halfords

Halfords Group plc
Annual Report & Accounts
for period ended **30 March 2012**

halfords

Contents

We help and inspire our customers with their life on the move

We are

The UK's leading retailer of automotive and cycling products

The leading operator in garage servicing and auto repair in the UK

Cash generative

Focused on managing the assets we own and managing these for growth

We have

Many brands and product categories which hold number one market positions in the UK

Unrivalled scale and national coverage

Skills in brand management and maximising marketing opportunities

A service-based proposition

Powerful multi-channel capabilities

Agile international sourcing

We plan to

Maintain our leading core retail and car servicing positions

Source the best products and launch exclusive ranges extending the breadth and quality of our product ranges

Provide well-trained, enthusiastic and knowledgeable service expertise

Provide real value solutions, balancing high-quality products with a competitive combination of range, price and service

Increase multi-channel penetration

Maintain an efficient balance sheet across the financing cycle

Business Model

Halfords has core competencies in marketing, branding, store retailing, distribution and international sourcing, which allow value to be generated to meet market needs. Since 2010, these competencies have been leveraged in Car Servicing, when we acquired our Autocentres business.

Our focus on range follows our strategy of life on the move and encompasses being:

- the Friend of the Motorist;
- the Best Cycle Shop in Town; and
- the Starting Point for Great Getaways.

This is delivered through our Car Maintenance, Car Enhancement, Leisure, and Car Servicing categories through which Halfords has grown market share, consolidating fragmented markets with a national store and centre network, and strong brand management.

Evolving buyer trends have been met by developing a dynamic web offer which has enabled the Company to leverage average transaction values and drive many web customers into stores, as well as combining halfords.com and halfordsautocentres.com to offer a Group-based solution.

With the evolution of more compact and complex vehicles, the reduced interest in self-service or Do It Yourself ("DIY"), and an escalating main dealer service price list, Halfords has augmented the retail offer with Do It For Me ("DIFM") in-store fitting services. This increases the average transaction value, is margin accretive and allows store colleagues to upsell and attach accessories to the sales whilst improving customer service and loyalty.

The successful expansion of our Retail offer through in-store services drove the decision, in 2010, to invest in the Car Service category given similar market drivers to our successful Car Maintenance retail category. Halfords runs the largest chain of UK car service centres providing service, repair and MOTs.

Our operations are designed to be best in class so that we can leverage our market-leading positions through our supply chain. We source from suppliers around the world who manufacture products to our designs and specifications. Our distribution team use their specialist knowledge to group and ship products in line with the sales plan of our Retail operation and market demands. Our internal operations draw from best industry practice.

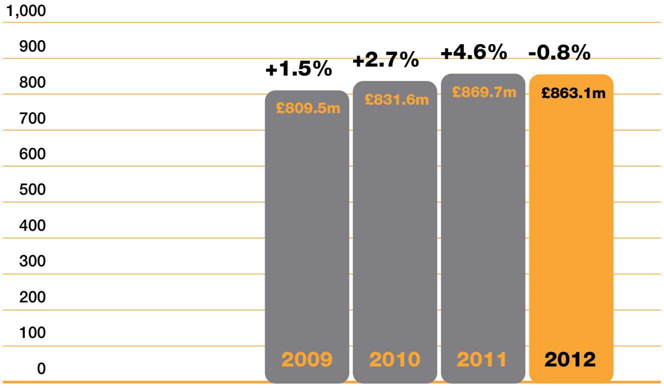
We also create value for our customers by keeping our cost structure as efficient as possible. The size of our operation means that we achieve advantages of scale and run our back office functions cost-effectively.

As a retailer, Halfords makes a profit from the combination of low-cost sourcing and supply chain coupled with excellent marketing and a national store network. These skills are leveraged in the Car Service sector by running an efficient service offer which profits from scale and efficiency. Halfords provides services more affordably than most franchised garages and more comprehensively than many independent garages.

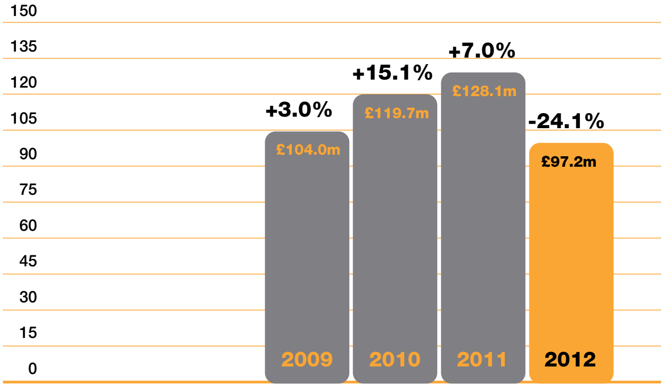
Our brand is one of our greatest strengths and our strategy is to leverage this as we grow our Group. We want to provide a single face to customers so they can connect with the Halfords brand across our offer and through new products, services and channels.

Financial Highlights

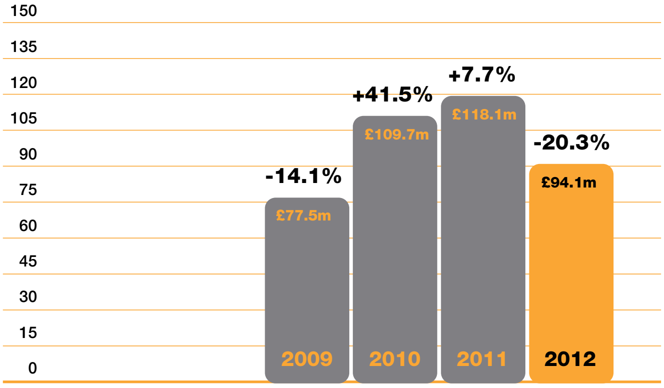
Revenue
-0.8%



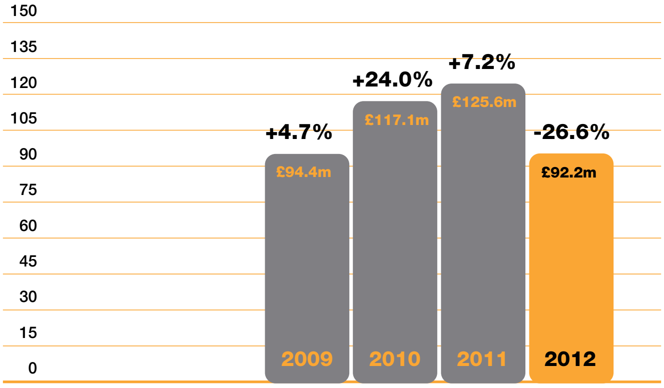
Underlying Operating Profit*
-24.1%



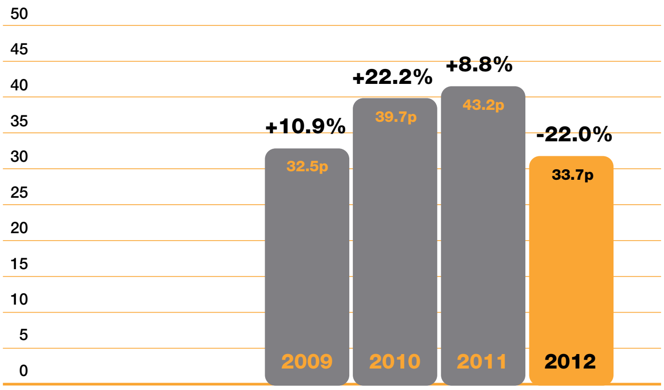
Profit before Tax
-20.3%



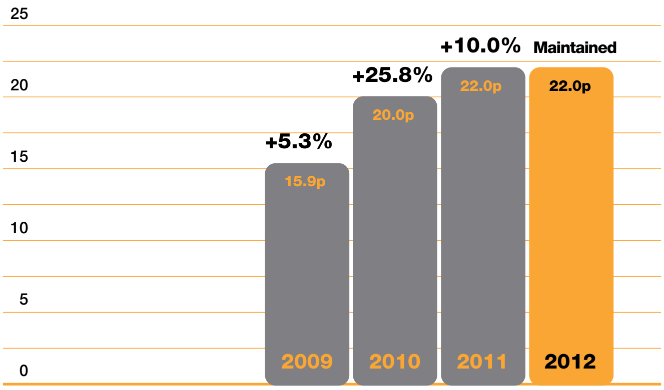
Underlying Profit before Tax*
-26.6%



Underlying Basic Earnings per Share*
-22.0%



Dividend per Ordinary Share
Maintained



* before non-recurring items

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Segmental Summary

The Halfords Group operates through two reportable segments: “Retail” and “Autocentres”.

The business has three strategic pillars, **Friend of the Motorist**, **Best Cycle Shop in Town** and the **Starting Point for Great Getaways**, which span Retail and Autocentre operations.

Halfords Retail manages its business in the United Kingdom (UK) and the Republic of Ireland (ROI) and its product ranges are marketed through a national network of stores and through an innovative multi-channel offer which combines website promotion with direct delivery or collection from store, backed up by in-store services.

Halfords Autocentres provides car service, repair and MOTs to both retail and fleet customes throughout the UK. The Autocentres proposition provides customers with an unrivalled value and service offer from a trusted brand delivering dealership quality service at more affordable garage prices.

Halfords’ marketing expertise is used to promote both businesses through a multitude of broadcast, narrowcast and traditional media presenting our valuable services which facilitate life on the move for our customers.

That’s helpful, that’s Halfords.

Retail

Halfords Retail employs approximately 10,000 staff and sells up to 16,000 different product lines with significant ranges in car parts, in-car technology, child seats, cycling, roof boxes, outdoor leisure and camping equipment. Halfords Retail trades from 467 retail stores located throughout the UK and the ROI and online through the halfords.com and halfords.ie websites.

Revenue
£752.3m

Operating Profit (before non-recurring items)
£92.8m
Operating Profit was £94.7m (2011: £115.8m)

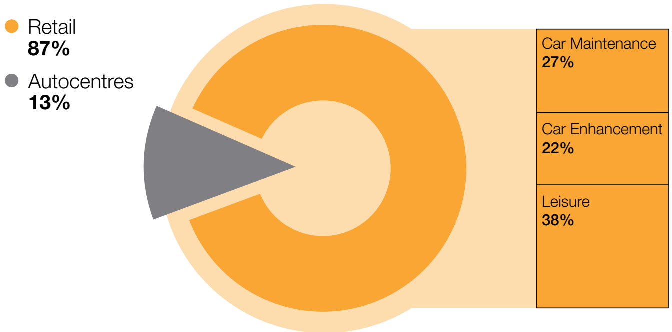
Autocentres

Halfords Autocentres employs approximately 1,700 staff and is the UK’s leading independent Car Servicing and repair operator offering maintenance, service, MOT and repair services at competitive prices and excellent standards of customer service. Halfords Autocentres trades from 260 Car Servicing centres and online through the www.halfordsautocentres.com websites.

Revenue
£110.8m

Operating Profit
£6.6m

Group Revenue £863.1m



friend of the motorist

best cycle shop in town

starting point for great getaways

friend of the motorist

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Chairman's Statement

"The key to the success of Halfords is, and will continue to be, our service ethic and our service offerings backed up by the very best product ranges ."

Dennis Millard
Chairman

This has been a challenging year for the UK consumer and Halfords was not immune to this difficult trading environment. Our customers have tightened their purse strings in response to increased taxes, an uncertain employment landscape and a lack of confidence in the face of recessionary conditions for much of the year. Our automotive customers were particularly hard hit by continued rises in fuel prices to unprecedented levels and by further increases in motor insurance which, in turn, was reflected by a decrease in miles driven in the UK. There were, however, some bright spots and we made good progress in our key growth areas, Car Maintenance parts fitting, Autocentres and Cycling, where the market continued to grow as more people recognised both the pleasure and beneficial health aspects of cycling.

Against this backdrop, Group revenue declined by 0.8% with Retail down 2.3%, partly offset by strong growth from Autocentres where revenue grew by 12.9%. An adverse mix effect and input cost pressures for Retail and an increase in lower margin tyre sales by Autocentres resulted in an overall 100 basis point decrease in the Group's gross margin. Our Retail cost base was closely managed but upward pressure on occupation, staffing and support costs, albeit mitigated by lower warehouse and distribution costs, resulted in a 3.6% rise in operating costs, whereas those of Autocentres rose in line with revenue growth. As a result, Group underlying profit before tax was down 26.6% to £92.2m.

A pleasing feature of the year was the Group's continued robust cash flow performance with free cash flow, before dividends and capital transactions, of £70.4m being generated. This enabled the Board to recommend an unchanged final dividend of 14.0 pence per share which would amount to 22.0 pence for the year, 1.53 times covered by earnings per share of 33.7 pence and 1.6 times by free cash flow. In addition, a share buyback programme was initiated in April 2011 with £62.3m being outlaid in the period. In total, £106.5m was returned to shareholders in the period and, with a Net Debt:EBITDA ratio of 1.1 at 30 March 2012, the Group's financial position remains sound.

During the year, management embarked upon a deep and wide-ranging review of the business, its strengths, weaknesses, opportunities and threats. The Board has been an integral part of this process; contributing, challenging and supporting the output. The resultant vision for Halfords to "Help and Inspire our Customers with their Life on the Move" is underpinned by three pillars of the strategy:

- the Friend of the Motorist
- the Best Cycle Shop in Town
- the Starting Point for Great Getaways

The underlying shift in emphasis of the strategy is recognition of the changes in customer preferences and the opportunities it presents for Halfords. The strategy plays to the strengths of Halfords, recognises and addresses the opportunities and challenges and underscores the uniqueness of the Group's range of products and services, its heritage and strong brand. Importantly, it sets out a clear direction of travel for all of our stakeholders. The strategy will seek to accelerate the transition of Halfords from a "traditional retailer to a contemporary provider of products and services".

Targeted investments in the key enablers of the strategy — our Retail store and Autocentre portfolio, IT and operating systems, web offerings, marketing and, most importantly, in our people — have been and are being mapped out and will commence in the year ahead. However, the transition will unfold more fully over the years ahead to ensure that we have a business that is fit for purpose for many, many years to come.

The backbone of the business and the key to the success of Halfords is, and will continue to be, our service ethic and our service offerings, backed by the very best product ranges. We will be relentless in our pursuit of service excellence and the mantras "Helpful" and "Trust". Without this, our strategy and customer proposition will not resonate with our customers. Management will strive to ensure that every member of the Halfords Group is attuned to this message. I am sure that the 12,000 colleagues in our Retail and Autocentres businesses and Head Office will rise to the challenge. In this regard, the Board thanks them for their dedication in this difficult trading year and is confident that they will continue to focus on delivery of the very best products and services to our customers.

This year, our Chief Executive, David Wild, set out to build a management team of contemporary skills and experience that would be best suited to face the challenges ahead. He has succeeded in doing so and the Board would like to thank David and his team for managing a difficult trading environment with some skill whilst dedicating much time and effort to crafting the strategy and plans for the future. Lastly, I would like to thank my Board colleagues for their support and for their passion to help Halfords achieve the very best for its shareholders.

Read online: halfords.annualreport2012.com/cs

Since the beginning of the year, economic conditions have remained difficult and the uncertain and worrying situation in the Eurozone has cast a cloud over the UK economy. In addition, the record rains in April and early May have dampened the normal early spring spending on Leisure products which has affected our business. Nevertheless, we believe that our colleagues will be able to meet the inevitable challenges in the year ahead and that the execution of our strategy means Halfords is in good stead to grow the business in the years thereafter.

Dennis Millard
Chairman
30 May 2012

BUSINESS REVIEW

Read online: halfords.annualreport2012.com/br

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Market Review

The Halfords business operates through its Retail stores, Autocentres and websites in the UK and ROI. We continue to grow market share in our core market sectors where we have leading positions in attractive markets.

Our unique proposition differentiates Halfords from its competition and creates value for customers through a combination of range, price and quality, delivered through our multi-channel offer by our colleagues who extend expert advice and service.

Halfords' store and autocentre footprint covers the UK (United Kingdom) and ROI (Republic of Ireland) with the majority of locations around highly populated urban locations. The Retail store portfolio includes 467 stores with a mix of 402 superstores (7,000–10,000 sq ft, 10,000 lines), 34 compact stores (approximately 4,000 sq ft, 6,000 lines) and 31 metro compact stores (small format, approximately 4,200 lines). The Autocentres business has increased to 260 centres. Both the Retail and Autocentres businesses have a comprehensive online offer: the Retail website covers 16,000 SKUs and the Autocentres website offers booking and location tools.

The Halfords vision to help and inspire customers with their life on the move is strategically split into three pillars. These "strategic pillars" are delivered through our core categories of Car Maintenance, Car Enhancement, Car Servicing, and Leisure, and enable internal communication and collaboration, enhanced decision making and marketing focus to augment returns.

friend of the motorist

bestcycle shop in town

starting point for great getaways

Friend of the Motorist

With approximately 32 million cars in the target market, and many now of increasing age, Halfords is uniquely placed to provide help to our customers, delivering a wide range of car replacement parts (we stock 98% of the UK car parc's bulb requirements) and a comprehensive assortment of in-car motoring ancillary ranges from navigation and audio to performance styling. At the same time the stores offer ***we***fit/***we***repair service where for a small charge products such as bulbs, wiper blades and batteries will be fitted to customers' vehicles. If a more comprehensive repair service is required then our autocentres offer a quality MOT, service and repair service for all makes and models of vehicle at affordable prices.

Whilst economic factors of fuel, maintenance and insurance costs coupled with job uncertainty have placed value pressure on consumers, it seems that time pressures and decreasing levels of skills to perform DIY tasks are pushing consumers towards a "Do It For Me" ("DIFM") level of service with a premium on value for money. We believe that within the aftercare market there is substantial growth opportunity. The bulbs, blades and battery market is worth *c*.£950m and Halfords Retail stores currently has only a 9% share. The Service and Repair market is a needs-driven market worth *c*.£9bn, of which Halfords Autocentres has only a 1% share.

These low market share positions provide Autocentres with material opportunities to consolidate a fragmented market under a strong brand coupled with an improved penetration of fleet sales. Meanwhile, the stores provide a unique capability to expand the fitting offer through market awareness campaigns and attracting customer segments that have not previously considered Halfords.

Car Parts – Maintenance & Enhancement


Fitting – Do It For Me

Autocentre – Servicing & Repair

Best Cycle Shop in Town

The UK cycling market is estimated to be worth £1.4bn and has been growing at a rate 5% p.a. for the last five years. This long-term trend is expected to continue with additional interest being created by the 2012 Olympic Games. Economic drivers make cycling more attractive with consumers still under financial pressure, in addition to the health and family leisure benefits.

Cycling provides significant opportunities for sales growth through higher levels of participation in cycle models and brands and by attracting wider consumer groups. In addition to cycle sales, there is material opportunity to capture share in the parts, accessories and clothing ("PACs") products, in particular thorough increased ranges offered online.

The Halfords cycle proposition offers an end-to-end solution for cyclists: through its own brand cycles of *Trax*, *Apollo* and *Carerra* and its branded *Boardman* and *Pendleton* ranges. This offers something for everyone at a variety of price points; through PACs products where research has revealed that Halfords has a lower participation than in bikes which represents a growth opportunity both in store and online; and through repair and servicing where, as with motoring, cycling customers expect high levels of service. Consequently, Halfords offers customers build, service and repair services at price points and a breadth of range, which provides exceptional value.

Cycle Range | Parts, Accessories and Clothing | Repair

Starting Point for Great Getaways

Halfords has repeatedly demonstrated an ability to consolidate fragmented markets with a comprehensive offer. Leisure travel is another market where Halfords provides a unique combination of products and solutions. The economic drivers for holidays in the UK remain in place. There is an increase in "staycation" holidays and in the demand for an active leisure time. Our market share growth continues to be seen across roof boxes and camping.

The Halfords getaway proposition offers solutions for car journeys and campsite holidays including Accessories (e.g. maps, safety jackets and first aid kits), Travel Solutions (e.g. roof boxes, cycle carriers and trailers) and Camping (e.g. tents, sleeping bags and cooking sets).

These categories represent opportunities to expand market share through increasing awareness that Halfords is the natural destination when planning a getaway.

Travel Accessories | Travel Solutions | Camping

Leveraging Technology

With wide-ranging store and online offers, Halfords has also recognised and begun to adapt to market buying behaviour. Mobile devices are increasingly being used to research and purchase online and barcodes enable customers to access comprehensive online resources whilst shopping.

As customers buy more online and market expectations of delivery times for goods bought online become quicker we will continue to invest in our IT and Web infrastructure. In March 2012 we launched a revised Order & Collect service providing next day delivery. In many instances this service works with delivery to store, allowing customers to collect at a convenient time and still get build, fitting and advice offered simultaneously.

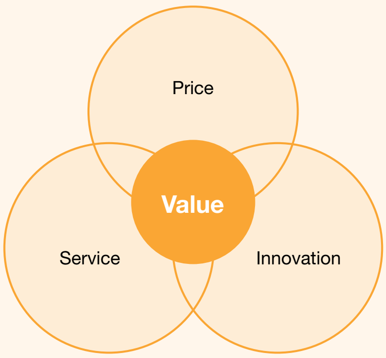
Summary

Over the years Halfords has evolved from its humble beginnings in 1892, as a cycle shop in Leicester, into a national chain of retail stores that have been seen to support the use of the motor car with needs driven purchases. Recently the Company evolved further to support Do It For Me Car Maintenance through its acquisition of our Autocentres business and the Leisure category is becoming more important to the growth of Halfords.

Read online: halfords.annualreport2012.com/mr

Group Strategy

Our strategy is based upon our desire to maximise returns for our shareholders. Each of our business units is tasked to deliver against an overall business plan and is focused on delivering our strategy. In doing this, we have identified a number of measures that are important to the success of the business as a whole through which the Board and Senior Management measure performance.



Group Strategy

Our Group strategy is built on the Halfords vision to help and inspire our customers with their life on the move.

Group Strategy Description

The Group's key aim is to maximise returns for our shareholders. We do this by creating real value for our customers within the products and services we sell while operating our business as a good corporate citizen.

We have an ongoing strategy to drive growth from our core business. In Retail this means our 467 stores, Halfords.com and product categories in which we hold leading market positions and in our Autocentre business through our 260 Autocentres and halfordsautocentres.com.

In driving this growth we continue to place ourselves as the No.1 destination for products that enhance our customers' use of their car, their bikes and their touring activities. We aim to be the Friend of the Motorist by providing the products, services and expertise required to take the hassle out of motoring and making driving more enjoyable. We are able to encourage our customers to do it for themselves and we are able to do it for them. We are dedicated to providing the right level of service to our customers, from stocking in-store and online a comprehensive assortment of car parts, through a price competitive, 7 days a week, on-demand fitting service, to a full service and repair offer through the national coverage afforded by our Autocentres.

With over 100 years' heritage in cycling, our service, expertise, brands and product range are unsurpassed and we will continue to offer these products and services whether it be to customers who are purchasing their first bike or a top-of-the-range *Boardman* racing bike. Through our desire to be the Best Cycle Shop in Town, we aim to build on our service and brand credentials as well as providing a wide range of parts, accessories and clothing, contributing to the growing popularity of cycling as a healthy and environmentally friendly form of transport.

With the development of our own range of camping equipment (*Urban Escape*) and roof boxes (*Exodus*), we help our customers make the most of their journeys and their time outdoors and we have become the Starting Point for Great Getaways. With the demand for a more active leisure time and the desire for the enjoyment of simple family pleasures, such as camping, Halfords offers a range of great "getaway" products from travel accessories, travel equipment and camping solutions in order to help our customers make the most of their time outdoors and to help them get there.

In order to consolidate our position as the Friend of the Motorist, the Best Cycle Shop in Town and the Starting Point for Great Getaways, we will continue to offer a unique range of products, which are constantly innovated and extended. They are matched by an unparalleled honest and trustworthy service delivered by our well-trained, enthusiastic and knowledgeable colleagues in-store, at the autocentres and online thereby helping our customers, from novices to enthusiasts, to work out exactly what they need. Our unique store fitting service and competitive autocentre repair service gives customers the choice of having us do it for them or doing it themselves. We deliver convenient and value solutions to our customers, where they can get what they need when they need it, through our extensive store network with market-leading coverage, open 7 days a week, and 24/7online, with a market leading multi-channel offer available to order or reserve. Our autocentre network can deal with planned and emergency work alike.

We provide our customers with solutions that offer real value by balancing high quality products with a competitive combination of range, price and service and in the autocentres we provide dealership quality services at independent garage prices.

We help and inspire our customers with their life on the move

Strategic Pillars

- friend of the motorist
- bestcycle shop in town
- starting point for great getaways

Enablers

- Portfolio
- Web
- Operations
- Marketing
- People

Values

- think customer
- be helpful
- aim to win
- earn trust
- inspire others
- work as a team

Read online: halfords.annualreport2012.com/gs

Strategic Pillars

friend of the motorist

Through our core categories of Car Maintenance, Car Enhancement and Car Servicing we provide the services and expertise to take the hassle out of motoring.

Strengths

- Needs driven demand
- Established brand is natural destination for customers
- Huge range and national availability
- Leveraged through unique in-store services
- Dealership quality services at independent garage prices

starting point for great getaways

Through a wide range of Leisure products and accessories, from trailers and roof boxes to tents, we help customers make the most of their journeys and destinations.

Strengths

- Value driven including environmentally friendly solutions for leisure and holidaying
- Tight integration with multi-channel drives sales of price led ranges
- Consistent growth in camping as Halfords becomes known for life on the move

bestcycle shop in town

We deliver a compelling range of own-brand cycles, and complement these with a knowledgeable, skilful and competitive cycle service offering.

Strengths

- Contemporary and innovative ranges drive a product led market
- Competitive international buying maintains good margins
- Effective promotion of own brands through multi-channel offer
- New cycle ranges launched: *Carrera*, *Voodoo*, *Boardman* and *Pendleton*

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Shareholder KPIs

KPI	Definition	Commitment
Underlying Profit	Measures the normal underlying performance of the business after removing non-recurring items.	The Board considers that this measurement of profitability provides stakeholders with information on trends and performance.
Underlying Earnings per Share	Underlying profits as defined above divided by the number of shares in issue.	EPS is a measure of our investment thesis and as such we aim to manage revenues and margins and invest in long-term growth.
Net Debt	Bank debt plus finance leases, less cash and cash equivalents both in-hand and at bank.	The Group remains strongly cash generative and continues to invest in the business. The Board is committed to maintaining an efficient balance sheet, returning any surplus capital, by way of dividends and share buybacks, not required to fund growth to shareholders.
Dividend per ordinary share	Cash returned to shareholders as a return on their investment in the Company.	To maintain this policy whilst retaining the flexibility to invest when opportunities are identified.
Total Revenues[1]	Total sales revenues from all business activities.	The Group is committed to growing sales in all of its core trading activities.
Costs (as a % of sales)	Group operating costs from all business activities, excluding non-recurring items, expressed as a percentage of sales.	We are committed to controlling costs and the efficient use of resources, both through cross-functional initiatives and a culture of cost awareness.

[1] Figures for the years 2008–2010 relate to the Retail business only.

Annual Performance	2008	2009	2010	2011	2012
In what has been a tough environment for customers the Group generated an underlying Profit before Tax of £92.2m. Halfords' response has been to help customers by creating value through the quality and price of our products and the expertise and service of our colleagues. Our significant growth areas of Cycling, Fitting services and Autocentres have all performed strongly.	£90.2m	£94.4m	£117.1m	£125.6m	**£92.2m**
As a result of the fall in profits, EPS before non-recurring items is down 22.0% on the prior year.	29.3p	32.5p	39.7p	43.2p	**33.7p**
The Company continued to invest in the business in FY12 and during the year purchased 18.1m shares via a share buyback programme, commenced on 7 April 2011, at a cost of £62.3m.	£181.7m	£176.2m	£155.5m	£103.2m	**£139.2m**
The Board will recommend, at the Company's AGM, a final dividend of 14.0p per ordinary share. This confirms the Company's ability to generate strong cash flows year-on-year.	15.1p	15.9p	20.0p	22.0p	**22.0p**
At £863.1m Group revenues were down 0.8% year-on-year. Retail revenues of £752.3m were down 2.5%, whilst Autocentre revenues at £110.8m were up 13%.	£797.4m	£809.5m	£831.6m	£869.7m	**£863.1m**
To secure long-term growth and profitability, investment in the business has continued. Activities that have contributed to an increase in costs include: inflationary and minimum wage increases acros the Group; increases in rents, rates and utilities; a successful media campaign; investment in tyre training; rebrand depreciation; the impact of new centre opening activity and higher store support costs.	37.8%	39.2%	40.0%	41.0%	**43.5%**

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Retail KPIs

friend of the motorist | bestcycle shop in town | starting point for great getaways

KPI	Definition	Strategy	Commitment
Like-for-like Sales	Like-for-like sales represent revenues from stores trading for greater than 365 days and include revenues denominated in foreign currencies translated at constant rates of exchange.	Portfolio, Operations, Marketing, People, Web	We are committed to maximising our like-for-like sales opportunities whatever the economic environment.
Gross Profit Percentage	Gross Profit expressed as a percentage of Sales.	Portfolio, Operations, Web, Marketing, People	Gross Profit is an important indicator of the Company's financial performance. Within the business, we focus on maximising cash generation.
wefit/***we***repair jobs	The stores offer a fitting/repair service when customers purchase replacement products such as car bulbs, windscreen wiper blades and batteries (3Bs). This KPI includes the sale of Bike Care Plans.	Portfolio, Operations, Marketing, People	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.
wefit/***we***repair revenue	The sales income generated from all of our fitting and repair services, including the sale of Bike Care Plans.	Portfolio, Operations, Marketing, People	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.
No. of Stores refreshed/refurbished	The layout and offering within our stores is important as the two formats of choice (superstore and compact) allow us to reach both large and small catchment areas.	Portfolio	We will continue to review the lines available in each of our formats of choice, looking to refresh or refurbish as appropriate as we believe this enhances like-for-like sales growth in these stores.
Costs (as a % of sales)	Operating expenses from the Retail business activities expressed as a percentage of sales.	Portfolio, Operations, Marketing, People, Web	We are committed to an ongoing focus on cost control. This ensures an efficient use of resources and the correct cost base for the prevailing economic conditions.
Online sales (as a % of total revenue)	Sales enacted via the web, through *Reserve & Collect*, *Order & Collect* and *Direct Delivery.*	Marketing, Web	The Internet is changing the way our customers shop and provides us with new opportunities to grow our business. In the last few years we have introduced three ways to shop online: *Reserve & Collect, Order & Collect* and *Direct Delivery*.
% of web customers visiting stores	% of online sales using the *Reserve & Collect* offer and visiting stores after researching online.	Portfolio, Marketing, Web	Our strategy is to seamlessly integrate halfords.com and our store operations. Our research tells us that our customers like the convenience of buying online but also want to visit our stores for our expert advice and added value services.

Annual Performance	2008	2009	2010	2011	2012
In a difficult consumer environment we have responded with a trading strategy that offers great value and expert services.	+4.3%	-3.3%	+1.3%	-5.5%	**-2.3%**
Gross Profit in the UK/ROI Retail business declined by 140bps.	50.5%	52.1%	54.4%	54.5%	**53.1%**
We have continued with our advertising to raise the awareness of our ***we***fit/***we***repair services and have supported this in-store with an intense training programme to ensure that our colleagues provide expert customer advice and fitting services.	1.34m	1.70m	2.35m	2.54m	**2.67m**
Services offered by our colleagues provide a "Do It For Me" solution to the needs of all of our customers across all of our categories and has resulted in an annual increase of *c.*23%.	n/a	£9.3m	£11.7m	£12.4m	**£15.2m**
We have refreshed 83 stores in FY12, and these have reported like-for-like sales growth of +2.5%, ahead of the retail average.	n/a	22	10	26	**83**
The underlying increase in operating costs reflected higher store and support costs, offset by savings in warehouse and distribution costs.	37.8%	39.2%	40.0%	38.4%	**40.8%**
With online sales of *c.*£66.6m the 30bps reduction reflected a fall in online travel solution sales, where the majority of products, such as child seats, are sold on price alone. Halfords continues to offer fitting as a point of differentiation to pure online retailers.	2.43%	4.67%	6.4%	9.2%	**8.9%**
Whilst remaining static year-on-year, the relaunch in March 2012 of our *Order & Collect* service which allows next day delivery for goods ordered online before 6.00 pm saw an immediate improvement in the number of sales made online.	54%	74%	77%	85%	**86%**

Autocentre KPIs

friend of the motorist

KPI	Definition	Strategy	Commitment
Like-for-like sales	Like-for-like sales represent revenues from centres trading for more than 12 months.	Portfolio, People, Operations, Web, Marketing	We are committed to maximising our like-for-like sales opportunities in whatever economic environment we find ourselves.
Fleet sales (as a % of total sales)	Sales accessed from car fleet operators.	Operations, People	The Company will continue to focus on providing dealer quality services at independent garage prices.
Number of Centres	The number of autocentres in the UK.	Portfolio, Marketing	Our research on the geography and demographics of the £9bn Car Servicing and repair market and of our local catchment sizes shows that there is scope for up to 600 autocentres.
Jobs per Productive per Week ("jpppw")	Total jobs undertaken by the centres divided by the average number of productive technicians and apprentices.	Operations, People	We aim to increase sales in existing centres and make use of spare capacity in our technicians. We believe that we can raise jpppw to *c.*17, without needing to obtain more fixed cost labour.
Online Bookings	The number of service bookings made via halfordsautocentres.com against those made direct with centres.	Marketing, Web	Enhancing our online offer and further extending our online presence through both Halfords.com and halfordsautocentres.com is a Group investment priority.

