fair value gain on derivative financial instruments		**0.1**	(2.3)
Income tax expense		**32.7**	21.7
Decrease in inventories		**9.8**	4.6
Decrease in trade and other receivables		**0.5**	3.8
Increase/(decrease) in trade and other payables		**22.8**	(27.4)
Increase in provisions		**2.6**	16.7
Finance income received		**2.0**	2.5
Finance costs paid before non-recurring swap close out costs		**(4.5)**	(12.8)
Swap close out costs		**—**	(4.6)
Income tax paid		**(30.4)**	(25.5)
Net cash from operating activities		**148.1**	73.8
Cash flows from investing activities			
Acquisition of subsidiary undertaking net of cash acquired	10	**(72.3)**	—
Purchase of intangible assets		**(3.5)**	(5.4)
Purchase of property, plant and equipment		**(15.6)**	(17.3)
Net cash used in investing activities		**(91.4)**	(22.7)
Cash flows from financing activities			
Net proceeds from issue of ordinary shares		**0.9**	—
Purchase of own shares		**—**	(13.1)
Payment of finance lease liabilities		**(0.2)**	(0.2)
Dividends paid		**(35.3)**	(32.3)
Net cash used in financing activities		**(34.6)**	(45.6)
Net increase in cash and bank overdrafts	I.	**22.1**	5.5
Cash and cash equivalents at the beginning of the period		**15.5**	10.0
Effect of exchange rate fluctuations		**(1.1)**	—
Cash and cash equivalents at the end of the period	I.	**36.5**	15.5

The notes on pages 103 to 128 are an integral part of these consolidated financial statements.

The net cash from operating activities for the Car Servicing segment was an outflow of £3.5m (2009: nil). There were no cash flows in the Car Servicing segment for investing or financing activities.

Notes to Consolidated Statement of Cash Flows

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

	At 3 April 2009 £m	Cash flow £m	Other non-cash changes £m	**At 2 April 2010 £m**
Cash and cash equivalents at bank and in hand	15.5	22.1	(1.1)	**36.5**
Debt due after one year	(179.5)	–	(0.5)	**(180.0)**
Total net debt excluding finance leases	(164.0)	22.1	(1.6)	**(143.5)**
Finance leases due within one year	(0.2)	0.2	(0.2)	**(0.2)**
Finance lease due after one year	(12.0)	–	0.2	**(11.8)**
Total finance leases	(12.2)	0.2	–	**(12.0)**
Total net debt	(176.2)	22.3	(1.6)	**(155.5)**

Non-cash changes include finance costs of £0.5m in relation to the amortisation of capitalised debt issue costs, £1.1m effect of exchange rate fluctuations and changes in classification between amounts due within and after one year.

Accounting Policies

General information
Halfords Group plc is a company domiciled in the United Kingdom. The consolidated financial statements of the Company as at and for the period ended 2 April 2010 comprise the Company and its subsidiary undertakings.

Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRSs").

Basis of preparation
The consolidated financial statements of Halfords Group plc and its subsidiary undertakings (together "the Group") are prepared on a going concern basis and under the historical cost convention, except where International Financial Reporting Standards 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 Group has a syndicated five-year term facility totalling £300m that provides the Group with committed bank facilities until July 2011. The Board is currently reviewing, with the Group's Brokers, the optimal capital structure for the enlarged Group that will provide the necessary flexible funding to deliver its strategic agenda. The Board envisages that renewed debt facilities will be agreed and in place in the second half of the financial year ended 1 April 2011.

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 52 weeks to 2 April 2010, whilst the comparative period covered the 53 weeks to 3 April 2009.

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
Subsidiary undertakings
Subsidiary undertakings 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 subsidiary undertakings 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 subsidiary undertakings are prepared to the same reporting date as the Company.

The principal subsidiary undertakings of the Company at 2 April 2010 are as follows:

Subsidiary undertaking	Principal activity	% Ownership of ordinary shares
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
Halfords Investments (2010) LP†	Intermediate holding partnership	–
Nationwide Autocentres Holdings Limited*	Intermediate holding company	100
Nationwide Autocentres Limited*	Car servicing	100
Halfords Holdings (Jersey) 1 Limited	Intermediate holding company	100
Halfords Holdings (Jersey) 2 Limited	Intermediate holding company	100

* Shares held indirectly through subsidiary undertakings.
† Wholly owned indirectly through subsidiary undertakings.

Revenue recognition
Retail
Retail 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.

Car Servicing

Car Servicing revenue comprises the provision of servicing to external customers, net of value added tax, rebates and promotions. Revenue is recognised at the point at which those services have been rendered.

Promotions and Returns

The Group operates a variety of sales promotion schemes that give rise to goods and services 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 are expected to 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.

Non-recurring items

Non-recurring items are those items that are unusual because of their size, nature or incidence. The Group's management consider that these items should be separately identified within their relevant income statement category to enable a full understanding of the Group's results.

Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in Pounds Sterling, which is the Group's functional and presentation currency and are rounded to the nearest hundred thousand, except where it is deemed relevant to disclose the amounts to the nearest pound. 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.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on qualifying cash flow hedges, which are recognised in other comprehensive income.

The assets and liabilities of foreign operations are translated to Sterling at the exchange rate at the reporting date. The income and expenses of foreign operations are translated to Sterling at an average exchange rate. Foreign currency differences are recognised in other comprehensive income and a separate component of equity. When a foreign operation is disposed of, the relevant amount in equity is transferred to profit or loss.

Share-based payment transactions

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 adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

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 other comprehensive income, over the remaining vesting period.

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 is held at cost less accumulated depreciation and any accumulated impairment losses.

Accounting Policies

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:

- Freehold properties are depreciated over 50 years;
- Leasehold premises with lease terms of 50 years or less are depreciated over the remaining period of the lease;
- Leasehold improvements are depreciated over the period of the lease to a maximum of 25 years;
- Motor vehicles are depreciated over 3 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.

Depreciation is expensed to the income statement within operating expenses.

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 net fair value of the identifiable net assets of a subsidiary undertaking 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 subsidiary undertakings 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 has significant carrying values of goodwill and other intangible assets, such as brands, customer relationships and favourable leases following the acquisition of Nationwide Autocentres. Amortised intangible and tangible assets are tested for impairment where events show an indication of impairment. The impairment test involves estimation of future cash flows and the selection of a suitable discount rate. This requires an estimation of the value in use of the cash generating units to which the intangible assets are allocated.

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.

Amortisation is calculated based on the cost of the asset, or other amount substituted for cost, less its residual value and is expensed to the income statement within operating expenses.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

- Brand names and trademarks 10 to 20 years;
- Customer relationships 5 to 15 years;
- Favourable leases over the term of the lease; and
- Software 3 to 5 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

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. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost less any impairment losses. Loans and receivables are included in trade and other receivables in the balance sheet.

Accounting for derivative financial instruments and hedging activities
Derivative financial instruments are used to manage risks arising from changes in foreign currency exchange rates relating to the purchase of overseas sourced products. The Group uses the derivatives to hedge highly probable forecast transactions and therefore the instruments are designated as cash flow hedges.

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

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 expected to be "highly effective" in offsetting changes in fair value or cash flows of the respective hedged items during the period for which the hedge is designated and whether the actual results of each hedge are within a range of 80%–125%.

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

Amounts accumulated in other comprehensive income are recognised 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 other comprehensive income 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 other comprehensive income at that time remains in other comprehensive income 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 other comprehensive income is recognised immediately in profit or loss.

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

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 measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle and includes expenditure incurred in inventories, adjusted for rebates, and other costs incurred in bringing them to their existing location.

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).

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. For the purpose of the consolidated cash flow statement, cash and cash equivalents are as defined above.

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.

Finance income and costs
Finance income comprises interest income on funds invested. Income is recognised, as it accrues in profit or loss, using the effective interest rate method. Finance cost comprises interest expense on borrowings, unwinding of the discount on provisions and the cost of forward exchange contracts. All other borrowing costs are recognised in profit or loss using the effective interest rate method.

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Previously the Group immediately recognised all borrowing costs as an expense. This had no impact on either the current or preceding year.

Accounting Policies

Basis of charge for taxation
Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted, at the reporting date, and any adjustment to tax payable in respect of previous years.

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 probable that future taxable profit will be available against which the temporary differences can be utilised.

Provisions
A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Details of the provisions recognised and the significant estimates and judgements can be seen in Note 18.

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

Leases
Finance leases
Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset 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. The benefit of incentives from lessors are recognised on a straight-line basis over the term of the lease.

