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Halfords Group plc

Annual Report & Accounts
for period ended 29 March 2013

driving the top line

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

all whilst

driving the top line

Contents

Introduction

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 sustainable and profitable revenue growth

We have

- Many brands and product categories which hold number one market positions in the UK
- Unrivalled scale and national coverage and an agile global sourcing infrastructure
- Skills in brand management and maximising marketing opportunities
- A service-based proposition
- A significant online presence
- Thousands of amazing colleagues across our business who are knowledgeable experts providing advice and a range of fitting and repair services for customers

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 a great customer experience through well-trained, knowledgeable colleagues, good stock availability and improved store environments
- Provide real value solutions, balancing high-quality products with a competitive combination of range, price, service and product knowledge
- Create a service-led digital proposition
- Make Halfords great!

Front cover:
Capturing the spirit of British Cycling in our latest TV advertising campaign

View online:
www.halfordscompany.com/media-centre/videos

Halfords Group plc
Annual Report & Accounts 2013
online version
www.halfords.annualreport2013.com

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Business Model

Halfords has core competences in marketing, branding, store retailing, distribution and international sourcing which allow value to be generated through high quality products via a combination of range, competitive prices and expert services both in our Retail stores and Autocentres garages.

Our goal of growing profitable top line revenues in the medium and long-term follows our strategic thread of "Helping and Inspiring our Customers with their Life on the Move" and encompasses Supporting Drivers of Every Car, Inspiring Cyclists of Every Age and Equipping Families for their Leisure Time. This is delivered through our Car Maintenance, Car Enhancement, Car Servicing, Cycling and Travel Solutions categories and Halfords has good opportunities for growth, consolidating fragmented markets with a national store network and strong brand management and supplementing this with well-trained, knowledgeable and service orientated colleagues in-store.

Evolving buyer trends have been met by developing a dynamic web offer which enables customers to buy online and have their goods delivered to a local store or direct to home. Customers can also reserve products online and then collect in-store, offering further opportunities for our colleagues to interact with our customers.

Augmenting our Retail offer with additional in-store repair and fitting services further encourages colleague/customer interactions, providing opportunities to upsell and attach accessories to our products whilst improving customer service and loyalty and increasing average transaction values.

"Halfords has good opportunities for growth, consolidating fragmented markets with a national store network chain and strong brand management."

"Halfords is a trusted brand in the automotive sector."

Halfords is a trusted brand in the automotive sector and our move into garage servicing in 2010 was a natural extension to the Halfords business model. Car Servicing has similar market drivers to our successful Car Maintenance category and over the last three years we have grown the business from 224 to 287* autocentres providing service, repair and MOTs. Halfords provides services at more affordable prices than most franchised garages and more comprehensively than many independent garages.

As a retailer Halfords makes a profit from the combination of low-cost sourcing and our supply chain coupled with excellent marketing skills and a national store network, leveraging these skills in the car service sector. We source direct from suppliers around the world who manufacture products to our designs and rigid specifications and our distribution team use their specialist knowledge to group and ship products in line with the our sales plans.

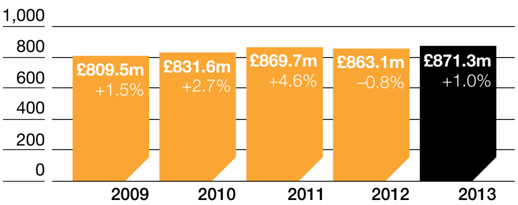
We also create value for our customers by keeping our cost structure as efficient as possible. The size of our operation means that we can get advantages of scale and run our back office functions at least costs.

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

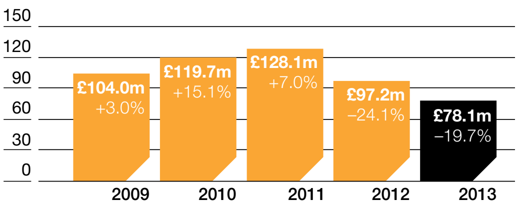
* 287 as at 23 May 2013.

Financial Highlights

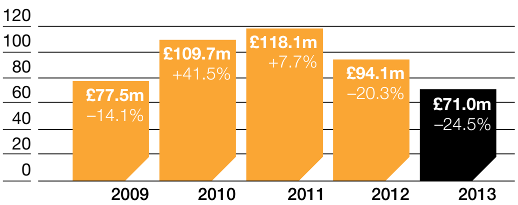
Revenue
+1.0%



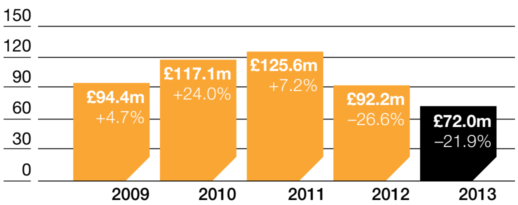
Underlying Operating Profit
-19.7%



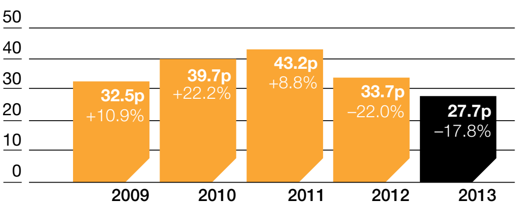
Profit before Tax
-24.5%



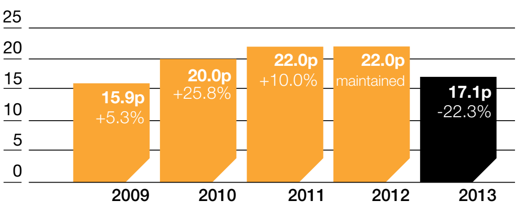
Underlying Profit before Tax
-21.9%



Underlying Basic Earnings per Share
-17.8%



Dividend per Ordinary Share
-22.3%



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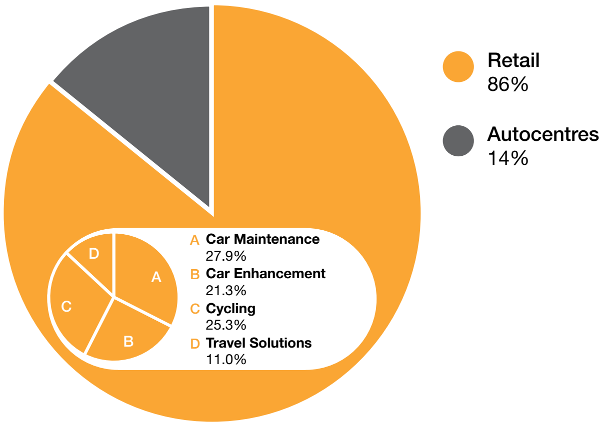
Segmental Summary

Group Revenue
£871.3m



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

The business has three strategic pillars:

- Supporting Drivers of Every Car
- Inspiring Cyclists of Every Age
- Equipping Families for their Leisure Time

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 multichannel offer which combines website promotion with direct delivery or collection from store, backed up by in-store services.

Halfords Autocentres provides car service, MOTs, repair and tyres to both retail and fleet customers 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 prices.