Annual Performance	2008	2009	2010	2011	2012
In a tough consumer environment, where customers have been very deliberate about their spending plans we have focused on delivering a quality and trustworthy service at an affordable price. We aim to improve customer retention at our existing centres: over the last six years this has increased from 43% to 51.7% and we believe we can ultimately achieve 60%+.	+4.1%	+1.2%	+3.4%	-0.6%	**+6.1%**
Unfortunately we have suffered in FY12 as both the number and size of fleets have reduced. However, we remain committed to this strategy of driving Fleet business and have resently appointed a Director of Fleet sales to drive this strategy forward. Fleet cars still represent over 1 in every 4 cars serviced.	22.4%	22.6%	26.7%	26.3%	**25.2%**
We have opened 20 new centres in FY12, whilst at the same time completing rebranding and refurbishing the original estate. We aim to open a further 20 to 30 centres in FY13.	216	222	224	240	**260**
We continue to increase jobs per productive worker per week to 14.7% and increase over the last five years of *c*.14%. We expect this to improve further as the number of tyre fittings increases.	12.9	13.0	13.7	13.8	**14.7**
The continued development of a Group strategy and providing an Halfordsautocentres.com link from Halfords.com has driven an increase in online bookings of 43.6% in FY12.	n/a	97,942	111,261	138,954	**199,524**

People Powering the Next Generation

FY 2012 saw the development of a new People agenda for the Group with the arrival of the new Group HR Director, Jonathan Crookall. The four key focus areas are:

- Recruiting the right people to support our service culture and future growth
- Training and developing people to deliver expertise, advice and service
- Managing talent to provide succession for key roles and career opportunities for colleagues
- Establishing an engaging culture, based on a clear set of values

Recruiting the Right People to Support our Service Culture and Future Growth

During the year we improved our recruitment processes and focused them more on selecting colleagues with an attitude that supports service and our "helpful" agenda. We established partnerships with recruitment suppliers and initiated a project to improve our recruitment website and applicant tracking. The new website launches in the summer and will align with our consumer branding, attracting colleagues who have a helpful approach and great potential for the future. We will also be better able to target candidates who are best suited to retail and our particular product groups.

Training and Developing People to Deliver Expertise, Advice and Service

We continued to invest in colleague training, focusing on technical skills to support increased fitting and the growth in cycling. All colleagues were involved in a programme called Flying Start, which provided the skills and confidence needed to develop further the ability to engage with every customer in store, re-emphasising the importance of a great interaction with customers and our overall "helpful" message.

In our Autocentres business our apprentice training programme went from strength to strength with the establishment of a new external partnership with the specialists ProVQ. More than 180 new apprentices started our latest scheme in support of the growth in the Autocentres business.

Luke Tomkins, 19, was named Halfords Autocentres Apprentice of the Year after seeing off competition from fellow apprentices from around the country in the network's annual skills competition.

The competition, hosted at training provider ProVQ's state-of-the-art workshop facilities near Shrewsbury, saw the ten talented young technicians compete against the clock over a number of tasks, including a vehicle safety inspection and various fault diagnosis challenges.

People Powering the Next Generation continued

Luke impressed the judges with his consistent technical competency, expertise and ability to maintain a cool head under pressure before being declared overall winner.

Bill Collins, technical training manager for Halfords Autocentres, said:

"Halfords Autocentres runs the largest motor technician apprentice scheme in the UK. Our Apprentice of the Year competition is a chance to celebrate the fresh talent we have in the business and to showcase their skills."

Managing Talent to Provide Succession for Key Roles and Career Opportunities for Colleagues

We have a good track record of developing colleagues from the shop floor into management positions. This year we formalised our approach to tracking talent in stores and autocentres, and provided specific development programmes to grow the skills required to make the next level. Our graduate programme continues to provide us with a pipeline of talent for our teams in Commercial and Marketing given the scarcity of quality talent in these critical areas.

Establishing an Engaging Culture, Based on a Clear Set of Values

In FY12 we built on the success of the "Helpful" campaign by creating a broader culture change programme based on a new set of Halfords values (see page 13). Over 800 people across the Company were involved in creating the six values and defining the behaviours that underpin them. The values were launched at our national conference and continue to be a key action area. We are rolling out a full colleague engagement survey in June to assess how best we can further develop colleague engagement in support of our drive for improving the customer experience.


wefit

Chief Executive's Review

"In the year ahead we plan to develop this vision to take advantage of the opportunities offered by our key growth areas and accelerate our transition from traditional retailer to a contemporary provider of products and services."

David Wild
Chief Executive

Introduction

The last year continued to be a challenging time for the UK and ROI consumer sector. People had less disposable income and managed their discretionary spend tightly. Motorists particularly were affected by higher fuel prices and insurance costs.

Halfords' response has been to help customers by creating value through the quality and price of our products and the expertise and service of our colleagues. Our significant growth areas of Cycling, Fitting Services and Autocentres have all performed strongly.

We also continued our store portfolio refresh programme, invested for the future in IT infrastructure, introduced new products and developed our team. We have done this whilst managing costs sensibly.

The progress in our growth areas both demonstrates how we are evolving Halfords from a traditional out-of-town retailer to a significant service provider and creating the route to strengthen our business further. We are planning to take advantage of these opportunities in the year ahead.

Review of Trading

In what has been a tough environment for customers the Group generated an underlying profit before tax of £92.2m and continued cash generation for shareholders through good cost management and margin control with free cash flow of £70.4m after taking into account taxation, capital expenditure and net finance costs.

Group revenues were £863.1m, down 0.8% overall (Retail £752.3m; Autocentres £110.8m).

Within Retail, revenues across the year on a like-for-like basis ("LfL") were down 2.7%.

Sales of Car Maintenance products at -4.5% LfL, suffered as motorists drove fewer miles and reduced their spending on vehicles where possible. The lack of a prolonged spell of winter weather, as in the preceding year, also reduced demand for cold weather products like de-icers, screen wash and batteries.

The demand for "Do It For Me" fitting continues to build and our ***we***fit services have seen another year of strong growth. We now fit 26.2% of the bulbs, blades and batteries we sell, as we build on Halfords' unique customer offer and more customers look to us for expert help with basic Car Maintenance.

Read online: halfords.annualreport2012.com/cer

The decline in Car Enhancement sales continued as the markets for Sat Nav and audio products contract. We have also seen falls in sales of Performance Styling and Car Cleaning products reflecting the pressure on motorists spending and the changing nature of the auto accessory market.

In Leisure we saw strong growth throughout the year, up 5.0% LfL, driven by increases in our cycling revenues through our relaunched ranges.

Halfords.com business, representing *c*.9% of total Retail sales, had a less buoyant year. While we had significantly more visitors to our site, fewer of these converted to sales. Cycle Accessories and in-car entertainment products performed well, but the sales of Sat Navs and child seats declined. During the year we have invested in better technology, site information and deals.

Sales at our Autocentres grew strongly by *c*.6% LfL and *c*.13% overall, driven by the growing awareness of the Halfords brand in the garage servicing sector and recognition by motorists of the value we offer. This performance is especially strong when compared to the overall auto aftercare market.

Strategy

Vision

Our customers lead busy lives and each year they make thousands of essential journeys. They need to keep moving for work and family and they want to travel for their holidays and enjoy active leisure time.

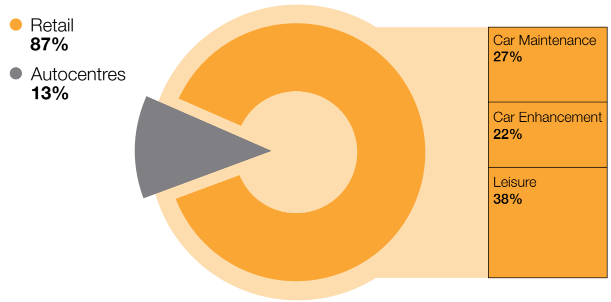
Halfords' products and services are an essential part of the everyday life of millions of people; and we are evolving our offer in line with the changing nature of our customers' needs.

Our vision is to **Help and Inspire Customers with their Life on the Move.**

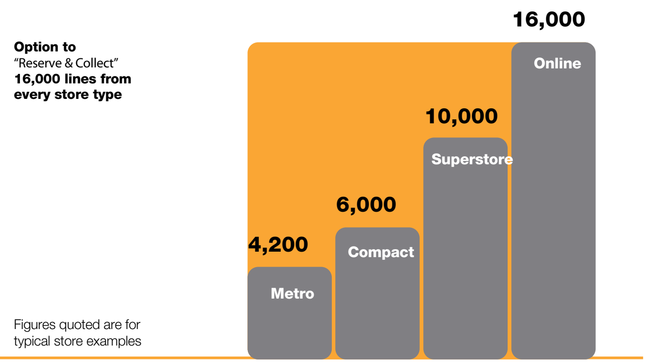
In the year ahead we plan to develop this vision to take advantage of the opportunities offered by our key growth areas and accelerate our transition from traditional retailer to a contemporary provider of products and services.

We have carried out detailed research to map our areas of strength against the requirements and aspirations of our customers. This work has identified, and confirmed, that we have a significant opportunity to grow in the medium to long term by

Group Revenue £863.1m



Online Product Ranges



Chief Executive's Review continued

building on and evolving our current offering and service capability. We have identified three areas where customers specifically want our help and which provide opportunities for growth and the development of our business.

These three strategic pillars are the **Friend of the Motorist**, the **Best Cycle Shop in Town** and the **Starting Point for Great Getaways**.

In each of these areas Halfords can create value for our customers through a unique blend of the quality, innovation and the price of our products and the expertise and service of our colleagues.

Strategic Pillars

The Friend of the Motorist

The last year has been a particularly challenging time for drivers who have faced higher costs. Halfords is uniquely placed to be the Friend of the Motorist by providing end-to-end solutions for their auto aftercare needs. Through the Car Maintenance parts in our Retail stores, in-store fitting services and Autocentres, we can provide real value through our products, services and the expertise required to take the hassle out of motoring and make driving more enjoyable. We can help motorists look after their cars, or we can take care of their cars for them.

We stock the widest selection of replacement car parts and accessories of any retailer. We can help the motorists who do their own maintenance find the right part for their make and model and offer alternative price points through our good, better and best ranging.

Halfords also helps motorists with motoring consumables like screen-wash, de-icers and car-washing products, plus we are the market-leading destination for Sat Navs, Car Audio and Performance Styling. While the market for these products is declining, we have extended our leadership position and these sales continue to contribute to our overall performance.

There is a strong trend towards "Do It For Me" in Car Maintenance and Halfords has seen a growing demand for our ***we***fit services. The foundation of our fitting proposition is the fitting of car bulbs, windscreen blades and batteries ("3Bs"), by our trained in-store colleagues. During the year some 2 million ***we***fit jobs were completed and 26.2% of all 3Bs sold were also fitted. This compares with 23.5% fitted in FY11.

The 3Bs market, selling both product and fitting, is estimated to be worth £950m and Halfords only has a small percentage share of the market while garages and dealerships have a 75% share. Our offer is unique, 7 days a week on-demand fitting at the most competitive prices, so there is good potential to win sales and grow revenues. Fitting is also a high margin revenue stream and an economically favourable one, as labour costs are based on retail wage rates as opposed to the mechanics' rates that garages and dealers charge.

Our strategy is to maintain our DIY parts proposition while driving awareness and sales of our fitting capability. We have set stretching targets to increase uptake and this year we are budgeting for extra marketing, new point-of-sale materials, extra colleague hours and training. We are confident that because of the historic strong performance in this area, and the extra resources we are committing, that fitting is a significant avenue of growth for our business.

The final element of being the Friend of the Motorist is delivered through our Autocentres. We provide MOTs, car servicing and repairs and this is a natural extension of Halfords' retail service offer.

This has been a year of significant progress for Halfords Autocentres. As at 30 March 2012, we have 260 autocentres and since rebranding we have actively developed our offer and promoted Halfords Autocentres through a national radio campaign, online marketing and national TV advertising.

The results have been extremely encouraging and we have seen strong sales growth throughout the year as we win new customers. Our progress during a period when motorists are cutting back is a clear sign that the Halfords brand is increasingly viewed as the destination for all auto aftercare needs and as the Friend of the Motorist.

In the year Bill Duffy was promoted to CEO of Halfords Autocentres, and Simon Benson recruited as Operations Director. We have also relocated our Autocentres Head Office from Olton to our Group Head Office site in Redditch; this is already bringing benefits in cross-functional working.

The long-term growth opportunity of this business remains compelling. There are 32m cars on the UK's roads and the auto aftercare market is large and worth £8bn – £10bn. Competition is fragmented; there are around 24,000 garage outlets in the UK but numbers are in long-term decline due to economic factors. Halfords Autocentres has a good opportunity to grow in this environment due to the strength of our proposition and the potential to leverage our brand.

We are developing and investing in our customer relationship management. Car MOTs and servicing are linked to the age and mileage of vehicles and this lends itself to advanced data management systems. A key way we can help customers is to anticipate their vehicle's needs and make the right marketing offer to take the stress out of vehicle maintenance and attract them to use our autocentres.

We intend to build on success through the roll-out of new autocentres. During the year we opened 20 new autocentres and we are targeting up to 30 more in FY13. Further growth opportunities exist from fleet customers and accelerating tyre sales. We will also continue to invest in growing awareness and developing our proposition through innovative products. For example our recently launched brakes-4-life offers customers free replacement brake parts once they have bought and had these parts fitted at Halfords.

Linking all the elements of our auto aftercare offer together means that we can provide all aspects of car maintenance for our customers. Our products, services and value, backed by our trusted brand, offer real help to drivers and underpin our ambition to be the Friend of the Motorist.

The Best Cycle Shop in Town

Our research shows that the cycle shop and its web offer are central to the enjoyment and experience of cycling. We recognise that although we are the biggest provider of cycles to the UK market, at a local level and online we are not necessarily always the best cycle shop in every town. This must be our aspiration.

The core of our strategy to be the Best Cycle Shop in Town is Halfords' own and exclusive ranges of cycles. We address the whole cycle market from entry level to high performance.

Our great value *Trax* range, that is sold boxed for self-assembly, gives Halfords a competitive offer against supermarkets and other non-specialist outlets.

Apollo is the UK's best-selling cycle brand and offers value, quality build and good components.

Carrera provides performance specification and contemporary design without the price tag associated with global brands.

Our exclusive *Voodoo* range is designed by Joe Murray, the award-winning American mountain biker, and is a premium product for the serious mountain biker.

Top of the Halfords' cycle range are *Boardman* cycles, designed exclusively in collaboration with Halfords by former Olympic champion Chris Boardman. This range has been widely acclaimed for its leading designs, construction and price competitiveness and is endorsed by world famous riders such as Alistair Brownlee, the reigning World Triathlon champion.

During the year we redesigned and relaunched many of our cycles, including the entire *Carrera* range of 22 cycles and the *Voodoo* range of 10 cycles. It meant that at Christmas 2011 broadly half of our cycles were newly designed.

We will continue to develop and improve our existing brands and introduce new ones that offer value and appeal to our customers. A good example of this is the *Carrera Virago*, a carbon-fibre road racer for under £1,000, a very competitive price for such a quality performance cycle. It has been extremely positively reviewed by both the mainstream media and specialised cycling press.

Chief Executive's Review continued

In addition, to take full advantage of the heightened interest in the Olympics, we have introduced limited edition, in British colours, *Carrera* cycles. We have also launched an exclusive range of ladies cycles under the *Pendleton* brand, designed by Olympic and World champion cyclist Victoria Pendleton. These are aimed at women who want to incorporate some cycling into their everyday routine.

Our innovative and competitively priced ranges mean that Halfords is uniquely positioned to compete strongly at all levels of the cycle market, providing customers with one of the best selections of designs and prices in any cycle shop.

In addition to cycles, we stock a wide range of cycle parts and accessories from locks and lights to high visibility jackets and cycling helmets. The Parts, Accessories and Clothing ("PACs") market is estimated to be worth £615m annually and we have a lower share of this market than our share of the cycle market. This offers Halfords a significant opportunity to grow in this higher margin area. A high proportion of PACs sales occur online so an important part of our strategy for growth will be to improve our range and order fulfilment for these products online. We are planning to develop this category to capture an increased share of this market.

We also support our cycle offer through the advice and service of our colleagues; *c*.95% of the cycles we sell we also build and we offer a free six-week first service. Our Bike Care Plan that provides repairs, free of labour charge, is another opportunity to develop a service based revenue stream.

In the last year we have grown cycling sales by *c*.10%, and gained share in a growing market. This demonstrates the strength of the Halfords brand and our cycling offer.

The cycle market is estimated to be currently worth £1.4bn. We now plan to take advantage of this opportunity to drive further growth in this category through the combination of great service, reliable maintenance and repair, the best value bike range in the UK and new ranges of PACs. Our ability to deliver our biggest ranges to our customers next day is a winning formula within our strategy to be the Best Cycle Shop in Town.

The Starting Point for Great Getaways

As well as essential travel, our customers also want to enjoy their active leisure time and use their cars to go on trips. Our range of products and services is designed to equip people for their journey and help them make the most of their time out of doors.

A great example is our exclusive ranges of *Exodus* roof boxes. These significantly increase the carrying capacity of a car. They create extra space for luggage and other holiday essentials and leave more room in the vehicle for the family. We also supply the roof bars and cycle carriers and have trained colleagues ready to fit everything for customers while they wait.

We stock all the products motorists need to reach their destination: tyre pumps, warning triangles and high visibility jackets. At our autocentres we can check and service cars before they set off on long journeys.

Halfords' offer extends beyond the journey. We also stock tents and a whole range of camping and outdoor equipment. These items provide the basis for the holiday itself. Halfords is helping with great value offers, like our 4-person family tent pack, which contains a tent, sleeping bags, airbeds and a pump for less than £100.

It is predicted that this year more families than ever will holiday in Britain or look for lower cost ways of spending their vacation time. Thousands will come to Halfords as the starting point for their great getaway and catering for this demand provides a clear avenue for future growth.

In summary, through a focus on our three strategic pillars we plan to deliver sustainable revenue growth over the medium term. In the year ahead we intend to invest an additional *c*.£6m of Retail operating expenditure to create growth in these strategic areas. Of the total, £3.5m will be spent in support of our ambitions in fitting, £1.0m to enhance our multi-channel offer to complement our range and product development plans and £1.5m on training, capability and customer relationship management. These drivers will be broadly profit neutral in FY13 and will contribute to growth in top line and profitability from FY14.

Enablers

To deliver our strategic pillars we are focused on five key areas of our business which are central to improving our customer proposition and hence the progress of our business.

Portfolio

Our stores and our autocentres are the key ingredient of our multi-channel customer proposition. Their location and layout are central to how we deliver our ambition and our promise.

We have 467 retail stores and 260 autocentres trading throughout the UK and Ireland. Approximately 90% of our customers live within a 20-minute journey of our stores.

Through our store refresh programme we refurbished and reconfigured over 80 stores during the year. The sales uplifts achieved at these stores represent a good return on the invested capital and ensures a short payback period. Over 100 stores across the estate have now been refreshed over the last two years.

In London our High Street format stores provide a potential route for further expansion in an area where there is a shortage of suitable superstore opportunities.

We have had considerable success during the year in our negotiations with landlords in reducing occupancy costs. Within our store portfolio our lease expiry profile means that we have *c*.130 leases expiring over the next five years, which provide the opportunity to accelerate our work on reducing occupancy costs.

The nature of the shopping trip is changing as customers combine online shopping, stock checking and research with more traditional store visits. At Halfords, our stores must also facilitate our fitting and cycle repair services. Stores in the future will need to combine all these elements to provide a seamless experience. To test ideas that could provide future solutions and an enhanced shopping experience for our customers we have opened three laboratory stores. These will be used to test concepts and, if successful, it may be appropriate to include some of these concepts in future store designs. In the meantime our store refresh programme is on hold pending the feedback from these laboratory stores.

Chief Executive's Review continued

Web

Our commitment is to be a true multi-channel retailer, so that we seamlessly integrate our web offer with our in-store experience. Our development work is aimed to join together all aspects of the shopping trip and to leverage within that the growing power and use of the web as part of it. Enhancing our online offer and further extending our multi-channel presence is an investment priority.

To drive our ambition we have appointed a dedicated Digital Director, Clive West, reporting to me. He is responsible for all aspects of our online offer from the online site to the delivery process for orders.

The launch of the mobile version of our site has been very successful. It enables our customers to research and purchase online while they are on the move. Mobile traffic and revenues experienced significant growth and almost a fifth of all visits and over 10% of our online sales are now through these devices.

The introduction of the Halfords App and offering quick response ("QR") codes at the point of sale are other mobile innovations that Halfords has introduced to enhance the shopping experience for our customers. Customers can scan barcodes and access rich content like videos and product information, or get help in finding the right part for their make and model of vehicle. We have experienced over 370,000 visits to our App last year and over 15,000 QR codes were scanned.

We have also made considerable progress in enhancing our IT infrastructure and improving our on-site experience. We continue to develop the site with additional functionality aimed at improving our customer journey. We are focused on the entire customer journey from accessing the site to order fulfilment.

Our product mix lends itself to a multi-channel offer as customers often want further advice, a demonstration or fitting. Online purchasing patterns reflect this, with 86% of sales on Halfords.com reserved and then collected from a store. We recently made a further improvement to this service. Customers who buy an item online before 6.00 pm from the vast majority of Halfords 16,000 online product range can now choose to collect it the next day from their local store for free, even if that store does not normally stock the product. Direct delivery to home represents 14% of our online sales and we also continue to focus on improving this proposition for our customers. We now offer free delivery on a wide range of products as well as Saturday delivery.

The Halfords Autocentres website has provided a significant route to grow our Autocentres business. In the fragmented garage sector the relaunched website, with improved functionality, has provided a point of difference and resonated with customers. The revenue derived from online bookings was up by *c.*40%. Online bookings now account for 25% of all Autocentres bookings with 7% of bookings coming from the Halfords.com Retail site. Further integration of the Retail and Autocentres websites is a focus. The Autocentres website has also successfully supported our ambition in tyre sales, with online tyre sales up 170% in the year.

Operations

While the sales performance has been challenging, the Group has made significant operational progress this year. We have focused on enhancing customer service, reducing costs and continuing to build a solid platform for future growth.

Our new Distribution Centre at Coventry, equipped with state-of-the-art logistics technology, has operated smoothly and is a major contributor to good availability in our stores. One innovation has been the commissioning of 24 new double-decker lorry trailers. These can carry extra product, which helps decrease road miles and saves fuel.

To reduce the costs of goods not-for-resale we have implemented new processes. Some contracts have been renegotiated with specifications and suppliers changed. We have also appointed a new Head of Procurement responsible for goods not-for-resale buying to continue our focus on driving down costs in this area. One innovation is a new process for the recovery of the 3,000 tonnes of waste cardboard from our stores to our distribution centres, where it is baled and sold for recycling.

To fulfil our ambitions in fitting we are actively recruiting and training new colleagues. We have also put in place new programmes for customer engagement to improve the in-store experience and the help we offer people when they visit a Halfords store.

Autocentres continued to develop and enhance the technical expertise of colleagues. This meant executing the tyre sales opportunity whilst developing compelling offers such as brakes-4-life. Additional investment in centre capability was complemented by trials of extended hours and Sunday openings.

Marketing

Our new marketing campaign *"that's helpful, that's Halfords"* has helped build awareness of the value we offer through great prices, quality and innovative products with the expert service of our colleagues. Our Christmas campaign was critically acclaimed and developed this theme highlighting the lasting value of Halfords' products like cycles which provide pleasure for years.

Our summer campaign demonstrates how Halfords has helped customers for many years make the most of their holidays. Using the strapline, **The Best Trips Last a Lifetime**, it focuses on how customers use our products to make the best of their summer holidays.

We also extended our national advertising of Autocentres from radio to TV with a series of idents around the motoring programmes on the Dave channel. These illustrate the delighted response of motorists who have been helped by Halfords colleagues.

People

Our colleagues, in all areas of our business, are of paramount importance to help our customers. Their passion and abilities are central to the delivery of our strategic objectives and I am extremely proud of their commitment and enthusiasm.

In addition, their expert knowledge, advice and service differentiate us from our competition, especially the online pure plays, and generate attractive levels of return. In the year we have invested in extra training for colleagues through our programmes to encourage higher levels of engagement with customers. We are also investing in extra training to increase the number of colleagues who carry out fitting and cycle repair services.

We track our success in customer service through Empathica customer surveys and our detailed quarterly customer research; these show that increasingly customers recommend our service to others.

Values are central to all successful organisations and this year we have more clearly defined the central tenets of the way we want to work together. We launched these at our first Company-wide managers' conference. The values are:

In the year ahead we are running an engagement survey for all our colleagues which will help us to understand how to support and offer the best training possible.

As well as the appointments already mentioned, my Executive team has been completed during the year with the promotion of Kevin Thomas as Retail Director and the appointment of Jonathan Crookall as Group HR Director.

I would like to thank all our colleagues for their hard work and their immense contribution to the progress of our business.

Summary and Outlook

Halfords continues to be highly profitable and strongly cash-generative, and is maximising its performance in a demanding retail environment.

While this is a challenging time, Halfords has delivered significant growth in Leisure, including cycles, fitting services and Autocentres throughout the past and prior years. This demonstrates how we are evolving our business from a traditional out-of-town product retailer to a significant service provider.

Some other areas of the business like Car Enhancement are shrinking while others like DIY Car Maintenance are mature and have been affected by the pressures on motorists and the reduction in mileages being driven.

The strong performance of Halfords' growth areas is proof of the relevance of our offer in the busy lives of our customers. **By Helping and Inspiring our Customers with their Life on the Move** we play a vital role for millions of people. Our three strategic pillars — the Friend of the Motorist, the Best Cycle Shop in Town, and the Starting Point for Great Getaways — give us an attractive route to evolve our business over the longer term.

We plan to take advantage of these opportunities and to accelerate the transition through strategic investments in the year ahead. We anticipate that this will contribute to growth in our sales and profits in the medium term.

David Wild
Chief Executive Officer
30 May 2012

halfords

Finance Director's Report

"Group revenue in FY12, at £863.1m, comprised Retail revenue of £752.3m and Autocentres revenue of £110.8m."

Andrew Findlay
Finance Director

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

Reportable Segments

Halfords Group operates through two reportable business segments:

- Halfords Retail, operating in both the UK and Republic of Ireland; and
- Halfords Autocentres, operating solely in the UK.

All references to Group represent the consolidation of the Halfords ("Halfords Retail"/"Retail") and Halfords Autocentres ("Halfords Autocentres"/"Autocentres") trading entities.

Financial Results

	FY12 £m	FY11 £m	% Change
Group Revenue	**863.1**	869.7	-0.8%
Group Gross Profit	**472.8**	485.0	-2.5%
Group Operating Profit	**97.2**	128.1	-24.1%
Net Finance Costs	**(5.0)**	(2.5)	—
Profit Before Tax, before non-recurring items	**92.2**	125.6	-26.6%
Profit Before Tax, after non-recurring items	**94.1**	118.1	-20.3%

All above items are shown before non-recurring items unless otherwise stated.

The "FY12" accounting period represented trading for the 52 weeks to 30 March 2012. The comparative period "FY11" represented trading for the 52 weeks to 1 April 2011.

Group revenue in FY12, at £863.1m, comprised Retail revenue of £752.3m and Autocentres revenue of £110.8m. This compared to FY11 Group revenue of £869.7m, comprising Retail revenue of £771.6m and Autocentres revenue of £98.1m. Group revenues decreased by 0.8%, but when excluding the discontinued Central European revenues in the comparable period, the decrease was restricted to 0.5%.

Group gross profit at £472.8m (FY11: £485.0m) represented 54.8% of Group revenue (FY11: 55.8%). This reflected a decline in UK/ROI Retail business of 140 basis points ("bps") and a gross margin of 65.9% (FY11: 66.3%) in the Autocentres business.

Total operating costs before non-recurring items increased to £375.6m (FY11: £356.9m), of which Retail represented £307.0m (FY11: £296.7m), Autocentres £66.4m (FY11: £58.0m) and unallocated expenses £2.2m (FY11: £2.2m). Unallocated expenses represented amortisation charges in respect of intangible assets acquired through business combinations (the acquisition of Nationwide Autocentres Ltd in February 2010), which arise on consolidation of the Group. Non-recurring income during the year of £1.9m represented the release of the Focus lease guarantee provision, recognised as a non-recurring cost in FY11, resulting from the better-than-anticipated settlements in the period.

Net finance costs for the period were £5.0m (FY11: £2.5m).

Group profit before tax and non-recurring items for the 52 weeks to 30 March 2012 was down 26.6% at £92.2m (FY11: £125.6m).

Group profit before tax for the 52 weeks to 30 March 2012 after non-recurring items was £94.1m (FY11: £118.1m), down 20.3%.

Halfords Retail (before non-recurring items)

	FY12 £m			FY11 £m			
	UK/ ROI	**Central Europe**	**Total**	UK/ ROI	Central Europe	Total	UK/ ROI % Change
Revenue	**752.3**	**–**	**752.3**	769.7	1.9	771.6	-2.3%
Gross Profit	**399.8**	**–**	**399.8**	419.9	0.1	420.0	-4.8%
Operating Costs	**(307.0)**	**–**	**(307.0)**	(296.2)	(0.5)	(296.7)	+3.6%
Operating Profit	**92.8**	**–**	**92.8**	123.7	(0.4)	123.3	-25.0%

Revenues for the UK/ROI business of £752.3m reflected, on a constant currency basis, a like-for-like ("LfL") sales decline of 2.7%. This was partially offset by £3.7m of revenue from new space, reducing the sales deficit to 2.3%. By category, Car Maintenance and Car Enhancement LfL revenues were down 4.5% and 11.6% respectively, Leisure LfL revenues were up 5.0%. The relative split of UK/ROI revenues is shown opposite.

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Proportion of UK/ROI Retail Sales	FY12	FY11
Car Maintenance	**30.8%**	31.4%
Car Enhancement	**25.9%**	28.4%
Leisure	**43.3%**	40.2%

Gross profit for the UK/ROI business at £399.8m (FY11: £419.9m) represented 53.1% of sales, a 140 bps decline on the prior year (FY11: 54.5%). This reflected the continued focus on the delivery of cash returns within the business, increased levels of promotional participation by our customers, reduced sales of higher-margin ranges and the impact from our focus on efficient stock clearance. The effect of these, together with the adverse results of product cost inflation, was partially offset by the continuing increased penetration of our unique, high-margin ***we***fit and ***we***repair propositions and continued focus on maximising product-sourcing efficiencies.