Landlord surrender payments
Payments 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
The Halfords Pension Plan is a contract based plan, where each member has their own individual pension policy, which they monitor independently. The Group pays fixed contributions and has no legal or constructive obligation to pay further amounts. 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 and other assets are explained in Note 11.

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. Assumptions have been made relating to the timing and success of product ranges, which would impact estimated demand and selling prices.

Sensitivities to the assumptions for specific product lines are not expected by management to result in a material change in the overall allowances.

Provisions

Provisions have been made for the distribution and warehousing reorganisation, Central Europe exit, property related liabilities and other trading liabilities. 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. Assumptions made are detailed in Note 18.

Intangible asset valuations

The measurement of fair values on a business combination requires the recognition and measurement of the identifiable assets, liabilities and contingent liabilities. The key judgements involved are the identification of which intangible assets meet the recognition criteria as set out in IAS 38, the fair values attributable to those intangible assets, excluding any buyer-specific synergies, and the useful lives of individual intangible assets. The useful lives of intangible assets relating to customer relationships involves judgement as to customer retention rates applicable.

The carrying amount of these assets and liabilities can be seen in the notes to the financial statements on pages 103 to 128.

Adoption of new and revised standards

The following standards and interpretations are applicable to the Group and have been adopted in 2010 as they are mandatory for the year ended 2 April 2010.

- Amendments to International Accounting Standards (IAS) 1 “Presentation of Financial Statements — A Revised Presentation” — requires the presentation of a consolidated statement of changes in equity as a primary statement rather than as a note. Since the changes are presentational only there has been no impact on profit or net assets.

- Amendments to IAS 27 “Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate” — requires dividends received from a subsidiary, jointly controlled entity or associate to be recognised as income by the investor when the right to receive the dividend is established. In accordance with the accounting standard this has been applied prospectively and has not had a material impact on the current year financial statements.

- Amendments to IAS 39 “Financial Instruments: Recognition and measurement — Reclassification of Financial Assets: Effective date and Transition” — permits reclassification of non-derivative financial assets out of the fair value through the profit or loss category in particular circumstances. This amendment has not had a significant impact on the consolidated financial statements.

- Amendments to IFRS 2 “Share-Based payments — Vesting Conditions and Cancellations” — clarifies the definition of vesting conditions, introduces the concept of non vesting conditions, requires non vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non vesting conditions and cancellations. IFRS 2 has been adopted retrospectively and has had no impact on the financial statements.

Accounting Policies

- Amendments to IFRS 7 "Improving disclosures about financial instruments" — enhance disclosures regarding fair value measurements relating to financial instruments and improving disclosures regarding liquidity risk. Since the changes are presentational only, there is no impact on profit or net assets.

- IFRS 8 "Operating Segments" — replaces IAS 14 and sets out requirements for disclosure of information about an entity's products and services, the geographical areas in which it operates and its major customers. As of 4 April 2009 the Group determined and presented operating segments based on the information internally provided to the Executive Directors, who represent the Group's chief operating decision maker. Following the acquisition of Nationwide Autocentres on the 17 February 2010 the Executive Directors have concluded that the Group has two main operating and reporting segments, which are Retail and Car Servicing, and one main geographical segment, which is the United Kingdom.

In addition to the above, amendments to a number of standards under the annual improvements project to IFRS, which are mandatory for the year ended 2 April 2010, have been adopted in the year. None of these amendments have had a material impact on the Group's financial statements.

New standards and interpretations not yet adopted
The following standards and interpretations have been published, endorsed by EU, and are available for early adoption, but have not yet been applied by the Group in these financial statements.

- IAS 27 "Consolidated and Separate Financial Statements (Revised 2009)" — requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27 are not expected to have a material impact and will become mandatory for the Group's 2011 consolidated financial statements.

- Amendments to IAS 39 "Financial Instruments: Recognition and measurement: Eligible Hedged Items" — clarifies how to apply existing principles in determining eligible hedged risks and portions. The amendments to IAS 39 are not expected to have a material impact and will become mandatory for the Group's 2011 consolidated financial statements.

- Revised IFRS 3 "Business Combinations (2009)" — incorporates the following changes that are likely to be relevant to the Group's operations:

  - The definition of a business has been broadened, which is likely to result in more acquisitions being treated as a business combination.

  - Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss.

  - Transaction costs, other than share and debt issue costs, will be expensed as incurred.

  - Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss.

  - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

- Revised IFRS 3, which becomes mandatory for the Group's 2011 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior periods.

- Amendments to IFRIC 9 and IAS 39 "Embedded Derivatives" — requires an entity to assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through the profit and loss category. This amendment will become mandatory for the Group's 2011 consolidated financial statements but is not expected to have a material impact.

- Amendments to IAS 32 "Classification of Rights Issues" — requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment to IAS 32 will become mandatory for the Group's 2011 consolidated financial statements and is not expected to have a material impact.

Notes to the Financial Statements

1. Operating segments

The Group has two reportable segments, Retail and Car Servicing, which are the Group's strategic business units. Car Servicing became a reporting segment of the Group as a result of the acquisition of Nationwide Autocentres on 17 February 2010. The strategic business units offer different products and services, and are managed separately because they require different operational, technological and marketing strategies.

The operations of the Retail reporting segment comprise the retailing of automotive, leisure and cycling products through retail stores. The operations of the Car Servicing reporting segment comprise car servicing and repair performed from autocentres.

The Chief Operating Decision Maker is represented by the Executive Directors. Internal management reports for each of the segments are reviewed by the Executive Directors on a monthly basis. Key measures used to evaluate performance are Revenue and Profit before tax. Management believe that these measures are the most relevant in evaluating the performance of the segment and for making resource allocation decisions.

The following summary describes the operations in each of the Group's reportable segments. Performance is measured based on segment profit before tax, as included in the management reports that are reviewed by the Executive Directors. These internal reports are prepared in accordance with IFRS accounting policies consistent with these Group Financial Statements.

All material operations of the reportable segments are carried out in the UK. The Group's revenue is driven by the consolidation of individual small value transactions and as a result Group revenue is not reliant on a major customer or group of customers.

Income statement	Retail £m	Car Servicing £m	52 weeks to 2 April 2010 Total £m	53 weeks to 3 April 2009 Total £m
Revenue	**818.1**	**13.5**	**831.6**	809.5
Profit				
Operating profit before non-recurring items*	**119.3**	**0.4**	**119.7**	104.0
Non-recurring items	**(7.4)**	**–**	**(7.4)**	(12.3)
Segment result	**111.9**	**0.4**	**112.3**	91.7
Finance expense	**(4.5)**	**(0.1)**	**(4.6)**	(16.5)
Finance income	**2.0**	**–**	**2.0**	2.3
Profit before tax	**109.4**	**0.3**	**109.7**	77.5
Taxation	**(32.6)**	**(0.1)**	**(32.7)**	(21.7)
Profit for the year	**76.8**	**0.2**	**77.0**	55.8

* The Car Servicing segment result includes an amortisation charge of £0.3m in respect of assets acquired through business combinations (see Note 11).

Balance sheet	Retail £m	Car Servicing £m	52 weeks to 2 April 2010 Total £m	53 weeks to 3 April 2009 Total £m
Segment assets	**574.0**	**98.5**	**672.5**	583.8
Segment liabilities	**(372.4)**	**(21.6)**	**(394.0)**	(339.4)
Net assets	**201.6**	**76.9**	**278.5**	244.4

Income statement	Retail £m	Car Servicing £m	52 weeks to 2 April 2010 Total £m	53 weeks to 3 April 2009 Total £m
Capital expenditure	**20.1**	**0.3**	**20.4**	19.4
Depreciation expense	**21.8**	**0.1**	**21.9**	22.4
Impairment expense (property, plant and equipment)	**5.0**	**–**	**5.0**	–
Amortisation expense	**1.9**	**0.3**	**2.2**	2.7
Inventory write down	**14.9**	**–**	**14.9**	16.4

Transactions between segments are on an arm's length basis. There are no material unallocated corporate expenses in the current or prior periods.