We always seek to leverage national advertising and cross sell between Retail and Autocentres customers and 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.

"We 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."

Retail

Halfords Retail employs approximately 10,000 colleagues and sells over 16,000 different product lines in store and 30,000 online with significant ranges in car parts, in-car technology, child seats, cycling, roof boxes, outdoor leisure and camping equipment. Halfords Retail trades from 466 Retail stores located throughout the UK and the ROI and online through halfords.com and halfords.ie websites.

Autocentres

Halfords Autocentres employs approximately 1,850 colleagues 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 287* car-servicing centres located in the United Kingdom and online through halfordsautocentres.com

* 287 as at 23 May 2013.

Turnover
£745.5m

Operating Profit
(before non-recurring items)
£73.6m

Supporting drivers of every car

Inspiring cyclists of every age

Equipping families for their leisure time

Turnover
£125.8m

Operating Profit
£6.3m

Supporting drivers of every car

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Market Review

> The Halfords Group has a unique place in the UK; through its Retail and Autocentres divisions the Group operates in a number of diverse marketplaces.

Halfords Market Review

The Halfords Group has a unique place in the UK; through its Retail and Autocentres divisions the Group operates in a number of diverse marketplaces.

Within the Retail segment of the business, Halfords differentiates itself in the markets of automotive, cycling and outdoor leisure across its three strategic pillars of Supporting Drivers of Every Car, Inspiring Cyclists of Every Age and Equipping Families for their Leisure Time.

With 466 locations, Halfords has a favourable market position, being located less than 20 minutes away from 90% of the UK population. Halfords.com, in combination with these stores and their experienced staff, creates multiple channels and configurations for customers, with in-store *Reserve & Collect* gathering pace in FY13.

The past 12 months has offered a number of one-off opportunities and challenges that have affected a lot of Halfords' core markets. From once in a lifetime national events to record breaking (for all the wrong reasons) weather, FY13 has certainly been a year of note.

Supporting Drivers of Every Car

The automotive market was largely unaffected by the exceptional occurrences of FY13, with only slight developments in the macroeconomic environment.

The number of cars in the car parc increased by *c.*1%, yet the service market shrank slightly as consumers maintain tight spending control. The increased size of the car parc offers opportunities in the value-driven auto aftercare market though. With bulbs, blades and batteries ("3Bs") becoming increasingly complex to fit on new vehicles and the DIY approach to fixing cars shrinking with each generation of new drivers, the 3Bs fitting market is worth around £950m. With fitting services in demand throughout FY13, Halfords is uniquely placed to provide a value and hassle-free "Do It For Me" ("DIFM") level of service that more and more drivers are set to need.

Since the acquisition of Autocentres, Halfords has also consolidated and strengthened its position in the *c.*£9bn servicing market. That market was made up of *c.*22,000 garages in 2012, but that number is consolidating, with outlet numbers dropping between 1% and 2% per annum. Meanwhile, Halfords opens between 20 and 30 new centres each year.

In the auto accessories and enhancement market, there are a number of growth stories and opportunities in new technology too. The Sat Nav market is slowing its decline with a bottoming out of the price deflation that has occurred over recent years, and new technologies are coming through which will necessitate an update for many Sat Nav users.

Halfords has also made gains in audio equipment thanks to reduced competition on the high street, and with the digital switchover on the horizon, this looks set to continue. No other business can match Halfords' skillset and price on Audio fitting and Sat Nav set-up and demonstration.

Halfords has also recently cemented its position as the UK's top online retailer for child car seats, scoring highest in an investigation by Which? into the best buying and fitting advice available.

> With bulbs, blades and batteries becoming increasingly complex to fit on new vehicles and the DIY approach to fixing cars shrinking with each generation of new drivers, the 3Bs fitting market is worth around £950m.

Providing safety first whilst introducing children to a 'life on the move'

Inspiring Cyclists of Every Age

Whilst it is unlikely UK cycling will see another year like 2012 any time soon, with the first ever British Tour de France winner followed by another hugely successful performance from Team GB's cyclists at the London 2012 Olympics, its popularity is expected to grow.

With household names such as Sir Bradley Wiggins and Victoria Pendleton achieving further success and increasing their popularity, and break-out stars such as Jason Kenny and Laura Trott emerging, British cycling has never had so many inspirational ambassadors.

However, these events occurred during an extremely poor year for weather. The Met Office reported that, apart from 2011, it was the coolest summer since 1998, and the wettest summer for 100 years.

These contrasting fortunes make it extremely difficult to measure the exact impact of the Olympics, but what is clear is that the cycling market is buoyant. A Mintel report has estimated that the market reached *c.*£700m in 2012, and is set to grow by around 23% over the next five years. This can be added to the *c.*£700m cycling parts, accessories and clothing ("PACs") market and *c.*£100m cycling repair market, which Halfords is also competitive in.

Within the cycling market itself, while already the largest for family and kids' bikes, FY13 has seen Halfords increase its presence in the premium market.

With a strong brand, increasingly skilled workforce, a growing range of products, an extensive national network of stores and a burgeoning web presence, Halfords' credibility as a place for Inspiring Cyclists of Every Age is improving.

Equipping Families for their Leisure Time

The third of Halford's strategic pillars is spread across several fragmented markets, which can be grouped under the umbrella of camping and outdoor leisure, while also encompassing a wide variety of strategically chosen leisure impulse products.

> ***"Through its size and network, Halfords can offer a greater depth of range, competitive prices and convenient locations."***

Since 2009, with the lingering effects of the financial crisis "staycations" have become popular in the UK. Continued tough economic circumstances and low consumer confidence has seen the UK camping market grow consistently ever since, with a 2012 Mintel report estimating that there were almost 20 million trips taken by UK residents in 2011.

Halfords has built on the back of this trend, offering a unique combination of products and solutions. Through its size and network, Halfords can also offer a greater depth of range, competitive prices and more convenient locations.

While the leisure market also suffered greatly due to the adverse weather in FY13, Halfords has good opportunities to improve its outdoor offering, with increasing awareness of Halfords as the retailer of choice for leisure equipment.

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Shareholder KPIs

Capturing value through range up selling

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 ("EPS")	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 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 expenses from all business activities 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 2009–2010 relate to the Retail business only.