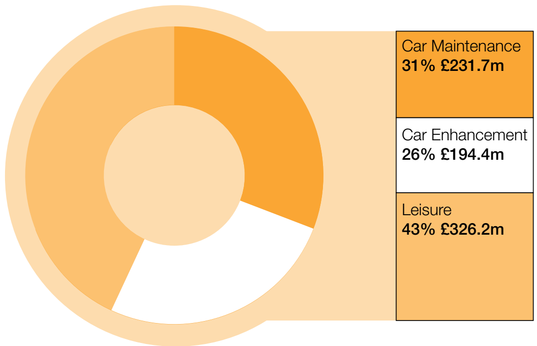
Operating costs for Retail before non-recurring items were £307.0m (FY11: £296.7m), up 3.6%. In FY11, UK/ROI operating costs before one-off store occupancy and support cost savings were *c.*£300m. Based on this, the underlying increase in UK/ROI Retail operating costs in the period was restricted to 2.3%. The increase reflected higher store and support costs, offset by savings in warehouse and distribution costs.

UK/ROI Retail Operating Costs	FY12 £m	FY11 £m	% Change
Store Staffing	**80.1**	78.1	+2.6%
Store Occupancy	**139.0**	135.4	+2.7%
Warehouse & Distribution	**25.9**	27.5	-5.8%
Support Costs	**62.0**	55.2	+12.3%
Total	**307.0**	296.2	+3.6%

Store staffing costs rose 2.6% which represented the continued benefits of the restructuring of store labour rotas in the prior year and lower-than-forecast store colleague incentive payments, offset by inflationary and minimum wage pay increases year-on-year. Store occupancy costs increased by 2.7%, reflecting *c.*£3m of one-off benefits in FY11, inflationary increases in rent, rates and utility costs, and included the revenue costs associated with 83 store refreshes in the period.

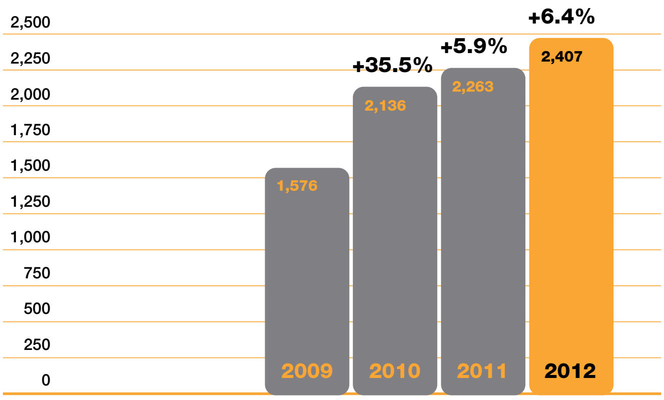
UK/ROI Retail Revenue £752.3m

-2.3%



wefit/***we***repair **jobs ’000s**

+6.4%



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Finance Director's Report continued

Warehouse and distribution costs fell by 5.8%, driven by the expected improvements in efficiency being delivered following the move to the new Distribution Centre in Coventry in July 2010. Under the old distribution network, costs would have been approximately £3.8m higher than those reported.

The increase in support costs predominantly reflected our investment in colleagues ahead of FY13 through ensuring we have the right resources to drive sustainable growth in the key areas. As an example of this, we recently appointed our first Digital Director to maximise the multi-channel opportunity ahead of us. We also invested in store colleague training and engagement to ensure we are equipped to drive additional in-store service revenues at our Company-wide managers' conference. We also invested during the year to obtain a better understanding of our markets, customers and future growth opportunities. No Head Office performance bonus for the period was accrued.

In FY11, the Central European Retail operation generated revenue of £1.9m and a loss before taxation of £0.4m, after operating costs of £0.5m. The operations were fully wound down in FY11, and no revenues or costs associated with this operation were recognised during the period.

Halfords Autocentres

	FY12 £m	FY11 £m	% Change
Revenue	**110.8**	98.1	+12.9%
Gross profit	**73.0**	65.0	+12.3%
Underlying Operating Costs	**(66.0)**	(58.0)	+13.8%
Underlying Operating Profit	**7.0**	7.0	—
One-off Relocation Costs	**(0.4)**	—	—
Statutory Operating Profit	**6.6**	7.0	-5.7%

Autocentres generated total revenues of £110.8m in FY12 (FY11: £98.1m), an increase of 12.9% over the prior year, a like-for-like increase of 6.1%. Twenty new autocentres opened in the year, generating £2.2m of incremental revenue, which took the total number of autocentre locations to 260 as at 30 March 2012. The increase in revenues from the existing 240 centres reflected the benefit of the UK-wide brand relaunch completed in April 2011, enhanced media support and growth in tyre sales, an area of opportunity for Autocentres.

Gross profit at £73.0m represented a gross margin of 65.9%, down 40 basis points on comparable FY11 levels, driven by increased volumes of lower-margin tyre sales, partially offset by better parts-buying.

Before a one-off charge of £0.4m associated with the transfer of the Autocentres Head Office from Olton to Redditch (completed in April 2012), Autocentres' operating profit was £7.0m (FY11: £7.0m) reflecting underlying operating costs of £66.0m (FY11: £58.0m). To secure long-term growth and profitability, investment in the business continued. A successful media campaign, investment in tyre training, rebrand depreciation and the impact of new centre opening activity contributed to the operating cost increase.

Portfolio Management

The Group continued to manage actively its store and autocentre portfolio. During FY12, the Retail business opened three stores in London (Wood Green, Ilford, Ealing), closed two metro stores (Norwich, Haywards Heath) and refurbished 83 stores. Within Autocentres, 20 new centres were opened in the period.

With the exception of nine long-leasehold and two freehold properties within Autocentres, the Group's operating sites are occupied under operating leases, the majority of which are on standard lease terms, typically with a five to 15 to 25-year term from inception and with an average lease length of around seven years.

During the year re-gear negotiations were completed on 14 stores, resulting in six contracts being exchanged on lease extensions, five downsizes and three relocations resulting in lower ongoing rental payments.

Focus Leases

At the end of FY11, a non-recurring charge of £7.5m was recognised in respect of a provision for property leases for which Halfords was guarantor, triggered by the demise of the Focus DIY retail chain. At the end of FY12, the provision was £3.1m reflecting the settlement and exit of certain leases, resulting in non-recurring income of £1.9m during the year, and utilisation of the provision in respect of rent, insurance, service charges and legal fees incurred.

Finance Costs

Net finance costs were £5.0m (FY11: £2.5m). The higher charge in the period reflects a full year of loan facility non-utilisation fees, margins and arrangement-fee amortisation expense. A one-off benefit of £0.9m interest income was also recognised in the prior period relating to the settlement of amounts due from HMRC. Weighted average borrowings of £116.7m were £37.6m lower than last year.

Taxation

The taxation charge on profit for the financial year was £25.7m (FY11: £32.6m), including a £0.9m charge (FY11: £2.1m credit) in respect of the tax on non-recurring items. After non-recurring items, the full year effective tax rate of 27.3% (FY11: 27.6%) differed from the UK corporation tax rate (26.0%) principally due to the non-deductibility of depreciation charged on capital expenditure, the reassessment of anticipated future tax deductions from employee share schemes and other permanent differences arising in the period. Before non-recurring items, the full year effective tax rate in FY12 was 26.9%.

Earnings Per Share ("EPS")

Basic EPS before non-recurring items was 33.7 pence (FY11: 43.2 pence), a 22.0% decrease on the prior year. Basic EPS after non-recurring items for the period was 34.2 pence (FY11: 40.7 pence). Basic weighted average shares in issue during the year were 199.9m (FY11: 210.4m). During the year 18,084,113 shares were acquired by the Company via the share buyback programme commenced in April 2011. Of these, 12,634,493 have been cancelled, with 5,449,620 converted to treasury shares to be used by the Group to satisfy existing and future employee share schemes.

Dividend

The Board is recommending a final dividend of 14.0 pence per share (FY11: 14.0 pence), which, in addition to the interim dividend of 8.0 pence per share (FY11: 8.0 pence), generates a total dividend of 22.0 pence (FY11: 22.0 pence). This reflects the Board's recognition of the importance of dividends to shareholders and the continuing cash-generative capabilities of the business.

Subject to shareholder approval at the Annual General Meeting the final dividend will be paid on 3 August 2012 to shareholders on the register at the close of business on 6 July 2012.

Capital Expenditure

Capital investment in the period totalled £19.7m (FY11: £22.8m) comprising £15.2m in Retail and £4.5m in Autocentres. Consistent with prior periods, management has continued to adopt a prudent approach with regard to capital investment and has focused on investments generating material returns.

Within Retail, £11.5m was invested in stores, and included £1.2m in three new London stores, together with two completed store relocations. It also included £10.3m of investment in 83 store refreshes, the rightsizing of two stores, other expenditure covering general maintenance and the investment in three laboratory store formats opened recently. Additional investment in Retail infrastructure included a £2.4m investment in IT systems, including further development of the online customer proposition, £1.0m in logistics and £0.3m in central facilities.

A further £4.5m (FY11: £6.2m) was invested in Autocentres predominantly to drive the centre roll-out plan and upgrade centre equipment, especially in relation to the delivery of the tyre proposition.

Inventories

Group stock held at 30 March 2012 was £146.7m (1 April 2011: £147.6m), down 0.6% on the prior year. Within this, Autocentres' stock was £1.4m, flat year-on-year. The management of inventory remains a key area of focus for the Retail business while the Autocentres business model is such that only small levels of inventory are held within the autocentres, with most parts being acquired on an as-needed basis.

Cash Flow and Borrowings

The Group has continued its strong track record of cash generation. Net cash generated from operating activities in FY12 was £89.7m (FY11: £118.4m). Free cash flow of £70.4m is after taking into account taxation, capital expenditure and net finance costs.

Total net bank debt at 30 March 2012 was £127.7m (1 April 2011: £91.4m) after cash balances of £10.9m. Further borrowings of £11.5m (FY11: £11.8m), in respect of the Head Office finance lease, resulted in Group net debt at 30 March 2012 of £139.2m (1 April 2011: £103.2m), an increase of £36.0m. At this level net debt to EBITDA (earnings before non-recurring items, finance expense, depreciation and amortisation) was 1.1 times.

Following a review by the Board of the Group's capital structure and cash-generation capabilities, the Group commenced a share buyback programme, with effect from 7 April 2011, with the intention to return up to £75m of cash to shareholders over the following 12 months. In FY12, £62.3m of shares were bought back via the purchase of 18.1m shares. As at 29 May 2012, a further £0.9m of shares were purchased in the new financial year.

Given the return to more normalised levels of gearing the Board has resolved to bring the current buyback programme to an end and does not intend to undertake any further buyback activity in the new financial year.

Financial Risks

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. The Finance Director 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.

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.

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Finance Director's Report continued

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, subject to price fluctuation. The Group mitigates this risk by negotiating fixed purchase costs or by 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 interest rates and the Group will continue to monitor movements in the swap market.

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 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 buyback scheme. A separate buyback scheme was initiated on 7 April 2011.

The Group manages capital by operating within debt ratios. These ratios are:

- consolidated EBITDAR (earnings before non-recurring items, finance expense, depreciation, amortisation and rental costs) to consolidated total net interest payable plus rent; and
- consolidated total net borrowings to consolidated EBITDA.

Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at 30 March 2012 was £28.6m (1 April 2011: £15.5m).

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 more than 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 30 March 2012, 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 and forward foreign exchange contracts.

Pension Liability Risk

The Group has no association with any defined-benefit pension scheme and therefore carries no deferred, current or future liabilities in respect of such a scheme. The Group operates a number of Group Personal Pension Plans for colleagues.

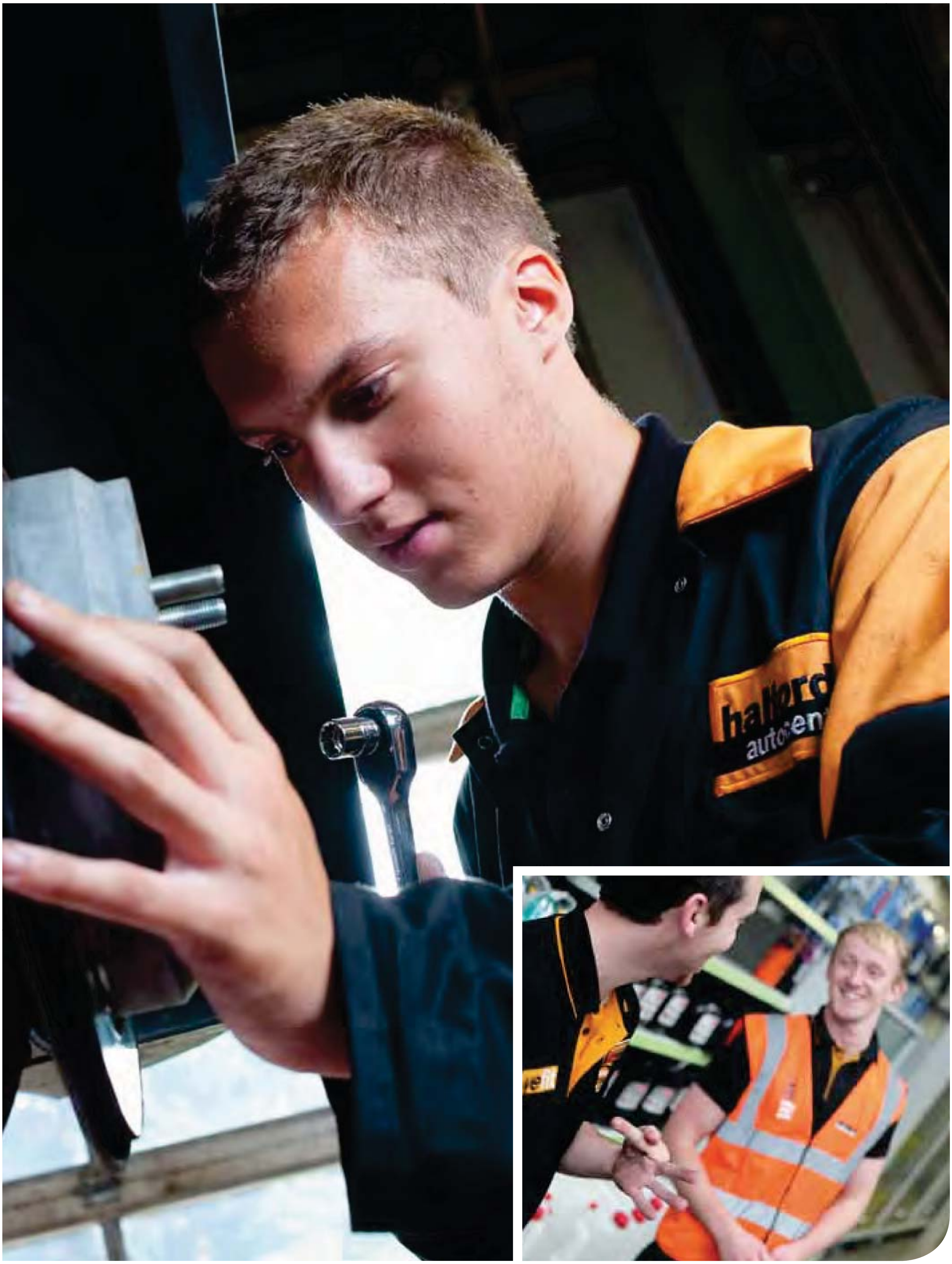
Liquidity Risk

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 £30m, such that under the Treasury Policy the maximum drawings would be £270m of the £300m available facility.

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 refinancing (November 2010). Ancillary business, in the main, is directed to the five banks within the club banking group. At the year-end four of the banks within this group maintained a credit rating of 'A' or above. The counterparty credit risk is reviewed in the Treasury Report, which is forwarded to the Treasury Committee and the Group Treasurer reviews credit exposure on a daily basis.

The risk is measured through review of forecast liquidity each month by the Group 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 club bank agent. There have been no breaches of covenants during the reported periods.

Andrew Findlay
Finance Director
30 May 2012



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Risks and Uncertainties

Like all businesses, our Group faces risks and uncertainties that could impact the achievement of the Group's strategy.

These risks are accepted as being a part of doing business and the Board recognises that the nature and scope of these risks can change and so regularly reviews the risks faced by the Group as well as the systems and processes to mitigate them.

The Corporate Governance report on pages 74 to 81 describes the systems and internal control processes through which the Directors identify, assess, manage and mitigate risks.

Strategic Pillars

friend of the motorist | bestcycle shop in town | starting point for great getaways

Enablers

Portfolio | Web

Operations | Marketing | People

Key Risks and Uncertainties

Senior Management colleagues assess risks on a department-by-department basis using a variety of techniques to identify risk. The likelihood and impact of these risks are considered and scored against a recognised framework dependent upon their effect on the achievement of our corporate strategies.

Mitigation

Responsibility for taking the necessary actions to manage risk is delegated to appropriate colleagues in the business, with Executive manager sponsor involvement. The Risk Register is monitored and updated with current and ongoing mitigation on a regular basis.

Report and Review

The Executive Committee and the Board consider the risks reported within the Risk Register and review and monitor new risks and all mitigating actions to ensure that the status of risk mirrors the levels of risk that the Board is willing to take in achieving the Group's strategic objectives.

Key Risks and Uncertainties	Mitigation	Strategy
Economic		
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. Changes in Government policies may also affect our consumers' ability to benefit from our products and services.	The Group mitigates these risks by focusing on maintaining the "defensive" characteristics of its "needs driven" product groups and by ensuring that its stores and centres are the key destination for its core products and services. We also ensure that we have representation with Governmental decision-makers in the areas supporting our core categories.	Portfolio Operations Marketing
Business Strategy		
The aim of the Group's business strategy is to deliver long-term value to our shareholders. The Board understands that if the strategy and vision are inappropriately formulated and communicated and that the necessary resources are not put in place then the business will suffer.	The budgetary and planning process aims to deliver the Group's growth targets and business plans are developed to ensure these targets are achieved and that they are resourced appropriately. Regular access to industry experts and monitoring of performance against plan is carried out by both the Executive managers of the Company and the Board to ensure targets are being achieved and that they remain relevant to and focused on the Group Strategy.	Portfolio Operations Marketing People Web
Competition		
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, in both stores and online, as well as international operators. The Car Servicing market is a service-based market with a number of different-sized providers where "Trust" is extremely important to customers. Failure to compete with competitors on areas including price, product range, quality, service and "trustworthiness" could have an adverse effect on the Group's financial results.	The Board is aware of the risks faced from UK retailers, both in-store and online, and from the national car-servicing network and seeks to continually strengthen its "own-brand" and "sub-brand" retail offer and develop opportunities to differentiate the Halfords offer and deliver an honest and trustworthy service.	Marketing Web
Compliance		
The Group operates in an environment governed by legislation, standards and codes in areas including, but not limited to, trading, advertising, product quality, health and safety, hazardous substances and data protection.	The Group has a Quality Assurance and a Commercial Regulatory team that manage legal and regulatory control processes both in-house and externally to advise and take action on existing and emerging risk management issues. Our various Codes of Practice regulate our behaviour in our dealings with all stakeholders including customers, suppliers and colleagues and our attitudes toward such areas as the environment and ethical trading.	Operations
Changing Customer Preferences		
Some of the products that Halfords sells, particularly in the Car Enhancement category, are subject to rapidly changing consumer preferences. Products such as children's cycles face competition from alternative products (such as games consoles) and some of the products that the Group sells are non-discretionary in their nature and predicting future trends is difficult.	Halfords has recruited experienced, knowledgeable colleagues who can identify and interpret trends and consequently respond in a timely manner to changes in consumer preferences. Colleagues also monitor developments in alternative products and our forecasts reflect the latest assumption in these areas. We are continually looking at ways of moving into new merchandising opportunities to mitigate technology changes and to improve forecasting and planning to ensure we meet our customers' changing needs.	Portfolio Marketing Web

Risks and Uncertainties continued

Key Risks and Uncertainties	Mitigation	Strategy
Reputation		
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.	Ultimately the protection of Halfords' brand and position in its core markets will be sustained by unique and extensive product offerings and a multi-channel approach to sales in our stores and a high-service-based customer proposition in our stores and autocentres. This is complemented by quality training from accredited Automotive Technician training to Cytech (Cycles), RoSPA, and the Institute of Mechanical Industries training, ensuring that colleagues at both stores and centres are capable of supporting the Halfords brand.	Operations Marketing People
Reliance on Foreign Manufacturers		
Halfords sources a significant proportion of the merchandise it sells in its stores from outside of the UK, either directly or via third-party suppliers. Consequently, the Group is subject to the risks associated with international trade (particularly those which are common in the import of goods from developing countries) including, but not limited to, inflation, currency fluctuation, the imposition of taxes or other charges on imports, the exposure to different legal standards, the burden of complying with a variety of foreign laws and changing foreign government policies and natural disasters.	Extensive research is conducted into quality and ethics before the Group procures products from any new country or supplier. The Group's strong management team in the Far East has been recruited locally and understands the local culture, market regulations and risks and we maintain very close relationships with both our suppliers and shippers to ensure that disruption to production and supply are managed appropriately.	Operations
Product and Service Quality		
The Board recognises that the quality and safety of both our products and services in our stores and autocentres is of critical importance to us and that any major failure will affect consumer confidence. We recognise that if our products are seen to be or perceived to be of poor standard or of poor value for money then customers will look to obtain these from our competitors. There is also the risk that our service proposition fails due to inconsistent levels of service at individual stores and individual centres.	The Group constantly seeks to enhance its position as the store or centre 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 in-store ***we***fit proposition provides a range of services at a lower cost to our customers than that provided by competitors. Our Autocentre business continually seeks to provide innovate solutions for their customers, such as **brakes4life**. We also have an established training infrastructure to ensure that our colleagues receive ongoing product and service training. In our centres the training of our technicians to provide high quality motor vehicle repairs is enhanced through an apprenticeship programme and accredited Automotive Technician training. Sixty per cent of our centres workshop colleagues hold a Motor Industry qualification.	Operations Marketing People

Key Risks and Uncertainties	Mitigation	Strategy
Information Technology ("IT") Systems and Infrastructure		
In common with most businesses, Halfords is dependent on the reliability and suitability of a number of important IT systems where any sustained performance problems, particularly with regard to stores, centres or warehouse, multi-channel and distribution systems, could potentially compromise our operational capability for a period of time. With ambitious growth plans for our multi-channel offer, our trading capacity could be affected by internal and external systems' resilience and interdependencies.	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 backup strategy, and a hotlink secure data centre hosted outside the UK, with an additional access to a further data support centre elsewhere in the UK in case of a major incident.	Operations Marketing People Web
Dependence on Key Management Personnel		
The success of the Group's business depends upon its senior management closely supervising all aspects of its business, in particular, the operation of the stores and autocentres, including the appropriate training of in-store and centre colleagues, and the design, procurement and allocation of merchandise. Retention of senior management is especially important in the Group due to the limited availability of experienced and talented retail executives.	Our Remuneration Policy outlined on page 82 details the strategies in place to ensure that high calibre Executives are attracted and retained. The Group looks to improve its senior manager cadre through operating 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. At a junior level the Group continues to invest in graduate programmes and store/centre colleague training and development.	People

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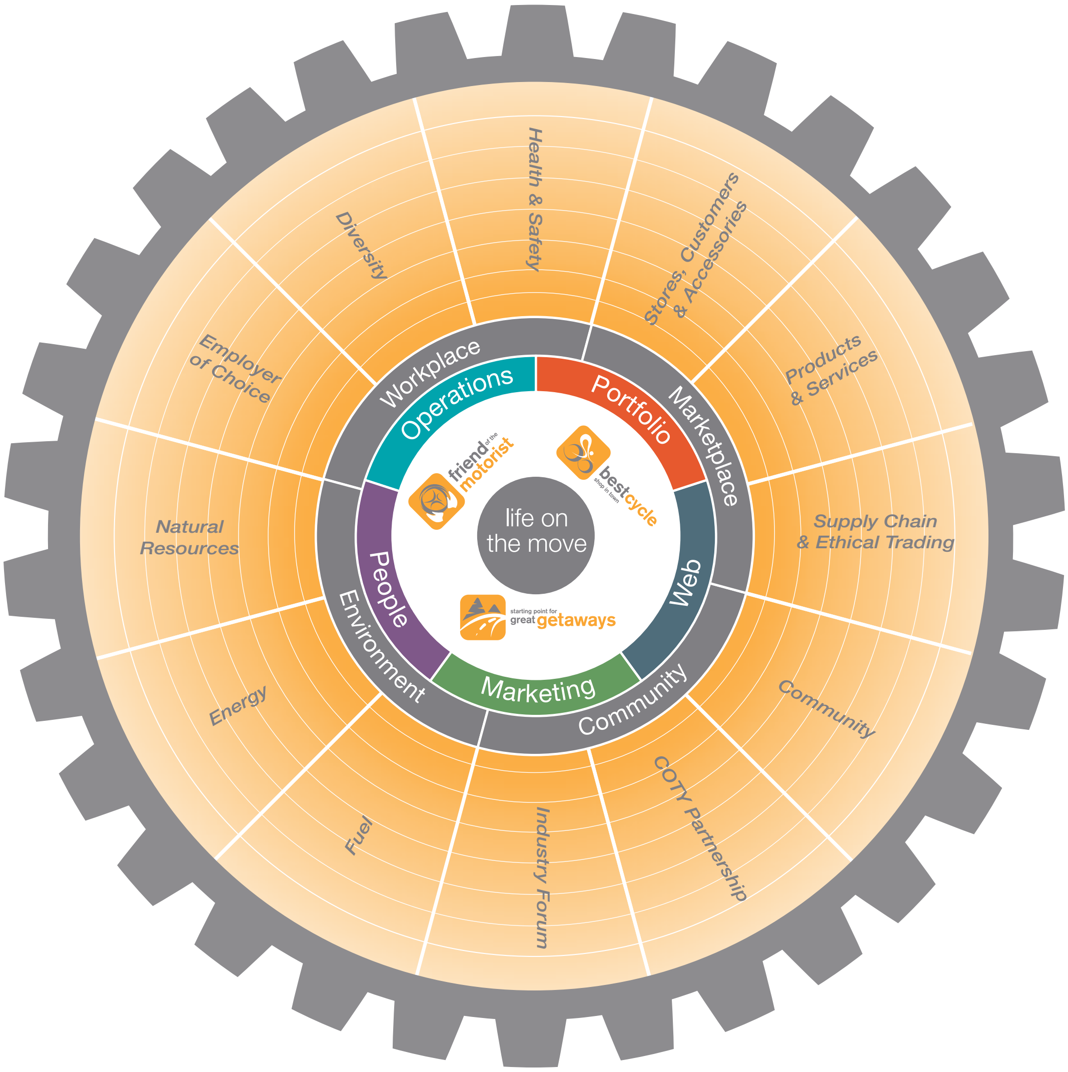
Corporate Responsibility Report

Strategies related to our Corporate Responsibility



We believe effective management of our Corporate Responsibility ("CR") 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 CR 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 committed to ensuring 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. "*That's helpful, that's Halfords*" is not just for our customers, but is about how Halfords acts and reacts to ensure sustainability of both the environment in which we operate and our own business model.

The Group annually reviews its ongoing CR commitments to ensure it meets the needs of the markets and communities in which we work and that the associated Key Performance Indicators ("KPIs") accurately reflect the Group's success or otherwise in implementing its policy.

Following the review conducted last year by Business in the Community ("BITC") the Group continued to follow its "ACTING RESPONSIBLY" policy during the period to 30 March 2012.

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

Read online: halfords.annualreport2012.com/cr

However, the Company has a strong cost control ethos and is keenly bottom line driven with clear profit ambitions and the thinking hierarchy at present is "cost first". It is therefore essential that any CR programme should be shown to be intricately linked to achieving business success and enhancing the business's value proposition.

Halfords has always prided itself on behaving responsibly to all stakeholders, and CR forms an integral element of this relationship by demonstrating the Company's honesty, reliability and trustworthiness in respecting customers, employees, investors and the environment. However, we acknowledge that in the past our community investment activities have been informal and not driven by a clear community investment strategy that is aligned to our business strategies.

In order to address this the Company has involved itself with the Prince's Trust "Seeing is Believing" activities and visited a number of charities to see how Halfords might be able to make a positive contribution to communities in which our stores operate. All the charities that we met with worked with individuals from disadvantaged backgrounds including homelessness, young people NEET ("not in education, employment or training") or ex-offenders. In the many discussions that we had with the young people that we met, it was obvious that whilst they were appreciative of all offers of help, what they really wanted was a real opportunity to get a job. This has led to discussions with a Social Enterprise company, Bikeworks, as to how Halfords might introduce a Work Inclusion programme for NEET individuals. This is discussed in more detail on page 49.

As in 2011 we continue to report on our activities under the headings used by BITC in their 2010 report, and we have aligned these with our Group strategy on page 12.

Our 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 management 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 thus the Board reviews the policy and our performance against that policy annually.

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. We hope to build on our cycle repair work inclusion programme to help us deliver a quality repair service in-store and we will report more on the success of this initiative next year.

halfords

Corporate Responsibility Report continued

Workplace

"We recognise that our colleagues are our single most valuable asset and we are committed to a fair but robust approach to equal opportunities."

Read online: halfords.annualreport2012.com/cr

Full unaudited details of our Corporate Responsibility activities are available online — www.halfordscompany.com/cr

Employer of Choice

The development and delivery of Halfords' customer offer both in our retail stores and autocentres would not have been possible without the unfailing support and commitment of our colleagues employed across all our operations. Consequently, 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.

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 and delivering our "helpful" message.

We recognise and reward high performance and by ensuring colleagues have interesting jobs, with real accountability, Halfords can provide the opportunity to develop careers. Over the years we have worked hard to provide an environment in which people are keen to work and our turnover rates both in our retail stores and autocentres are monitored on a regular basis.

Our commitment to our customers means we are able to add value to their purchases with our fitting services. This requires the majority of our colleagues to be properly trained in the fitting of, amongst other products, bulbs, blades, batteries, child seats and roof boxes. Our desire to become famous for being "helpful" means that FY12 has seen a 20.4% increase in the number of our retail staff holding accredited fitting qualifications, whilst *c.*60% of our autocentre workshop colleagues hold a Motor Industry qualification.

To ensure the best and the most consistent garaging servicing, Halfords Autocentres also run a Training Academy apprenticeship programme, which currently has approximately 140 apprentices. All go through a three-year fully funded programme and will complete as qualified Technicians with an Institute of the Motor Industry NVQ level 3 and a Diploma. In addition, they will each complete an Automotive Technician Accreditation (ATA) assessment and we provide ongoing development opportunities through our IMI accredited Academy of Learning where we can deliver a range of both Technical and Management qualifications from foundation level voluntary qualifications through to degree equivalents.

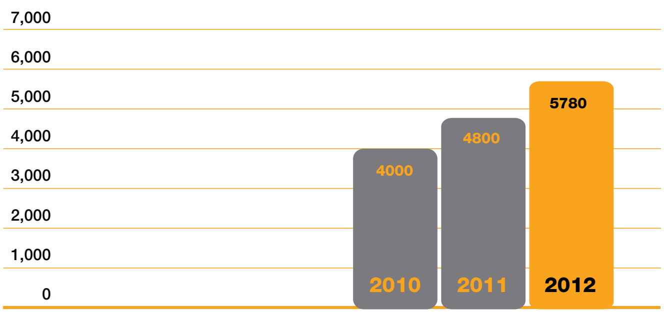
Diversity

Halfords has an Equal Opportunities Policy which outlines regulatory requirements as well as the organisation's commitments regarding diversity and expectations of staff. The current workforce in our stores and autocentres may not always be reflective of our community base, but we feel it does reflect our customer base and the types of services we provide, with 26% of our total colleague population being women.

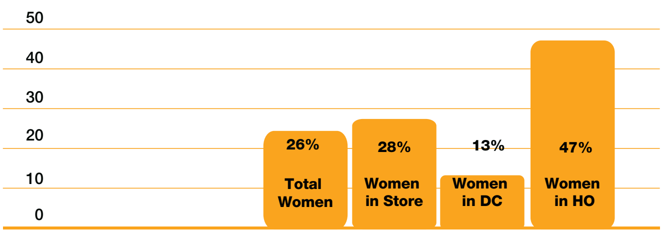
Health & Safety Management

Halfords is committed to high standards of occupational health & safety to minimise the risk of injuries and ill health to employees, contractors, customers, visitors and others who come into contact with the business. Our overall annual incident rate remains below the benchmarks of the industries we operate in.