Notes to the Financial Statements

2. Operating expenses

For the period	**52 weeks to 2 April 2010 £m**	53 weeks to 3 April 2009 £m
Selling and distribution costs before non-recurring items	**280.2**	271.3
Non-recurring selling and distribution costs	**6.8**	10.3
	287.0	281.6
Administrative expenses before non-recurring items	**52.8**	46.1
Non-recurring administrative expenses	**0.6**	2.0
	53.4	48.1
	340.4	329.7

3. Operating profit

For the period	**52 weeks to 2 April 2010 £m**	53 weeks to 3 April 2009 £m
Operating profit is arrived at after charging/(crediting) the following expenses/(incomes) as categorised by nature:		
Operating lease rentals:		
— plant and machinery	**1.8**	1.3
— property rents	**82.9**	82.1
— rentals receivable under operating leases	**(7.1)**	(7.6)
Landlord surrender payments	**(1.1)**	(2.7)
Loss on disposal of property, plant and equipment	**0.7**	0.3
Amortisation of intangible assets	**2.2**	2.7
Depreciation of:		
— owned property, plant and equipment	**21.4**	21.8
— assets held under finance leases	**0.5**	0.6
Impairment of property, plant and equipment	**5.0**	—
Trade receivables impairment	**0.2**	0.1
Staff costs (see Note 4)	**126.5**	128.9
Cost of inventories consumed in cost of sales	**369.0**	379.2

The total fees payable by the Group to KPMG Audit Plc and their associates during the period was £1.1m (2009: PricewaterhouseCoopers LLP £0.3m), in respect of the services detailed below:

For the period	**52 weeks to 2 April 2010 £'000**	53 weeks to 3 April 2009 £'000
Fees payable for the audit of the Company's accounts	**30**	30
Fees payable to KPMG Audit Plc (2009: PricewaterhouseCoopers LLP) and their associates for other services:		
The audit of the Company's subsidiary undertakings, pursuant to legislation	**236**	137
Other services supplied pursuant to such legislation	**15**	23
Other services relating to taxation	**439**	113
Other services relating to corporate finance activities	**299**	—
Internal audit services	**34**	—
All other services	**9**	21
	1,062	324

Included within "fees payable to the Company's auditors for the audit of the Company's subsidiary undertakings, pursuant to legislation" are amounts payable to KPMG Audit Plc and its associates incurred in respect of the audit work undertaken on financial controls. This work may include an element which goes beyond that strictly required by relevant Auditing Standards. The amount is estimated not to exceed £0.1m.

Fees payable by the Group to Deloitte & Touche LLP with regard to internal audit services in 2009 totalled £0.2m.

4. Staff costs

For the period	52 weeks to 2 April 2010 £m	53 weeks to 3 April 2009 £m
The aggregated remuneration of all employees including Directors comprised:		
Wages and salaries	**112.8**	110.2
Social security costs	**7.6**	7.8
Equity-settled share-based payment transactions (Note 22)	**2.5**	1.7
Contributions to defined contribution plans (Note 24)	**3.2**	3.2
Non-recurring redundancy costs (Note 5)	**0.4**	6.0
	126.5	128.9

	Number	Number
Average number of persons employed by the Group, including Directors, during the period:		
Stores	**9,066**	9,573
Central warehousing	**162**	192
Head office	**529**	551
	9,757	10,316

As at 2 April 2010 the number of persons employed by the Group, including Directors, was 10,827.

Full details of Directors' remuneration and interests are set out in the Directors' Remuneration Report on pages 71 to 80 which forms part of these financial statements.

Key management compensation

For the period	52 weeks to 2 April 2010 £m	53 weeks to 3 April 2009 £m
Salaries and short-term benefits	**2.9**	2.2
Compensation for loss of office	**–**	0.2
Social security costs	**0.6**	0.3
Pensions	**0.3**	0.2
Share-based payment charge	**0.8**	0.6
	4.6	3.5

Key management compensation includes the emoluments of the Board of Directors and the emoluments of the Halfords Limited management Board. David Wild was appointed to the Board on 4 August 2008.

There were no outstanding balances at the year end (2009: £0.6m).

5. Non-recurring items

For the period	52 weeks to 2 April 2010 £m	53 weeks to 3 April 2009 £m
Non-recurring 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
Central Europe closure[d]	7.4	–
Non-recurring operating expenses	7.4	12.3
Non-recurring finance costs:		
Swap close out costs[e]	–	4.6
	–	4.6
Non-recurring items before tax	7.4	16.9
Tax on non-recurring items[f]	(1.4)	(4.6)
Non-recurring items after tax	6.0	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 standalone 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] Exit costs associated with the closure of all seven stores in Central Europe. Results for Central Europe for the period are as follows:

	52 weeks to 2 April 2010 £m	53 weeks to 3 April 2009 £m
Revenue	5.9	4.4
Operating loss before non-recurring items	(2.5)	(3.2)

[e] 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.

[f] This represents the tax credit on these non-recurring 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.

Non-recurring operating expenses of £7.4m (2009: £12.3m) consisted of £0.4m (2009: £6.0m) redundancy costs, £5.3m (2009: £0.8m) in respect of property, plant and equipment and inventory, £2.4m (2009: £2.3m) onerous lease costs and £0.5m (2009: £3.2m) of other costs, offset by £1.2m of foreign currency translation gains.

6. Finance income and costs

Recognised in profit or loss for the period

	52 weeks to 2 April 2010 £m	53 weeks to 3 April 2009 £m
Finance costs:		
Bank borrowings	**(2.7)**	(9.4)
Amortisation of issue costs on loans	**(0.5)**	(0.2)
Commitment and guarantee fees	**(0.2)**	(0.2)
Costs of forward foreign exchange contracts	**(0.1)**	(1.2)
Interest payable on finance leases	**(0.8)**	(0.9)
Interest payable on rent reviews	**(0.3)**	–
Finance costs before non-recurring finance costs	**(4.6)**	(11.9)
Non-recurring finance costs:		
Swap close out costs[1]	**–**	(4.6)
	–	(4.6)
Finance costs	**(4.6)**	(16.5)
Finance income: Bank and similar interest	**2.0**	2.3
Net finance costs	**(2.6)**	(14.2)

[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.

The above finance income and finance costs include the following interest and expense in respect of assets/(liabilities) not at fair value through profit or loss:

	52 weeks to 2 April 2010 £m	53 weeks to 3 April 2009 £m
Total interest income on financial assets	**2.0**	2.3
Total interest expense on financial liabilities	**(4.5)**	(10.7)

7. Taxation

For the period

	52 weeks to 2 April 2010 £m	53 weeks to 3 April 2009 £m
Current taxation		
UK corporation tax charge for the period	**35.5**	27.6
Adjustment in respect of prior periods	**(1.1)**	(2.2)
	34.4	25.4
Deferred taxation		
Origination and reversal of timing differences	**(2.5)**	(4.2)
Adjustment in respect of prior periods	**0.8**	0.5
	(1.7)	(3.7)
Total tax charge for the period	**32.7**	21.7

Notes to the Financial Statements

7. Taxation continued

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

For the period	**52 weeks to 2 April 2010 £m**	53 weeks to 3 April 2009 £m
Profit before tax	**109.7**	77.5
UK corporation tax at standard rate of 28% (2009: 28%)	**30.7**	21.7
Factors affecting the charge for the period:		
Depreciation on expenditure not eligible for tax relief	**1.8**	0.9
Employee share options	**(0.2)**	0.2
Other disallowable expenses	**0.7**	0.6
Adjustment in respect of prior periods	**(0.3)**	(1.7)
Total tax charge for the period	**32.7**	21.7

In this financial period, the UK corporation tax standard rate was 28%.

The underlying tax rate on trading was 29.4% (2009: 29.7%), 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 higher tax rate of 29.8% compared to the prior year (2009: 28.0%) is mainly due to the release of tax provisions in the prior year following the favourable settlement of tax computations, in particular relating to capital allowance claims.

The tax charge of £32.7m (2009: £21.7m) includes a £1.4m (2009: £4.6m) credit in respect of the tax on non-recurring costs, as detailed in Note 5.

Income tax of £0.6m on other comprehensive income relates to the fair value of forward currency contracts outstanding at the year end. No other items within other comprehensive income have an income tax impact.

8. Dividends

For the period	**52 weeks to 2 April 2010 £m**	53 weeks to 3 April 2009 £m
Equity — ordinary shares		
Final for the 53 weeks to 3 April 2009 — paid 10.90p per share (2009: 10.35p)	**22.8**	21.8
Interim for the 52 weeks to 2 April 2010 — paid 6.0p per share (2009: 5.0p)	**12.5**	10.5
	35.3	32.3

In addition, the Directors are proposing a final dividend in respect of the financial period ended 2 April 2010 of 14.0p per share (2009: 10.90p per share), which will absorb an estimated £29.3m (2009: £22.8m) of shareholders' funds. It will be paid on 6 August 2010 to shareholders who are on the register of members on 2 July 2010.