Annual Performance	2009[1]	2010[1]	2011	2012	**2013**
Broadly flat Retail gross margin and a decline in the Autocentres gross margin, together with Retail operating costs up 5.3% and the profit drag created by the Autocentre investment programme, have contributed to a 21.9% decline in underlying Profit Before Tax.	£94.4m	£117.1m	£125.6m	£92.2m	**£72.0m**
As a result of the above decline in profits, EPS before non-recurring items is down 17.8% year-on-year.	32.5p	39.7p	43.2p	33.7p	**27.7p**
The Group has continued its strong track record of operating cash generation. Net cash generated from operating activities in the year was £93.5m (FY12: £89.7m).	£176.2m	£155.5m	£103.2m	£139.2m	**£110.6m**
The Board has recommended a final dividend of 9.1 pence per share (FY12: 14.0 pence). The Board continues to recognise the importance of dividends but believes that such dividends should be prudently covered by earnings.	15.9p	20.0p	22.0p	22.0p	**17.1p**
At £871.3m Group revenues were up 1.0% year-on-year. Retail revenues at £745.5m were down 0.9%, whilst Autocentres revenues at £125.8m were up 13.5%.	£809.5m	£831.6m	£869.7m	£863.1m	**£871.3m**
Total Group Operating costs before non-recurring items increased by 6.2% driven by a 13.1% increase in Support Centre costs as a result of the investment in improved recruitment and training in stores and enhanced Support Centre capability. The one-off costs associated with executive team changes were also included in Support Centre costs.	39.2%	40.0%	41.0%	43.5%	**45.8%**

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Retail KPIs

Supporting drivers of every car

Inspiring cyclists of every age

Equipping families for their leisure time

KPI	Definition	Strategy	Getting Into Gear 2016	Commitment
Like-for-like Sales ("LfL")	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.		service revolution stores fit to shop click with the digital future the 'h' factor 21st century infrastructure	We are committed to maximising our like-for-like sales opportunities in whatever economic environments we find ourselves.
Gross Profit Percentage	Gross profit expressed as a percentage of sales.		service revolution stores fit to shop click with the digital future the 'h' factor 21st century infrastructure	Gross Profit is an important indicator of the Company's financial performance. Within the business we focus on maximising cash margin generation.
***we**fit/**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").		service revolution stores fit to shop click with the digital future the 'h' factor 21st century infrastructure	Expert knowledge, advice and service remain at the heart of the Halfords customer offer and specifically through fitting. This differentiates and defends the Halfords offer and generates attractive levels of return.
***we**fit/**we**repair* revenue	The sales revenue generated from all our fitting and repair services, including the sale of Bike Care Plans.		service revolution stores fit to shop the 'h' factor	Expert knowledge, advice and service remain at the heart of the Halfords customer offer and specifically through fitting. This differentiates and defends the Halfords offer and generates attractive levels of return.
Number of Stores Refreshed/ Refurbished	The layout and offering within our stores is important as the two formats of choice (Superstore and High Street) allow us to reach both large and small catchment areas.		stores fit to shop the 'h' factor	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.		service revolution stores fit to shop click with the digital future the 'h' factor 21st century infrastructure	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.*		click with the digital future the 'h' factor	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* and *Order & Collect* offer and visiting stores after researching online.		click with the digital future the 'h' factor 21st century infrastructure	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 value adding services.

Annual Performance	2009	2010	2011	2012	**2013**
Retail sales performance in FY13 was acceptable given a demanding trading environment. Sales were affected by unseasonal weather in the first and last quarters and the summer of sport in between benefitted cycle sales.	-3.3%	+1.3%	-5.5%	-2.3%	**-0.7%**
Growth in Car Maintenance and Cycle Repair alleviated dilutive pressures from Premium Cycles and stock clearance. This resulted in a small increase of 12bps.	52.1%	54.4%	54.5%	53.1%	**53.3%**
We have invested in training, payroll, colleague numbers and national marketing to fulfil the demand and make more customers aware of our unique offer, and increased the number of jobs by 32%.	1.70m	2.35m	2.54m	2.98m	**3.93m**
We have invested in training, payroll, colleague numbers and national marketing to fulfil the demand and make more customers aware of our unique offer, increasing revenues by 36%.	£9.3m	£11.7m	£12.4m	£15.2m	**£20.7m**
Our refurbishment programme in FY13 was restricted to relocations and store rightsizing as well as a series of laboratory stores from which we have garnered useful and important learnings for future store development.	22	10	26	83	**20**
The increase of 260bps was driven by an increase of 13.7% in Support Centre costs as a result of the investment in improved recruitment and training in stores and enhanced Support Centre capability, with particular expertise associated with the launch of the extended range of PACs.	39.2%	40.0%	38.4%	40.8%	**43.4%**
Online sales grew to £77m in FY13 reflecting an increase in online penetration to 10.2%. This was driven by the improved service and a more competitive offering in areas such as technology and Cycle Accessories. There was also strong demand for Premium Bikes driven in part by the Olympics effect.	4.7%	6.4%	9.2%	8.9%	**10.2%**
Improvements to delivery lead times for the services have led to 88% of online orders now being collected in-store, providing more opportunities for store colleagues to engage with our online customers.	74%	77%	85%	86%	**88%**

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Autocentre KPIs

Supporting drivers of every car

"We continue to target an opening programme of between 20 to 30 new centres per year."

KPI	Definition	Strategy	Getting Into Gear 2016	Commitment
Like-for-like Sales	Like-for-like sales represent revenues from centres trading for more than 12 months.	Supporting drivers of every car	service revolution; stores fit to shop; click with the digital future; the 'h' factor; 21st century infrastructure	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.	Supporting drivers of every car	service revolution; the 'h' factor; 21st century infrastructure	The Company will continue to focus on providing dealer quality services at independent garage prices.
Number of Centres	The number of autocentre servicing centres within the UK.	Supporting drivers of every car	stores fit to shop; the 'h' factor	Our research on the geography and demographics of the c.£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.	Supporting drivers of every car	service revolution; the 'h' factor	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 the Centres.	Supporting drivers of every car	stores fit to shop; click with the digital future; the 'h' factor; 21st century infrastructure	Enhancing our online offer and further extending our online presence through both halfords.com and halfordsautocentres.com is a Group investment priority.

(1) Figures for the years 2009–2010 relate to the business before it was owned by Halfords Group plc.

Leveraging technology in car servicing

Annual Performance	2009[1]	2010[1]	2011	2012	**2013**
We continue to drive LfL growth despite operating in a declining market.	+1.2%	+3.4%	-0.6%	+6.1%	**+7.0%**
This year has seen tough fleet market conditions. Whilst the number of vehicles has increased by 2% there are less fleet cars reaching MOT age, as they are being sold into the second-hand car market before they need maintaining.	22.6%	26.7%	26.3%	25.2%	**22.0%**
We continue to target an opening programme of between 20 to 30 new centres per year as well as building a future pipeline of quality sites.	222	224	240	260	**283**
We continue to utilise spare capacity with additional Service/Mechanical/ Repairs jobs.	13.0	13.7	13.8	14.7	**16.0**
We continue to invest in our online presence with a new site and e-diary proposition launched in April 2013.	97,942	111,261	138,954	199,524	**216,875**

Chairman's Statement

Dennis Millard
Chairman

This has been another difficult year for the UK consumer and Halfords was also faced with its own particular challenges. Our customers continued to have their discretionary incomes squeezed and high fuel prices and insurance costs once again resulted in a decrease in miles driven by our automotive customers. Whilst reluctant to blame the weather, the wet summer and record cold winter were certainly not conducive to the pursuit of outdoor activities by our cycling and camping customers! Nevertheless, the spirit of the nation was uplifted by the joy and the resounding success of the Olympics and Paralympics. All of these macro factors had, in their own way, an effect on the performance of Halfords and provided us with both challenges and opportunities.