Halfords Retail — Staff holding accredited fitting qualifications



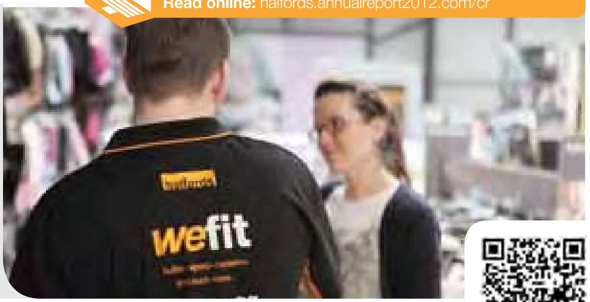
Women Colleagues employed in Halfords



Marketplace

Read online: halfords.annualreport2012.com/cr

"We interact with our customers every day to ensure that our range meets their requirements and that they understand how to use our products safely."



Full unaudited details of our Corporate Responsibility activities are available online — www.halfordscompany.com/cr

Stores and 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 over 14,000 items, we interact 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" helpful attitude and competitive, value-for-money pricing together with a reasonably priced service proposition.

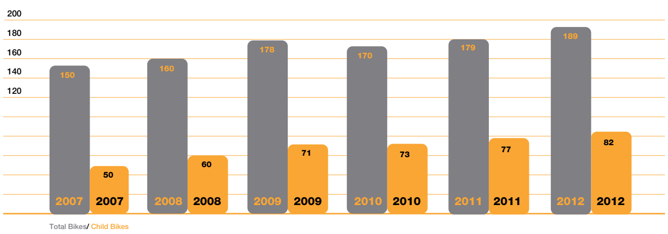
Our autocentres provide value-added services to both the general public and large fleet providers alike, and carry out manufacturer-based servicing which meets the needs of vehicles still covered under warranty as well as our own menu-based servicing options, typically reducing the cost of motoring yet maintaining quality. The parts that we fit meet OE standards, ensuring that warranties are never compromised and that legislative requirements are met. We are the UK's largest supporter of the Automotive Technician Accreditation (ATA) scheme and we work proactively to ensure that our technicians are up to date and technically competent.

As well as being monitored by external organisations such as VOSA and Trading Standards, we apply our own quality control systems and mystery shopper programme to ensure that our customers receive the very best service experience.

Products

We continually assess the lifestyle and environmental impacts of our products, packaging, procedures and services at all appropriate stages, e.g. design, procurement, supply, sale, use and disposal. We always promote good practice in the provision of environmental communication to customers and colleagues; however, our business strategy and product offering is strongly influenced by consumer choice. For example in FY12 we sold *c.*993,000 litres of diluted screen wash and only *c.*540,000 litres of concentrated screen wash, a product that has a carbon footprint *c.*5 times lower than its diluted eqivalent.

No. of Cycles stocked



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 189 models of bicycles, of which 82 are aimed at children between three and eight years of age, and we continue to market "Cycle 2 Work" schemes that allow employers to offer to their employees the use of a bicycle for travelling to work.

Services

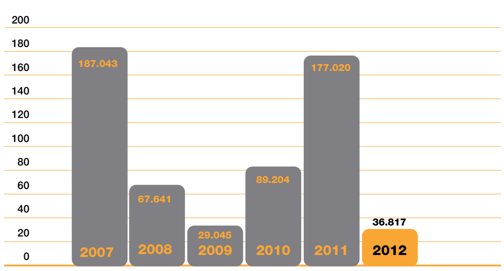
Within our Autocentres business, all of our servicing products are aimed at increasing fuel efficiency and helping the motorist get more miles per gallon.

During 2011 we introduced our new **brakes4life** product. **brakes4life** is a lifetime replacement of brake pads and brake shoes. By maintaining brake pads and shoes in good working condition our customers can improve fuel efficiency and ensure they can drive the car safely.

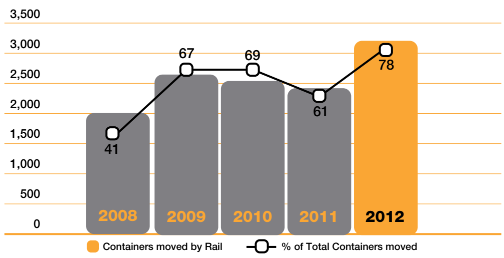
Supply Chain Transportation

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 airfreighting of our products from suppliers, and only do so in cases of extreme urgency. When landed in the UK, the majority of our products are shipped via rail to our Distribution Centres in the Midlands.

Tonnes of Product Airfreighted



No. of Containers moved by Rail



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Corporate Responsibility Report continued

The Environment

Read online: halfords.annualreport2012.com/cr

"Our commitment is to understand and to continually improve the performance and management of our environmental impact."

Full unaudited details of our Corporate Responsibility activities are available online — www.halfordscompany.com/cr

The Environment

Our products, 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:

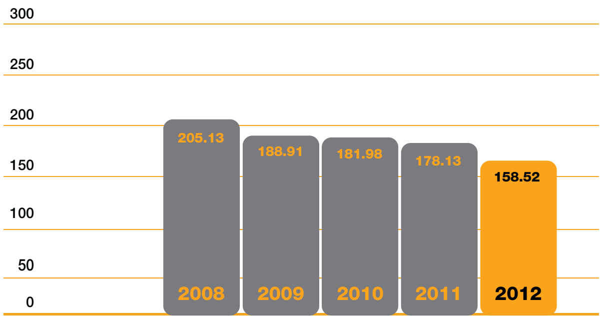
Fuel Efficiency

During FY12 our fleet of lorries drove over 7,000,000 kilometres in delivering product to our stores. 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 FY12, The CO_2 equivalent usage, calculated based on DEFRA's 2011 Freight Transport conversion factor of 2.648, indicates that we have used over 6 million tonnes of CO_2, an 18% reduction year-on-year. This has been achieved by better utilisation of our Main and Cycling Distribution Centre, resulting in improved management of store deliveries and in the use of larger and double-decker trailer units, meaning more stock can be carried per delivery.

Natural Resources

We continue to reduce our water usage and over the years have invested in "smart" water meters, which helps us to identify water leaks at an early stage. In our Retail stores, in FY12 we maintained our proud record of reducing water usage year-on-year with a further 12.4% reduction.

Water Consumption per Retail store (litres)



Volumes of waste material recycled versus that sent to landfill have increased over the last five years to 81% in 2012.

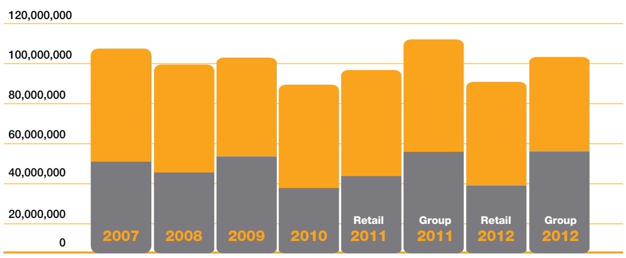
As motor vehicle servicing centres, our autocentres are continually disposing of "motor vehicle" related waste safely. In FY12 as well as recycling car batteries we disposed of *c*.197,200 tyres (2011: 132,000) and *c*.876,300 litres of oil (2011: 755,000).

Energy and Reducing CO_2 Emissions

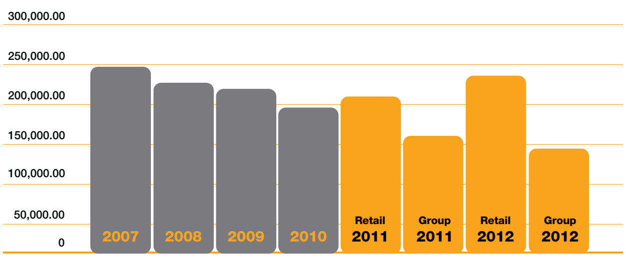
As we have continued to open new stores and autocentres our overall use of gas and electricity has improved as we added energy management systems to our properties and implemented specific action plans around voltage reduction. This year's use of energy has not been affected by the cold weather periods of December 2010 and February 2011 and we have reduced our use of energy within the Group's stores and autocentres, in 2012, by 10.6%. In Retail where records have been kept since 2007 we continue to reduce our use of gas and electricity in line with our target of between 15% and 20% on a 2007 base.

The following graph represents the energy used by our stores, autocentres, head offices and distribution centres.

Total Energy Usage (kWh)



Energy Usage per Store and Autocentre (kWh)



Community

Read online: halfords.annualreport2012.com/cr

"We are committed to ensuring that all of our customers are able to access our products and services with the minimum of effort"

Full unaudited details of our Corporate Responsibility activities are available online — www.halfordscompany.com/cr

Halfords' Work Inclusion Programme

Following the Seeing is Believing visits described on page 45, Halfords was introduced to Bikeworks, a social enterprise company, specialising in using cycles and cycle repair to engage with disadvantaged NEET individuals.

Bikeworks already run a work-based training programme, over a three-month period, that is design to give individuals the technical skills and work experience to be ready for employment in the cycle industry. The successful trainees gain a bicycle maintenance qualification as well as being exposed to a working cycle-retailing operation where they develop customer service and team-working skills.

Halfords has, therefore, entered into a partnership with Bikeworks to create and deliver a programme that not only meets the Company's CR community objectives but also supports the Company's "Best Cycle Shop in Town" strategy by creating a programme of Cycle Repair training for people from disadvantaged backgrounds and, where appropriate, employing them in Halfords stores, delivering a knowledgeable, skilful and competitive cycle repair service.

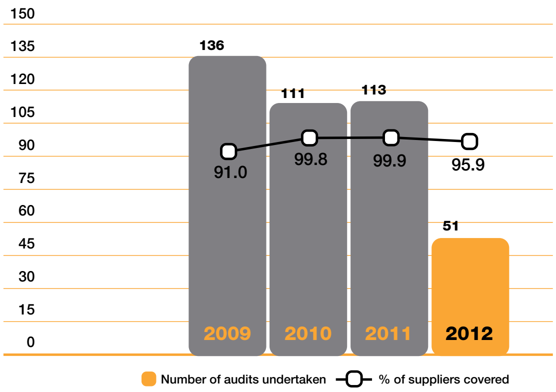
Plans for this partnership were finalised in March 2012, and from 1 April 2012 Halfords has committed to not only sponsoring Bikeworks to deliver out-reach "Build-a-bike" courses and to deliver the "Cycle into Work" course to a number of individuals, but we have also committed to employing the best, in Halfords stores local to each individual. In FY13 we aim to employ a minimum of 10 individuals in the London area through this Work Inclusion Programme.

Accessibility

Our stores serve their local communities with our products and expert services and we are conscious that all, irrespective of disability, should be able to access both our stores and our online offering. We treat our responsibilities very seriously and we are committed to ensuring that all of our customers are able to access our products and services with the minimum of effort. We are committed to ensuring that both customers and colleagues have acess to our facilities and we have taken various actions in order to fulfil our responsibilities, including in 2011 working with the Employers Disability Forum to deliver training to some of our Head Office and store colleagues.

Ethical Trading

We place great importance on the selection of our suppliers and how they interact within their own local communities and, where appropriate, we 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).



Charity of the Year

Our policy on charitable giving is to concentrate on working with one main charity over a two-year period. Since April 2011 we have partnered with Cancer Research UK.

Apprenticeships

The Group is aware of the need to provide employment opportunities within local communities and our Autocentres have the largest independent Apprentice Scheme in the motor industry. The scheme has been in operation for over 20 years and we have never failed to offer employment to apprentices who complete the three-year scheme.

Industry Forums

Halfords retail values opportunities to work closely with trade associations, research institutes, standards authorities, universities and government organisations to improve performance standards and safety. During the year we have worked with ProMOTe to challenge proposed changes to MOT testing and the Plain English Campaign who awarded their "Crystal Mark" to both our **brakes4life** brochure and our "Helpful MOT" Guide.

RESOURCES

Read online: halfords.annualreport2012.com/res

Introduction
Business Review
Resources
Governance
Financials

Transforming Halfords

Infrastructure

— People
— Investment
— Systems

Channels

— Reach and Scale
— Brand Resonance
— Customer Focus

Products & Services

Product categories
— Car Maintenance
— Car Enhancement
— Autocentres
— Leisure

Strategic pillars
— Friend of the Motorist
— Best Cycle Shop in Town
— Starting Point for Great Getaways

Proposition

We help and inspire our customers with their life on the move

Transforming our Business

As a company we want to play to our strengths — leveraging our infrastructure, developing innovative channels and creating new routes to market. This will enable us to continue to build trusted relationships with our customers.

This leads us to our proposition: "we help and inspire our customers with life on the move". Our proposition is dependent on our ability to have a market-leading portfolio of products and services accessible through innovative channel delivery, enabled by the core elements of our infrastructure. This combination will drive and deliver our future growth.

Improving our infrastructure supports our customer proposition ensuring we continue to offer great products and services — at the right price and at the right time.

Simultaneously, our infrastructure provides the business with the ability to improve our customer responsiveness and underpin the growth opportunities we have identified.

As a result we are simplifying and refocusing our activities around three core themes:

Friend of the Motorist
Best Cycle Shop in Town
Starting Point for Great Getaways.

This will allow us to differentiate what we do and set the standards for innovative retailing.

The following pages highlight the areas of strength at the heart of our business and will continue to provide the strong foundations necessary for executing our strategy and delivering on our promises.

Infrastructure — People

We believe our people are core to enabling our aggressive growth plans to be realised. Colleagues continue to play an important role in delivering our plans to sustain our success as a retailer and build momentum across a challenging retail landscape.

To succeed it is important that we build and maintain both a qualified core and flexible colleague base. Improvements in colleague work patterns have optimised shop floor availability of the right people at the right time to improve customer experience and deliver on the Halfords "helpful" promise.

In addition, we continue to provide a range of training and development opportunities designed to improve productivity levels within Halfords Autocentres and improve competency in fitting services across the Halfords store portfolio. This we believe will drive growth.

Our people continue to play an important role in ensuring Halfords is recognised as being a "*Friend to the Motorist*", the "*Best Cycle Shop in Town*", as well as a "*Starting Point for Great Getaways*".

Strengthening Our Team

We continue to strengthen our team at all levels and across all areas of the business. We focus on recruiting for attitude, expertise and potential as well as the ability to be part of a cohesive and unified "one" team approach.

Our appointments range from strategic hires, as well as further additions to our operational management teams and specialist retail trading, digital marketing, search analysis and analytics teams. Such appointments continue to inform and identify new buying and trading strategies.

Experienced

Our colleagues are highly experienced in the roles they perform. In particular, not only do our people have great experience in product knowledge, servicing and fitting but our buyers are highly experienced in the markets we source from and supply to. In addition, our property team has considerable experience in converting and refurbishing our store portfolio. All of this experience contributes to making Halfords a retailer of choice.

Engagement

To be the best we have to engage with our colleagues. Our people are encouraged to connect, collaborate and exchange ideas, knowledge and insights. This informs decision-making and improves our overall customer proposition.

Engagement includes clear communication focused around our core values — Think Customer; Be Helpful; Earn Trust; Inspire Others; Aim To Win; Work As A Team.

Examples of engagement across the business include the initiative to encourage colleagues within the Centre and at the Distribution Centres to "Buddy" or "Adopt" a store — this has proved a great way to get people thinking across the business rather than simply seeing things from their perspective. In turn, this has led to improving our multi-channel offerings.

Competencies

There are a number of activities that we believe are essential to ensuring that we remain competitive in the market and attractive to our customers.

5,780 of retail staff hold accredited fitting qualifications

Within Halfords Autocentres 60% of staff are industry qualified

6.5% productivity improvement at Halford Autocentres

Core competencies in marketing, branding, store retailing, distribution and international sourcing ensure we can provide customer offerings across a range of price points. Done well, these competencies allow us to maintain and improve our margins as well as grow our revenues.

Competencies help to shape the business and have led to a focus on "Operational Specialisation" and having a "Least Cost Back Office".

Values Driven

Developing performance and living the Group values of being helpful depends on having trustworthy, honest, well-trained, enthusiastic and knowledgeable people who are capable of delivering the plan and living our values.

Creating the right culture is all about "the way we do things at Halfords" — the way we behave and the values we live and work by. We believe it is essential that our people feel engaged, understand their responsibilities and are held accountable for their actions.

Creating the right mind-set ensures that customers have a great experience — spending more and returning to Halfords again and again. We think it is important to celebrate great performance and to never accept poor performance. This requires talented and passionate people involved in both frontline service as well as those who work behind the scenes.

Development

We have undertaken a number of people-based initiatives to improve Group performance, develop a greater commercial focus and drive sustainable growth through the development of innovative customer offerings. This involves developing capability across our stores, autocentres, distribution centres as well as Head Office.

Innovation — whether product or process led — is driven by participation, engagement and team effort. This allows us to differentiate ourselves in a crowded marketplace.

Right from the start, we induct and train for great customer service. Training ranges from a competency framework across the business to nationally recognised and accredited training programmes for store and Halfords Autocentre colleagues.

Approximately 11,000 colleagues

20 new Autocentres producing 83 new job opportunities

200 stores "adopted" by Head Office colleagues

Infrastructure — Systems

We believe that our systems meet our requirements and thus enable us to perform and to deliver on our promises to both our investors and our customers, providing a solid platform for driving investor returns and enabling an enhanced customer experience.

Our systems provide us with effective tools that work all day, every day. As everyone knows, "retail is all about the detail" and our systems allow us to see below the surface and work out what is really going on in our business and across our multi-channel offering.

By being closer to our business we understand those actions we need to take to stabilise and build momentum on gross margin performance across the business, reinforcing our growth potential.

We also continue to build resilience into our systems and therefore strengthen our business. During the year we transitioned our disaster recovery plan; it is now supported in Somerset, UK and replicated in Bilbao, Spain.

In terms of customer facing systems, we continue to improve our multi-channel strategy that connects our stores with an online presence (www.halfords.com and www.halfordsautocentres.com), providing a compelling alternative to other online competition.

Change Management

Ongoing systems development including integration and update roll-outs, enables the necessary change required in the business to ensure scalability of our business model — strengthening the overall Halfords proposition.

However, for Halfords it is essential that change is achieved against a need to continue to deliver "business as usual" as well as "deliver the key enablers" to drive the execution of our strategy.

Systems are embedded to enable improved productivity, increasing our ability to respond to the constantly changing retail landscape. Halfords continues to strengthen its multi-channel teams and further integrate techniques and knowledge within our core retail business.

Sourcing and Inbound Logistics

We are leveraging our supply chain relationships to develop new, innovative and exclusive ranges across our store portfolio and online interface. Direct, proactive and agile global sourcing arrangements help to sustain gross margin improvements.

Increasingly we are sourcing more product directly from the international markets. In particular, our offices in Hong Kong have continued to investigate and source new sources of supply, building on our historic sourcing arrangements developed in the Far East.

3.83 million *Reserve & Collect* transactions to date

Apple & Android Apps launched June 2011

Over 400,000 items available to order in-store

All of our suppliers are subject to our Code of Ethics, based on auditable procedures consistent with established international standards. Virtually all of our products are manufactured to EN, BS and/or ISO standards including ISO 9001 and 14001. External verification is provided by BVQI, an international quality audit company.

Distribution and Outbound Logistics

We continue to upgrade our warehousing, enterprise resource and web systems to improve the efficiency of our store logistics and successful multi-channel offer.

Our systems are enabling us to compete more effectively. Our customers can now order up until 6.00 pm for guaranteed next day delivery, representing an attractive and compelling offer for busy, time-constrained customers.

Inventory Management

Effective inventory management helps us to achieve more with less, reducing our inventory holding costs and ensuring we have the right product, in the right place, at the right time. From time to time, surplus inventory may accumulate — our integrated systems are three times more effective at clearance.

Better availability linked to accurate inventory information (achieved through hand-held terminals and labels that scan) improves forecasting and leads to increasingly profitable sales.

"*Reserve & Collect*" and "*Order & Collect*" integrate our website with store and Distribution Centre inventories. This increases store footfall and range opportunities for smaller store formats.

Customer Capture

Our systems and expertise enable us to really understand and gain insight into our customers' behaviour — merging multiple databases to achieve a single, holistic customer view; increasingly being able to anticipate what our customers want before they know what they want. Good customer metrics based on the valuable data we get from our customers — both in our stores and online — enable us to talk to customers in a more meaningful and focused way. This empowers our "Helpful" culture and enhances the customer experience.

Our dynamic web offer builds on our multi-channel proposition and continues to drive customers into our stores, following their research powered by our systems, including recommendation functionality based on both manual and logarithmic prompts. This allows us to improve attachment rates through upgrade and accessorisation opportunities.

Customers are increasingly attracted by our website promotions that combine with the convenience of delivery or collection from store, backed up by in-store services. In addition, mobile applications will continue to provide many opportunities for assisting in-store customers as well as those customers away from store.

43 million visits to website in FY12

36,000 *Order & Collect* transactions in FY12

New *O&C* delivery schedules landed in March 2012

Infrastructure — Investment

We are continuously investing to improve the customer offer. Our major initiatives are focused on our people and our systems, including the role our distribution centres, autocentres and stores play in creating an attractive retail offer.

People
During the year we invested in training and development initiatives across the Group. Focused training ensures everything is right first time. Investment in our people included "Flying Start" in our stores — a training initiative to ensure that our frontline store staff are trained to check and fit products on behalf of our customers.

Systems
Our system focus has been the integration of our multi-channel offer, streamlining and standardising processes as well as building capacity and resilience into our retail backbone.

As a result, our system upgrades have delivered a "least cost back office" as well as enhanced product availability and resulted in more accurate order fulfilment. Reductions in inventory holding costs have significantly offset ongoing system investment costs.

As our investment has scaled up we have increased our capacity to deal with customer orders and to handle order information. This increased capacity and increased intelligence around our customers' buying decisions helps us to continue to refine our customer proposition.

Linked to our delivery service we made a major investment in the launch of a competitive "next day" delivery service for "*Order & Collect*" as well as orders delivered direct to customers. Our system software allows us to know exactly where each product is from order to delivery, resulting in optimal order accuracy.

Distribution Centres
Investment in our Coventry Distribution Centre — a 320,000 sq. ft. customer fulfilment centre — is an essential part of our "least cost back office" strategy.

For our distribution centres, investment to increase pick accuracy is vital in improving product availability for our customers. In addition, our colleagues have undertaken more checking of goods-out before loading — this improves the integrity of our inventory management systems, leading to increased delivery accuracy.

Stores
We are investing in upgrading and revitalising our store formats to ensure they remain relevant and attractive to the changing profile of our customers. Our test store formats will help to provide feedback on future-proofing our store portfolio and will improve the customer offer through creating the right environment, encourage more effective communication around the purchasing decision and ensure that our service, people and products reflect customers' needs. In addition, we increased our Halfords Autocentres footprint, with investment in 20 new autocentres.

Multi-channel Offering
As we attract new customers it may be that our website is their first contact with our brand — we therefore need to make it user-friendly and engaging. We are therefore investing to make our online channel informative and intuitive, combined with good functionality to complement the physical presence of our stores.

Trading as Halfords since 1902

1st choice in core markets

467 stores and 260 autocentres

Channels — Reach and Scale

Our market leading positions across multiple product categories such as Sat Nav, Audio and DAB radio roll-out (where we hold No. 1 sales positions) provide us with an opportunity to continue to consolidate a largely fragmented market.

Our operations provide access to unrivalled economies of scale, achieved through our extensive national coverage. Our coverage is supported by a number of elements including our distribution centres, store footprint, store and multi-channel experience.

Distribution Centres

Having reconfigured our distribution network in 2010 to include a state-of-the-art central distribution centre in Coventry, we are well placed to meet the needs of our extensive store footprint.

Store Footprint

Halfords maintains an extensive network of great-looking stores, providing a strong and resilient presence on both the high street and at prime locations within retail parks with high footfall. "Rightsizing" of our store portfolio will ensure that our store presence is an enabler of growth.

Our store network has a national footprint, driving Group revenues. It also enables us to differentiate our multi-channel offering as the network provides additional availability, accessibility and service — configured to meet the local demographic needs of our national customer base.

We combine our strong retail heritage with technological developments, offering a strong retail footprint both offline and online, providing our customers with an increasingly tailored customer service.

Store and Multi-channel Experience

Our stores are well run and provide dynamic, optimum space for delivering our customer proposition. To provide a great offer we are making our stores more family friendly, listing more relevant ranges and providing a differentiated service designed to make our customers feel more engaged. Our added expertise and service are difficult for competing online players and supermarkets to compete against.

Stores act as a consolidation point, drawing in web customers with the "*Reserve & Collect*" and "*Order & Collect*" online propositions as well as facilitating our retail service offering of checking, building and fitting products.

Further, our online offering allows us to target categories that customers are happy to transact with online. As a result, some of our online ranges are 600% bigger than our in-store ranges — attracting those customers who are savvy online shoppers.

90% of customers are within easy reach of a store

1.75 million fewer kilometres driven

16,000 SKUs online

Channels — Brand Resonance

Our brand continues to create domestic growth opportunities. At the heart of our brand story are our brand values. These values support the brand in the marketplace and allow us stand out in our key core categories. Brand extension leverages our previous brand successes and allows us to tap into new product categories and new product ranges.

Brand Strength and Values

Our brand is one of our greatest strengths. We have leading positions in attractive markets, with many of our brands holding No. 1 sales positions in the UK.

The quality of our products and services continues to drive our credibility. Our brand remains trusted in the minds of our customers, underpinned by strong customer relevance and satisfaction.

Brand visibility has been further enhanced following the re-branding of Halfords Autocentres, ongoing reinvigoration of our store portfolio and innovative web promotions — providing a high profile both online and offline. As a result, *c*.9% of all sales are conducted online and 86% of these are collected from our stores.

Brand Extension

We continue to leverage the Halfords brand into new categories and new product ranges, including the extension of the Halfords brand name into the servicing arena, supporting our aspirations to expand the brand in the automotive aftercare market. We believe such initiatives will deliver customer awareness benefits, resulting in better footfall and utilisation.

Effective promotion of our brands via our multi-channel offer will continue to change our revenue mix towards higher value, more profitable products, services and opportunities.

Brand Management

We have strong brand and category management, ensuring that Halfords remains a natural destination for customers. This will provide a catalyst for growth as we continue to find reasons and offerings to bring customers back to us.

Brand management combined with effective customer marketing significantly enhances customer awareness and increases demand for our products and services. National TV and radio advertising campaigns continue to support awareness of the Halfords brand.

Our brand management provides a single face to customers so they connect with the Halfords brand across our offer and through new products, services and channels. Creating a single view of the customer for Halfords will enable us to increase relevancy in marketing and build a greater understanding of our customers.

Our brands enable us to offer products at multiple price points and specifications to appeal to a diverse customer base. Sub-brands include *Carrera*, *Voodoo* and *Boardman* within the cycle category.

No. 1 UK bike brand *Apollo*

Own label products 49.4% of revenue, an increase of 10%

Exclusive distribution of *Boardman* and *Pendleton* brands

Own brands

Key brands

Channels — Customer Focus

Customer Values

Customers want value, personalisation and to trust the advice and service they receive. At Halfords we have a reputation for providing unparalleled honest and trustworthy products and service. A comprehensive range of support services makes Halfords a natural destination for those whose "life is on the move".

Customer Centric

To respond to customer values, we think about our customers and put them first. As a customer facing business, we know our customers and aspire to give them the treatment and service they want and deserve.

We understand that journeys are at the heart of work and family life — we combine great products, expert advice and service to help our customers with their "life on the move".

We recognise that our customers are time poor and increasingly intimidated by and impatient to "do it themselves". As cars and products become increasingly sophisticated there is a reluctance and lack of expertise to "do it yourself" and as a result customers simply want convenience and immediacy provided by someone they can trust.

Proactive Customers

Our customers' pursuit of value, personalisation and trust has been further empowered by the Internet. More and more customers check availability online before they visit our stores. Proactive customers get what they need when they need it.

Proactive Halfords

The needs of our customers continue to change and evolve and we encourage our customers to be active rather than passive. We want them to get involved rather than be indifferent. We want them to feel included rather than excluded.

At Halfords we help and inspire our customers, improving the customer experience — whether they contact us or we contact them, Halfords can be counted on as a friend in times of need. We have a progressive approach to service, fitting many of the products we sell. This often results in "trading up" and "accessorising" the transaction.

Understanding and acting on customer feedback is at the heart of what we do — our next generation of customer service is a direct response to the feedback we have received from customers.

"Helpforce" — a multi-channel, customer services team is geared up to cater for the future needs of our customers and stores, putting "*that's helpful, that's Halfords*" at the heart of our business. "Helpforce" involves a direct customer and store facing team of experts driving all store queries through one point of contact.

Customer Proposition

Halfords provides a unique range and service proposition, involving further advice and fitting services to customers that range from novices to enthusiasts. This approach results in a good segment sales mix offering — building competency and capability in higher margin segments such as our service lines.

Evolving our customer offer, using a competitive combination of range, price and service to augment our retail offer, provides a convenient, value-based solution. A consistent customer experience that is customer ready, customer friendly and customer driven leads to improved customer service and loyalty.

Relationship Management

Our customer relationship management is based on treating our customers as individuals and helping to provide them with a solution. This involves helping our customers to make informed product/service choices — our knowledgeable and experience-intensive customer support process increases our service innovation and penetration rates.

For instance, service innovation has boosted average transaction values as well as pulling in new customer segments. This has allowed us to differentiate our offering based on our "***we***fit", "***we***check", "***we***assemble", "***we***repair", "***we***service" propositions.

wefit ***we***check ***we***repair
weservice brakes4life

2.6 million *we*fit jobs in FY12

Revenue of £15m from *we*fit jobs in FY12, up *c.*22%

14,660 brakes4life sales in FY12, since its launch in October 2011

Products & Services — Friend of the Motorist

Our Aim

We aim to be the No. 1 destination for products and services that enhance customers' use of their car. Our range comprises retail Car Maintenance and Car Enhancement products, augmented with in-store services delivered through our range of "Do It For Me" offers or through our dedicated autocentres. Halfords Autocentres provide a range of services catering for the Car Maintenance market — services, MOTs through to complete vehicle maintenance packages.

In short, we aim to take the hassle out of motoring for our customers while maintaining and growing service advantage that provides growth opportunities that appeal to our investors.

Market Trends

Sophisticated car production is causing a channel shift amongst customers from a Do It Yourself ("DIY") to a Do It For Me ("DIFM") attitude.

Global sourcing opportunities provide economies of scale and close supplier relationships that the fragmented independent garages are unable to benefit from.

A growing and ageing car parc as cars last longer and consumers are reluctant to "trade in for new" is underpinning growth in the UK automotive aftercare market — currently estimated to be worth between £8bn and £10bn. It is a fragmented industry and that means that any consolidation and/or compelling offer has the ability to "move the needle" and provide a "step-change" in terms of growth performance for the Group.

Our Position

Halfords is a natural destination retailer for products in the Car Maintenance and Car Enhancement categories as well as being a leading chain of UK car service centres providing garage service, auto repair and MOTs. Our position is likely to further improve as we look to extend the range and services that we provide as a Friend of the Motorist.

Our Offer

Through our Halfords Autocentres we have an opportunity to consolidate a fragmented market under a strong brand delivering an homest and trustworthy service. Our retail stores provide us with the opportunity to deliver car-related products and to extended our services to cater for both the retail and fleet customer, providing a unique combination of product and service.

Bulbs stocked for 98% of the UK car parc

Wipers stocked for 93% of the UK car parc

37 autocentres opened since acquisition


CITROEN
Year from
Year to
single front wiper
single front wiper
1975
1976
1989
1991
1996
01/2007
12/2006
on
1994
06/2006
06/2006
on
Set 44
1996
09/1999
08/1999
2004
Set 12
Set 12
wiper blades
wefit

Products & Services — Best Cycle Shop in Town

Our Aim

In cycling we hold the No. 1 position, selling over a million cycles a year. We aim to build on this position and become the Best Cycle Shop in Town enhancing our customers' use of their cycles.

Market Trends

Social, health and environmental concerns are driving consumers towards cycling whether for leisure, as a cycling enthusiast or for those looking to commute. Cycles and associated merchandise is a growing category and one that we at Halfords look to strengthen with the future development of our parts, accessories and clothing offer.

Our Position

We are the UK's leading retailer of cycles, built on a heritage of providing a range of good quality cycles, supported by an advice and build service to customise the bike to the needs of the customer.