9. Earnings per share

Basic earnings per share are calculated by dividing the profit 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 21) 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 52 weeks to 2 April 2010.

For the period	**52 weeks to 2 April 2010 Number of shares m**	53 weeks to 3 April 2009 Number of shares m
Weighted average number of shares in issue	**210.2**	210.6
Less: shares held by the Employee Benefit Trust	**(1.1)**	(1.1)
Weighted average number of shares for calculating basic earnings per share	**209.1**	209.5
Weighted average number of dilutive shares	**1.5**	0.3
Total number of shares for calculating diluted earnings per share	**210.6**	209.8

For the period	**52 weeks to 2 April 2010 £m**	53 weeks to 3 April 2009 £m
Basic earnings attributable to equity shareholders	**77.0**	55.8
Non-recurring items (see Note 5):		
Operating expenses	**7.4**	12.3
Finance costs	**–**	4.6
Tax on non-recurring items	**(1.4)**	(4.6)
Underlying earnings before non-recurring items	**83.0**	68.1

Earnings per share is calculated as follows:

For the period	**52 weeks to 2 April 2010**	53 weeks to 3 April 2009
Basic earnings per ordinary share	**36.8p**	26.6p
Diluted earnings per ordinary share	**36.6p**	26.6p
Basic earnings per ordinary share before non-recurring items	**39.7p**	32.5p
Diluted earnings per ordinary share before non-recurring items	**39.4p**	32.5p

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

Notes to the Financial Statements

10. Acquisition of subsidiary

On 17 February 2010 the Group acquired 100 per cent of the issued share capital of Nationwide Autocentres Holdings Limited and subsidiary undertakings ("Nationwide Autocentres") for cash consideration of £74.9m (including transaction costs of £2.6m). Nationwide Autocentres is a Group of companies involved in car servicing and repair. This transaction has been accounted for by the purchase method of accounting.

Consideration transferred

	£m
Cash	69.7
Deferred consideration	0.9
Contingent consideration	1.7
	72.3

Contingent consideration

The cash consideration payable for the acquisition was reduced by £1.7m to reflect additional cash consideration payable to certain shareholders remaining as Directors, contingent on their remaining as employees of the Group as of the first and second anniversary of the acquisition or, in the event of any of them having terminated their employment, said employment having been terminated in circumstances of being a "good leaver".

The additional cash consideration is payable at a rate of £1.0m on 17 February 2011 and £0.7m on 17 February 2012.

The deferred consideration has been settled since the year end.

Identifiable assets acquired and liabilities assumed

	Book value £m	Fair value adjustments £m	Final fair value £m
Property, plant and equipment	5.4	(0.2)	5.2
Intangible assets (see Note 11)	—	18.2	18.2
Inventories	1.2	—	1.2
Trade and other receivables	5.7	—	5.7
Trade and other payables	(16.6)	(0.4)	(17.0)
Provisions	(0.7)	(1.7)	(2.4)
Current tax liabilities	(0.9)	(0.4)	(1.3)
Deferred tax liabilities	0.3	(4.7)	(4.4)
	(5.6)	**10.8**	**5.2**

Goodwill

Goodwill was recognised as a result of the acquisition as follows:

	£m
Total consideration transferred	72.3
Associated costs	2.6
Less fair value of identifiable assets	(5.2)
Goodwill	**69.7**

The goodwill arising on the acquisition of Nationwide Autocentres is attributable to a) future income to be generated from new retail, fleet customer contracts and related relationships, b) the Nationwide workforce c) the value of immaterial other intangible assets and d) operating synergies. None of the goodwill is expected to be deductible for income tax purposes.

The fair value adjustments primarily relate to intangible assets in respect of customer relationships and favourable leases (see Note 11).

Nationwide Autocentres contributed £13.5m revenue and £0.3m to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition of Nationwide Autocentres had been completed on the first day of the financial year, Group revenues for the period would have been £97.3m higher and Group profit attributable to equity holders of the parent would have been £4.9m higher (pre-amortisation of intangible assets arising on consolidation).

11. Intangible assets

	Brand names and trademarks £m	Customer relationships £m	Favourable leases £m	Computer software £m	Goodwill £m	Total £m
Cost						
At 28 March 2008	0.2	—	—	10.7	274.8	285.7
Additions	—	—	—	5.4	—	5.4
At 3 April 2009	0.2	—	—	16.1	274.8	291.1
Additions	—	—	—	3.5	—	3.5
Assets acquired through business combinations	0.9	14.9	2.3	0.1	69.7	87.9
At 2 April 2010	**1.1**	**14.9**	**2.3**	**19.7**	**344.5**	**382.5**
Amortisation						
At 28 March 2008	0.2	—	—	7.0	21.7	28.9
Charge for the period	—	—	—	2.7	—	2.7
At 3 April 2009	0.2	—	—	9.7	21.7	31.6
Charge for the period	0.1	0.2	—	1.9	—	2.2
At 2 April 2010	**0.3**	**0.2**	**—**	**11.6**	**21.7**	**33.8**
Net book value at 2 April 2010	**0.8**	**14.7**	**2.3**	**8.1**	**322.8**	**348.7**
Net book value at 3 April 2009	—	—	—	6.4	253.1	259.5

Included in computer software are internally generated assets of £0.4m (2009: £0.6m). Product rights of £0.2m, which are fully amortised, have been included within Brand names and trademarks.

Goodwill of £253.1m arose on the acquisition of Halfords Holdings Limited by the Company on 31 August 2002 and is allocated to Retail. The goodwill relates to a portfolio of sites within the UK which management monitors on an overall basis as a group of cash-generating units. Goodwill of £69.7m arose on the acquisition of Nationwide Autocentres on 17 February 2010. The goodwill relates to a portfolio of centres within the UK which management monitors on an overall basis as a group of cash-generating units being Car Servicing.

The recoverable amount of goodwill is determined based on "value-in-use" calculations for each of the two Groups of cash-generating units, being Retail and Car Servicing. This is the lowest level within the Group at which the goodwill is monitored for internal management purposes, which is not higher than the Group's operating segments as reported in Note 1. These calculations use cash flow projections based on financial budgets approved by management covering a three-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 2 April 2010 and 3 April 2009 are as follows:

		Retail		Car Servicing	
	Note	**2010**	2009	**2010**	2009
Discount rate	1	**12.2%**	12.6%	**13.9%**	n/a
Growth rate	2	**0.0%**	0.0%	**0.0%**	n/a

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

The Directors are confident that a reasonably possible change in the key assumptions would not cause the carrying amounts to exceed the recoverable amounts.

Notes to the Financial Statements

12. Property, plant and equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Payments on account and assets in course of construction £m	Total £m
Cost				
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
Additions	0.7	8.9	7.3	16.9
Effect of movements in exchange rates	0.1	0.8	—	0.9
Assets acquired through business combinations	3.0	2.2	—	5.2
Disposals	(0.7)	(3.7)	—	(4.4)
Reclassifications	0.1	—	(0.1)	—
At 2 April 2010	**52.3**	**296.0**	**7.4**	**355.7**
Depreciation				
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
Depreciation for the period	2.5	19.4	—	21.9
Impairment charge	0.3	4.7	—	5.0
Disposals	(0.5)	(3.2)	—	(3.7)
At 2 April 2010	**23.1**	**229.7**	**—**	**252.8**
Net book value at 2 April 2010	**29.2**	**66.3**	**7.4**	**102.9**
Net book value at 3 April 2009	28.3	79.0	0.2	107.5

Payments on account and assets in course of construction mainly include the costs associated with the new distribution centre in Coventry.

The impairment charge includes the impairment of assets in relation to the closure of stores in Central Europe. The key assumption for impairment of property, plant and equipment is the likelihood and extent of future profits of loss making stores. Assumptions are driven by the factors disclosed in Note 11.

No fixed assets are held as security for external borrowings.

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

	Land and Buildings[1] £m	Fixtures, fittings, and equipment £m	Total £m
As at 2 April 2010			
Cost	12.7	0.8	13.5
Accumulated depreciation	(3.0)	(0.8)	(3.8)
Net book value	**9.7**	**—**	**9.7**
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

[1] Relates to the Halfords head office building lease, which expires in 2028.