Group revenues increased by 1.0% with a decline in Retail sales of 0.9% offset by 13.5% growth in Autocentres. In Retail, the Car Maintenance category grew strongly, Cycling was down marginally, Car Enhancement declined at a much lower rate than in prior years and Travel Solutions, which includes our camping products, also declined. The growth in sales for Autocentres was due to our investments which have increased market share, boosted tyre sales and added 23 new centres. Group gross margin was unchanged at 54.8% with a marginal rise in Retail and a decrease in Autocentres, due primarily to product mix. Total underlying operating costs rose by 6.2% due to investment in colleague headcount, recruitment and training, increased occupation costs, a rise in marketing spend and investment in new Autocentres. Interest costs also rose. As a result, underlying profit before tax decreased by 21.9% to £72.0m and basic EPS by 17.8% to 27.7p per share. Free cash flow of £71.8m was generated and net debt was down £28.6m to £110.6m with net debt to EBITDA at 1.1 times.

In July 2012, the Board felt that a change at the top of the organisation was necessary and David Wild, who had been Group Chief Executive since August 2008, left the Company. I was asked by the Board to step up as Interim Executive Chairman until a new Group Chief Executive was in place. In October 2012, Matt Davies joined Halfords as CEO and I resumed my non-executive role in November 2012. We are delighted with Matt's appointment. It follows his considerable success at Pets at Home where he had been CEO for some eight years. We were particularly taken by the exceptional colleague engagement and customer service levels he had achieved at Pets at Home. These were two areas that had worryingly slipped in Halfords and the extent became more evident to me during my executive tenure; it was therefore critical that this be urgently addressed.

Following his appointment, Matt was tasked with reviewing the current strategy and plans for the business and the organisational capability. This has now been completed and the outcome – set out below – is fully supported by the Board who, along with Matt's executive team, were an integral part of the review process.

Firstly, the three pillars of the existing strategy were considered to be sound but were redefined to the following to inject more passion and a clearer purpose:

- Supporting Drivers of Every Car
- Inspiring Cyclists of Every Age
- Equipping Families for their Leisure Time.

Secondly, it was considered that the plans in place for the Autocentres business to increase its network by 20 to 30 centres per annum and invest in capability were also sound, and that the returns that would be generated and the opportunities to continue to take market share were attractive.

"The three pillars of the existing strategy were considered to be sound but were redefined to inject more passion and a clearer purpose."

Driving attachment sales and return customers with bike care plans

For the Retail business, the review underscored the need to invest in our colleagues to enable them to best serve customers and to invest in our store, operations and IT infrastructures. The most pressing need was to address the root causes of our less than optimum service offer and ethic. Crucially, the key to success was to put in place plans to deliver top line growth that, in turn, would restore profitability and produce attractive and sustainable returns for our shareholders. These plans, which have been named ***Getting Into Gear 2016***, are fully laid out in the Annual Report and will be implemented over the next three years. They are summarised as follows:

- **Service Revolution:** introducing a marked step change in the quality of our service offer by investing in training, staffing and in-store capability.
- **The H Factor:** reasserting our authority across our key categories to excite our customers.
- **Stores Fit to Shop:** investing in our store estate to raise standards and improve our customer experience.
- **21st Century Infrastructure:** investing in systems and infrastructure.
- **Click with the Digital Future:** creating a contemporary and competitive service-led digital offer.

The specific initiatives underpinning these plans are now in place and the key milestones, or KPIs, by which we will measure our progress are set out in this report. Crucially, both our annual and long-term incentive plans will be similarly aligned. Over the three year period it is envisaged that some £100m of Retail Capital Expenditure will be necessary, *c.*£40m more than prior run rates. In addition, revenue investment of £7m–£14m will be made in FY14 primarily in our colleague capability; however, this will be dependent upon performance and revenue generation. This will have the inevitable consequence on earnings and cash flows in the next three years but will set up the business for an attractive and sustainable future in the years ahead.

We have carefully considered the financial implications of the new strategy and concluded that, given the need to maintain a robust balance sheet and our desire to rebuild our dividend cover to a more sustainable level, our dividend should be rebased. The Board has thus recommended a final dividend of 9.1 pence per share, a reduction of 35.0% on the prior year, resulting in a full-year dividend of 17.1 pence, down 22.3%. The intention would be to reset the full year dividend for the next three years to around 14 pence per share which would enable us to remain within our gearing target of net debt to EBITDA of 1.5 times and, over the period, converge towards a more sustainable dividend cover of 2 times.

On behalf of the Board, I would like to thank all of our 12,000 colleagues for their patience and commitment during a difficult year. Also, I thank them for the enthusiastic manner in which they have embraced the new direction and for their dedication to raising service levels for our customers. The new executive team under Matt is taking shape well and they are up for the challenges and opportunities ahead. Lastly, I would like to thank my Board colleagues for their dedication, counsel and support in what has been a very eventful year. Paul McClenaghan, who left the Board last month, did so with our best wishes.

In conclusion, the new financial year has started in a positive vein and encouraging progress is already being made on some of our key initiatives. Most notably, however, is the sense of purpose, excitement and engagement that is evident throughout the organisation – this bodes well for the years ahead.

Dennis Millard
Chairman
23 May 2013

driving the top line

Read online:
halfords.annualreport2013.com/strategy

Strategy

Strategic Pillars

"Our mission is to Help and Inspire Customers with their Life on the Move. The existing pillars will evolve into: Supporting Drivers of Every Car; Inspiring Cyclists of Every Age; and Equipping Families for their Leisure Time."

Supporting drivers of every car

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.

Inspiring cyclists of every age

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

Equipping families for their leisure time

Through a wide range of Leisure products and accessories, from tents to camping and caravanning accessories, we help customers make the most of their leisure time.

466 stores giving a national coverage for in car entertainment

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.

Strengths

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

Strengths

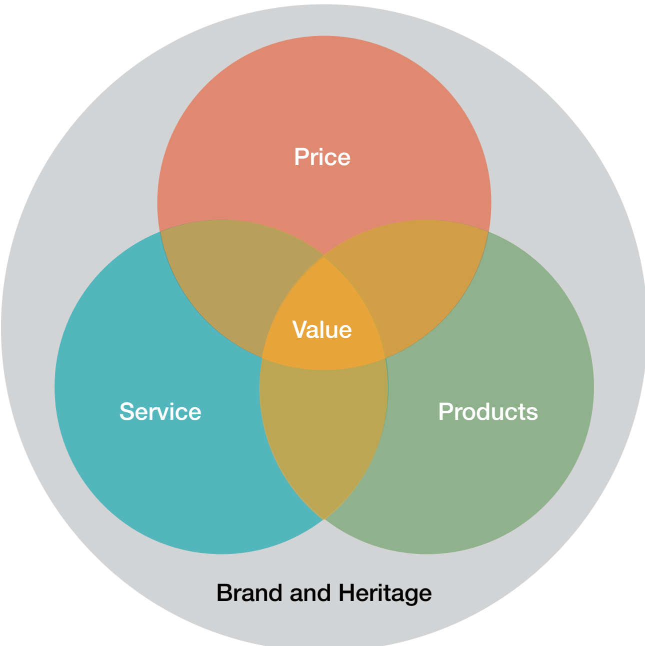
- ✔ Value driven environmentally friendly solutions for leisure and holidaying.
- ✔ Tight integration with multichannel drives sales of price-led ranges.
- ✔ Consistent growth in camping as Halfords becomes known for helping its customers with their life on the road.