Our Offer

We offer contemporary and innovative ranges within a product led market. Our expertise resonates with our customers and our repairs and servicing proposition is unmatched by others competing in this space. In expanding our range of parts, accessories and clothing we will maximise our offer both in-store and online.

Our range provides customers with choice at multiple price points. At the entry/value end of our range our *Trax* brand offers a boxed adult bike to compete directly against competitors appearing within online price-comparison sites. *Apollo*, *Carrera*, *Voodoo* and *Boardman* complete our range of price points, with *Boardman* representing our offer at the premium end of the market.

20 new *Boardman* bikes ranged in FY12

Bike Care Plan revenue of £3m in FY12

82 children's bikes ranged in store

Products & Services — Starting Point for Great Getaways

Our Aim
Our aim is to help our customers make the most of their journeys and outdoor experiences — helping our customers with their “life on the move”.

Market Trends
There are a number of category drivers including growth in active leisure, a desire to holiday more cost-effectively and spending more precious leisure time with the family.

Consumer trends towards leisure, safety and value for money increases the attractiveness of this category within our overall portfolio and provides significant growth potential.

Our Position
Brand association with leisure products continues to grow from our traditional core products of roof boxes to our expanding camping range.

Our Offer
Products within this category are designed to help enhance journeys, camping, child travel solutions and mobility products. Product features include increasing the capacity of carrying goods (roof boxes and trailers), increasing the safety of the journey (child seats and safety vests) and providing en route or destination contentment (tents and camping equipment). The Halfords offer also benefits from a professional fitting service.

Pampero is an example of Halfords’ brand differentiation — created to compete with premium brands in the child safety seat category to an exceptional specification. *Pampero* is exclusive to Halfords and is available in-store or online.

116,000 tyre inflators sold

14,000 snow socks/chains sold

430,000 child seats sold, including 44,000 *Pampero* sold

GOVERNANCE

Read online: halfords.annualreport2012.com/gov

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Board of Directors

David Wild
CHIEF EXECUTIVE OFFICER

Joined
4 August 2008

Current Roles
Chief Executive of Halfords Group plc and non-executive director of Premier Foods plc.

Past Roles
Prior to joining Halfords David was Senior Vice-President for New Business Development at Wal-Mart US. 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.

Brings to the Board
David brings over 20 years' retailing experience, gained at two world-leading businesses, and the skills and ability to manage the Company's future growth strategy.

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Paul McClenaghan
COMMERCIAL DIRECTOR

Joined
31 March 2007

Current Roles
Commercial Director of Halfords Group plc

Past Roles
Before joining Halfords, 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 based in Hong Kong.

Brings to the Board
Paul brings over 20 years' experience in Retail Marketing, Supply Chain, Merchandising, Space Planning, and Multi-Channel Retailing. His expertise in Range Management and Far East sourcing stems from his experience in purchasing, international business and cross-country purchasing. Paul combines 25 years' negotiating experience with exposure to brand building and licensing.

Dennis Millard
CHAIRMAN

Joined
28 May 2009

Current Roles
Dennis is currently Chairman of Smiths News plc. He is the Senior Independent Director and Chairman of the Audit Committees of Premier Farnell plc, Xchanging plc and Debenhams plc. Dennis is also Chairman of the Trustees of the Holy Cross Children's Trust, a UK registered charity, which supports children affected by the AIDS pandemic in a rural area in South Africa.

Past Roles
Dennis was previously a Non-Executive Director of Exel plc and EAG Limited and Finance Director at Cookson Group plc.

Brings to the Board
Dennis has broad commercial and financial experience in the retail, service, distribution and manufacturing sectors both internationally and in the UK and, through his roles on other boards, relevant experience of the entrepreneurial and governance contributions that Directors and Chairmen should bring to the Board.

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Andrew Findlay
FINANCE DIRECTOR

Joined
1 February 2011

Current Roles
Group Finance Director of Halfords Group plc

Past Roles
Prior to his appointment, Andrew was Director of Finance, Tax and Treasury at Marks and Spencer Group plc. Prior to Marks and Spencer he held senior finance roles at the London Stock Exchange and at Cable & Wireless, both in the UK and US. Andrew qualified as a chartered accountant with Coopers & Lybrand.

Brings to the Board
Andrew has an impressive track record and extensive financial experience in retail and other competitive, consumer and business facing industries. Andrew also has operational experience of cost control and business restructuring; refinancing and pension scheme funding; bid defence; HMRC negotiation; commercial planning and decision support; non-merchandise procurement; shared services; financial accounting and reporting; and audit.

Executive | Non-Executive

a Audit Committee
n Nomination Committee
r Remuneration Committee

David Adams
NON-EXECUTIVE DIRECTOR

Joined
1 March 2011

Current Roles
David is currently Senior Independent Director of JJB Sports plc, the British Retail Consortium (Trading) Ltd, and a Non-Executive Trustee of Walk the Walk, a breast cancer charity.

Past Roles
David was the Deputy Chief Executive and Finance Director of the House of Fraser Plc until 2006. Prior to that, he was the Group Finance Director at Asprey Plc and before that the Finance Director at Texas Homecare and also at Top Shop and Dorothy Perkins. More recently, David was the Non-Executive Chairman of Snap Equity Ltd (Jessops).

Brings to the Board
David brings extensive and very relevant financial and business experience and a deep knowledge of the retail sector. David is also the Chairman of the Audit Committee at JJB Sports plc and has undertaken the role previously in other companies, both public and private. In addition, he was a Chief Financial Officer at a plc for almost 10 years and brings significant experience in running a full finance and adminstration operation, with additional responsbility held for property, IT, internal audit, company secretarial and legal functions.

a n r

Claudia Arney
NON-EXECUTIVE DIRECTOR

Joined
25 January 2011

Current Roles
Claudia is a Board member of Transport For London, a member of the Advisory Group to the Shareholder Executive, a Board Member of Huawei, and a Non-Executive Director of Which?

Past Roles
Claudia was the Group Managing Director, Digital at EMAP Inform until autumn 2010 where she led the development and execution of online publishing strategy as well as managing the public sector and media businesses. Prior to this she was Director of the Enterprise and Growth Unit at HM Treasury, and previously she was an Executive Director at Goldman Sachs working on both product development and e-publishing. She has also worked as the Head of Product Development at FT.Com and Managing Director of TheStreet.co.uk and for Mckinsey.

Brings to the Board
Claudia brings extensive experience of strategy formulation and business development, particularly in the online consumer and media space.

a n r

Keith Harris
NON-EXECUTIVE DIRECTOR

Joined
17 May 2004

Current Roles
Keith has been Executive Chairman of Seymour Pierce Limited since its acquisition from Investment Management Holdings plc. Keith is currently on the Boards of Cooper Gay (Holdings) Limited and Sellar Investments Limited.

Past Roles
Prior to this Keith was Chairman of the Football League and Chief Executive of HSBC Investment Bank plc and he has been on the Board of Benfield plc.

Brings to the Board
Keith brings extensive experience of public company governance, particularly in the field of executive remuneration.

a n r

Bill Ronald
SENIOR INDEPENDENT DIRECTOR

Joined
17 May 2004

Current Roles
Bill is currently Senior Independent Director of Dialight plc, Chairman of The Compleat Food Group and Chairman of the Muscular Dystrophy Campaign.

Past Roles
Bill's past roles include Chairman of Europackaging Limited and 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. More recently, Bill was also Non-Executive Director of Bezier Limited and Alfesca.

Brings to the Board
Bill brings experience of brand building and winning loyalty by putting the customer first. He also brings a focus upon organisational development.

a n r

Introduction
Business Review
Resources
Governance
Financials

halfords

Directors' Report

The Directors present their report and the audited financial statements of Halfords Group plc (the "Company") together with its subsidiary undertakings (the "Group") for the period ended 30 March 2012.

Principal Activities

Halfords Group plc is a public limited company incorporated in England with registered number 04457314, and its registered office is 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, from 467 retail stores (2011: 466); and Car Servicing and repair from 260 autocentres (2010: 240). The principal activity of the Company is that of a holding company.

Business Review

The Chairman's Statement on pages 6 to 7, and the Business Review on pages 10 to 49, including the Finance Director's Report on pages 34 to 38, provide a review of the business and progress against Key Performance Indicators ("KPIs") during the year, 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 Responsibility Report on pages 44 to 49 which also forms part of this Directors' Report.

Corporate Governance

The Corporate Governance Report on pages 74 to 81 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 96.

The profit before tax on ordinary activities was £94.1m (2011: £118.1m) and the profit after tax amounted to £68.4m (2011: £85.5m).

The Directors propose that a final dividend of 14.0 pence per ordinary share be paid on 3 August 2012 to shareholders whose names are on the register of members at the close of business on 6 July 2012. This payment, together with the interim dividend of 8.0 pence per ordinary share paid on 27 January 2012, makes a total for the year of 22.0 pence per ordinary share. The total final dividend payable to shareholders for the year is estimated to be £27.9m. Computershare Nominees (Channel Islands) Limited, formerly 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 KPIs and the periodic review of various aspects of the Group's operations. The Board considers the KPIs listed on pages 18 to 21 are appropriate measures for the delivery of the strategy of the Group and its two divisions — Retail and Autocentres.

Donations

During the year the Group contributed £50,000 (2011: £73,000) to charities in the UK, including donations to BEN, a charity supporting individuals and families linked to the motor industry and associated trades.

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 2011 Annual General Meeting ("AGM") that provided for limited authority for such expenditure, such authority remaining valid until the earlier of 2 October 2012 or the conclusion of the AGM to be held in 2012, and as such the Company will be asking for this limited authority to be renewed at the AGM to be held on 31 July 2012.

Colleagues

The Board is committed to high standards of customer care and service provision across the business and recognises that the involvement of every colleague in this commitment is critical. In furtherance of this, the Group has established a framework of colleague communications regarding business performance. The Board's ongoing commitment to colleagues' engagement and development is reinforced via training initiatives across the business. Colleague share ownership, facilitated via the availability of a Sharesave Scheme, is encouraged to further strengthen colleagues' participation in the development of the Group's business and aligns our colleagues' interests with those of our shareholders.

The Group is dedicated to the principle of equal opportunity in employment and ensures that no applicant or colleague receives less favourable treatment on grounds such as gender, marital status, race, ethnic origin, religion, disability, sexual orientation, or age, or is disadvantaged by conditions or requirements which cannot be shown to be justified. Fair and equitable employment policies are applied which seek to promote entry into, and progression within, the Group. The basis for all appointments is personal ability and competency relevant to the specific job criteria.

Full and fair consideration is given to employment applications by disabled persons wherever suitable opportunities exist, having regard to their particular aptitudes and abilities. Training and career development support is provided where appropriate. Should a colleague become disabled efforts are made to ensure their continued employment with the Group and retraining provided if necessary.

All Retail and Autocentre colleagues have been notified of the whistle-blowing policy and associated procedure which enables them to report any concerns on matters affecting the Group or their employment, without fear of recrimination. This reduces the risk of things going wrong or of malpractice occurring 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 in relation to gender, race, national origin, disability, age, religion, sexual orientation or similar. Appropriate policies and procedures are in place for reporting and dealing with such matters.

Directors

The following persons were Directors of the Company during the period ended 30 March 2012 and at the date of this Annual Report:

Dennis Millard

David Wild

Paul McClenaghan

Andrew Findlay

David Adams

Claudia Arney

Keith Harris

Bill Ronald

In accordance with the Company's Articles of Association and the UK Corporate Governance Code guidelines, all those persons holding positions as Directors of the Company on 30 March 2012 will offer themselves for re-election at the AGM on 31 July 2012.

Directors' Interests

The Directors' interests in shares and options over shares in the Company are shown in the Directors' Remuneration Report on pages 82 to 91.

In line with the requirements of the Companies Act 2006, each Director has notified the Company of any situation in which he or she has, or could 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 informed of the authorisation and the terms on which it was given.

Directors' Indemnities

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 respect of the Annual Report and the Financial Statements can be found on page 94.

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 Company's Corporate and IR website. 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 59 days (2011: 59 days). The Company is a holding company and had no trade creditors at the end of the period ended 30 March 2012.

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.

Read online: halfords.annualreport2012.com/dr

Directors' Report continued

Financial Instruments

The financial risk management objectives and policies of the Company including interest rate, currency and credit risk are highlighted in note 19 of the Company's Financial Statements.

Major Shareholders

At 31 March 2012, the Company's 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 share capital
Capital Research Global Investors	16,947,573	8.50
Artemis Fund Managers	10,746,755	5.39
Invesco Trimark	7,696,192	3.86
Legal & General Investment Management	7,117,981	3.57
M & G Investments	7,775,945	3.90

The Takeover Directive

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. In accordance with the Company's Articles of Association and the UK Corporate Governance Code, all Directors of the Company stand for re-election on an annual basis.

Changes to the Company's 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 Directors and employees under such schemes and plans to vest on a takeover.

The Company has term and revolving credit facilities and under the terms of these 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 2011 AGM, shareholders approved a special resolution authorising the Company to purchase a maximum of 20,583,992 shares, representing 10% of the Company's issued share capital at 22 June 2011, such authority expiring at the conclusion of the AGM to be held in 2012. The Directors intend to optimise the Group's balance sheet to enhance shareholder returns and on 7 April 2011 commenced a £75m share buyback programme. In the period ended 30 March 2012, the Company purchased 18,084,133 shares as part of this buyback programme (2011: Nil), representing a nominal value of £180,841 (2011: £Nil), representing 9.0% of the Company's issued share capital as at 30 March 2012. The aggregate consideration (excluding stamp duty) paid for its shares was £62.3m.

Auditors

At the 2011 AGM, KPMG Audit Plc was appointed as the Company's Auditors. KPMG Audit Plc has indicated its willingness to accept reappointment as Auditors 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 Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Business Review on pages 10 to 49. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Director's Report on pages 34 to 38. In addition, note 19 to the Group Financial Statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

With effect from 5 November 2010 the Group secured a four-year £300m revolving credit facility (extendable by a further year) and at 30 March 2012 the Group had undrawn borrowing facilities of £160m (1 April 2011: £211m). The Group's previous and current committed borrowing facilities contain certain financial covenants, which have been met throughout the period.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its borrowing facilities and covenants for the foreseeable future. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the uncertain economic outlook.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, hence they continue to adopt the going concern basis of accounting in preparing the Financial Statements.

Annual General Meeting

The AGM will be held at the Hyatt Regency Hotel, Bridge Road, Birmingham, B1 2JZ. 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
30 May 2012

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Corporate Governance Report

Dennis Millard
Chairman

"As Chairman, I aim to guide my colleagues on the Board to deliver effective and accountable leadership for the benefit of our shareholders, the Company and other stakeholders. My colleagues on the Board and I take seriously our collective responsibility for the long-term direction and strategy of the Group. We are convinced that a strong framework of corporate governance practices contributes to the success and future of our business strategy and processes. In the following pages of this Corporate Governance Report, we seek to illustrate how we have applied the UK Corporate Governance Code through the use of committees and delegated decision-making, supported by risk management and accountability controls, to provide effective leadership to the business."

Read online: halfords.annualreport2012.com/cgr

Statement of Compliance with the UK Corporate Governance Code

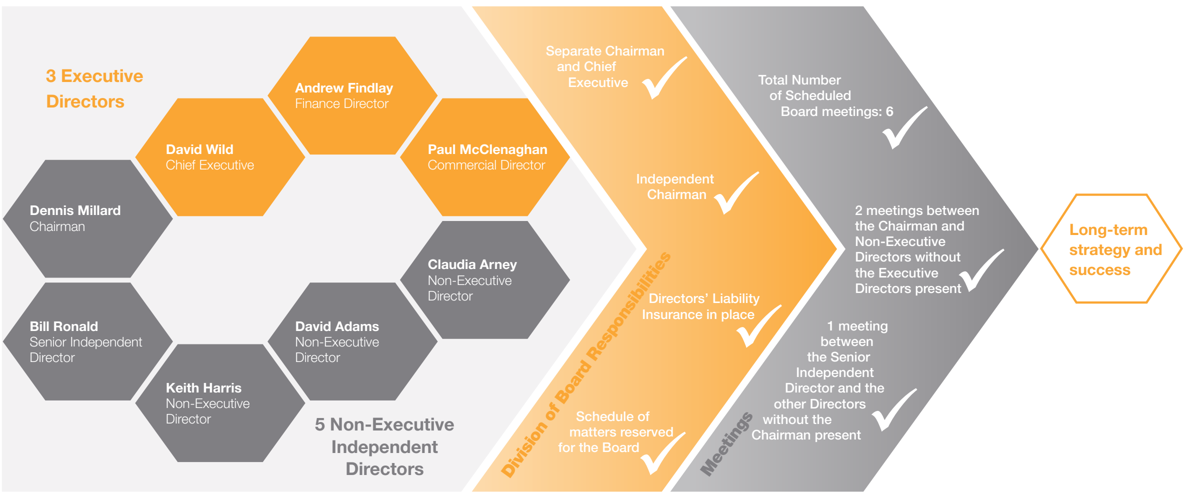
For the period ended 30 March 2012, the Board considers that the Group has complied fully with the UK Corporate Governance Code 2010 ("the Code"). The Code is published by the Financial Reporting Council from whom paper and downloadable versions can be obtained via its website: www.frc.org.uk. We have outlined in this report how we have complied with the five main principles of the Code using the same headings as the main sections of the Code.

The Board of the Company

	Designation	Date of Original Appointment	Date of Most Recent Re-election
Dennis Millard	Chairman	28 May 2009	28 May 2012
David Wild	Chief Executive	4 August 2008	2 August 2011
Paul McClenaghan	Commercial Director	31 March 2007	2 August 2011
Andrew Findlay	Finance Director	1 February 2011	2 August 2011
Claudia Arney	Non-Executive Director	25 January 2011	2 August 2011
David Adams	Non-Executive Director	1 March 2011	2 August 2011
Keith Harris	Non-Executive Director	17 May 2004	2 August 2011
Bill Ronald	Senior Independent Director	17 May 2004	2 August 2011

N.B. All Directors will submit themselves for re-election at the 2012 AGM.

Effective Accountable Leadership



Leadership — How the Board Operates — Effective Meetings

During the year the Chairman, supported by the Company Secretary, continued the practice of maintaining a rolling 12-month agenda for Board and Committee meetings. Agenda items included standing items such as progress reports from the Executive Directors and the Company Secretary, as well as periodic items such as: updates from Committee Chairs, a review of the risk register and internal controls, strategy, and succession planning. The annual agenda also establishes the time frame for finalisation and circulation of the pre-meeting papers. This ensures that the Directors receive the complete information, sufficiently in advance of the meeting, such that the Board can make effective decisions within the meeting itself. In this manner, the Chairman and the Board can have confidence that the yearly cycle of meetings allows sufficient time for discussion by the Board of each matter, at the most appropriate meeting in the year, enabling them to discharge their duties as Directors effectively. Additional meetings were also held throughout the year when business needs arise.

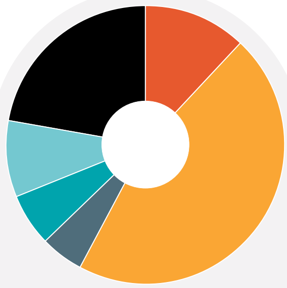
Leadership — How the Board Operates — Decision-Making

The Board is mindful of its duties and responsibilities to shareholders, customers, employees and other stakeholders in determining the long-term strategy and objectives of the Group. Such duties and responsibilities encompass: monitoring the achievement of business objectives and management performance; scrutinising the proposed contractual relationships of the Group; and safeguarding relationships with, and generating value for, shareholders; within the context of a sound and robust framework of internal controls and risk management. Therefore, specific matters which significantly impact on these areas of the business are reserved for the decision of the Board.

The Board recognises that for productive decision-making at Board meetings, as well as within the Group, certain decisions should be considered and made by the Board alone, whilst for other matters it is appropriate to delegate the Board's decision-making authority to its Committees or management. These arrangements are formally recorded in a Matters Reserved for the Board document which is reviewed and updated by the Board annually.

Reserved Matters — for the Board

Decisions specifically reserved for approval by the Board include those concerning the bounds of its authority, the strategy and business plan of the Group, any changes to the Group's capital structure, significant corporate transactions and assessments of the Group's risk and control processes.



Time Spent on Board Business

Reserved Matter	Key Considerations throughout the Period
Authority	Reports from the Audit, Remuneration and Nomination Committees on their activities. Company Secretary's Report. Board Evaluation.
Strategy and Management	Reviewing long-term vision, financial performance, investment and people initiatives, actual figures against forecast and commercial initiatives. Reports from the Chief Executive, Finance and Commercial Director. Group Budget. Store Refresh programme. Group Strategy.
Structure & Capital	Share buyback programme. Liabilities of the Company.
Investor Relations	Discussions with brokers. Shareholder analysis and feedback.
Audit. Financial Reporting & Controls	Consideration and approval of: Pre-Close announcement, Final and interim dividend approvals. Risk Register review. Approval of the Annual Report and Accounts. Final results announcement.
Other Business	Bribery and CR policies. Customer insight. Coventry distribution centre priorities. NED feedback from store visits. Tax & Treasury update. Governance and policies. HR reports. Car Maintenance and Cycle category plans. Updates on the Autocentres business.

Delegated Matters — to Board Committees

The responsibilities of the Board Committees are set out in the individual Terms of Reference of each Committee which comply with the Code. The contents of these are discussed further within the sub-sections that follow on the Committees starting at page 78 and are also available on the Company's website.

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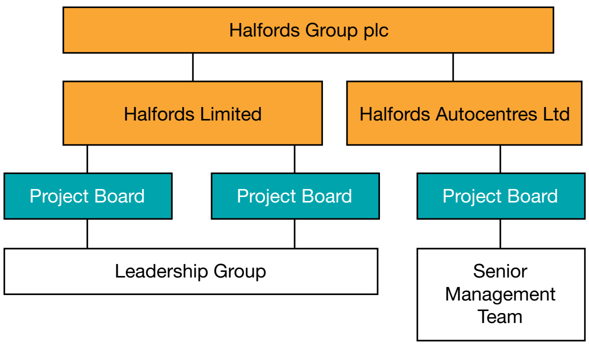
Corporate Governance Report continued

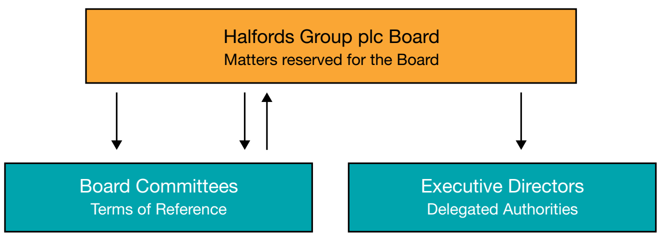
Delegated Matters — to Executive Directors

The Executive Directors further delegate their responsibilities, via the Group's Management Structure illustrated below, in line with a supporting document: Delegated Authorities. Each Executive Director and the Company Secretary has overall responsibility via this document for the relevant business function. The procedures for approving processes within these functions are clearly outlined establishing how and by whom approval of a business decision can be made and the required evidence of such approval. Examples of decisions delegated in this way are the placement of orders with suppliers, the entering into a contract with a web design agency, the appointment of professional health & safety advisors and the agreement of new portfolio deals.

The diagram below illustrates the management structure within the business.



The diagram below summarises how the Board exercises control over the activities of the business whilst delegating its decision-making authority to the Board Committees or the Executive Directors.



The Matters Reserved for the Board, Terms of Reference and Delegated Authorities documents combine to create a clear authority matrix across the Group for timely and effective decision-making. Matters are either:

	Evidenced by
Specifically Reserved for the Board;	Matters Reserved for the Board
Delegated to a Committee for recommendation, with final approval given by the Board;	Matters Reserved for the Board Committee Terms of Reference
Delegated to a Committee; or	Matters Reserved for the Board Committee Terms of Reference
Delegated to Management.	Matters Reserved for the Board Delegated Authorities

Leadership — How the Board Operates — Non-Executive Directors

The Non-Executive Directors help the Executive Directors by contributing independent challenge and rigour to the Board's deliberations and assisting in the development of the Company's strategy. In addition, they are responsible for monitoring the performance of the Executive Directors against agreed goals and objectives. Their views are essential in the reporting of performance and in the integrity of the financial information, controls and risk management processes of the Company. In order to carry out these functions appropriately the Non-Executive Directors meet regularly with senior management and make periodic site visits and also meet separately without the Executive Directors present. Senior managers are also regularly invited to Board meetings to make business presentations to the Board.

Leadership — How the Board Operates — Senior Independent Director

Bill Ronald is the Senior Independent Director of the Company and as such works alongside the Chairman and is available to serve as an intermediary for the other Directors if necessary. He is also available to shareholders if direct contact with the Chairman, Chief Executive or other Executive Directors has failed to resolve the concerns of shareholders or for which such contact is inappropriate. As Senior Independent Director he also led the annual review of the performance of the Chairman.

In addition, should a Director have a concern over any unresolved business he/she is entitled to require the Company Secretary to minute the concern. Should the Director later resign over the issue, the Chairman will bring it to the attention of the Board.

Leadership — Board and Committees

During the year the Board scheduled eight meetings and the Nomination, Audit and Remuneration Committee four, three and five meetings respectively.

Board and Committee Meeting Attendance by the Directors

	Group Board	**Nomination**	**Audit**	**Remuneration**
	8	**4**	**3**	**5**
Dennis Millard	8	4	3*	5
David Wild	8	4	2*	4*
Paul McClenaghan	8	n/a	1*	n/a
Andrew Findlay	8	n/a	3*	1*
Claudia Arney	7	3	3	4
David Adams	7	4	2	5
Keith Harris	8	4	3	5
Bill Ronald	8	4	3	5

* attendance by invitation

Effectiveness — Board Composition

Throughout the period covered by this report, the Board comprised three Executive Directors, the Chairman and four independent Non-Executive Directors who bring to the Board the following key skills, experience, independence and knowledge:

	Independence	*Knowledge of the Group*	*Skills*			*Experience*			
Dennis Millard	✓	c.3 yrs	Leadership	Strategy	Governance	Retail	Finance	Corporate	Cross-Functional
David Wild		c.4 yrs	Leadership	Strategy	Business Development/Brand Building	Retail	Corporate	Supply Chain	Cross-Functional
Andrew Findlay		c.1 yr	Leadership	Strategy	Business Development/Brand Building	Retail	Finance	Corporate	Cross-Functional
Paul McClenaghan		c.7 yrs	Leadership	Strategy	Business Development/Brand Building	Retail	Supply Chain	Marketing	Cross-Functional
Bill Ronald	✓	c.8 yrs	Leadership	Strategy	Business Development/Brand Building	Retail	Marketing	Digital	Cross-Functional
David Adams	✓	c.1 yr	Leadership	Strategy	Governance	Retail	Finance	Banking	Cross-Functional
Claudia Arney	✓	c.1 yr	Leadership	Strategy	Business Development/Brand Building	Corporate	Digital	Marketing	Cross-Functional
Keith Harris	✓	c.8 yrs	Leadership	Strategy	Governance	Banking	Finance	Corporate	Cross-Functional

Key

Skills	*Experience*	
Leadership	Retail	Digital
Strategy	Finance	Supply Chain
Governance	Banking	Marketing
Business Development/Brand Building	Corporate	Cross-Functional

The Board considers that it has the right combination of skills, experience, independence and knowledge to be useful and effective in meeting the needs of the business. More than half of the Board are independent Non-Executive Directors. Dennis Millard was appointed Chairman on 28 May 2009 and reappointed on 28 May 2011. At the time of his appointment he was considered to meet the independence criteria. The other Non-Executive Directors are considered by the Board to be independent in character and judgement.

This combination of individuals and skills ensures that the Board is sufficiently balanced such that no individual or group of individuals can dominate decision-making and allows for an effective division of responsibilities within the Board and its Committees. The positions of Chairman and Chief Executive are held separately. The boundaries of their remit for running the Board and the business respectively are available on the Company's Corporate and IR website. Each Director devotes sufficient time and attention as is necessary in order to perform their duties.

Diversity

The Board considers itself diverse in terms of the background and experience each individual member brings to the Board. To maintain this, the considerations to be taken into account in each appointment to the Board are stipulated in the Terms of Reference of the Nomination Committee which are available on the Company's Corporate and IR website. Specifically, the Nomination Committee must *"consider candidates on merit and against objective criteria, and with due regard for the benefits of diversity on the Board, including gender"* in identifying and recommending candidates.

Currently one member of the Board is female. This appointment was made on the basis that Claudia Arney was the best-qualified candidate to provide the Board with the necessary support and expertise in developing the Group's online consumer and media strategy.

The Company is not generally in favour of setting a fixed quota of women on the Board. The Nomination Committee will continue to recommend appointments to the Board based on the existing balance of skills, knowledge and experience on the Board, on the merit and capabilities of the nominee and on the time they are able to devote to the role in order to promote the success of the Company.

Induction and Ongoing Training

Although no new appointments have been made in the year under review, an induction programme is maintained for new Directors, which is tailored to include briefings on the activities of the Group and visits to operational sites. All Directors are members of the Deloitte Academy, a training resource that provides support and guidance to boards and individual directors. Directors are informed of relevant material changes to laws and regulations affecting the Group's business and their duties as Directors. The Company Secretary advises the Board on governance matters and is available to all Directors for advice as required. All Non-Executive Directors have embarked on a series of head office and store visits through the year and feedback is provided at Board meetings.

Effectiveness — Board Committees

The Board has established a number of Committees to assist in the discharge of its responsibilities. The Company Secretary acts as secretary to the Committees.

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Corporate Governance Report continued

Only the members of each Committee are entitled to attend its meetings, although other Directors, professional advisors and members of the senior management team attend when invited to do so. The Audit Committee will invite the Auditors 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. A Disclosure Committee composed of a minimum of two Directors has been established to approve finalised market announcements prior to release.

When the need arises, separate ad hoc committees may be set up by the Board to consider specific issues.

Effectiveness — Directors and their Other Interests

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 as to whether or not such conflict will be approved.

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 82 to 91.

Effectiveness — Board Evaluation

In May 2011, the Board undertook an internal evaluation process via: one-to-one meetings between the Chairman and the other Directors, one-to-one meetings between the Senior Independent Director and the other Directors regarding the performance of the Chairman, and Board and Committee Evaluation Questionnaires. The collated information was reviewed by the Board and the appropriate Committee, and overall it was concluded that the performance of the Board as a whole, its principal Committees and individual Directors was such that each Director performs at the optimum level for the benefit of the Company. Following this review and in line with the Code, the Board committed to an external evaluation for the period.

The Board engaged Egon Zehnder in April 2011 to facilitate the external evaluation of the Board via a series of one-to-one interviews with each individual Director. Discussions included: the workings of the Board and its Committees; the balance of skills, expertise and personalities on the Board; and the need to consider the Board's composition in light of the Company's strategy of Friend of the Motorist, Best Cycle Shop in Town and the Starting Point for Great Getaways. Egon Zehnder are expected to report back to the Board on their findings in June 2012.

Effectiveness — Re-election

All Directors on the Board on 30 March 2012 will seek re-election at the Company's AGM on 31 July 2012 in compliance with the Code and the Company's Articles of Association.

Effectiveness — Nomination Committee

Chairman
Dennis Millard

"The Nomination Committee is pleased that the new Board members and senior Executives in whose appointment we were involved last year have established themselves well in, and are providing the fresh insight we anticipated. The Nomination Committee continues to take an active involvement in succession planning this year with the appointment of a number of senior Executives to further boost and complement the skills and experience brought by the Board and senior Executives."

Members
Dennis Millard
(Committee Chairman)
David Adams
Keith Harris
Bill Ronald
Claudia Arney
David Wild

Meetings
Total Number of Committee meetings: 4

Terms of Reference: Yes (see website)

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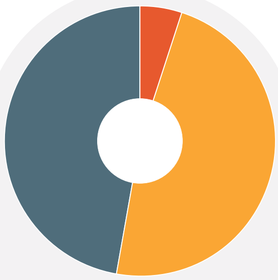
With the exception of David Wild, all members of the Committee are considered to be independent Non-Executive Directors. The Code states that the test of independence is not appropriate in relation to the Chairman after his appointment and the Board feels it is appropriate, as all Non-Executive Directors sit on the Committee, that the Committee should be chaired by the Chairman of the Group. Senior members of management and advisors are invited to attend meetings as appropriate.