12. Property, plant and equipment continued

Finance lease liabilities are payable as follows:

	Minimum lease payments 2010 £m	**Interest 2010 £m**	**Principle 2010 £m**	Minimum lease payments 2009 £m	Interest 2009 £m	Principle 2009 £m
Less than one year	**1.0**	**0.8**	**0.2**	1.0	0.8	0.2
Between one and five years	**4.2**	**2.9**	**1.3**	4.1	3.0	1.1
More than five years	**15.8**	**5.3**	**10.5**	17.0	6.1	10.9
	21.0	**9.0**	**12.0**	22.1	9.9	12.2

13. Inventories

	2010 £m	2009 £m
Finished goods for resale	**138.5**	147.0

Finished goods inventories include £8.4m (2009: £6.6m) 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.

During the period £14.9m was recognised as an expense in respect of the write down of inventories (2009: 16.4m) to net realisable value, which includes the impairment of inventories in relation to the closure of stores in Central Europe.

14. Trade and other receivables

	2010 £m	2009 £m
Falling due within one year:		
Trade receivables	**10.2**	7.4
Less: provision for impairment of receivables	**(0.3)**	(0.1)
Trade receivables — net	**9.9**	7.3
Other receivables	**5.8**	6.5
Prepayments and accrued income	**27.2**	23.8
	42.9	37.6

During the period the Group created a provision of £0.3m (2009: £0.1m) for the impairment of trade receivables and utilised £0.1m (2009: £0.1m).

15. Cash and cash equivalents

	2010 £m	2009 £m
Cash at bank and in hand	**36.5**	15.5

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

16. Borrowings

Current	2010 £m	2009 £m
Finance lease liabilities	**0.2**	0.2
Non-current		
Unsecured bank loan	**180.0**	179.5
Finance lease liabilities	**11.8**	12.0
	191.8	191.5

The above borrowings are stated net of unamortised issue costs of £nil (2009: £0.5m).

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% dependant upon covenant fulfilment.

17. Trade and other payables — current

	2010 £m	2009 £m
Trade payables	**74.0**	52.2
Other taxation and social security payable	**10.9**	7.9
Other payables	**4.7**	2.2
Deferred income — lease incentives	**3.7**	3.2
Accruals and other deferred income	**38.2**	22.3
	131.5	87.8

During the year the Directors deemed that certain property related items within accruals and deferred income are more appropriately disclosed within provisions. Accordingly, £6.3m included within accruals and other deferred income in the prior period is now recognised within provisions (see Note 18).

18. Provisions

	Central Europe exit £m	Distribution reorganisation £m	Property related £m	Other trading £m	Total £m
At 3 April 2009	—	8.3	8.2	2.2	18.7
Charged during the period	3.5	—	1.8	0.8	6.1
Utilised during the period	—	(1.5)	(0.6)	(1.4)	(3.5)
Acquired through business combinations	—	—	2.4	—	2.4
At 2 April 2010	**3.5**	**6.8**	**11.8**	**1.6**	**23.7**
Analysed as:					
Current liabilities	3.5	6.8	8.5	1.6	20.4
Non-current liabilities	—	—	3.3	—	3.3

The Central Europe exit provision represents the costs associated with the closure of all seven stores trading in the Czech Republic and Poland (see Note 5).

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

Property related provisions consist of costs associated with vacant property, rent reviews and dilapidations. As disclosed in Note 17 the prior year balance includes certain items previously included in accruals and deferred income.

Other trading provisions comprises of the sales returns provision and a provision for the costs associated with the cessation of the stand-alone cycle concept, including closure of stores where necessary.

Restructuring provisions
A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

Key assumptions within the Central Europe exit and Distribution reorganisation provisions are the timing of the exit from leases that are contracted into, the timing of redundancies and the extent of dilapidation costs. The sensitivities to these assumptions are not considered material due to the time value of money being minimal over the period over which the costs will be incurred.

Property related provisions
A provision for vacant properties is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract. The main uncertainty is the timing of the amounts payable, and the time value of money has been incorporated in to the provision amount to take account of this sensitivity.

A rent review provision is recognised when there are expected to be additional obligations as a result of the rent review, which forms part of the Group's unavoidable cost of meeting its obligations under the lease contract. The provision is based on management's best estimate of the rent payable after the review.

Key uncertainties are the estimates of the rent payable after the review has occurred. Sensitivity to this uncertainty is not expected to be material to the provision in total.

A dilapidations provision is recognised when there is an expectation of future obligations relating to the maintenance of leasehold properties arising from events such as lease renewals or terminations.

Key uncertainties are the estimates of amounts due. Sensitivity to this uncertainty is not expected to be material to the provision in total.

19. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2009: 28%).

	2010 £m	2009 £m
The movement on the deferred taxation (provision)/asset is shown below:		
At the beginning of the period	**2.7**	(1.0)
Acquired through business combinations	**(4.4)**	—
Income statement credit (Note 7)	**1.7**	3.7
Debit to equity	**(0.5)**	—
At the end of the period	**(0.5)**	2.7

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 28 March 2008	(7.2)
Credit to the income statement	1.5
At 3 April 2009	(5.7)
Acquired through business combinations	(5.0)
Credit to the income statement	1.2
Debit to other comprehensive income	(0.6)
At 2 April 2010	**(10.1)**

Deferred tax assets:

	Provisions and share options £m
At 28 March 2008	6.2
Debit to equity	2.2
At 3 April 2009	8.4
Acquired through business combinations	0.6
Credit to the income statement	0.5
Credit to equity	0.1
At 2 April 2010	**9.6**
Net deferred tax (liability)/asset	
At 2 April 2010	**(0.5)**
At 3 April 2009	2.7

20. 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. See Note 16.

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.

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

Market risk

The Group's exposure to market risk predominantly relates to interest, currency and commodity risk. These are discussed further below. Commodity risk is due to the Group's products being manufactured from metals and other raw materials whose prices fluctuate. The Group mitigates this risk through, for example, transferring the risk to suppliers by negotiating fixed purchase costs or maintaining flexibility over the specification of finished products produced by its supply chain to meet fluctuations.

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.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

Financial liabilities

	2010 Carrying amount £m	2009 Carrying amount £m
Finance leases	**12.0**	12.2
Variable rate instruments	**180.0**	179.5
	192.0	191.7

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, therefore a change in interest rates at the reporting date would not affect profit or loss or equity.

Notes to the Financial Statements

20. Financial instruments and related disclosures continued

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

	2010 Increase in finance cost £m	**2010 Reduction in equity £m**	2009 Increase in finance cost £m	2009 Reduction in equity £m
1% increase in Sterling interest rates	**(1.8)**	**–**	(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. 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 2 April 2010	**180.0**	**–**	**180.0**
Total bank borrowings as at 3 April 2009	180.0	–	180.0

Foreign currency risk

The Group has a significant transaction exposure with increasing, direct sourced purchases from its suppliers in 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 52 weeks to 2 April 2010, the foreign exchange management policy was to hedge via forward contract purchase between 75%–80% of the material foreign exchange transaction exposures on a rolling 12-month basis. Hedging is performed through the use of foreign currency bank accounts, spot rates and forward foreign exchange contracts.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	2 April 2010			3 April 2009		
	GBP £m	**USD £m**	**Other £m**	GBP £m	USD £m	Other £m
Cash and cash equivalents	**33.7**	**0.1**	**2.7**	8.8	2.5	4.2
Trade and other receivables	**42.9**	**–**	**–**	37.6	–	–
Long term borrowings	**(180.0)**	**–**	**–**	(179.5)	–	–
Trade and other payables	**(116.2)**	**(15.0)**	**(0.3)**	(81.3)	(6.2)	(0.3)
	(219.6)	**(14.9)**	**2.4**	(214.4)	(3.7)	3.9

The following significant exchange rates applied during the current and prior period:

	Average rate		**Reporting date spot rate**	
	2010	2009	**2010**	2009
USD	**1.60**	1.63	**1.53**	1.48
EUR	**1.13**	1.20	**1.13**	1.10

20. Financial instruments and related disclosures continued

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 derivatives are denominated.

	2010 Increase/ (decrease) in equity £m	2009 Increase/ (decrease) in equity £m
10% appreciation of the US dollar	**8.4**	11.5
10% depreciation of the US dollar	**(7.5)**	(9.4)

A strengthening of Sterling, as indicated, against the USD at 2 April 2010 would have increased/(decreased) equity and profit or loss by the amounts shown. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

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.

Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Carrying amount

	2010 £m	2009 £m
Cash and cash equivalents	**36.5**	15.5
Loans and receivables[1]	**15.5**	10.0
Forward exchange contracts used for hedging (assets)	**3.0**	14.0
Total financial assets	**55.0**	39.5

The £15.5m (2009: £10.0m) maximum exposure to credit risk, at the reporting date for loans and receivables related to the UK.