Group Strategy

The execution of our three-pillar strategy remains central to our aim to build a sustainable business that drives profitable top line sales growth.

Group Strategy and Key Performance Indicators

Halfords has a very clear place in the UK retail market. It is an iconic British brand with a fantastic heritage, having over 100 years' presence on the retail High Street, both in cycling and aftermarket car products. Our offer remains as relevant to our customers as it has always been and, considering the busy lives of today's consumers, we seek to provide healthy and enjoyable lifestyle solutions through our Cycling and Travel Solutions products and time-saving solutions via our Do It For Me repair and fitting services.

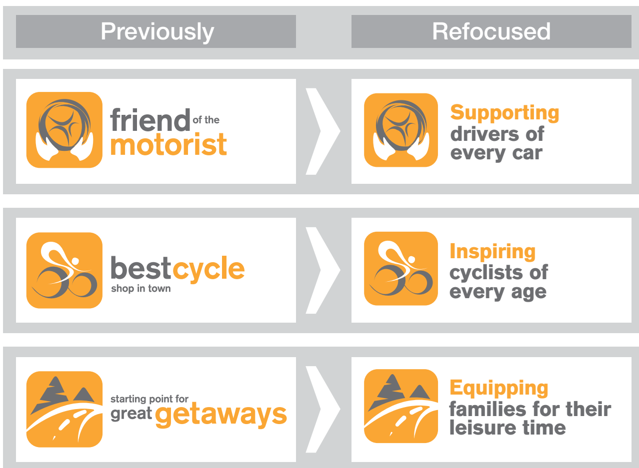


Our Group strategy is built on the Halfords vision that We Help and Inspire our Customers with their Life on the Move. However, as we have continued to develop this strategy we are now looking to deliver this vision and to maximise returns for our shareholders by focusing on the specific priorities required to create a sustainable business servicing our customers' needs for many years to come.

Group Strategy Description

The execution of our three-pillared strategy remains central to our aim to build a sustainable business that not only drives profitable top line sales growth in the medium to long-term, but also seeks to promote a strong culture of work ethic and enjoyment with a focus on colleague development, combined with a determination to provide exceptional customer service, thus adding value for both our customers and our shareholders.

However, we have refocused these pillars to deliver clear purpose and definition to our customers and create a passionate and emotional connection between them, our colleagues and our products.

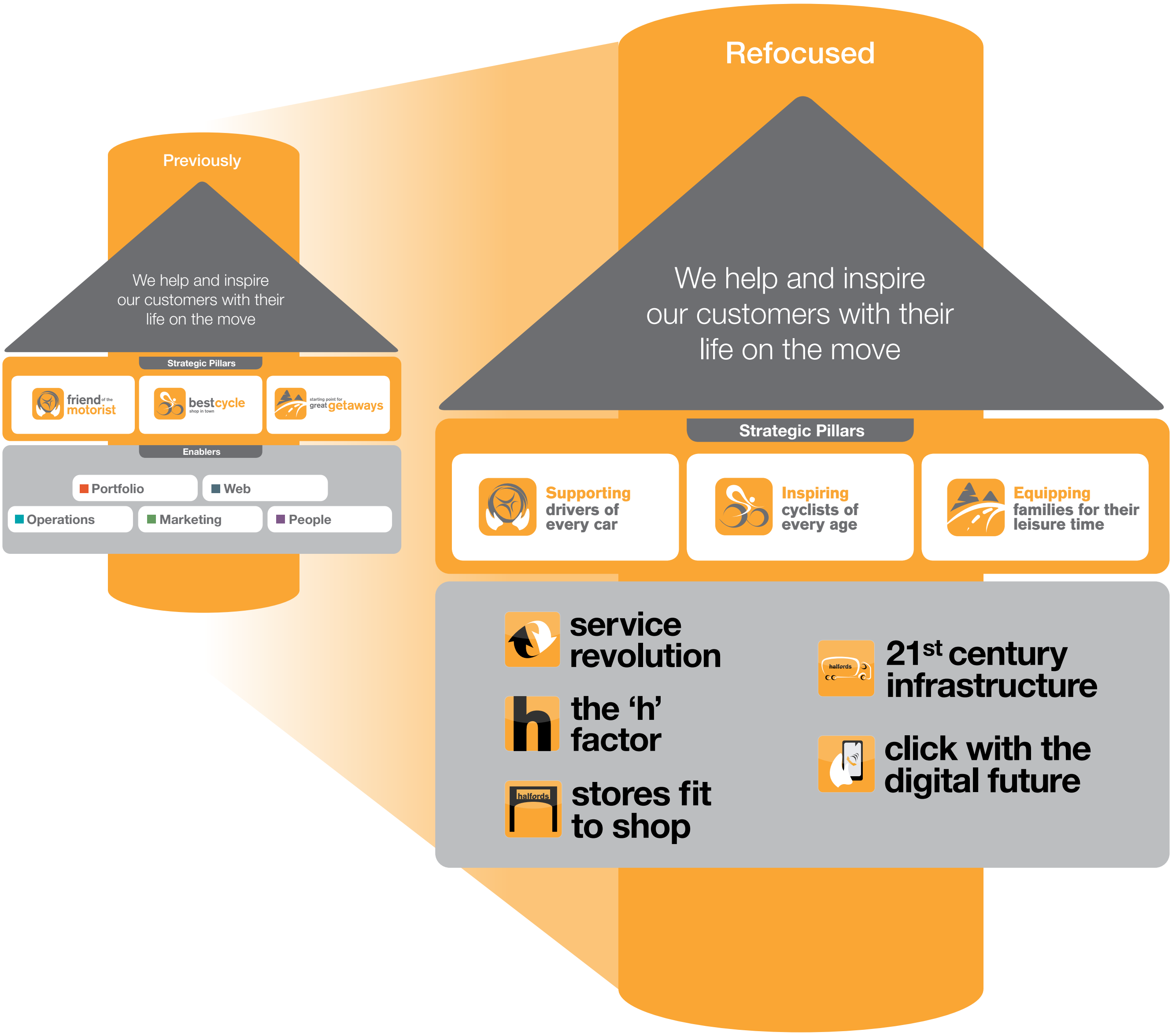


Within these three pillars our strategy is to drive top line sales growth from our core business. In Retail this means our 466 stores, our Retail website and product categories in which we hold leading market positions and in our Autocentres business through our 283 autocentres and halfordsautocentres.com. We intend to do this by focusing on our ***Getting Into Gear 2016*** programme, the key elements of which are:

1. Service Revolution;
2. The H Factor;
3. Stores Fit to Shop;
4. 21st Century Infrastructure; and
5. Click with the Digital Future.