Time Spent on Nomination Committee Business

Delegated Remit — recommendations to the Board or for approval by the Committee	Key Considerations throughout the Period
Terms of Reference	Appropriateness for an efficient and effective Nomination Committee.
Composition of the Board and Committees, and the appointment of the Senior Independent Director	Board diversity.
Succession plans for the Board and senior management	Executive management team composition, strengths, weaknesses.

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.

Accountability — Audit Committee

Chairman
David Adams

"The role of the Audit Committee is key to ensure full stakeholder confidence in the financial matters of the business. It helps to ensure that financial statements are accurate, and that controls, policies and procedures are relevant, up to date and adhered to. This is achieved through regular review, communication with operational and financial management in the business, through the internal audit function, and reviews with the external Auditors."

Members
David Adams
(Committee Chairman)
Keith Harris
Bill Ronald
Claudia Arney

Meetings
Total Number of Committee meetings: 3

Terms of Reference: Yes (see website)

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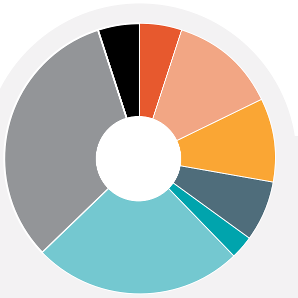
All the members of the Audit Committee are independent Non-Executive Directors. David Adams has been the Deputy Chief Executive and Finance Director of the House of Fraser Plc and as such is also considered by the Board to have recent and relevant financial experience. Each of the other independent Non-Executive Directors on the Audit Committee has, through their other business activities, significant experience in financial matters. The Chairman, 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 to raise any issues of concern with the Auditors. There have been three such meetings in the period ended 30 March 2012 and nothing of note was reported.

The Audit Committee is responsible for making recommendations to the Board on the appointment of the Auditors and their remuneration, for reviewing the accounting principles, policies and practices adopted in



Time Spent on Audit Committee Business

Delegated Remit — approval of	Key Considerations throughout the Period
Terms of Reference	Suitability for the Audit Committee to deliver accountability.
Half-year report and interim results	Reflective of the financial situation of the Group.
Significant accounting and treasury policies/practices	Appropriate for the nature of the Group's business.
External Auditors	Continued appointment, remuneration including audit and non-audit work, independence and objectivity.
Resolutions and corresponding documents to shareholders at general meeting including annual report	Ensuring that shareholders have the appropriate information to make informed decisions.
Internal audit	Approval of head of internal audit function. Internal control and risk management statement within annual report.
External audit	External audit report, year end audit strategy and plan.
Other business	Security processes and store assurance.

the preparation of the Interim Report and Annual Report and Financial Statement and reviewing the scope and findings of the audit. The Audit Committee assists the Board in achieving its obligations under the 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 Auditors' independence including any non-audit services that are to be provided by the Auditors. The Auditors confirm their independence at least annually. A formal policy exists which ensures that the nature of the advice to be provided could not impair the objectivity of the Auditors' opinion on the Group's Financial Statements. This policy was made more robust throughout the period and only allows the Auditors to be engaged for non-audit services subject to Audit Committee approval being obtained prior to

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Corporate Governance Report continued

any such appointment. Exceptions to this are the engagement of the Auditors for the half-year review, and internal support services in respect of management's annual internal audit plan.

The Audit 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.

Accountability — Internal Control and Risk Management

Overall responsibility for the system of internal control, reviewing its effectiveness and ensuring that there is a process to identify, evaluate and manage any significant risks that may affect the achievement of the Group's strategic objectives lies with the Board.

The Board and the Audit Committee have reviewed the effectiveness of the Group's internal control and risk management systems in accordance with the Code for the period ended 30 March 2012, and up to the date of approving the Annual Report and Financial Statements. The internal control and risk management system 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 internal audit function principally reviews the effectiveness of the controls operating within the business by undertaking an agreed schedule of independent audits each year. The Audit Committee determines the nature and scope of the annual audit programme at the beginning of each calendar year and revises it from time to time according to changing business circumstances and requirements. Whilst directed by Andrew Findlay, the Company's Finance Director, the internal audit function is independent in action and reporting, with a direct line of communication to the Audit Committee Chairman. The findings of the independent 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.

Currently, the Company has engaged KPMG to support the internal audit process. The plan and scope of work for the future is determined by the Halfords Group Executive management team and the Audit Committee. KPMG act as a resource to allow managerial access to appropriately skilled individuals. KPMG do not perform a management role. It is the intention of the Company to move towards a greater internal resourcing of the Internal Audit function, and recruitment is under way for a suitable qualified Head of Internal Audit, who will build a team to carry out this work.

The assessment and control of risk are considered by the Board to be fundamental to achieving corporate objectives. An ongoing process for identifying and evaluating the significant risks faced by the Group and the effectiveness of related controls has been established by the Board to ensure an acceptable risk/reward profile across the Group. 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 this process, 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 30 March 2012 and up to the date of this report the Risk Management Group considered the Company's Risk Register and its alignment with the Company's key strategic objectives, reporting the findings to the Board. The Board considered its appetite for risk in relation to the top 25 risks determining that the risks and mitigating actions were appropriate to the level of risk that was both acceptable to, and incumbent within, a FTSE 250 business. More information on the Company's key risks and uncertainties is shown on pages 40 to 43.

Remuneration — Remuneration Committee

Chairman
Keith Harris

"Remuneration of the directors and senior management of a business should be clearly linked to the performance of the company and the value generated for shareholders. The Remuneration Committee upholds this principle by regularly reviewing the remuneration policy and practices of the business to ensure that the appropriate balance is maintained."

Members
Keith Harris
(Committee Chairman)
Dennis Millard
Bill Ronald
Claudia Arney
David Adams

Meetings
Total Number of Committee meetings: 5

Terms of Reference:
Yes (see website)

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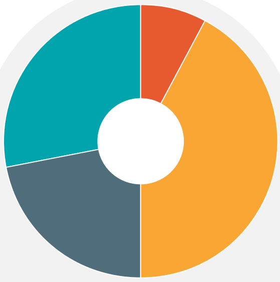
All members of the Remuneration Committee are considered to be independent Non-Executive Directors. Executive Directors attend Remuneration Committee meetings at the invitation of the Committee Chairman.



Time Spent on Remuneration Committee Business

Delegated Remit — recommendations to the Board or for approval by the Committee	Key Considerations throughout the Period
Terms of Reference	Appropriate for the Remuneration Committee to function effectively in establishing remuneration policy and levels.
Remuneration policy	Bonuses for FY11 and FY12. Senior managers' salaries. Future Company-wide bonus opportunities.
Awards under the Company's employee and executive share plans	Consideration of potential awards. Performance conditions.
Other business	Presentations on current trends within Executive remuneration and the use of non-financial KPIs. Remuneration benchmarking presentation by the Hay Group. Remuneration advisors' independence.

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 members of its Executive management team.

The Committee 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 82 to 91. A resolution to approve the Directors' Remuneration Report will be proposed at the forthcoming AGM.

Relations with Shareholders

During the period ended 30 March 2012 Bill Ronald served as the Company's Senior Independent Director. 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.

The Board recognises the importance of establishing and maintaining good relationships with all of the Company's shareholders and Bill Ronald has indicated his willingness to meet with any shareholders as they request. 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.

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 and meetings with individual investors as appropriate. 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 a Corporate and Investor Relations website is maintained 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, 31 July 2012 at the Hyatt Regency Birmingham, Bridge Road, Birmingham, B1 2JZ. The Chairmen of the Remuneration, Nomination and Audit Committees will be present at the AGM and will be in a position to answer questions relevant to the work of those Committees. It is the Company's practice to propose separate resolutions on each substantial issue at the AGM. The Chairman will advise shareholders on the proxy voting details at the meeting.

The Company's financial calendar and other shareholder information is set out on page 135.

By order of the Board

Alex Henderson
Company Secretary
30 May 2012

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Directors' Remuneration Report

"As Chairman of the Remuneration Committee I present our report on how throughout the period we have sought to align the offering of competitive remuneration, to attract and retain high calibre management, with the achievement of our business objectives in line with shareholder and other stakeholder expectations."

Keith Harris
Chairman, Remuneration Committee

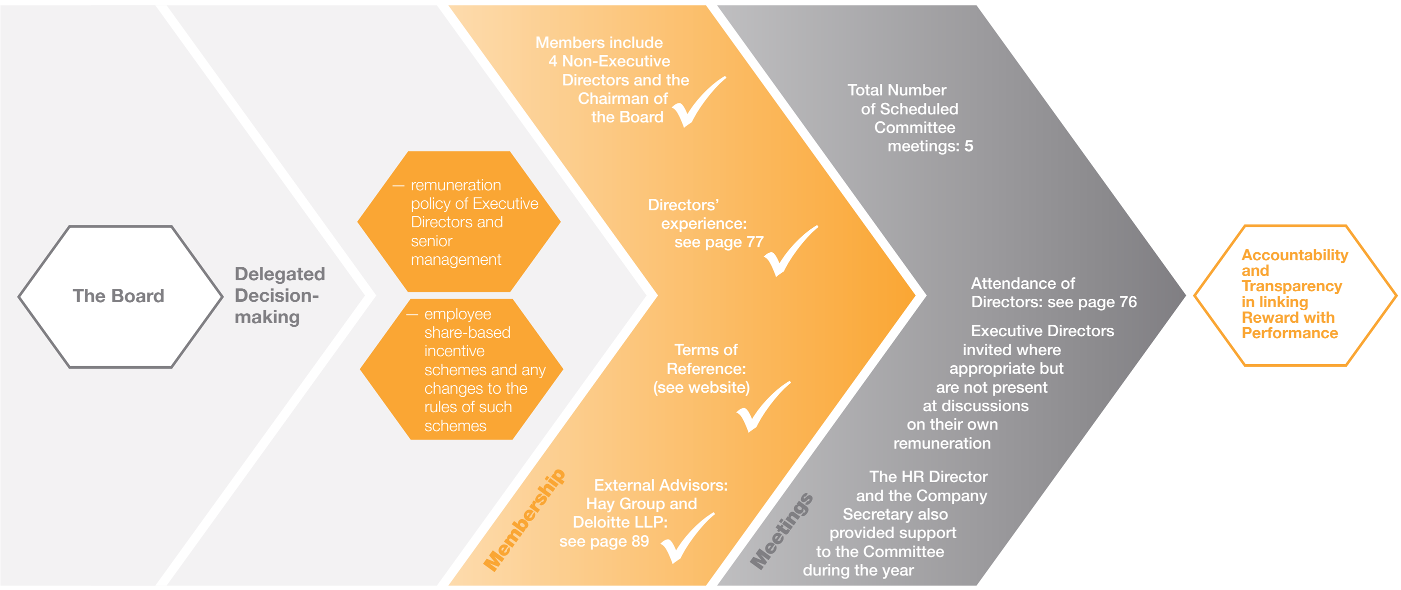
Read online: halfords.annualreport2012.com/drr

Statement of Compliance with Laws and Codes

The Remuneration Committee (the "Committee") has prepared this report on behalf of the Board in accordance with the UK Corporate Governance Code, 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. This report has been approved by the Committee and the Board, and a resolution approving the report will be proposed to shareholders at the AGM of the Company on 31 July 2012.

PART A: UNAUDITED INFORMATION

Committee Leadership — Decision-Making — Delegated by the Board



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, but only if above upper quartile performance is 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 and whether remuneration arrangements appropriately reflect this policy annually.

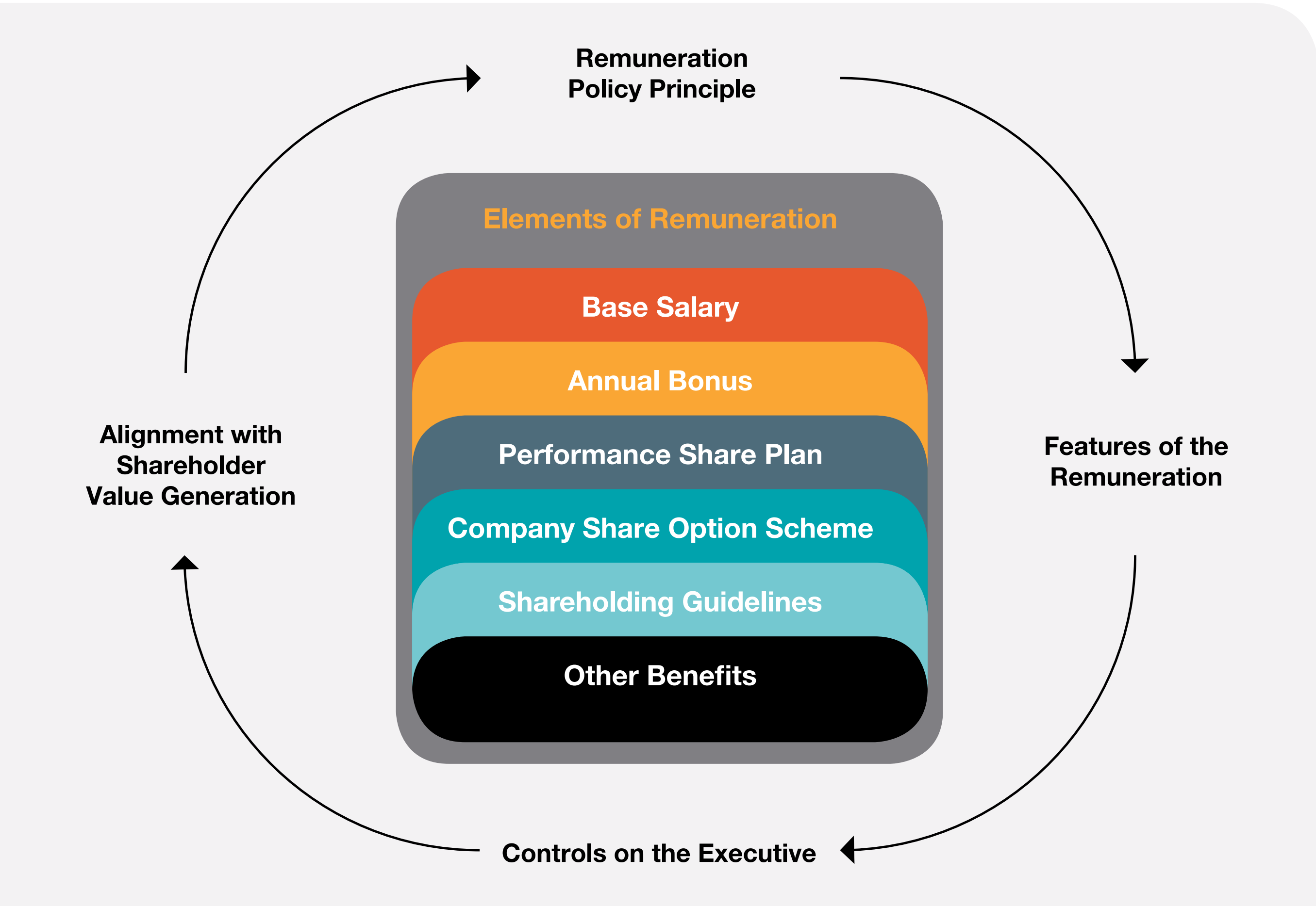
During the year and the period to the date of this report the Remuneration Committee, supported by Deloitte LLP:

- Considered the Group's remuneration policy.
  - The Committee considered the broad policy continued to be aligned with the strategy and long-term success of the business.
  - The Committee considered whether the remuneration arrangements, including variable, performance-based elements, continue to be structured to ensure associated performance remains aligned with the strategic objectives of the Company and incentivises managers.

- Consideration was given to the appropriateness of the performance conditions of the Company's Performance Share Plan. The Committee considers that the performance measures that applied to the 2011–14 scheme continue to be appropriate for the business and therefore these measures will also apply for the 2012–15 scheme. During the year the Committee assessed TSR and EPS performance for the 2009–2012 scheme. These targets were not meet and therefore this award will not vest.
- The 2011/12 bonus was based 80% on Profits Before Tax ("PBT") and 20% on Earnings Per Share ("EPS") performance. During the year neither the PBT or the EPS targets were met and therefore no bonus will be paid to Executive Directors in respect of 2011/12 performance.
- Consideration was given to the targets for the Executive Directors' and senior managers' short-term bonus arrangements for 2012/13. The Committee considered that the target range previously used was too narrow in the context of expected performance for 2012/13 and therefore determined that a range of 92% (zero payout) to 106% (full payout) was more appropriate.
- The Committee also considered the measures used for the bonus and agreed that the 80% PBT, 20% EPS arrangements would be replaced, with future payments being based 75% on PBT and 25% on a number of key non-financial metrics linked to the strategy and operation of the business. These metrics have been selected in order to support the enhancement of strategic pillars (see page 4) which the Committee ultimately believes will lead to the creation of shareholder value.
- When determining bonus payouts for 2012/13, in addition to considering performance against targets, the Committee will also consider the underlying performance of the business and performance against strategic initiatives. It retains the discretionary authority to increase or decrease the bonus to ensure that the level of bonus paid is appropriate in the context of performance and value delivered for shareholders. Discretion shall in all cases only be exercised within the agreed boundaries and maxima.
- The Committee also considered whether it would be appropriate to disclose a single figure for the total of each Director's remuneration. It was decided that at this time, that as there was no agreed basis for calculation of this figure, that any disclosure could be misleading. We will, however, keep this under review as regulations and market practice develop.

Executive Directors' Remuneration — the Elements

The following pages illustrate how each individual element of remuneration is specifically designed to support the achievement of different corporate objectives.



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Directors' Remuneration Report continued

	Base Salary (see also Note 1)	Annual Bonus	Performance Share Plan ("PSP") (see also Note 2)
Remuneration Policy Principle	Set to be market competitive against other retail companies of a similar size for comparable roles.	Reward the achievement of annual earnings targets and performance against key strategic goals.	Align Executives' and shareholders' interests and reward growth in shareholder value and earnings.
Features of the Remuneration	Paid monthly in cash.	CEO – maximum award 150% base salary – 2/3 in cash with 1/3 deferred in shares for three years. Finance and Commercial Directors – 100% base salary – full bonus in cash. Bonuses are non-pensionable.	Maximum core award 150% base salary. Performance multiplier of 1.5 × core award for exceptional performance (upper decile). Vests over a three-year performance period.
Controls on the Executive	Annual reviews (subject to any material changes in responsibilities) of requisite experience, responsibilities, performance, commitment, and efficiency alongside contribution to corporate.	Targets are calibrated to ensure that they are very stretching and demanding, with the maximum bonus only being achievable for exceptional performance. For FY13 75% of the annual bonus is dependent upon Profit Before Tax ("PBT") and 25% on a number of key non-financial metrics linked to the strategy and operation of the business.	50% determined by the Group's relative TSR performance measured against a general retailers comparator group chosen from the FTSE 350 and the balance of 50% determined by the Group's absolute EPS growth performance.
Alignment with Shareholder Value Generation	High calibre and performing Executives are and continue to be in place to manage the Company. Current salaries are set at a competitive level to retain Executives.	Executives are incentivised to deliver annual performance with the CEO further incentivised to manage risk and align his long-term interests with those of shareholders.	Challenging and appropriately stretching targets. Award delivered in shares to align Executives with share price movement.

Note 1

In October 2011, a Group-wide salary review was undertaken which took into account remuneration trends, candidate quality and job location in markets in which the Group had recently recruited. With respect to the Executives, the salary review also considered executive remuneration market trends and benchmarking. The salary increases from 1 April 2012 recommended by the Committee, and approved by the Board, are detailed below alongside the average percentage increase awarded across the Group. The Committee was mindful to ensure that no Director received an increase in excess of the average across the Group of 2%. The Chief Executive received 2%, an increase to £517,650, the Finance Director also received 2%, an increase to £280,500. The Commercial Director's salary remained at £290,700.

Note 2

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.

Note 3

The beneficial interests of Directors, serving at the end of the period, in shares in Halfords Group plc are shown opposite.

The figures include those of their spouses, civil partners and infant children, or stepchildren, as required by Section 822 of the Companies Act 2006.

Company Share Option Scheme ("CSOS")	Shareholding Guidelines (see also Note 3)	Other Benefits (see also Note 4)
Direct link to value creation through share price growth as major objective.	Align Directors' interests with shareholder interests.	Market median competitive remuneration.
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.	Executive Directors are required to acquire and retain shares.	Pension contribution of 15% of base salary Company car or equivalent allowance Permanent Health Insurance Life Assurance Cover Membership of a Private Medical Insurance Scheme Travelling and other expenses
In the event that awards are made under the CSOS to Executive Directors, the Committee would review the performance measures and set targets which are suitably stretching.	Shareholding must be to a value equal to 100% of their base annual salary and Executive Directors have a five-year period to build this shareholding following their appointment.	
Challenging and appropriately stretching targets. Award delivered in shares to align senior Executives with share price movement.	As long-term shareholders themselves, Executives are incentivised to consider the interests of shareholders and shareholder value creation.	

	Fully paid Ordinary Shares of 1p each	
	As at 30 March 2012	As at 1 April 2011
Dennis Millard	**32,500**	32,500
David Wild	**260,464**	100,000
Paul McClenaghan	**146,221**	124,744
Andrew Findlay	**2,850**	—
Keith Harris	**3,846**	3,846
Bill Ronald	**11,538**	11,538
David Adams	**—**	—
Claudia Arney	**—**	—

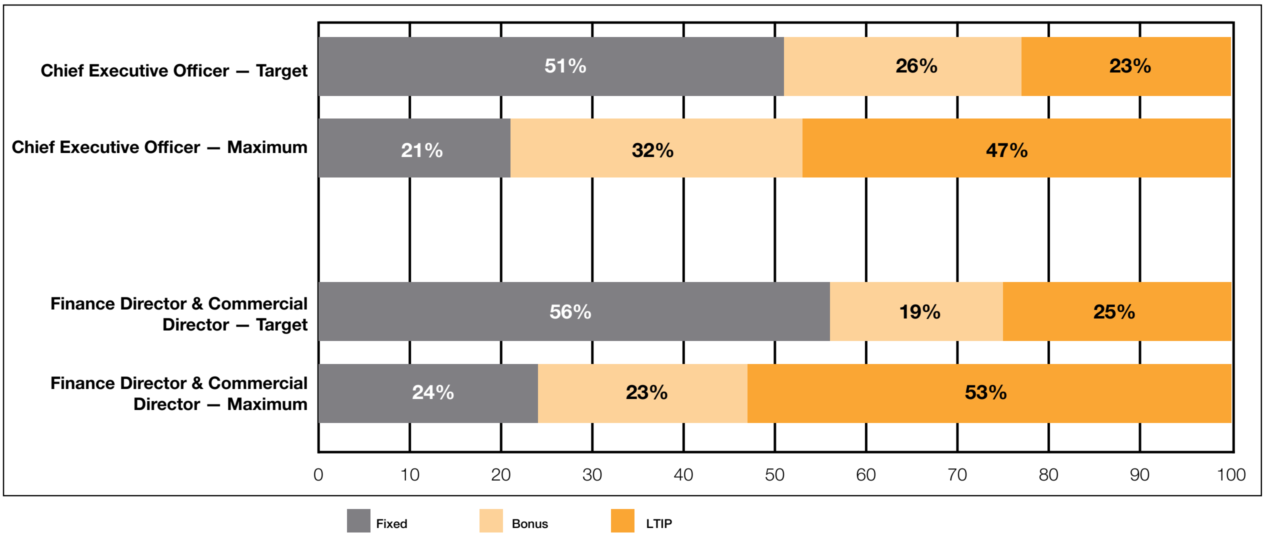
There were no changes in the beneficial interests of the Directors in the Company's shares between 30 March 2012 and 31 May 2012.

Note 4

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. For each member could also benefit from salary sacrifice arrangements. Both schemes were open to the Executive Directors, who each receive a pension contribution of 15% of base salary per annum. The Group's contributions during the year are shown in the table on page 90.

Directors' Remuneration Report continued

Striking a Balance between Fixed and Variable Remuneration



As outlined above, the remuneration policy is designed to ensure that a substantial proportion of the Executive Directors' remuneration is variable and performance-related. By linking the remuneration of the individual Executive Director to the performance of the Company, the Board seeks, as far as possible, to motivate that individual towards superior business performance and shareholder value creation, and to only pay rewards when these goals have been realised. Performance measures are aligned with strategic goals so that remuneration arrangements are transparent to Directors, shareholders and other stakeholders.

The chart above seeks to illustrate the overall balance between fixed and variable remuneration within the current remuneration policy.

Executive Directors' Service Agreements

Term

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	19 June 2008	12 months
Andrew Findlay[1]	16 November 2010	12 months
Paul McClenaghan	9 May 2005	12 months

(1) Andrew Findlay was appointed to the Board on 1 February 2011 and his service agreement was effective from that date.

Early Termination

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 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.

Mitigation in Termination

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.

Change of Control

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

External 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 and they are entitled to retain any fees they may receive. David Wild was appointed as a Non-Executive Director of Premier Foods on 7 March 2011 and in the period ended 30 March 2012 he received £57,000 in fees (7 March to 1 April 2011: £4,750).

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 normal commercial rates 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 — Summary

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 10 year shareholder dilution is 2.60% [2011: 4.31%].

	Date of Adoption	Eligibility	More information
Halfords Company Share Option Scheme ("CSOS")	May 2004	Used to reward employees below the Board and it is not the current intention to grant awards under the CSOS to Executive Directors (other than in exceptional circumstances).	The CSOS is a market value option plan which incentivises senior management to grow the share price. Options are granted at an exercise price not less than market value at the date of grant and are normally subject to performance. Currently, vesting of options is subject to an earnings per share hurdle.
Halfords Sharesave Scheme	May 2004	An all-employee SAYE scheme in which all Executive Directors are eligible to participate.	During the year the Committee considered the principles behind the establishment of the SAYE scheme in 2011 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 ("PSP")	July 2005	Main incentive vehicle for Executive Directors and senior managers immediately below the Board with awards generally made on an annual basis.	See Note 1 below.

Note 1

The PSP targets are summarised in the table below:

For the core award, 30% of the award vests for achieving median TSR performance compared to the comparator group described below and EPS growth of RPI plus 4% per annum. The full core award vests for achieving upper quartile TSR and EPS growth of RPI plus 11% per annum. For the award multiplier, the TSR element will only vest if TSR performance is between upper quartile and upper decile. 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. For the core award and the multiplier straight-line vesting applies between each of these points.

		TSR Performance Element (50% of award)	EPS Performance Element (50% of award)
Award "Multiplier" (up to 1.5 × initial award) i.e. 225% of salary	1.5 × 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 continued

TSR and EPS performance will 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 companies included in the TSR comparator group for awards granted in 2011 are as follows:

- Brown Group
- Carpetright
- Debenhams
- Dignity
- Dixons Retail plc
- Dunelm Group
- Greggs
- Home Retail Group
- JD Sports Fashion plc
- Kesa Eletrics
- Kingfisher
- Marks & Spencer
- Morrisons
- Mothercare
- Next
- Sainsbury's
- Sports Direct International
- Tesco
- WH Smith

The comparator group for awards pre-2010 (which did not include the performance multiplier) was similar to the above group but did not include food retailers.

The Committee believes that the operation of the PSP is appropriate to continue to effectively incentivise and retain key Executives in a way which is aligned with our long-term strategy and the creation of shareholder value. 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.

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.

In 2008 and 2009 (the first two years of his tenure) the Chief Executive received awards under the PSP of 200% of base salary; these awards are not subject to the performance multiplier. On the vesting of any of this award David Wild was encouraged to retain shares, so enabling him to achieve the shareholding guidelines (see table on page 85).

Following his appointment, Andrew Findlay was granted a PSP award of 225% of salary in August 2011. This award was subject to the performance conditions outlined on pages 84 and 87. If exceptional performance is delivered then up to 1.5× this award may vest. The Committee considered that it was appropriate to grant this enhanced award to Mr Findlay to compensate him for awards he forfeited on leaving his previous employment.

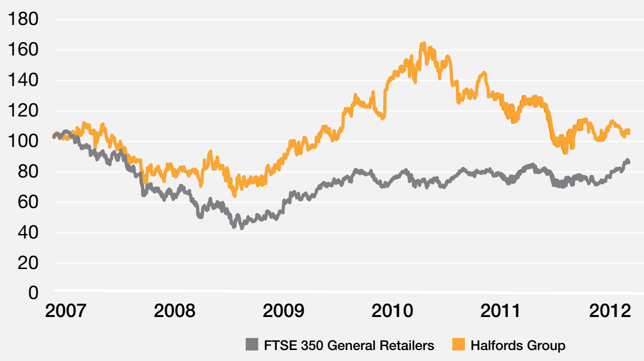
Details of awards granted to Executive Directors are set out on page 91.

Performance graph

The following graph shows the TSR performance of the Company since April 2007, 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



Non-Executive Directors' Remuneration

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

Term

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.

Continuation

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 is evaluated annually.

Compensation for Termination

No compensation would be payable to a Non-Executive Director if his or her engagement were terminated as a result of him or her retiring by rotation at an Annual General Meeting, not being elected or re-elected at an Annual General Meeting or otherwise ceasing to hold office under the provisions of the Articles of Association of the Company.

There are no provisions for compensation being payable upon early termination of the appointment of a Non-Executive Director.

Fees

During the year fees for the Chairman and Non-Executive Directors were reviewed and it was agreed that there would be no increases. 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

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.

Appointment Periods

	Date of appointment	Date of current reappointment	Date of resignation	Expiry date	Unexpired term at the date of this report
Dennis Millard	28 May 2009	29 May 2012	—	29 May 2015	36 months
David Adams	1 March 2011	2 August 2011	—	28 February 2014	21 months
Claudia Arney	25 January 2011	2 August 2011	—	24 January 2014	20 months
Keith Harris	17 May 2004	2 August 2011	—	26 July 2013	14 months
Bill Ronald	17 May 2004	2 August 2011	—	26 July 2013	14 months

The terms and conditions and letters of appointment are available on the Company's Corporate and IR website.

Advisors

Hay Group — During the year continued to provide advice on matters relating to remuneration, including market comparison data and best practice. No other services are provided to the Group

Deloitte LLP — During the year continued to advise on share-based long-term incentive plans and other remuneration matters. Deloitte also provide unrelated advisory and tax services to the Group.

The Committee continues to be satisfied that the advice received from its advisors is independent.

PART B: AUDITED INFORMATION

The following section provides details of the remuneration, pension and share interests of the Directors for the period ended 30 March 2012 and has been audited.

Remuneration of Executive Directors

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

	Salary £000	Bonuses £000	Benefits[2] £000	FY12 Total £000	FY11 Total £000
David Wild	513	—	27	**540**	531
Paul McClenaghan[1]	277	—	16	**293**	287
Andrew Findlay	278	—	13	**291**	108

[1] From this gross salary Paul McClenaghan sacrificed some of his salary for like-for-like pension contributions to the Halfords Pension Plan.
[2] Benefits include payments made in relation to private health insurance and the provision of a company car.

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Directors' Remuneration Report continued

Pension Entitlements

Pension contributions to defined contribution pension schemes made by the Group during the period ended 30 March 2012 in respect of qualifying services of Executive Directors were as follows:

	Period ended 30 March 2012 £000	52 Weeks to 1 April 2011 £000
David Wild[1]	**77**	75
Paul McClenaghan[2]	**57**	56
Andrew Findlay[1]	**48**	—
	183	193

[1] Payments are made into a personal fund, the purpose of which is to provide additional retirement benefits.

[2] As a member of the Halfords Pension Plan 2009 Paul McClenaghan has sacrificed some of his salary for like-for-like pension contributions.

Remuneration of Non-Executive Directors

Details of the payments made to Non-Executive Directors are shown below:

	Period ended 30 March 2012				
	Basic Fees £000	**SID Fees £000**	**Chairman's Fees £000**	**2012 Total £000**	2011 Total £000
Dennis Millard	165	—	—	**165**	165
David Adams	45	—	5	**50**	4
Claudia Arney	45	—	—	**45**	8
Keith Harris	45	—	5	**50**	50
Bill Ronald	45	15	—	**60**	45

Directors' Interests in Share Options

At the beginning of the year and at 30 March 2012, the following Directors had options to subscribe for shares granted under the terms of the Halfords SAYE.