The Group does not have any individually significant customers.

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:

	2010 £m	2009 £m
Not past due	**12.7**	7.3
Past due by 1–30 days	**1.4**	0.9
Past due by 31–90 days	**0.6**	0.7
Past due by 91–180 days	**0.8**	1.1
	15.5	10.0

The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible, based on historic payment behaviour and extensive analysis of the underlying customers' credit ratings. Based on historic default rates, the Group believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 30 days.

Liquidity risk

The Group ensures that it has sufficient cash or loan facilities to meet all its commitments when they fall due by ensuring 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.

Notes to the Financial Statements

20. Financial instruments and related disclosures continued

The process to manage the risk is to ensure there are contracts in place for key suppliers, detailing the payment terms, and for providers of debt, 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 credit worthiness 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.

The risk is measured through review of forecast liquidity each month by the Treasurer to determine whether there are sufficient credit facilities to meet forecast requirements, and through monitoring covenants on a regular basis to ensure there are no significant breaches, which would lead to an "Event of Default". Calculations are submitted 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.

The following are the contractual maturities of non-derivative financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

2010

	Bank borrowings £m	**Finance leases £m**	**Trade and other payables[2] £m**	**Total £m**
Due less than one year	**2.4**	**1.0**	**111.6**	**115.0**
Expiring between 1 and 2 years	**180.6**	**1.0**	**–**	**181.6**
Expiring between 2 and 5 years	**–**	**3.2**	**–**	**3.2**
Expiring after 5 years	**–**	**15.8**	**–**	**15.8**
Contractual cash flows	**183.0**	**21.0**	**111.6**	**315.6**
Carrying amount	**180.0**	**12.0**	**111.6**	**303.6**

2009

	Bank borrowings £m	Finance leases £m	Trade and other payables[2] £m	Total £m
Due less than one year	3.5	1.0	71.2	75.7
Expiring between 1 and 2 years	3.5	1.0	–	4.5
Expiring between 2 and 5 years	181.0	3.1	–	184.1
Expiring after 5 years	–	17.0	–	17.0
Contractual Cash Flows	188.0	22.1	71.2	281.3
Carrying amount	179.5	12.2	71.2	262.9

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 2 April 2010 (3 April 2009).

	2010		2009	
	Receivables £m	**Payables £m**	Receivables £m	Payables £m
Due less than one year	**77.1**	**(75.2)**	90.5	(76.7)
Expiring between 1 and 2 years	**–**	**–**	13.0	(13.4)
Contractual cash flows	**77.1**	**(75.2)**	103.5	(90.1)
Fair value	**3.0**	**(0.8)**	14.0	(0.7)

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Liquidity risk is managed through regular review of the forthcoming cash requirements, and use of the available borrowing facilities when needed.

20. Financial instruments and related disclosures continued

Fair value disclosures

The fair values of each class of financial assets and liabilities is the carrying amount, based on the following assumptions:

Trade receivables, trade payables and finance lease obligations, short-term deposits and borrowings	The fair value approximates to the carrying amount because of the short maturity of these instruments, using an interest rate of 7.1% for long-term finance lease obligations.
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 is determined using the closing spot rate at the balance sheet date and the outright contract rate.

Fair Value Hierarchy

Financial instruments carried at fair value are required to be measured by reference to the following levels:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments carried at fair value have been measured by a Level 2 valuation method.

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 120.

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:

	2010 £m	2009 £m
Expiring within 1 year	**1.0**	1.0
Expiring between 1 and 2 years	**120.0**	–
Expiring between 2 and 5 years	**–**	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.

20. Financial instruments and related disclosures continued

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. Between June 2006 and September 2009, the Group managed its capital structure partly through a share buy-back scheme, details of which are given in Note 21.

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.

1. 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.

	2010 £m	2009 £m
Trade and other receivables	**42.9**	37.6
Analysed as:		
Financial assets in the scope of IAS 39	**15.5**	10.0
Other assets	**27.4**	27.6
	42.9	37.6

2. 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.

	2010 £m	2009 £m
Trade and other payables	**131.5**	87.8
Analysed as:		
Financial liabilities in the scope of IAS 39	**111.6**	71.2
Other liabilities	**19.9**	16.6
	131.5	87.8

21. Capital and reserves

Ordinary shares of 1p each:	**2010 Number of shares**	**2010 £000**	2009 Number of shares	2009 £000
Allotted, called up and fully paid	**210,710,960**	**2,107**	209,786,251	2,098

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

During the prior period the Company acquired 4,687,816 of its own shares at a cost of £13.1m.

During the current period the Company's share capital increased by 924,709 shares (2009: 125,406 shares) due to the exercise by employees of share options which are shown in the tables in Note 22. The effect of this increase in share capital was to increase share premium by £0.9m to £146.5m (2009: £145.6m).

In total the Company received proceeds of £0.9m (2009: £nil) from the exercise of share options.

Interest in own shares
At 2 April 2010 the Company held in Trust 1,113,985 (2009: 1,113,985) of its own shares with a nominal value of £11,140 (2009: £11,140). 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 2 April 2010 was £5.4m (2009: £3.4m).

Translation reserve
The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Capital redemption reserve
The capital redemption reserve has arisen following the purchase by the Company of its own shares and comprises the amount by which the distributable profits were reduced on these transactions in accordance with the Companies Act 2006.

Hedging reserve
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Notes to the Financial Statements

22. Share-based payments

The Group has three share award plans:

1. Halfords Company Share Option Scheme ("CSOS")
2. Halfords Sharesave Scheme ("SAYE")
3. Performance Share Plan ("PSP")

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 10 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 subsequently. 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.

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	3 August 2009	7 August 2008	12 July 2007	6 July 2006	13 July 2005	2 June 2004
Share price at grant date	£3.4583	£3.0725	£3.9875	£3.010	£2.955	£2.600
Exercise price	£3.4583	£3.0725	£3.9875	£3.010	£2.955	£2.600
Number of employees	137	740	673	36	42	3,598
Shares under option	465,728	1,881,467	1,600,591	252,000	294,000	6,556,953
Vesting period (years)	3	3	3	3	3	3
Expected volatility	34%	27%	23%	35%	37%	40%
Option life (years)	10	10	10	10	10	10
Expected life (years)	4.85	4.85	4.85	4.85	4.85	3.85
Risk free rate	3.00%	4.61%	5.67%	4.70%	4.68%	4.68%
Expected dividend yield	4.49%	4.83%	4.10%	4.00%	4.00%	4.00%
Possibility of ceasing employment before vesting	32%	32%	32%	32%	32%	34%
Expectations of meeting performance criteria	100%	100%	100%	100%	100%	100%
Fair value per option	£0.75	£0.56	£0.75	£0.77	£0.79	£0.70
Expired during the period	1,500	125,957	108,381	8,172	—	17,750
Number of options outstanding at 2 April 2010	464,228	1,647,085	1,346,544	45,944	—	193,800

Share options exercised during the period by scheme by grant date:

	Exercise price	**2010 Number of shares**	2009 Number of shares
2 June 2004	£2.60	**81,400**	3,000
6 July 2006	£3.01	**134,884**	—
7 August 2008	£3.07	**28,876**	—
		245,160	3,000

22. Share-based payments continued

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 2009	7 August 2008	7 August 2007	1 August 2006
Share price at grant date	£3.2592	£2.4083	£4.02	£3.01
Exercise price	£2.6074	£1.9267	£3.22	£3.01
Number of employees	403	821	1,064	343
Shares under option	305,750	1,491,586	929,890	173,558
Vesting period (years)	3	3	3	3
Expected volatility	38%	29%	22%	22%
Option life (years)	3	3	3	3
Expected life (years)	3.5	3.5	3.5	3.5
Risk free rate	2.74%	4.58%	5.54%	4.75%
Expected dividend yield	4.42%	4.83%	4.10%	4.10%
Possibility of ceasing employment before vesting	44%	44%	44%	44%
Expectations of meeting performance criteria	100%	100%	100%	100%
Fair value per option	£0.95	£0.61	£1.01	£0.44
Expired during the period	26,509	164,908	48,106	12,299
Number of options outstanding at 2 April 2010	279,241	1,167,092	236,576	648

Share options exercised during the period by scheme grant date:

	Exercise price	**2010 Number of shares**	2009 Number of shares
1 August 2006	£3.01	**52,135**	–
7 August 2007	£3.22	**2,436**	–
7 August 2008	£1.93	**17,562**	–
		72,133	–

Notes to the Financial Statements

22. Share-based payments continued

3. Performance Share Plan

The introduction of a Performance Share Plan ("PSP") was approved at the Annual General Meeting in August 2005 awarding the executive Directors and certain senior management conditional rights to receive shares. Annual schemes have been approved for each year from 2005.