Each of these elements is explored in more detail on pages 34 to 45.

A Strategy Focused on Execution



Group Strategy continued

Demonstrating full solutions with combined storage and cycle transport systems

"With our heritage in bikes we aim to Inspire Cyclists of Every Age with our unsurpassed product ranges and brands and with quality service and expertise."

By delivering these we aim to ensure that our customers see Halfords as the No.1 destination for all of the products that we offer, thus enhancing our customers' use of their car, their bikes and their leisure activities.

We aim to Support Drivers of Every Car by re-establishing Halfords as the auto-specialist, 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 or alternatively we are able to do it for them. We are dedicated to providing the right level of service for our customers from stocking the right products both in-store and online at competitive prices, complemented by a 7 days a week on-demand fitting service within our Retail stores to a full service and repair offer through the national coverage afforded by our Autocentres garages.

With our heritage in bikes we aim to Inspire Cyclists of Every Age with our unsurpassed product ranges and brands and with quality service and expertise 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* or *Pinarello* racing bike. We aim to build on our service and brand credentials as well as providing a wide range of PACs — contributing to the growing popularity of cycling as a healthy and environmentally friendly form of transport.

With the development of our own ranges of camping equipment (such as *Urban Escape*), the continued supply of *Gelert* camping equipment and accessories and the enhancement of our caravanning accessories we will seek to Equip Families for their Leisure Time. The demand for a more active leisure time and the desire for the enjoyment of simple family pleasures, such as camping and caravanning gives Halfords the opportunity to engage with our customers and help them make the most of their time outdoors and to help them get there.

As part of our three-pillared strategy and supported by our key priorities we will continue to offer a unique range of products which is constantly innovated and extended. This is to be matched by an unparalleled honest and trustworthy service delivered by our well-trained, enthusiastic and knowledgeable colleagues in-store, at the Autocentres and online to help our customers, from novices to enthusiasts, 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 24/7 online, with a market leading multichannel offer available to order or reserve online, with delivery to store or direct to home. Our Autocentres network can deal with planned and emergency work alike.

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

"We provide our customers with solutions that are backed by true brand heritage and offer real value."

Group Chief Executive Officer's Review

Matt Davies
Group Chief Executive

Introduction

Halfords Retail sales performance in FY13 reflected a demanding trading environment. Sales were affected by unseasonal weather in the first and last quarters and by a summer of sport in between which particularly benefitted cycle sales. In the year under review, Halfords Retail delivered three quarters of positive like-for-like ("LfL") sales growth, following a number of consecutive negative LfLs in preceding quarters, supported by online Retail revenue growth of 15.9%.

Our Autocentres performance was satisfactory against a backdrop of a declining market and particular challenges in the fleet sector.

Throughout the period the business has taken advantage of the opportunities presented and we have focused on improving our offer through service. Particular progress was made in the Car Maintenance category where we have invested in training and extra colleagues to carry out our ***we***fit fitting service; this has driven extra sales.

FY13 Review

Summary of Group Results

Sales were £871.3m, up 1.0% and up 0.3% on an LfL basis. Group gross margin was flat at 54.8%. Total underlying operating costs rose by 6.2% due to the continuing inflationary environment, our strategic investments to support our Retail service offer and the continued expansion of our Autocentres business. Underlying Group earnings before interest, tax and non-recurring items were £78.1m, which compares with £97.2m in FY12. Profit before tax and non-recurring items was £72.0m and earnings per share before non-recurring items were 27.7p, down 21.9% and 17.8% respectively.

Group inventory and capital expenditure continued to be managed tightly, with Retail stocks down 9.2% on the prior year. Autocentres inventory was £1.3m, flat on the prior year. The cash flow performance was robust with free cash flow of £71.8m generated against £70.4m in the prior year. Net debt at the year-end was down £28.6m to £110.6m, with net debt:EBITDA remaining at a ratio of 1.1:1.

The Board has recommended a final dividend of 9.1 pence per share, a reduction of 35.0% on the prior year (FY12: 14.0 pence). If approved, this will be paid on 2 August 2013 to shareholders on the register at the close of business on 5 July 2013. The proposed full-year dividend is 17.1 pence (FY12: 22.0 pence). The 35.0% reduction of the final dividend would have the effect of similarly rebasing future dividend pay-outs. It is anticipated that the FY14 full-year dividend would be reset to around 14 pence per share and that the full-year dividend would potentially remain around this level as the business approaches nearer 2x dividend/earnings cover over the medium term. This would reflect a more-sustainable level for the business, the requirement to invest as set out later and the maintenance of a robust balance sheet.

Retail

Sales for the year were £745.5m, down 0.9% on the prior year and down 0.7% on an LfL basis. The sales mix and continued focus on cash returns resulted, as expected, in a broadly-flat Retail gross margin.

Cycling

After a disappointing start to the year, it was a particularly strong summer for Cycling sales. The enthusiasm surrounding British successes in the Tour de France, Olympics and Paralympics helped fuel a stronger demand for cycles, cycle products and cycle accessories and we capitalised on this with our agile trading stance. The strong demand for premium cycles continued throughout the year, particularly our exclusive *Boardman* and *Pendleton* ranges. We were pleased to add to our ranges with the introduction of *Pinarello* cycles, the brand ridden by Team Sky and used by Sir Bradley Wiggins to win the Tour de France.

During the second half overall cycle sales were affected by a poorer Christmas for kids and mainstream bikes, which continued into the final quarter as the prolonged winter weather delayed the start of the family cycling season. Cycling LfL sales were down 0.6% for the year. Online Cycling Parts, Accessory and Clothing ("PACs") sales were up 26.5% in the final quarter as we began to introduce new ranges ready for a full-scale launch of our enhanced PACs proposition in the new financial year.

Car Maintenance

LfL sales of Car Maintenance products and services grew by 5.1%, helped by the prolonged period of winter weather. Demand for our ***we***fit service continues to build as we invest in this category and more customers look to us for expert help with basic Car Maintenance solutions. We fitted 35.2% of the bulbs, wiper blades and batteries we sold, up 890 basis points on last year. We invested in training, payroll, colleague numbers and national marketing to fulfil the demand and make more customers aware of our unique offer. The 3Bs parts and labour market is estimated to be worth around £950m and we only have a *c.*11% share*. In the year we also leveraged our market-leading position with timely promotions like our deals on Castrol oil.

“We now fit 35.2% of the bulbs, wiper blades and batteries (“3Bs”) we sell, up 890 basis points on last year.”

Encouraging engagement with qualified staff

Car Enhancement

In Car Enhancement LfL sales decreased by 4.2%. This was a much slower rate of decline than in previous periods. Sat Nav sales have been a significant drag on the business over the last few years but during the second half of the year sales were flat. We also made market-share gains in both Sat Nav and Car Audio. Audio sales grew by an encouraging 2.8% due to good execution and the authority of our range, established through our close partnership with the world's leading technology brands. We are closer to the significant medium-term opportunity around Digital Radio and further share gains here mean we have now captured around three-quarters* of this growing market.