	Options as at 1 April 2011	Granted in period	Exercised in the period[1]	Lapsed in the period	Options as at 30 March 2012	Exercise Price £	Exercisable from	Exercisable to
Paul McClengahan								
2008 SAYE	4,878		4,878	—	**0**	1.93	1 Oct 2011	1 April 2012
2011 SAYE		3,085		—	**3,085**	2.9246	1 Oct 2014	31 March 2015
Total	4,878				**3,085**			

[1] The market value at the date of exercise was £2.922.

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 30 March 2012, 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 1 April 2011	Awarded during the period	Dividend Reinvestment[1]	Lapsed during the period	Exercised during the year[2]	**Awards held 30 March 2012**	Performance period 3 years to
David Wild	7 August 2008	2.96	337,643	—	—	3,343	334,330	**—**	1 April 2011
	3 August 2009	3.46	308,105	—	22,335	—	—	**330,440**	30 March 2012
	3 August 2010	4.10	159,859	—	11,583	—	—	**171,444**	29 March 2013
	8 August 2011	3.17	—	254,089	6,378	—	—	**260,467**	28 March 2014
Paul McClenaghan	7 August 2008	2.96	86,099	—	—	852	85,247	**—**	1 April 2011
	3 August 2009	3.46	117,850	—	8,543	—	—	**126,393**	30 March 2012
	3 August 2010	4.10	89,773	—	6,507			**96,280**	29 March 2013
	8 August 2011	3.17	—	142,690	3,582	—	—	**146,272**	28 March 2014
Andrew Findlay	8 August 2011	3.17	—	206,525	5,184	—	—	**211,709**	28 March 2014

(1) Following the recommendation of the Committee to reinvest dividends earned on shares awarded since 2009, interim and final dividends have been reinvested in shares at prices between £3.1869 and £4.8110.

(2) The market value at the date of exercise was £2.8716.

Gains made by Directors

The table below shows gains made by individual Directors from the exercise of performance share awards during the financial period ended 30 March 2012. The gains are calculated as at the exercise date, although the shares may not have been retained.

	FY12 £000	FY11[1] £000
2008 PSP (Vested 7 August 2011)		
David Wild	**960**	—
Paul McClenaghan	**245**	—
Total gains on performance share awards	**1,205**	—

(1) Gains made on the PSP awarded in 2007 due to vest in August 2011 actually vested in March 2010 and gains of £1.1m were disclosed in the 2010 Directors' Remuneration Report.

2008 SAYE (Vested 1 October 2011)		
David Wild	**—**	—
Paul McClenaghan	**5**	—
Total gains on share options	**5**	—

The Register of Interests, which is open to inspection, contains full details of Directors' shareholdings and options. No options have expired unexercised during the period ended 30 March 2012 and there were no changes in the options held by the Directors between 30 March 2012 and 30 May 2012.

On 30 March 2012, the market price of ordinary shares of Halfords Group plc was 310.6 pence and the range during the period was 269.7 pence to 405.9 pence. For details of the grant dates of options see note 21 on pages 124 to 126.

Keith Harris
Chairman of the Remuneration Committee
30 May 2012

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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 judgements 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 comply 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

The Directors confirm to the best of their knowledge:

a) the financial statements prepared in accordance with IFRS, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the Group; and

b) the business review includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties faced.

Approved by order of the Board

Dennis Millard
Chairman
30 May 2012

Independent Auditors' Report to the Members of Halfords Group plc

We have audited the financial statements of Halfords Group plc for the period ended 30 March 2012 set out on pages 96 to 133. 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 auditor's 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 94, 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, and express an opinion on, 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/private.cfm

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 30 March 2012 and of the Group's profit for the year 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; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared 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.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 73, in relation to going concern;
- the part of the Corporate Governance Statement on pages 74 to 81 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

GA Watts (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
30 May 2012

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Consolidated Income Statement

For the period	Notes	52 weeks to 30 March 2012 Before non-recurring items £m	52 weeks to 30 March 2012 Non-recurring items (note 5) £m	52 weeks to 30 March 2012 Total £m	52 weeks to 1 April 2011 Before non-recurring items £m	52 weeks to 1 April 2011 Non-recurring items (note 5) £m	52 weeks to 1 April 2011 Total £m
Revenue	1	**863.1**	**—**	**863.1**	869.7	—	869.7
Cost of sales		**(390.3)**	**—**	**(390.3)**	(384.7)	—	(384.7)
Gross profit		**472.8**	**—**	**472.8**	485.0	—	485.0
Operating expenses	2	**(375.6)**	**1.9**	**(373.7)**	(356.9)	(7.5)	(364.4)
Results from operating activities	3	**97.2**	**1.9**	**99.1**	128.1	(7.5)	120.6
Finance costs	6	**(5.5)**	**—**	**(5.5)**	(4.3)	—	(4.3)
Finance income	6	**0.5**	**—**	**0.5**	1.8	—	1.8
Net finance expense		**(5.0)**	**—**	**(5.0)**	(2.5)	—	(2.5)
Profit before income tax		**92.2**	**1.9**	**94.1**	125.6	(7.5)	118.1
Income tax expense	7	**(24.8)**	**(0.9)**	**(25.7)**	(34.7)	2.1	(32.6)
Profit for the financial period attributable to equity shareholders		**67.4**	**1.0**	**68.4**	90.9	(5.4)	85.5

Earnings per share	Notes	Before non-recurring items 2012	Total 2012	Before non-recurring items 2011	Total 2011
Basic	9	**33.7p**	**34.2p**	43.2p	40.7p
Diluted	9	**33.5p**	**34.0p**	42.7p	40.2p

All results relate to continuing operations of the Group.

The notes on pages 108 to 127 are an integral part of these consolidated financial statements.

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Consolidated Statement of Comprehensive Income

	Notes	52 weeks to 30 March 2012 £m	52 weeks to 1 April 2011 £m
Profit for the period		**68.4**	85.5
Other comprehensive income			
Foreign currency translation differences for foreign operations		**(0.5)**	0.1
Cash flow hedges:			
Fair value changes in the period		**(0.9)**	(4.2)
Transfers to inventory		**1.3**	(1.0)
Transfers to net profit:			
Cost of sales		**(0.2)**	1.6
Income tax on other comprehensive income	7	**(0.3)**	1.1
Other comprehensive income for the period, net of income tax		**(0.6)**	(2.4)
Total comprehensive income for the period attributable to equity shareholders		**67.8**	83.1

The notes on pages 108 to 127 are an integral part of these consolidated financial statements.

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Consolidated Statement of Financial Position

	Notes	30 March 2012 £m	1 April 2011 £m
Assets			
Non-current assets			
Intangible assets	10	**343.9**	346.7
Property, plant and equipment	11	**97.9**	102.6
Total non-current assets		**441.8**	449.3
Current assets			
Inventories	12	**146.7**	147.6
Trade and other receivables	13	**45.0**	42.0
Derivative financial instruments	19	**0.3**	0.3
Cash and cash equivalents	14	**13.4**	2.7
Total current assets		**205.4**	192.6
Total assets		**647.2**	641.9
Liabilities			
Current liabilities			
Borrowings	15	**(2.8)**	(7.6)
Derivative financial instruments	19	**(1.5)**	(2.3)
Trade and other payables	16	**(140.4)**	(142.0)
Current tax liabilities		**(24.8)**	(23.4)
Provisions	17	**(8.8)**	(10.4)
Total current liabilities		**(178.3)**	(185.7)
Net current assets		**27.1**	6.9
Non-current liabilities			
Borrowings	15	**(149.8)**	(98.3)
Accruals and deferred income — lease incentives	16	**(28.8)**	(27.7)
Provisions	17	**(2.5)**	(7.5)
Deferred tax liabilities	18	**(0.7)**	(0.3)
Total non-current liabilities		**(181.8)**	(133.8)
Total liabilities		**(360.1)**	(319.5)
Net assets		**287.1**	322.4
Shareholders' equity			
Share capital	20	**2.0**	2.1
Share premium	20	**151.0**	151.0
Investment in own shares		**(14.0)**	(0.6)
Other reserves	20	**(0.4)**	0.1
Retained earnings		**148.5**	169.8
Total equity attributable to equity holders of the Company		**287.1**	322.4

The notes on pages 108 to 127 are an integral part of these consolidated financial statements.

The financial statements on pages 96 to 127 were approved by the Board of Directors on 30 May 2012 and were signed on its behalf by:

David Wild
Chief Executive

Andrew Findlay
Finance Director

Company Number: 04457314

Consolidated Statement of Changes in Shareholders' Equity

	Attributable to the equity holders of the Company							
				Other reserves				
	Share capital £m	Share premium account £m	Investment in own shares £m	Translation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 2 April 2010	2.1	146.5	(0.6)	0.4	0.2	1.9	128.0	**278.5**
Total comprehensive income for the period								
Profit for the period	—	—	—	—	—	—	85.5	**85.5**
Other comprehensive income								
Foreign currency translation differences for foreign operations	—	—	—	0.1	—	—	—	**0.1**
Cash flow hedges:								
Fair value changes in the period	—	—	—	—	—	(4.2)	—	**(4.2)**
Transfers to inventory	—	—	—	—	—	(1.0)	—	**(1.0)**
Transfers to net profit:								
Cost of sales	—	—	—	—	—	1.6	—	**1.6**
Income tax on other comprehensive income	—	—	—	—	—	1.1	—	**1.1**
Total other comprehensive income for the period net of tax	—	—	—	0.1	—	(2.5)	—	**(2.4)**
Total comprehensive income for the period	—	—	—	0.1	—	(2.5)	85.5	**83.1**
Transactions with owners								
Share options exercised	—	4.5	—	—	—	—	—	**4.5**
Share-based payment transactions	—	—	—	—	—	—	2.4	**2.4**
Income tax on share-based payment transactions	—	—	—	—	—	—	0.1	**0.1**
Dividends to equity holders	—	—	—	—	—	—	(46.2)	**(46.2)**
Total transactions with owners	—	4.5	—	—	—	—	(43.7)	**(39.2)**
Balance at 1 April 2011	2.1	151.0	(0.6)	0.5	0.2	(0.6)	169.8	**322.4**
Total comprehensive income for the period								
Profit for the period	—	—	—	—	—	—	68.4	**68.4**
Other comprehensive income								
Foreign currency translation differences for foreign operations	—	—	—	(0.5)	—	—	—	**(0.5)**
Cash flow hedges:								
Fair value changes in the period	—	—	—	—		(0.9)	—	**(0.9)**
Transfers to inventory	—	—	—	—	—	1.3	—	**1.3**
Transfers to net profit:								
Cost of sales	—	—	—	—	—	(0.2)	—	**(0.2)**
Income tax on other comprehensive income	—	—	—	—	—	(0.3)	—	**(0.3)**
Total other comprehensive income for the period net of tax	—	—	—	(0.5)	—	(0.1)	—	**(0.6)**
Total comprehensive income for the period	—	—	—	(0.5)	—	(0.1)	68.4	**67.8**
Transactions with owners								
Share options exercised	—	—	4.6	—	—	—	(2.5)	**2.1**
Share-based payment transactions	—	—	—	—	—	—	2.1	**2.1**
Purchase of own shares	(0.1)	—	(18.0)	—	0.1	—	(44.7)	**(62.7)**
Income tax on share-based payment transactions	—	—	—	—	—	—	(0.4)	**(0.4)**
Dividends to equity holders	—	—	—	—	—	—	(44.2)	**(44.2)**
Total transactions with owners	(0.1)	—	(13.4)	—	0.1	—	(89.7)	**(103.1)**
Balance at 30 March 2012	**2.0**	**151.0**	**(14.0)**	**—**	**0.3**	**(0.7)**	**148.5**	**287.1**

The notes on pages 108 to 127 are an integral part of these consolidated financial statements.

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Consolidated Statement of Cash Flows

	Notes	52 weeks to 30 March 2012 £m	52 weeks to 1 April 2011 £m
Cash flows from operating activities			
Profit after tax for the period before non-recurring items		**67.4**	90.9
Non-recurring items		**1.0**	(5.4)
Profit after tax for the period		**68.4**	85.5
Depreciation — property, plant and equipment		**21.1**	20.4
Amortisation — intangible assets		**4.9**	4.6
Foreign exchange (gain)/loss		**(0.5)**	0.5
Net finance costs		**5.0**	2.5
Loss on disposal of property, plant and equipment		**1.2**	0.1
Equity-settled share-based payment transactions		**2.4**	2.4
Fair value (gain)/loss on derivative financial instruments		**(0.9)**	0.6
Income tax expense		**25.7**	32.6
Decrease/(increase) in inventories		**0.9**	(9.1)
(Increase)/decrease in trade and other receivables		**(3.0)**	0.8
Increase in trade and other payables		**0.2**	11.1
Decrease in provisions		**(6.6)**	(5.8)
Finance income received		**0.4**	1.5
Finance costs paid		**(4.9)**	(3.6)
Income tax paid		**(24.6)**	(25.7)
Net cash from operating activities		**89.7**	118.4
Cash flows from investing activities			
Acquisition of subsidiary undertaking, net of cash acquired	16	**(0.7)**	(1.9)
Purchase of intangible assets		**(2.1)**	(2.6)
Purchase of property, plant and equipment		**(17.2)**	(19.5)
Net cash used in investing activities		**(20.0)**	(24.0)
Cash flows from financing activities			
Net proceeds from exercise of share options		**2.1**	4.5
Purchase of own shares		**(62.7)**	—
Proceeds from loans, net of transaction costs		**353.0**	86.4
Repayment of borrowings		**(302.1)**	(180.0)
Payment of finance lease liabilities		**(0.3)**	(0.2)
Dividends paid		**(44.2)**	(46.2)
Net cash used in financing activities		**(54.2)**	(135.5)
Net increase/(decrease) in cash and bank overdrafts	I.	**15.5**	(41.1)
Cash and cash equivalents at the beginning of the period		**(4.6)**	36.5
Cash and cash equivalents at the end of the period	I.	**10.9**	(4.6)

The notes on pages 108 to 127 are an integral part of these consolidated financial statements.

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Notes to Consolidated Statement of Cash Flows

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

	At 1 April 2011 £m	Cash flow £m	Other non-cash changes £m	**At 30 March 2012 £m**
Cash and cash equivalents at bank and in hand	(4.6)	15.5	—	**10.9**
Debt due after one year	(86.8)	(50.9)	(0.9)	**(138.6)**
Total net debt excluding finance leases	(91.4)	(35.4)	(0.9)	**(127.7)**
Finance leases due within one year	(0.3)	0.3	(0.3)	**(0.3)**
Finance lease due after one year	(11.5)	—	0.3	**(11.2)**
Total finance leases	(11.8)	0.3	—	**(11.5)**
Total net debt	(103.2)	(35.1)	(0.9)	**(139.2)**

Non-cash changes comprise finance costs in relation to the amortisation of capitalised debt issue costs of £0.9m (2011: £0.4m) and changes in classification between amounts due within and after one year.

Cash and cash equivalents at the period end consist of £13.4m (2011: £2.7m) of liquid assets and £2.5m (2011: £7.3m) of bank overdrafts.

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 30 March 2012 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 for the reasons set out in the Directors' Report on page 73, and under the historical cost convention, except where adopted IFRSs require an alternative treatment. The principal variations relate to financial instruments (IAS 39 "Financial instruments: recognition and measurement") and share-based payments (IFRS 2 "Share-based payment").

The financial statements are presented in millions of UK pounds, rounded to the nearest £0.1m.

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 30 March 2012, whilst the comparative period covered the 52 weeks to 1 April 2011.

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. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. EBTs are accounted for under UITF 32 and are consolidated on the basis that the parent has control, thus the assets and liabilities of the EBT are included on the Company balance sheet and shares held by the EBT in the Company are presented as a deduction from equity.

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. All subsidiary undertakings have been consolidated.

The principal subsidiary undertakings of the Company at 30 March 2012 are detailed in note 4 to the Company balance sheet on page 131.

Business Combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised as expenses in the period in which the costs are incurred.

The identifiable assets, liabilities and contingent liabilities of the acquired entity that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair value at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of these elements exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

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 and on services when those services have been rendered.

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.

Finance Income

Finance income comprises interest income on funds invested. Income is recognised, as it accrues in profit or loss, using the effective interest rate method.

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.

The Group has also chosen to present an alternative earnings per share measure, with profit adjusted for non-recurring items. A reconciliation of this alternative measure to the statutory measure required by IFRS is given in note 9.

Foreign Currency Translation

Functional and Presentation Currency

The consolidated financial statements are presented in pounds sterling, which is the Group's 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, which are recognised in other comprehensive income.

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.

Employee Benefits

i) 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.

ii) 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 and incorporate an assessment of relevant market performance conditions. 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 equity.

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.

Accounting Policies continued

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 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.

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.

Intangible Assets

i) Goodwill

Goodwill is initially recognised as an asset at cost and is reviewed for impairment at least annually. Goodwill is subsequently measured at cost less any accumulated impairment losses. An impairment charge is recognised in profit or loss for any amount by which the carrying value of goodwill exceeds its recoverable amount.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

For acquisitions prior to 3 April 2010 costs directly attributable to business combinations formed part of the consideration payable when calculating goodwill. Adjustments to contingent consideration, and therefore the consideration payable and goodwill, are made at each reporting date until the consideration is finally determined.

Acquisitions after this date fall under the provisions of "Revised IFRS 3 Business Combinations (2009)". For these acquisitions transaction costs, other than share and debt issue costs, will be expensed as incurred and subsequent adjustments to the fair value of consideration payable will be recognised in profit or loss.

ii) Computer Software

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

iii) Acquired Intangible Assets

Intangible assets that are acquired as a result of a business combination are recorded at fair value at the acquisition date, provided they are identifiable and capable of reliable measurement.

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 2 years;
- Customer relationships 5 to 15 years; and
- Favourable leases over the term of the lease.

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

Property, Plant and Equipment

Property, plant and equipment is held at cost less accumulated depreciation and any accumulated impairment losses.

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

- Leasehold premises with lease terms of 50 years or less are depreciated over the remaining period of the lease;
- 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.

Impairment of Assets

For 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). For goodwill, an annual impairment review is performed at each balance sheet date.

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 borrowings. 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.

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.

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.

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 17.

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

Accounting Policies continued

Financial Instruments

Financial Assets

The Group's financial assets include cash and cash equivalents and trade and other receivables. All financial assets are recognised when the Group becomes party to the contractual provisions of the instrument.

i) 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 determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, and is recognised in the income statement in operating expenses.

ii) 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. For the purpose of the consolidated cash flow statement, cash and cash equivalents includes bank overdrafts in addition to the definition above.

Financial Liabilities and Equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

The Group's financial liabilities comprise trade and other payables and borrowings. All financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

i) Bank borrowings

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 cost comprises interest expense on borrowings, unwinding of the discount on provisions and the cost of forward foreign exchange contracts.

ii) Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

iii) Equity instruments

Equity instruments issued by the Company are recorded as the proceeds are received, net of direct issue costs. Own shares consist of shares held within an employee benefit trust and are recognised at cost as a deduction from shareholders' equity. Subsequent consideration received for the sale of such shares is also recognised in equity, with any difference between the sale proceeds from the original cost being taken to revenue reserves. No gain or loss is recognised in the Group Income Statement on transactions in own shares held.

iv) Derivative financial instruments and hedge accounting

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 does not hold or issue derivative financial instruments for trading purposes. 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 remeasured at their fair value. The effective element of any gain or loss from remeasuring the derivative instrument is recognised directly in the hedging reserve.

The associated cumulative gain or loss is reclassified from the Group Statement of Changes in Equity and recognised in the Group Income Statement in the same period or periods during which the hedged transaction affects the Group Income Statement. Any element of the remeasurement of the derivative instrument that does not meet the criteria for an effective hedge is recognised immediately in the Group Income Statement within finance income or costs.

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 12 months or as a current asset or liability, if the remaining maturity of the hedged item is less than 12 months.

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 10.

Allowances Against the Carrying Value of Inventories

The Group reviews the market value of and demand for its inventories on a periodic basis to ensure that recorded inventory is stated at the lower of cost and net realisable value. In assessing the ultimate realisation of inventories, the Group is required to make judgements as to future demand requirements and to compare these with the current or committed inventory levels. 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 include residual amounts for the 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 17.

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 intangibles 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 108 to 127.

Adoption of New and Revised Standards

The following standards and interpretations are applicable to the Group and have been adopted in the current period as they are mandatory for the year ended 30 March 2012 but either have no material impact on the result or net assets of the Group or are not applicable.

- IAS 24 “Related Party Disclosures (revised 2009)” — makes changes to the definition of a related party. This amendment has not had a material impact on the Group’s 2012 consolidated financial statements.
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” — deals with how entities should measure equity instruments issued in a debt for equity swap. This amendment has not had a material impact on the Group’s 2012 consolidated financial statements.
- IAS 1 “Presentation of Financial Statements (Amended)” — IAS 1 is amended to clarify that a reconciliation from opening to closing balances is required to be presented in the statement of changes in equity for each component of equity. IAS 1 is also amended to allow the analysis of the individual OCI line items by component of equity to be presented in the notes. Previously, such analysis could only be presented in the SOCIE.
- IFRS 7 “Financial Instruments: Disclosures (Amended)” — IFRS 7 is amended to add an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity’s exposure to risks from financial instruments.

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 30 March 2012, 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 the EU, and are available for early adoption, but have not yet been applied by the Group in these financial statements. “IFRS 7 (Amendments)” — The amendments require additional disclosures about transfers of financial assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

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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 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 Operating Profit. Management believes 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 operating profit, 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 and all material non-current assets are located 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. All revenue is from external customers.

Income statement	Retail £m	Car Servicing £m	52 weeks to 30 March 2012 Total £m
Revenue	**752.3**	**110.8**	**863.1**
Segment result before non-recurring items	**92.8**	**6.6**	**99.4**
Non-recurring items	**1.9**	**—**	**1.9**
Segment result	**94.7**	**6.6**	**101.3**
Unallocated expenses[1]			**(2.2)**
Operating profit			**99.1**
Net financing expense			**(5.0)**
Profit before tax			**94.1**
Taxation			**(25.7)**
Profit for the year			**68.4**

Income statement	Retail £m	Car Servicing £m	52 weeks to 1 April 2011 Total £m
Revenue	771.6	98.1	869.7
Segment result before non-recurring items	123.3	7.0	130.3
Non-recurring items	(7.5)	—	(7.5)
Segment result	115.8	7.0	122.8
Unallocated expenses[1]			(2.2)
Operating profit			120.6
Net financing expense			(2.5)
Profit before tax			118.1
Taxation			(32.6)
Profit for the year			85.5

[1] Unallocated expenses have been disclosed to reflect the format of the internal management reports reviewed by the Chief Operating Decision maker and include an amortisation charge of £2.2m in respect of assets acquired through business combinations (2011: £2.2m).

Other segment items:	Retail £m	Car Servicing £m	52 weeks ended 30 March 2012 Total £m
Capital expenditure	**15.2**	**4.5**	**19.7**
Depreciation expense	**19.1**	**2.0**	**21.1**
Amortisation expense	**2.7**	**—**	**2.7**

Other segment items:	Retail £m	Car Servicing £m	52 weeks ended 1 April 2011 Total £m
Capital expenditure	16.6	6.2	22.8
Depreciation expense	19.1	1.3	20.4
Amortisation expense	2.5	—	2.5

There have been no transactions between segments in the 52 weeks ended 30 March 2012 (2011: £nil).

2. Operating Expenses

For the period

	52 weeks to 30 March 2012 £m	52 weeks to 1 April 2011 £m
Selling and distribution costs before non-recurring items	**318.2**	306.5
Administrative expenses before non-recurring items	**57.4**	50.4
Non-recurring administrative expenses	**(1.9)**	7.5
	55.5	57.9
	373.7	364.4

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Notes to the Financial Statements continued

3. Operating Profit

For the period	52 weeks to 30 March 2012 £m	52 weeks to 1 April 2011 £m
Operating profit is arrived at after charging/(crediting) the following expenses/(incomes) as categorised by nature:		
Operating lease rentals:		
— plant and machinery	**1.9**	2.2
— property rents	**90.1**	87.4
— rentals receivable under operating leases	**(6.4)**	(7.2)
Landlord surrender payments	**(2.0)**	(0.6)
Loss on disposal of property, plant and equipment	**1.2**	0.1
Amortisation of intangible assets	**4.9**	4.6
Depreciation of:		
— owned property, plant and equipment	**20.6**	19.9
— assets held under finance leases	**0.5**	0.5
Trade receivables impairment	**0.1**	0.1
Staff costs (see note 4)	**155.8**	144.2
Cost of inventories consumed in cost of sales	**384.7**	375.6

The total fees payable by the Group to KPMG Audit Plc and their associates during the period was £0.3m (2011: £0.4m), in respect of the services detailed below:

For the period	52 weeks to 30 March 2012 £000	52 weeks to 1 April 2011 £000
Fees payable for the audit of the Company's accounts	**30**	30
Fees payable to KPMG Audit Plc and their associates for other services:		
The audit of the Company's subsidiary undertakings, pursuant to legislation	**194**	184
Other services supplied pursuant to such legislation	**15**	15
Other services relating to taxation	**—**	136
Internal audit services	**76**	57
All other services	**12**	—
	327	422

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 (2011: £0.1m).

4. Staff Costs

For the period	52 weeks to 30 March 2012 £m	52 weeks to 1 April 2011 £m
The aggregated remuneration of all employees including Directors comprised:		
Wages and salaries	**140.8**	129.6
Social security costs	**9.7**	9.4
Equity-settled share-based payment transactions (note 21)	**2.4**	2.4
Contributions to defined contribution plans (note 23)	**2.9**	2.8
	155.8	144.2

	Number	Number
Average number of persons employed by the Group, including Directors, during the period:		
Stores/Autocentres	**11,276**	10,886
Central warehousing	**193**	148
Head office	**582**	590
	12,051	11,624

Full details of Directors' remuneration and interests are set out in the Directors' Remuneration Report on pages 82 to 91 which forms part of these financial statements.

Key Management Compensation

For the period	52 weeks to 30 March 2012 £m	52 weeks to 1 April 2011 £m
Salaries and short-term benefits	**2.1**	1.9
Social security costs	**0.3**	0.2
Pensions	**0.2**	0.3
Share-based payment charge	**1.0**	1.0
	3.6	3.4

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

There were no outstanding balances at the year end (2011: £nil).

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Notes to the Financial Statements continued

5. Non-recurring Items

For the period	52 weeks to 30 March 2012 £m	52 weeks to 1 April 2011 £m
Non-recurring operating expenses:		
Lease guarantee provision[a]	**(1.9)**	7.5
Non-recurring items before tax	**(1.9)**	7.5
Tax on non-recurring items[b]	**0.9**	(2.1)
Non-recurring items after tax	**(1.0)**	5.4

(a) A non-recurring expense of £7.5m was incurred in the prior year. This expense related to the creation of a provision for the potential liabilities arising from lease guarantees provided by Halfords prior to July 1989. The guarantees were provided to landlords of properties leased by Payless DIY (subsequently part of Focus DIY) when both Halfords and Payless DIY were under ownership of the Ward White Group. Focus DIY entered into administration in May 2011. In the current year a change in approach to settling the Group's guarantor obligations has resulted in a release of £1.9m of the original amounts provided.

(b) This represents a tax charge at 26% on all current year non-recurring items plus a prior year tax charge of £0.4m arising from the non-deductibility of two payments made to landlords to release Halfords from its guarantor obligations under those leases. The prior period represents a tax credit at 28% on these non-recurring costs.

6. Finance Income and Costs

Recognised in profit or loss for the period	52 weeks to 30 March 2012 £m	52 weeks to 1 April 2011 £m
Finance costs:		
Bank borrowings	**(2.5)**	(2.1)
Amortisation of issue costs on loans	**(0.9)**	(0.4)
Commitment and guarantee fees	**(1.1)**	(0.6)
Costs of forward foreign exchange contracts	**(0.2)**	(0.4)
Interest payable on finance leases	**(0.8)**	(0.8)
Finance costs	**(5.5)**	(4.3)
Finance income:		
Bank and similar interest	**0.1**	0.9
Other interest receivable	**0.4**	0.9
Finance income	**0.5**	1.8
Net finance costs	**(5.0)**	(2.5)

7. Taxation

For the period	52 weeks to 30 March 2012 £m	52 weeks to 1 April 2011 £m
Current taxation		
UK corporation tax charge for the period	**26.7**	35.7
Adjustment in respect of prior periods	**(0.8)**	(4.1)
	25.9	31.6
Deferred taxation		
Origination and reversal of timing differences	**(0.7)**	(0.2)
Adjustment in respect of prior periods	**0.5**	1.2
	(0.2)	1.0
Total tax charge for the period	**25.7**	32.6

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

For the period	52 weeks to 30 March 2012 £m	52 weeks to 1 April 2011 £m
Profit before tax	**94.1**	118.1
UK corporation tax at standard rate of 26% (2011: 28%)	**24.5**	33.1
Factors affecting the charge for the period:		
Depreciation on expenditure not eligible for tax relief	**1.7**	1.2
Employee share options	**0.5**	1.2
Non-taxable income	**(1.3)**	(0.7)
Other disallowable expenses	**0.5**	0.7
Adjustment in respect of prior periods	**(0.3)**	(2.9)
Impact of change in tax rate on deferred tax balance	**0.1**	—
Total tax charge for the period	**25.7**	32.6

The 2011 Budget on 23 March 2011 announced that the UK corporation tax rate will reduce to 23% over a period of four years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% (effective from 1 April 2011) was substantively enacted on 20 July 2010, and further reductions to 26% (effective from 1 April 2011) and 25% (effective from 1 April 2012) were substantively enacted on 29 March 2011 and 5 July 2011 respectively.

The 2012 Budget on 21 March 2012 announced a further reduction in the corporation tax rate to 24% (effective from 1 April 2012). This was substantively enacted on 26 March 2012. Further rate reductions in future periods will reduce the UK corporation tax rate to 22% over the next two years. This will reduce the Company's future current tax charge accordingly.

The deferred tax liability at 30 March 2012 has been calculated based on future rate of 24% which was substantively enacted at the balance sheet date.

It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the Company's future current tax charge and reduce the Company's deferred tax liability accordingly.

In this financial period, the UK corporation tax standard rate was 26% (2011: 28%).

The effective tax rate of 27.3% (2011: 27.6%) differs from the UK corporation tax rate principally due to the non-deductibility of depreciation charged on capital expenditure, tax charges arising from the settlement of obligations associated with the Focus lease provision and other permanent differences arising in the period.

The tax charge of £25.7m (2011: £32.6m) includes a charge of £0.9m (2011: credit of £2.1m) in respect of tax on non-recurring items, as detailed in note 5.

An Income tax charge of £0.3m (2011: £1.1m credit) 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 a tax impact.

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Notes to the Financial Statements continued

8. Dividends

For the period	**52 weeks to 30 March 2012 £m**	52 weeks to 1 April 2011 £m
Equity — ordinary shares		
Final for the 52 weeks to 1 April 2011 — paid 14.00p per share (2011: 14.00p)	**28.5**	29.3
Interim for the 52 weeks to 30 March 2012 — paid 8.00p per share (2011: 8.00p)	**15.7**	16.9
	44.2	46.2

In addition, the Directors are proposing a final dividend in respect of the financial period ended 30 March 2012 of 14.00p per share (2011: 14.00p per share), which will absorb an estimated £27.9m (2011: £28.5m) of shareholders' funds. It will be paid on 3 August 2012 to shareholders who are on the register of members on 6 July 2012.

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 20) and has been adjusted for the issue/purchase of shares during the period.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the 52 weeks to 30 March 2012.

The Group has also chosen to present an alternative earnings per share measure, with profit adjusted for non-recurring items because it better reflects the Group's underlying performance.