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 PSP 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 2006 scheme 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	3 August 2009	7 August 2008	12 July 2007	11 July 2006
Share price at grant date	£3.4583	£2.962	£4.02	£3.01
Number of employees	20	20	21	18
Shares under option	824,927	866,340	539,893	596,908
Shares representing dividends reinvested	12,659	—	—	—
Vesting period (years)	3	3	3	3
Expected volatility	41%	30%	22%	22%
Option life (years)	3	3	3	3
Expected life (years)	3	3	3	3
Expected dividend yield	4.49%	4.83%	4.10%	4.25%
Possibility of ceasing employment before vesting	30%	30%	30%	30%
Expectations of meeting performance criteria	100%	100%	100%	100%
Fair value per option	£2.74	£1.97	£2.69	£1.82
Expired during the period	—	—	—	39,386
Number of shares outstanding 2 April 2010	837,586	796,719	57,214	—

Share options exercised during the period by scheme grant date:

	Exercise price	**2010 Number of shares**	2009 Number of shares
8 August 2005	£0.00	**—**	122,406
11 July 2006	£0.00	**311,716**	—
12 July 2007	£0.00	**295,700**	—
		607,416	122,406

As the PSP 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.

For 2009 awards onwards, the Committee has recommended the reinvestment of dividends earned on award shares, such shares to invest in proportion to the vesting of the original award shares. This is in line with best practice as contained in the ABI guidelines on executive remuneration. Following this recommendation the shares awarded in 2009 under the Performance Share Plan earned interim dividends of 6p per share and were reinvested in shares at a cost of £3.86 per share.

22. Share-based payments continued

A reconciliation of option movements for the share award plans over the year to 2 April 2010 are shown below:

	2 April 2010 Number ('000)	**2 April 2010** Weighted average exercise price (£)	3 April 2009 Number ('000)	3 April 2009 Weighted average exercise price (£)
Outstanding at start of year	**6,943**	**2.36**	4,558	2.59
Granted	**1,596**	**1.51**	4,239	2.04
Shares representing dividends reinvested	**12**	**3.91**	—	—
Forfeited	**—**	**—**	(173)	—
Exercised	**(925)**	**0.98**	(126)	0.07
Lapsed	**(553)**	**2.68**	(1,555)	2.58
Outstanding at end of year	**7,073**	**2.33**	6,943	2.36
Exercisable at end of year	**298**	**2.16**	294	2.60

The number and weighted remaining lives for outstanding share award plans is as follows:

2 April 2010 Weighted average exercise price	**2 April 2010** Number of shares ('000)	**2 April 2010** Weighted average remaining life (years) Expected	**2 April 2010** Weighted average remaining life (years) Contractual	3 April 2009 Weighted average exercise price	3 April 2009 Number of shares ('000)	3 April 2009 Weighted average remaining life (years) Expected	3 April 2009 Weighted average remaining life (years) Contractual
£1.93	**1,167**	**1.8**	**1.3**	£1.93	1,350	2.8	2.3
£2.60	**194**	**—**	**4.2**	£2.60	293	—	5.2
£2.61	**279**	**2.8**	**2.3**	—	—	—	—
£3.01	**47**	**1.1**	**6.3**	£3.01	254	1.8	5.5
£3.07	**1,647**	**3.2**	**8.3**	£3.07	1,803	4.2	9.3
£3.22	**237**	**0.8**	**0.3**	£3.22	287	1.8	1.3
£3.46	**464**	**4.2**	**9.3**	—	—	—	—
£3.99	**1,347**	**2.1**	**7.3**	£3.99	1,455	3.1	8.3
£0.00	**1,692**	**1.8**	**1.8**	£0.00	1,501	1.6	1.6

The weighted average exercise price during the period for options exercised was £0.98 (2009: £0.07). The total charge for the year relating to employee share-based payment plans was £2.5m (2009: £1.7m), all of which related to equity-settled share-based payment transactions.

Notes to the Financial Statements

23. Commitments

	2010 £m	2009 £m
Capital expenditure: Contracted but not provided	**3.9**	1.5

At 2 April 2010, the Group was committed to making payments in respect of non-cancellable operating leases in the following periods:

	Land and buildings 2010 £m	Other assets 2010 £m	Land and buildings 2009 £m	Other assets 2009 £m
Within one year	**90.5**	**1.2**	79.8	1.2
Later than one year and less than five years	**328.3**	**1.5**	305.9	1.2
After five years	**392.7**	**0.8**	390.4	—
	811.5	**3.5**	776.1	2.4

The Group leases a number of stores and warehouses under operating leases of varying length for which incentives/premiums are received/paid under the relevant lease agreements. Land and buildings have been considered separately for lease classification. The operating lease commitments are shown before receipts of sublet income, which totalled £7.1m (2009: £7.6m).

24. Pensions

Employees are offered membership of the Halfords Pension, which is 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 (2009: £3.2m).

25. 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 2 April 2010 amounted to £3.2m (2009: £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.

26. Related Party Transactions

Subsidiary undertakings

The Group's ultimate parent Company is Halfords Group plc. A listing of all principal trading subsidiary undertakings is shown within the financial statements of the Company on page 133.

Transactions with key management personnel

The key management personnel of the Group comprise the executive and non-executive Directors. The details of the remuneration, long-term incentive plans, shareholdings and share option entitlements of individual Directors are included in the Directors' Remuneration Report on pages 71 to 80. Key management compensation is disclosed in Note 4.

Directors of the Company control 0.33% of the ordinary shares of the Company.

27. Off balance sheet arrangements

The Group has no off balance sheet arrangements to disclose as required by S410A of the Companies Act 2006.

Company Balance Sheet

	Notes	2 April 2010 £m	3 April 2009 £m
Fixed assets			
Investments	4	**172.1**	7.0
Current assets			
Debtors falling due within one year	5	**0.1**	0.3
Debtors falling due after one year	5	**26.9**	207.3
		27.0	207.6
Creditors: amounts falling due within one year	6	**(15.8)**	(3.3)
Net current assets		**11.2**	204.3
Creditors: amounts falling due after more than one year	6	**(2.5)**	–
Net assets		**180.8**	211.3
Capital and reserves			
Called up share capital	7	**2.1**	2.1
Share premium account	8	**146.5**	145.6
Capital redemption reserve	8	**0.2**	0.2
Profit and loss account	8	**32.0**	63.4
Total shareholders' funds		**180.8**	211.3

The notes on pages 132 to 134 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 131.

The financial statements on pages 129 to 134 were approved by the Board of Directors on 10 June 2010 and were signed on its behalf by:

David Wild
Chief Executive

Nick Wharton
Finance Director

Company number: 04457314

Reconciliation of Movements in Total Shareholders' Funds

For the period	**52 weeks to 2 April 2010 £m**	53 weeks to 3 April 2009 £m
Profit for the period	**1.4**	35.3
Shares issued	**0.9**	—
Purchase of own shares — share buy-back	**—**	(13.1)
Employee share options	**2.5**	1.7
Dividends	**(35.3)**	(32.3)
Net decrease in total shareholders funds	**(30.5)**	(8.4)
Opening total shareholders' funds	**211.3**	219.7
Closing total shareholders' funds	**180.8**	211.3

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 52 weeks to 2 April 2010, whilst the comparative period covered the 53 weeks to 3 April 2009. The accounts are prepared under the historical cost convention, except where Financial Reporting Standards requires an alternative treatment in accordance with applicable UK 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 provide disclosure required by 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 subsidiary undertakings.

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 undertakings 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 adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

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.

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

1. Profit and loss account

The Company made a profit before dividends for the financial period of £1.4m (53 week period to 3 April 2009: £35.3m). The Directors have taken advantage of the exemption available under section 408 of the Companies Act 2006 and not presented a profit and loss account for the Company alone.

2. Audit fees

The audit fees payable by the Group to KPMG Audit Plc (2009: PricewaterhouseCoopers LLP) and their associates during the period were borne by Halfords Limited. In the 52 weeks to 2 April 2010 and the 53 weeks to 3 April 2009 the Company did not expense any fees relating to KPMG Audit Plc (2009: 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 71 to 80 which form part of the audited information.