Travel Solutions

There was reduced demand for camping and touring products due to the generally poor weather both last summer and this spring. Our Travel Solutions category saw an LfL sales decline of 6.8%. One highlight was the sale of breathalysers during the summer and again this spring as they became a requirement for Continental travel and motorists visited Halfords for our exclusive Alcosense range. Child Car Seats remain a product range facing intense pricing and competitive pressure and, during the year, we continued to manage this category for cash.

Online

Online revenues grew by 15.9% and represented 10.3% of Retail sales which compares with 8.9% in the prior year. We continue to focus on improving our online experience for customers and we invested in website capability; for instance the launch of a new search engine, Fred Hopper, that will make it easier for online shoppers to search and navigate our site. We also introduced our new 24-hour *Reserve & Collect* service and rebalanced our promotions to focus more on product price rather than percentage discounting.

Autocentres

Autocentres sales were £125.8m, up 13.5% overall and represented a 7.0% LfL uplift on the prior year. The second-quarter LfL sales growth of 12.4% was the strongest since we acquired the business in February 2010 and the business has now enjoyed nine consecutive quarters of LfL growth.

Growth was driven by our investment in marketing, the development of our tyre proposition, our exclusive **brakes4life** offer and the contribution from new centres. The significant increase in lower-margin tyre sales resulted in a 221bps decline in gross margin, with margins in our non-tyre business benefitting from scale.

We continue to acquire new retail customers whilst retaining a high level of existing customers. However, fleet-customer acquisition has been less satisfactory with material short-term challenges in this sector. Twenty-three new centres were opened in the year bringing our total at the end of the year to 283 centres. We will continue to selectively and appropriately invest in new centres to significantly grow our network over the years ahead, targeting a further 20 to 30 new openings in FY14.

Halfords Business Review

Introduction

The fall in Group profitability over recent years illustrates the need for sustainable and profitable revenue growth over the medium and long-term to offset ongoing cost inflation. We must strengthen our proposition and customer offer in an environment where shopping patterns are changing and competition is increasing. As a result the Board asked me to carry out a review of the business with the management team and bring forward a plan to reposition Halfords to meet the challenges now and that lie ahead.

My conclusion is that Halfords is a good business with a clear strategic framework in place. However, there is some repositioning necessary to move Halfords from being good to being great; we must act now. Our single most important objective is to drive profitable sales growth and to do this through leveraging our expertise.

Following our review we have launched ***Getting Into Gear 2016***, a clear programme of operational plans designed to significantly improve our Retail customer experience. This programme will focus on supporting our colleagues to deliver consistent friendly expertise, improve our store environment, strengthen the authority of our offer and build our infrastructure and digital capabilities. The investment required is anticipated to reduce short-term Retail profitability but is designed to deliver sustainable revenue and profit growth together with sustainable shareholder value.

* (Source: management estimates)

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Group Chief Executive Officer's Review continued

Three-Pillared Strategy

Last year Halfords launched a new strategy that focused on three core pillars:

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

We believe this is the right strategic framework and the new programme of activity we are initiating is designed to support and drive these three pillars which we have redefined slightly to introduce a clearer purpose and more passion.

Our mission is to Help and Inspire Customers with their Life on the Move. The existing pillars have evolved to become:

- Supporting Drivers of Every Car
- Inspiring Cyclists of Every Age
- Equipping Families for their Leisure Time

Our two critical pillars are Auto and Cycling with the third pillar giving us the flexibility to extend our range, introduce innovative products and leverage space. Ninety percent of our focus needs to be on Auto and Cycling as these markets are significant and, with good execution, we can grow our share as well as the overall market.

Halfords Autocentres

A central part of our strategy of Supporting Drivers of Every Car is our newest business, Halfords Autocentres.

Halfords is a trusted brand in the automotive sector, so the move into garage servicing was a natural extension of the Halfords business model. We now offer customers end-to-end solutions, from car parts to the fitting of bulbs, blades and batteries in our Retail stores and full servicing, MOTs and repairs at our Autocentres.

Our review concluded that our strategy for Autocentres is sound and the Autocentres business provides a significant growth opportunity for the Group. However, we also concluded that the short-term profit expectations discussed at the time of acquisition were overly optimistic. These short-term expectations didn't fully consider the implications of a rapid expansion of the chain through new-centre openings, nor the impact of the auto-aftercare market environment which has been more difficult than expected in the period since acquisition. The economic down turn has particularly hit motorists through escalating fuel and insurance costs. In response motorists have reduced mileage and cut back on other costs where possible – including car servicing. As a result we estimate the overall market has contracted by around 5% in the last three years*.

Despite this Halfords has grown its Autocentre retail LfL sales by 4.3% in the same period, over 9% better than the market. This was achieved through better use of existing Autocentres capacity. We have recruited thousands of new customers by rebranding the estate and nationally advertising. We also offer customers a wider range of products like tyres and our innovative **brakes4life** offer.

The Auto-Aftercare market provides Halfords with an opportunity for further growth. It is estimated to be worth around £9bn* and Halfords only has a small share – our 283 centres represent less than 2% of the market.

The market is also highly fragmented and capacity is declining. There are some 22,000 garage sites and 1–2% leave the market each year. The complexities of new cars and the investments required make it more difficult for small operators to compete. By contrast Halfords has increased Autocentre chain numbers by around 27% since acquisition and invested heavily to support growth.

Halfords is well placed to take market share. We are a recognised strong brand in Auto-Aftercare which is a key advantage – as trust is one of the main factors affecting motorists' choice of garages. So our proposition of dealership quality work at more affordable prices, supported by a high level of customer service is a compelling one. We can also leverage national advertising and cross-sell between Retail and Autocentre customers.

The short-term issue for the business is the drag created by our new-centre opening programme. Our core centres are performing well and, as we expand, our buying leverage creates value. However, the contribution from new centres is outweighed by the investments needed for the opening programme. It is predominantly these new-centre investments that are holding back overall short-term profitability together with investments in the infrastructure to support a business growing at the pace of Autocentres.

Having reviewed the business, we believe that Autocentres is a great growth opportunity for us. We have a clear strategy for the future being executed by the Autocentres management team and we can build a business of significant scale. Operationally we will increase what we sell to our existing customers by focusing services on the "Big4": Service, MOT, Repair and Tyres. We will support these sales through innovations like Sunday openings, new product packages and refreshing our website to make booking a service or selecting a tyre even easier.

Through proven marketing routes we will drive more footfall to our Autocentres. We will grow our share of the fleet market by developing our presence with existing customers and attracting and developing new customers.

Our new-centre opening programme will continue with 20–30 new centres planned per annum requiring a capital investment of around £6m per annum. We also anticipate that the market will return to growth as maintenance and repairs return to more normalised levels. Over the medium-term we expect to see profitability build as critical mass is reached in the business.