For the period	**52 weeks to 30 March 2012 Number of shares m**	52 weeks to 1 April 2011 Number of shares m
Weighted average number of shares in issue	**203.8**	211.5
Less: shares held by the Employee Benefit Trust (weighted average)	**(3.9)**	(1.1)
Weighted average number of shares for calculating basic earnings per share	**199.9**	210.4
Weighted average number of dilutive shares	**1.0**	2.4
Total number of shares for calculating diluted earnings per share	**200.9**	212.8

For the period	**52 weeks to 30 March 2012 £m**	52 weeks to 1 April 2011 £m
Basic earnings attributable to equity shareholders	**68.4**	85.5
Non-recurring items (see note 5):		
Operating expenses	**(1.9)**	7.5
Tax on non-recurring items	**0.9**	(2.1)
Underlying earnings before non-recurring items	**67.4**	90.9

Earnings per share is calculated as follows:

For the period	**52 weeks to 30 March 2012**	52 weeks to 1 April 2011
Basic earnings per ordinary share	**34.2p**	40.7p
Diluted earnings per ordinary share	**34.0p**	40.2p
Basic earnings per ordinary share before non-recurring items	**33.7p**	43.2p
Diluted earnings per ordinary share before non-recurring items	**33.5p**	42.7p

10. Intangible Assets

	Brand names and trademarks £m	Customer relationships £m	Favourable leases £m	Computer software £m	Goodwill £m	Total £m
Cost						
At 2 April 2010	1.1	14.9	2.3	19.7	344.5	382.5
Additions	—	—	—	2.6	—	2.6
At 1 April 2011	1.1	14.9	2.3	22.3	344.5	385.1
Additions	—	—	—	2.1	—	2.1
At 30 March 2012	**1.1**	**14.9**	**2.3**	**24.4**	**344.5**	**387.2**
Amortisation						
At 2 April 2010	0.3	0.2	—	11.6	21.7	33.8
Charge for the period	0.4	1.7	—	2.5	—	4.6
At 1 April 2011	0.7	1.9	—	14.1	21.7	38.4
Charge for the period	0.4	1.7	0.1	2.7	—	4.9
At 30 March 2012	**1.1**	**3.6**	**0.1**	**16.8**	**21.7**	**43.3**
Net book value at 30 March 2012	**—**	**11.3**	**2.2**	**7.6**	**322.8**	**343.9**
Net book value at 1 April 2011	0.4	13.0	2.3	8.2	322.8	346.7

No intangible assets are held as security for external borrowings.

Included in Computer software are internally generated assets of £0.3m (2011: £0.3m). 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 the Retail segment. 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 and is allocated to the Car Servicing segment. 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 goodwill arising on the acquisition of the Nationwide Autocentres is attributable to (a) future income to be generated from new retail, fleet customer contracts and related relationships, (b) the workforce, (c) the value of immaterial other intangible assets and (d) operating synergies.

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, incorporating the strategies and risks of each segment.

The key assumptions, to which the group of cash-generating units' recoverable amounts are most sensitive, used to determine value-in-use of goodwill held at 30 March 2012 and 1 April 2011 are as follows:

		Retail		Car Servicing	
	Notes	**2012**	2011	**2012**	2011
Discount rate	1	**10.5%**	14.2%	**10.8%**	14.9%
Growth rate	2	**0.0%**	0.0%	**0.0%**	0.0%

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

The Directors are confident that a reasonably possible change in the key assumptions, including a plus or minus 1% change in the discount rate, would not cause the carrying amounts to exceed the recoverable amounts.

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Notes to the Financial Statements continued

11 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 2 April 2010	52.3	296.0	7.4	355.7
Additions	5.3	14.7	0.2	20.2
Disposals	(0.6)	(6.5)	—	(7.1)
Reclassifications	0.5	6.9	(7.4)	—
At 1 April 2011	57.5	311.1	0.2	368.8
Additions	3.1	14.5	—	17.6
Disposals	(0.5)	(5.0)	—	(5.5)
Reclassifications	0.1	0.1	(0.2)	—
At 30 March 2012	**60.2**	**320.7**	**—**	**380.9**
Depreciation				
At 2 April 2010	23.1	229.7	—	252.8
Depreciation for the period	3.0	17.4	—	20.4
Disposals	(0.5)	(6.5)	—	(7.0)
At 1 April 2011	25.6	240.6	—	266.2
Depreciation for the period	3.6	17.5	—	21.1
Disposals	(0.3)	(4.0)	—	(4.3)
At 30 March 2012	**28.9**	**254.1**	**—**	**283.0**
Net book value at 30 March 2012	**31.3**	**66.6**	**—**	**97.9**
Net book value at 1 April 2011	31.9	70.5	0.2	102.6

Payments on account and assets in the course of construction reclassified in the prior period mainly included the costs associated with the new distribution centre in Coventry.

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 30 March 2012			
Cost	12.7	0.8	13.5
Accumulated depreciation	(4.1)	(0.8)	(4.9)
Net book value	**8.6**	**—**	**8.6**
As at 1 April 2011			
Cost	12.7	0.8	13.5
Accumulated depreciation	(3.6)	(0.8)	(4.4)
Net book value	9.1	—	9.1

(1) Relates to the Halfords head office building lease, which expires in 2028.

Finance lease liabilities are payable as follows:

	Minimum lease payments 2012 £m	**Interest 2012 £m**	**Principal 2012 £m**	Minimum lease payments 2011 £m	Interest 2011 £m	Principal 2011 £m
Less than one year	**1.0**	**0.7**	**0.3**	1.0	0.7	0.3
Between one and five years	**4.4**	**2.7**	**1.7**	4.3	2.9	1.4
More than five years	**13.5**	**4.0**	**9.5**	14.7	4.6	10.1
	18.9	**7.4**	**11.5**	20.0	8.2	11.8

12. Inventories

	2012 £m	2011 £m
Finished goods for resale	**146.7**	147.6

Finished goods inventories include £9.2m (2011: £8.4m) 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 £16.0m was recognised as an expense in respect of the write-down of inventories (2011: £11.0m) to net realisable value.

No inventories are held as security for external borrowings.

13. Trade and Other Receivables

	2012 £m	2011 £m
Falling due within one year:		
Trade receivables	**12.5**	10.4
Less: provision for impairment of receivables	**(0.3)**	(0.3)
Trade receivables — net	**12.2**	10.1
Other receivables	**3.8**	2.8
Prepayments and accrued income	**29.0**	29.1
	45.0	42.0

During the period the Group charged the provision with £0.1m (2011: £0.3m) for the impairment of trade receivables and utilised £0.1m (2011: £0.1m).

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

	2012 £m	2011 £m
Neither past due nor impaired	**11.9**	10.0
Past due by 1–30 days	**1.7**	0.9
Past due by 31–90 days	**0.6**	1.3
Past due by 91–180 days	**0.4**	0.3
Past due by more than 180 days	**0.3**	—
	14.9	12.5

The Group does not have any individually significant customers and so no significant concentration of credit risk.

Based on historic default rates and extensive analysis of the underlying customers' credit ratings, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 30 days.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

Financial assets in the scope of IAS 39 include all trade receivables and £2.7m (2011: £2.4m) of other receivables.

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Notes to the Financial Statements continued

14. Cash and Cash Equivalents

	2012 £m	2011 £m
Cash at bank and in hand	**13.4**	2.7

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

15. Borrowings

	2012 £m	2011 £m
Current		
Unsecured bank overdraft	**2.5**	7.3
Finance lease liabilities	**0.3**	0.3
	2.8	7.6
Non-current		
Unsecured bank loan and other borrowings[1]	**138.6**	86.8
Finance lease liabilities	**11.2**	11.5
	149.8	98.3

[1] The above borrowings are stated net of unamortised issue costs of £2.4m (2011: £3.2m).

The Group's current debt facility came into effect from 5 November 2010 and is a four-year £300m revolving credit facility starting from that date (with an option to extend by a further year). The facility carries an interest rate of LIBOR plus a margin which is variable based upon the covenant certificate and which is currently 150 basis points.

The Group had the following undrawn committed borrowing facilities available at each balance sheet date in respect of which all conditions precedent had been met:

	2012 £m	2011 £m
Expiring within 1 year	**1.0**	1.0
Expiring between 1 and 2 years	**—**	—
Expiring between 2 and 5 years	**159.0**	210.0
	160.0	211.0

The overdraft facility expiring within one year is an annual facility subject to review at various dates during the period. The facility of £159.0m (2011: £210.0m) relates to the Group's revolving credit facility. All these facilities incurred commitment fees at market rates.

16. Trade and Other Payables

Current liabilities	2012 £m	2011 £m
Trade payables	**81.2**	80.7
Other taxation and social security payable	**18.7**	18.1
Other payables	**5.1**	5.4
Deferred income — lease incentives	**4.0**	3.7
Accruals and other deferred income	**31.4**	34.1
	140.4	142.0
Non-current liabilities		
Deferred income — lease incentives	**28.8**	27.7

Contingent consideration of £0.7m (2011: £1.0m) relating to the acquisition of Nationwide Autocentres, payable to certain shareholders remaining as Directors, was settled in the year. There is no further consideration due in relation to this acquisition.

17. Provisions

	Central Europe exit £m	Property related £m	Other trading £m	Total £m
At 1 April 2011	0.8	15.3	1.8	17.9
Charged during the period	—	2.4	1.2	3.6
Utilised during the period	(0.5)	(5.8)	(1.2)	(7.5)
Released during the period	—	(2.7)	—	(2.7)
At 30 March 2012	**0.3**	**9.2**	**1.8**	**11.3**
Analysed as:				
Current liabilities	**0.3**	**6.7**	**1.8**	**8.8**
Non-current liabilities	**—**	**2.5**	**—**	**2.5**

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

Property related provisions consist of costs associated with vacant property, rent reviews and dilapidations. Also included are prior period non-recurring costs (note 5) relating to liabilities in respect of previous assignments of leases where the lessee has entered into administration subsequent to the period end. In the current year a change in approach to settling the Group's guarantor obligations has resulted in a release of £1.9m of the original amounts provided.

Other trading provisions comprises a 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 provision were the timing of the exit from leases that were contracted into, the timing of redundancies and the extent of dilapidation costs. The sensitivities to these assumptions were not considered material due to the time value of money being minimal over the period over which the costs would 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.

Provision is also made for loss-making stores and autocentres which management does not expect to become profitable.

A rent review provision is recognised when there is 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 contracts. The provision is based on management's best estimate of the rent payable after the review.

Key uncertainties are the estimate 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.

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Notes to the Financial Statements continued

18. Deferred Tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon in the current and prior reporting periods.

	Property related items £m	Short-term timing differences £m	Share-based payments £m	Intangible assets £m	Total £m
At 2 April 2010	(3.7)	6.5	1.7	(5.0)	(0.5)
Credit/(charge) to the income statement	1.3	(2.2)	(1.0)	0.9	(1.0)
Credit to other comprehensive income	—	1.1	—	—	1.1
Credit to equity	—	—	0.1	—	0.1
At 1 April 2011	(2.4)	5.4	0.8	(4.1)	(0.3)
Credit/(charge) to the income statement	(0.1)	(0.2)	(0.2)	0.8	0.3
Charge to other comprehensive income	—	(0.3)	—	—	(0.3)
Charge to equity	—	—	(0.4)	—	(0.4)
At 30 March 2012	**(2.5)**	**4.9**	**0.2**	**(3.3)**	**(0.7)**

Deferred income tax assets and liabilities are offset when the Group has a legally enforceable right to do so and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	30 March 2012 £m	1 April 2011 £m
Deferred tax assets	**5.1**	6.2
Deferred tax liabilities	**(5.8)**	(6.5)
	(0.7)	(0.3)

19. Financial Instruments and Related Disclosures

Treasury Policy

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

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

Treasury activities are delegated by the Board to the Finance Director. The Finance Director 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.

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. Details of the Group's current borrowing facilities are contained in note 15.

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, subject to price fluctuation. The Group mitigates this risk 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 interest rates and the Group will continue to monitor movements in the swap market.

If interest rates on floating rate borrowings (i.e. cash and cash equivalents and bank borrowings which attract interest at floating rates) were to change by plus or minus 1% the impact on the results in the Income Statement and equity would be a decrease/increase of £1.2m (2011: £0.9m).

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.

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 buyback scheme. A separate share buyback scheme was initiated on 7 April 2011.

The Group manages capital by operating within debt ratios. These ratios are:

- consolidated EBITDAR (earnings before non-recurring items, finance expense, depreciation, amortisation and rental costs) to consolidated total net interest payable plus rent; and
- consolidated total net borrowings to consolidated EBITDA.

Fair Value Disclosures

The fair value 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 market rates at intervals of less than one year.
Forward currency contracts	The fair value is determined using the market forward rates at the reporting 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.

The fair value of financial assets and liabilities are as follows:

	2012 £m	2011 £m
Cash and cash equivalents	**13.4**	2.7
Loans and receivables	**14.9**	12.5
Forward exchange contracts used for hedging (assets)	**0.3**	0.3
Total financial assets	**28.6**	15.5
Trade and other payables — held at amortised cost	**(109.9)**	(112.1)
Borrowings at amortised cost	**(141.0)**	(90.0)
Finance leases	**(11.5)**	(11.8)
Total financial liabilities	**(262.4)**	(213.9)

Trade and other payables within the scope of IAS 39 include all trade payables, all other payables and £23.6m (2011: £26.0m) of accruals and deferred income.

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Notes to the Financial Statements continued

19. Financial Instruments and Related Disclosures continued

Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was £28.6m (2011: £15.5m) as detailed in the table above.

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 more than 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 30 March 2012, 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 and forward foreign exchange contracts.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	30 March 2012		1 April 2011	
	USD £m	**Other £m**	USD £m	Other £m
Cash and cash equivalents	**4.8**	**1.0**	—	1.4
Trade and other payables	**(15.4)**	**(0.3)**	(13.6)	(0.3)
	(10.6)	**0.7**	(13.6)	1.1

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.

	2012 Increase/ (decrease) in equity £m	2011 Increase/ (decrease) in equity £m
10% appreciation of the US dollar	**10.2**	11.0
10% depreciation of the US dollar	**(8.5)**	(8.7)

A strengthening/weakening of sterling, as indicated, against the USD at 30 March 2012 would have increased/(decreased) equity and profit or loss by the amounts shown above. 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.

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

Pension Liability Risk

The Group has no association with any defined-benefit pension scheme and therefore carries no deferred, current or future liabilities in respect of such a scheme. The Group operates a number of Group Personal Pension Plans for colleagues.

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 are 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 £30m, such that under Treasury Policy the maximum drawings would be £270m of the £300m available facility.

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 refinancing (November 2010). Ancillary business, in the main, is directed to the five banks within the club banking group. At the year-end four of the banks within this group maintained a credit rating of 'A' or above. The counterparty credit risk is reviewed in the Treasury Report, which is forwarded to the Treasury Committee and the Group Treasurer reviews credit exposure on a daily basis.

The risk is measured through review of forecast liquidity each month by the Group 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 club bank agent. There have been no breaches of covenants during the reported periods.

The contractual maturities of finance leases are disclosed in note 11. All trade and other payables are due within one year.

The contractual maturity of bank borrowings, including estimated interest payments and excluding the impact of netting agreements is shown below:

	30 March 2012 Bank borrowings £m	1 April 2011 Bank borrowings £m
Due less than one year	**4.0**	3.2
Expiring between 1 and 2 years	**4.0**	3.2
Expiring between 2 and 5 years	**143.5**	95.0
Expiring after 5 years	**–**	–
Contractual cash flows	**151.5**	101.4
Carrying amount	**138.6**	86.8

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 30 March 2012 (1 April 2011).

		2012		2011
	Receivables £m	**Payables £m**	Receivables £m	Payables £m
Due less than one year	**92.2**	**(93.4)**	95.4	(97.8)
Due between 1 and 2 years	**0.3**	**(0.3)**	1.2	(1.3)
Contractual cash flows	**92.5**	**(93.7)**	96.6	(99.1)
Fair value	**0.3**	**(1.5)**	0.3	(2.3)

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

Notes to the Financial Statements continued

20. Capital and Reserves

	2012 Number of shares	2012 £'000	2011 Number of shares	2011 £'000
Ordinary shares of 1p each:				
Allotted, called up and fully paid	**199,383,222**	**1,994**	211,985,998	2,120

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 current period the Company's share capital decreased by 12,602,776 shares (2011: increased by 1,275,038 shares). During the period the Company repurchased and cancelled 12,634,493 shares, and 31,717 new shares were issued on exercise of share options by employees. There has been no significant impact on share premium as a result of the shares issued, with share premium remaining at £151.0m (2011: £151.0m).

In total the Company received proceeds of £2.1m (2011: £4.5m) from the exercise of share options.

Interest in Own Shares

At 30 March 2012 the Company held in Trust 4,932,009 (2011: 1,108,520) of its own shares with a nominal value of £49,320 (2011: £11,085). 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 30 March 2012 was £15.4m (2011: £3.9m). In the current period 5,449,620 shares were repurchased and transferred into the Trust, with 1,626,131 reissued on exercise of share options.

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.

21. Share-based Payments

The Group has three share award plans, all of which are equity-settled schemes:

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 3.5% per year. 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.

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.

Options were valued using the Black–Scholes option-pricing models.

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 schemes 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 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 and 2010 under the Performance Share Plan earned final dividends of 14p per share and were reinvested in shares at a cost of £3.03 per share. Shares awarded in 2009, 2010 and 2011 under the PSP earned interim dividends of 8p per share and were reinvested in shares at a cost of £3.19 per share.

The Group Income Statement charge recognised in respect of share-based payments for the current and prior periods is detailed in the table below:

Share award plan	30 March 2012 £m	1 April 2011 £m
Company Share Option Scheme ("CSOS")	**0.5**	0.7
Sharesave Scheme ("SAYE")	**0.3**	0.3
Performance Share Plan ("PSP")	**1.6**	1.4
Total charge	**2.4**	2.4

The following tables reconcile the number of share options outstanding and the weighted average exercise price (WAEP):

For the period ended 30 March 2012

	CSOS		SAYE		PSP	
	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)
Outstanding at start of year	3,556	3.84	1,395	2.45	1,752	0.00
Granted	950	2.96	638	2.92	692	0.00
Shares representing dividends reinvested	—	—	—	—	84	0.00
Forfeited	—	—	(5)	3.42	(221)	0.00
Exercised	(119)	3.06	(878)	1.93	(623)	0.00
Lapsed	(529)	3.63	(242)	3.33	(69)	0.00
Outstanding at end of year	3,858	3.68	908	3.05	1,615	0.00
Exercisable at end of year	1,449	3.22	16	1.93	—	0.00
Exercise price range (£)		2.60 to 5.03		1.93 to 4.15		0.00
Weighted average remaining contractual life (years)		7.5		1.8		1.4

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Notes to the Financial Statements continued

21. Share-based Payments continued

For the period ended 1 April 2011

	CSOS		SAYE		PSP	
	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)
Outstanding at start of year	3,698	3.43	1,683	2.22	1,692	0.00
Granted	1,341	4.87	295	4.15	320	0.00
Shares representing dividends reinvested	—	—	—	—	45	0.00
Forfeited	—	—	(7)	2.83	(129)	0.00
Exercised	(925)	3.87	(322)	2.76	(125)	0.00
Lapsed	(558)	3.53	(254)	2.50	(51)	0.00
Outstanding at end of year	3,556	3.84	1,395	2.45	1,752	0.00
Exercisable at end of year	466	3.52	2	3.11	57	0.00
Exercise price range (£)		2.60 to 5.03		1.93 to 4.15		0.00
Weighted average remaining contractual life (years)		8.0		0.9		0.7

The following table gives the assumptions applied to the options granted in the respective periods shown:

	52 weeks to 30 March 2012			52 weeks to 1 April 2011		
Grant date	**CSOS**	**SAYE**	**PSP**	CSOS	SAYE	PSP
Share price at grant date	**£3.04**	**£3.04**	**£2.93**	£4.86–£5.03	£5.14	£4.86
Exercise price	**£2.96**	**£2.92**	**£0.00**	£4.86–£5.03	£4.15	£0.00
Expected volatility	**33%**	**35%**	**34%**	35%	39%	41%
Option life (years)	**10**	**3**	**3**	10	3	3
Expected life (years)	**4.85**	**3.5**	**3**	4.85	3.5	3
Risk free rate	**1.50%**	**1.09%**	**—**	1.80%–2.15%	1.49%	—
Expected dividend yield	**7.42%**	**7.42%**	**7.34%**	4.00%–4.08%	4.26%	4.08%
Probability of forfeiture	**33%**	**44%**	**30%**	33%	44%	30%
Weighted average fair value of options granted	**£0.41**	**£0.44**	**£2.02**	£1.08	£1.22	£3.65

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.

22. Commitments

	2012 £m	2011 £m
Capital expenditure: Contracted but not provided	**0.5**	1.0

At 30 March 2012, the Group was committed to making payments in respect of non-cancellable operating leases in the following periods:

	Land and buildings 2012 £m	Other assets 2012 £m	Land and buildings 2011 £m	Other assets 2011 £m
Within one year	**87.0**	**1.7**	87.2	1.5
Later than one year and less than five years	**285.2**	**3.0**	300.2	2.6
After five years	**325.4**	**0.4**	350.5	0.7
	697.6	**5.1**	737.9	4.8

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 total future minimum receipts of sublet income, which totalled £6.4m (2011: £7.2m).

23. 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 £2.9m (2011: £2.8m).

24. Contingent Liabilities

The Group's banking arrangements include the facility for the bank to provide a number of guarantees in respect of liabilities owed by the Group during the course of its trading. In the event of any amount being immediately payable under the guarantee, the bank has the right to recover the sum in full from the Group. The total amount of guarantees in place at 30 March 2012 amounted to £3.9m (2011: £3.9m).

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

25. 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 pages 128 to 133.

Transactions with Key Management Personnel

The key management personnel of the Group comprise the Executive and Non-Executive Directors and the Halfords Limited and Halfords Autocentres management boards. 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 82 to 91. Key management compensation is disclosed in note 4.

Directors of the Company control 0.23% of the ordinary shares of the Company.

26. Off Balance Sheet Arrangements

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

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Company Balance Sheet

	Notes	30 March 2012 £m	1 April 2011 £m
Fixed assets			
Investments	4	**572.9**	570.8
Current assets			
Debtors falling due within one year	5	**44.1**	—
Debtors falling due after one year	5	**—**	40.8
Cash and cash equivalents		**8.6**	—
		52.7	40.8
Creditors: amounts falling due within one year	6	**(0.3)**	(0.6)
Net current assets		**52.4**	40.2
Creditors: amounts falling due after more than one year	6	**(257.8)**	(146.8)
Net assets		**367.5**	464.2
Capital and reserves			
Called up share capital	8	**2.0**	2.1
Share premium account	9	**151.0**	151.0
Investment in own shares	9	**(14.0)**	(0.6)
Capital redemption reserve	9	**0.3**	0.2
Profit and loss account	9	**228.2**	311.5
Total shareholders' funds		**367.5**	464.2

The notes on pages 131 to 133 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 130.

The financial statements on pages 128 to 133 were approved by the Board of Directors on 30 May 2012 and were signed on its behalf by:

David Wild
Chief Executive

Andrew Findlay
Finance Director

Company number: 04457314

Reconciliation of Movements in Total Shareholders' Funds

For the period	**52 weeks to 30 March 2012 £m**	52 weeks to 1 April 2011 £m
Profit for the period	**6.0**	322.7
Share options exercised	**2.1**	4.5
Purchase of own shares	**(62.7)**	–
Employee share options	**2.1**	2.4
Dividends	**(44.2)**	(46.2)
Net (decrease)/increase in total shareholders' funds	**(96.7)**	283.4
Opening total shareholders' funds	**464.2**	180.8
Closing total shareholders' funds	**367.5**	464.2

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 30 March 2012, whilst the comparative period covered the 52 weeks to 1 April 2011. 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 disclosures required by FRS 29 “Financial instruments: disclosures”.

EBTs are accounted for under UITF 32 and are consolidated on the basis that the parent has control, thus the assets and liabilities of the EBT are included on the Company balance sheet and shares held by the EBT in the Company are presented as a deduction from equity.

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 do 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 paid for the financial period of £6.0m (52 week period to 1 April 2011: £322.7m). 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. Fees Payable to the Auditors

Fees payable by the Group to KPMG Audit Plc and their associates during the period are detailed in note 3 to the Group financial statements. In the 52 weeks to 30 March 2012 the Company expensed £0.1m (2011: £0.2m) in fees relating to KPMG Audit Plc.

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 82 to 91 which forms part of the audited information.

4. Investments

	£m
Shares in Group undertaking	
Cost	
As at 1 April 2011	570.8
Additions — share-based payments	2.1
Additions — increase in subsidiary undertaking investment	—
At 30 March 2012	**572.9**

The investments represent shares in the following subsidiary undertakings as at 30 March 2012 and the fair value of share-based compensation plans that are awarded to employees of the Company's subsidiary undertakings.

Subsidiary undertaking	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
Halfords Ireco 1 Limited	Gibraltar	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.

Principal Subsidiary Undertakings

The principal subsidiary undertakings of the Company at 30 March 2012 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	—
Halfords Autocentres Holdings Limited*	Intermediate holding company	100
Halfords Autocentres Limited*	Car Servicing	100
Halfords Holdings (Jersey) 1 Limited	Intermediate holding company	100
Halfords Holdings (Jersey) 2 Limited	Intermediate holding company	100
Halfords Ireco 1 Limited	Intermediate holding company	100
Halfords Ireco 2 Limited*	Intermediate holding company	100
Halfords Finance UK LLP†	Intermediate holding partnership	—

* Shares held indirectly through subsidiary undertakings.

† Wholly owned indirectly through subsidiary undertakings.

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Notes to the Financial Statements continued

4. Investments continued

Halfords Holdings (Jersey) 1 Limited and Halfords Holdings (Jersey) 2 Limited are incorporated and registered in Jersey. Halfords Ireco 1 Limited and Halfords Ireco 2 Limited are incorporated and registered in Gibraltar. All other subsidiary undertakings are incorporated in Great Britain and registered in England and Wales. The only subsidiaries to trade during the year were Halfords Limited and Halfords Autocentres Limited.

5. Debtors

	2012 £m	2011 £m
Falling due within one year:		
Amounts owed by Group undertakings	**44.1**	–
	44.1	–
Falling due after more than one year:		
Amounts owed by Group undertakings	**–**	40.8

Amounts owed by Group undertakings are subject to interest. At 30 March 2012 the amounts bear interest at a rate of 4.83% (2011: 2.07%).

6. Creditors

	2012 £m	2011 £m
Falling due within one year:		
Accruals and deferred income	**0.3**	0.6
	0.3	0.6
Falling due after more than one year:		
Bank borrowings (note 7)	**138.6**	86.8
Amounts owed to Group undertakings	**119.2**	60.0
	257.8	146.8

7. Borrowings

	2012 £m	2011 £m
Maturity of debt — bank loans		
Expiring between one and two years	**–**	–
Expiring between two and five years[(1)]	**138.6**	86.8
	138.6	86.8

(1) The above borrowings are stated net of unamortised issue costs of £2.4m (2011: £3.2m).

Details of the Company's borrowing facilities are in note 15 to the Group financial statements.

8. Equity Share Capital

	2012 Number of shares	**2012 £000**	2011 Number of shares	2011 £000
Ordinary shares of 1p each:				
Allotted, called up and fully paid	**199,383,222**	**1,994**	211,985,998	2,120

During the current period the Company's share capital decreased by 12,602,776 shares (2011: increased by 1,275,038 shares). During the period the Company repurchased and cancelled 12,634,493 shares, and 31,717 new shares were issued on exercise of share options by employees. There has been no significant impact on share premium as a result of the shares issued, with share premium remaining at £151.0m (2011: £151.0m).

In total the Company received proceeds of £2.1m (2011: £4.5m) from the exercise of share options.

Potential Issue of Ordinary Shares

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

Interest in Own Shares

At 30 March 2012 the Company held in Trust 4,932,009 (2011: 1,108,520) of its own shares with a nominal value of £49,320 (2011: £11,085). 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 30 March 2012 was £15.4m (2011: £3.9m).

9. Reserves

	Share premium account £m	Investment in own shares £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1 April 2011	151.0	(0.6)	0.2	311.5	462.1
Profit for the financial period	—	—	—	6.0	6.0
Share options exercised	—	4.6	—	(2.5)	2.1
Share-based payment transactions	—	—	—	2.1	2.1
Purchase of own shares	—	(18.0)	0.1	(44.7)	(62.6)
Dividends	—	—	—	(44.2)	(44.2)
At 30 March 2012	**151.0**	**(14.0)**	**0.3**	**228.2**	**365.5**

The Company settled dividends of £44.2m (2011: £46.2m) in the period, as detailed in note 8 to the Group financial statements.

Included in the profit and loss account is £118m of reserves that are not distributable (2011: £118m).

10. Related Party Disclosures

Under FRS 8 "Related party disclosures" the Company is exempt from disclosing related party transactions with entities which it wholly owns.

11. 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 30 March 2012 amounted to £3.9m (2011: £3.9m).

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

12. Off Balance Sheet Arrangements

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

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Five Year Record

	52 weeks to 28 March 2008 £m	53 weeks to 3 April 2009 £m	52 weeks to 2 April 2010 £m	52 weeks to 1 April 2011 £m	**52 weeks to 30 March 2012 £m**
Revenue	797.4	809.5	831.6	869.7	**863.1**
Cost of sales	(394.9)	(388.1)	(378.9)	(384.7)	**(390.3)**
Gross profit	402.5	421.4	452.7	485.0	**472.8**
Operating expenses	(301.5)	(329.7)	(340.4)	(364.4)	**(373.7)**
Operating profit before non-recurring items	101.0	104.0	119.7	128.1	**97.2**
Non-recurring operating expenses	—	(12.3)	(7.4)	(7.5)	**1.9**
Operating profit	101.0	91.7	112.3	120.6	**99.1**
Net finance costs	(10.8)	(14.2)	(2.6)	(2.5)	**(5.0)**
Profit before tax and non-recurring items	90.2	94.4	117.1	125.6	**92.2**
Non-recurring operating expenses	—	(12.3)	(7.4)	(7.5)	**1.9**
Non-recurring finance costs	—	(4.6)	—	—	**—**
Profit before tax	90.2	77.5	109.7	118.1	**94.1**
Taxation	(26.2)	(26.3)	(34.1)	(34.7)	**(24.8)**
Taxation on non-recurring items	—	4.6	1.4	2.1	**(0.9)**
Profit attributable to equity shareholders	64.0	55.8	77.0	85.5	**68.4**
Basic earnings per share	29.3p	26.6p	36.8p	40.7p	**34.2p**
Basic earnings per share before non-recurring items	29.3p	32.5p	39.7p	43.2p	**33.7p**
Weighted average number of shares	218.4m	209.5m	209.1m	210.4m	**198.9m**

Key Performance Indicators

	52 weeks to 28 March 2008	53 weeks to 3 April 2009	52 weeks to 2 April 2010	52 weeks to 1 April 2011	**52 weeks to 30 March 2012**
Revenue growth	+7.2%	+1.5%	+2.7%	+4.6%	**-0.8%**
Gross margin	50.5%	52.1%	54.4%	55.8%	**54.8%**
Operating margin	12.7%	11.3%	13.5%	13.9%	**11.5%**

Analysis of Shareholders

As at 30 March 2012, the number of registered shareholders was 3,312 and the number of ordinary shares in issue was 199,383,222

	No. of holdings	% of total shareholders	No. of Shares	% of Issued Share Capital
Range of holdings				
1–5,000	2,755	83.2	3,836,757	1.9
5,001–10,000	142	4.3	1,011,779	0.5
10,001–50,000	162	4.9	3,805,057	1.9
50,001–100,000	61	1.8	4,303,412	2.2
100,001–500,000	114	3.4	24,000,118	12.0
500,001 and above	78	2.4	162,426,099	81.5
Total	**3,312**	**100.0**	**199,383,222**	**100.0**
Held by				
Individuals	1,794	54.2	3,151,074	1.6
Institutions	1,518	45.8	196,232,148	98.4
Total	**3,312**	**100.0**	**199,383,222**	**100.0**

Results and Financial Diary

Annual General Meeting: 31 July 2012.
Final dividend: 3 August 2012.
Record date: 6 July 2012.
Ex dividend date: 4 July 2012.
Pre-close statement: October 2012.
Half-year report: November 2012.

Annual General Meeting

The AGM of the Group is to be held on Tuesday 31 July 2012 at the Hyatt Regency Birmingham, Bridge Road, Birmingham, B1 2JZ.

Each shareholder is entitled to attend and vote at the meeting.

Company Information

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Joint Brokers

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Solicitors

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Corporate and IR website
www.halfordscompany.com

Commercial website
www.halfords.com

Online Annual Report 2012
halfords.annualreport2012.com

Online Annual Report 2011
halfords.annualreport2011.com