4. Investments

	£m
Shares in Group undertaking	
Cost	
As at 3 April 2009	7.0
Additions — share-based payments	2.5
Capitalised intercompany receivable	162.6
Additions — increase in subsidiary undertaking investment	162.6
Disposal of subsidiary undertaking investment	(162.6)
At 2 April 2010	**172.1**

During the year an intercompany receivable was capitalised and transferred to investments. This was subsequently disposed of to another group undertaking at cost. The additions in subsidiary undertakings in the year relate to Halfords Holdings (Jersey) 1 Limited and Halfords Holdings (Jersey) 2 Limited.

The investments represent shares in the following subsidiary undertakings as at 2 April 2010 and the fair value of share based compensation plans that are awarded to employees of the Company's subsidiary undertakings.

	Incorporated in	Ordinary shares percentage owned %	Principal activities
Halfords Holdings (2006) Limited	Great Britain*	100	Intermediate holding company
Halfords Holdings (Jersey) 1 Limited	Jersey	100	Intermediate holding company
Halfords Holdings (Jersey) 2 Limited	Jersey	100	Intermediate holding company

* Registered in England and Wales.

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

4. **Investments** continued

Principal subsidiary undertakings

The principal subsidiary undertakings of the Company at 2 April 2010 are as follows:

Subsidiary undertaking	**Principal activity**	**% Ownership of ordinary equity shares**
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
Halfords Investments (2010) LP†	Intermediate holding partnership	–
Nationwide Autocentres Holdings Limited*	Intermediate holding company	100
Nationwide Autocentres Limited*	Car servicing	100
Halfords Holdings (Jersey) 1 Limited	Intermediate holding company	100
Halfords Holdings (Jersey) 2 Limited	Intermediate holding company	100

* Shares held indirectly through subsidiaries undertakings.

† Wholly owned indirectly through subsidiary undertakings.

All subsidiary undertakings are incorporated in Great Britain and registered in England and Wales, except for Halfords Holdings (Jersey) 1 Limited and Halfords Holdings (Jersey) 2 Limited which are incorporated and registered in Jersey. All other subsidiary undertakings are dormant and did not trade during the year.

5. **Debtors**

	2010 £m	2009 £m
Falling due within one year:		
Amounts owed by Group undertakings	**–**	0.3
Other taxation and social security payable	**0.1**	–
	0.1	0.3
Falling due after more than one year:		
Amounts owed by Group undertakings	**26.9**	207.3

Amounts owed by Group undertakings that fall due after one year are subject to interest. At 2 April 2010 the amounts bear interest at a rate of 1.06% (2009: 3.4%)

6. **Creditors**

	2010 £m	2009 £m
Falling due within one year:		
Bank overdraft	**0.1**	0.1
Corporation tax	**–**	3.2
Amounts owed to Group undertakings	**15.7**	–
	15.8	3.3
Falling due after more than one year:		
Amounts owed to Group undertakings:	**2.5**	–

Notes to the Financial Statements

7. Equity share capital

Ordinary shares of 1p each:	**2010 Number of shares**	**2010 £000**	2009 Number of shares	2009 £000
Allotted, called up and fully paid	**210,710,960**	**2,107**	209,786,251	2,098

During the prior period the Company acquired 4,687,816 of its own shares at a cost of £13.1m.

During the current period the Company's share capital increased by 924,709 shares (2009: 125,406 shares) due to the exercise by employees of share options. Details of shares exercised by scheme are shown in Note 22 of the Group's financial statements.

In total the Company received proceeds of £0.9m (2009: £nil) 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 22 of the Group's financial statements.

Interest in own shares
At 2 April 2010 the Company held in Trust 1,113,985 (2009: 1,113,985) of its own shares with a nominal value of £11,140 (2009: £11,140). 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 2 April 2010 was £5.4m (2009: £3.4m).

8. Reserves

	Share premium account £m	**Capital redemption reserve £m**	**Profit and loss account £m**	**Total £m**
At 3 April 2009	145.6	0.2	63.4	209.2
Profit for the financial period	—	—	1.4	1.4
Share options exercised	0.9	—	—	0.9
Share-based payment transactions	—	—	2.5	2.5
Dividends	—	—	(35.3)	(35.3)
At 2 April 2010	**146.5**	**0.2**	**32.0**	**178.7**

The Company settled dividends of £35.3m (2009: £32.3m) 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 wholly owns.

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 2 April 2010 amounted to £3.2m (2009: £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.

11. Off balance sheet arrangements

The Company has no off balance sheet arrangements to disclose as required by S410A of the Companies Act 2006.

Five Year Record

	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	**52 weeks to 2 April 2010 £m**
Revenue	681.7	744.0	797.4	809.5	**831.6**
Cost of sales	(335.0)	(367.9)	(394.9)	(388.1)	**(378.9)**
Gross profit	346.7	376.1	402.5	421.4	**452.7**
Operating expenses	(257.6)	(282.6)	(301.5)	(329.7)	**(340.4)**
Operating profit before non-recurring items	89.1	93.5	101.0	104.0	**119.7**
Non-recurring operating expenses	—	—	—	(12.3)	**(7.4)**
Operating profit	89.1	93.5	101.0	91.7	**112.3**
Net finance costs	(12.1)	(12.6)	(10.8)	(14.2)	**(2.6)**
Profit before tax and non-recurring items	77.0	83.5	90.2	94.4	**117.1**
Non-recurring operating expenses	—	—	—	(12.3)	**(7.4)**
Non-recurring finance costs	—	(2.6)	—	(4.6)	**—**
Profit before tax	77.0	80.9	90.2	77.5	**109.7**
Taxation	(23.4)	(24.3)	(26.2)	(26.3)	**(34.1)**
Taxation on non-recurring items	—	0.8	—	4.6	**1.4**
Profit attributable to equity shareholders	53.6	57.4	64.0	55.8	**77.0**
Basic earnings per share	23.6p	25.8p	29.3p	26.6p	**36.8p**
Basic earnings per share before non-recurring items	23.6p	26.6p	29.3p	32.5p	**39.7p**
Weighted average number of shares	227.1m	222.9m	218.4m	209.5m	**209.1m**

Key Performance Indicators

	52 weeks to 31 March 2006	52 weeks to 30 March 2007	52 weeks to 28 March 2008	53 weeks to 3 April 2009	**52 weeks to 2 April 2010**
Revenue growth	+8.6%	+9.1%	+7.2%	+1.5%	**+2.7%**
Gross margin	50.9%	50.6%	50.5%	52.1%	**54.4%**
Operating margin	13.1%	12.6%	12.7%	11.3%	**13.5%**

Analysis of Shareholders

As at 2 April 2010, the number of registered shareholders was 2,898 and the number of ordinary shares in issue was 210,990,824.

	No. of holdings	% of total shareholders	No. of shares	% of Issued Share Capital
Range of holdings				
1–5,000	2,331	80.4	3,042,178	1.4
5,001–10,000	116	4.0	829,796	0.4
10,001–50,000	164	5.7	4,048,040	1.9
50,001–100,000	78	2.7	5,841,264	2.8
100,001–500,000	121	4.2	29,463,647	14.0
500,001 & above	88	3.0	167,765,899	79.5
Total	**2,898**	**100.0**	**210,990,824**	**100.0**
Held by				
Individuals	1,422	49.1	2,713,403	1.3
Institutions	1,476	50.9	208,277,421	98.7
Total	**2,898**	**100.0**	**210,990,824**	**100.0**

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

Results and financial diary

Annual General Meeting: 27 July 2010.
Final dividend: 6 August 2010.
Record date: 2 July 2010.
Ex dividend date: 30 June 2010.
Pre-close statement: 7 October 2010.
Half-year report: 18 November 2010.

Annual General Meeting

The Annual General Meeting will be held on Tuesday 27 July 2010 at the Alveston Manor Hotel, Clopton Bridge, Stratford upon Avon, Warwickshire. CV 37 7HP.

Each shareholder is entitled to attend and vote at the meeting.

Company Information

Registered & Head Office

Halfords Group plc
Icknield Street
Redditch
Worcestershire
B98 0DE

Registrars

Capita IRG PLC
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire
HD8 0LA

Auditors

KPMG Audit Plc
One Snowhill
Snowhill
Queensway
Birmingham
B4 6GH

Joint Brokers

Bank of America Merrill Lynch
2 King Edward Street
London
EC1A 1HQ

Investec Bank plc
2 Gresham Street
London
EC2V 7QP

Solicitors

Clifford Chance
10 Upper Bank Street
London
E14 5JJ

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