* (Source: management estimates using data from Halfords Autocentres, SMMT, DFT and Castrol Trend Tracker)

Group Chief Executive Officer's Review continued

> ***"Service is at the heart of our proposition as we estimate two thirds of our products require some level of assistance."***

Halfords Retail

Our review of Halfords Retail addresses the significant challenges we face and sets out a programme of activity to reposition the business; to move us from good to great as we prepare Halfords for the future and put it on a path to consistently drive profitable top-line growth.

Halfords has a very strong place in UK retail. We have an excellent brand that shoppers in Britain have grown up with and there's no doubt in a customer's mind what Halfords stands for and what we sell. We are the nation's leading cycle retailer, selling over 1m cycles a year and we are the go-to destination for motorists. So our products and services are relevant for today's customers and key parts of our offer, especially those which are service related, are unique to Halfords.

The categories in which Halfords operates provide good opportunities for growth. For instance, the Cycle market is buoyant and the popularity of Cycling is growing. The market for Cycles is worth around £700m* and Halfords has a *c.*20–25% share*. The market for PACs is a similar size; we only have *c.*15% share in this market. Last year the entire Cycling market grew by 8.5% and over the next five years is anticipated will grow by around 23%**. In the Cycle Repair market, worth *c.*£100m*, we estimate having only a *c.*8% share. Our focus in FY13 on Cycle Repair produced sales growth of 25.3% and we are implementing a strategy for further growth in this category in FY14.

Halfords also has good potential for growth in Retail Car Maintenance. The 3Bs parts and labour market is estimated to be worth around £950m* and we only have a *c.*11% market share. ***We***fit is a unique offer and we have invested in colleagues, training, advertising and held ***we***fit weekends to raise awareness. The 50.5% growth this year in the number of 3B fitting jobs and the associated growth of 10.9% in parts sales illustrate how much customers welcome this service and what an area of ongoing opportunity it is.

Halfords is in a strong position to make the best of these market opportunities if we can present the right offer to customers. We have great expertise and heritage and a nationwide store network. Meanwhile our global sourcing infrastructure can supply excellent products from the world's leading manufacturers at least-cost to our customers – for instance our exclusive range of *Boardman* cycles, which combine industry-leading designs with prices that are around 15% lower than a cycle of comparable specification.

Our sales are supported by a core of colleagues who are knowledgeable experts. On our day the service we provide is hard to beat. However, our review shows that service levels are inconsistent and this and other aspects of the Halfords experience frustrate customers; many are now choosing to shop elsewhere.

One measure of this is the Halfords Net Promoter Score, which assesses the propensity of customers to recommend our services to others. The Halfords score was, until very recently, close to that of a value retailer; this is a long way adrift from the score of a specialist, where we ought to be.

Meanwhile the competition is escalating in our core categories, such as from online Cycling specialists. As a result our profitability is being eroded. In the last 13 quarters, 10 have seen Retail LfL sales declines. Our revenues have gone from *c.*£812m in FY10 to *c.*£746m in FY13.

Halfords must generate profitable revenue growth over the medium and long-term; the key action that will drive sales is better customer service. We have thousands of amazing people but we haven't supported them to do the job they aspire to. This was evident in the 12,000 comments we received in last year's Colleague Engagement Survey which was packed with suggestions on how to support colleagues in their roles and help them help customers.

Our conclusion is that we must focus on customer service and deliver a great customer experience. To do this we have to improve colleague engagement, develop their friendly expertise consistently across our estate and use it to drive sales. Through our colleagues' product knowledge and our range authority we can re-build our credentials as a specialist retailer. We must also improve our stock availability, retail disciplines, our store environment and overall customer experience. All these improvements must be made as we position ourselves for a digital future.

Our focus is to create a business with belief in the quality of its products and services and where friendly expertise is at its core.

To deliver this the ***Getting Into Gear 2016*** programme has been launched and is specifically designed to drive profitable and sustainable top-line growth. Whilst a lot of work is already underway the complete programme will take around three years to deliver.

* (Source: management estimates)
** (Source: Mintel 2013)

Getting Into Gear 2016

Getting Into Gear 2016 has the following key elements for our Retail business:

1. **Service Revolution** – introducing a step change in customer service across Halfords stores.
2. **The H Factor** – reasserting our proposition authority to Support Drivers of Every Car, Inspire Cyclists of Every Age and Equip Families for their Leisure Time.
3. **Stores Fit to Shop** – investing to raise the Halfords store estate to a standard that is acceptable and operable.
4. **21st Century Infrastructure** – systems and infrastructure to support service and sales.
5. **Click with the Digital Future** – creating a service-led digital proposition.

1. Service Revolution

Service is Halfords' key area of focus. Service is at the heart of our proposition as we estimate around two-thirds of our Retail products require some level of assistance. Increasingly we are making a merit of this and service is becoming a product in its own right.

The level of service we aspire to is something that supermarkets will never be able to deliver. It also gives us a competitive advantage over the online, pure-play retailers who have no stores or colleagues on the ground to support their sales. But we have to improve to deliver the promise.

Friendly, expertise-based service is fundamental to profitable and sustainable sales growth. When customers have a better experience at Halfords they will spend more with us and recommend us to their friends. The Service Revolution will ensure customers are served by colleagues who are enthusiastic about their role at Halfords and the products and services we offer.

Unfortunately, we have let other pressures and processes get in the way of service and our focus on recruitment, development and retention has not been what it should be; consequently colleague turnover is very high.

Our new programme makes our people a focus of our KPIs and our store-incentives programme will now be linked to service as well as sales. We are changing the way we recruit and develop, revising rotas and scheduling and amending contracted hours to make sure we always have colleagues available to serve customers.

We are opening new Halfords Academies to provide the training that colleagues need; we are also launching 3-Gears, a qualification programme that trains and rewards colleagues for gaining expertise.

Gear 1

Gear 1 applies to all colleagues and is completed over their first three-month period with Halfords. We use structured e-learning modules that cover retail skills, product knowledge and customer service. The outcome is that all store colleagues will be qualified to serve customers.

Gear 2

Gear 2 involves a nine-month training programme which leads to an expert level of product knowledge, with a specialism in either Auto & Leisure or Cycling. Tuition is both through e-learning and face-to-face training programmes. There are regular refresher courses for Gear 2 colleagues and a pay award for those who attain this level.

Gear 3

Gear 3 colleagues are our Gurus. They are product experts who are qualified to train others. They keep their skills and knowledge current and market leading - through workshops, attending product and trade shows and by linking with and visiting suppliers. Our Gurus also receive leadership development and a pay award. We anticipate having two Gurus per store.

The 3-Gears programme profoundly changes our expectations of our colleagues and sends a clear message on the focus of their role and the importance we place on helping them succeed.

This particular investment is one of the most important we will make as we commit a total of £7m Retail operating-cost investment in FY14 across the Service Revolution and the pay review. A further £7m of operating cost will be invested in Retail colleagues this year across

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Group Chief Executive Officer's Review continued


Growing success with extended range of *Pendleton* branded bikes

Halfords has some award winning products in many areas . . . better product development and design, stronger value.

Cycle Repair, Fitting and incentives, depending on volumes and performance.

To give customers better service we are also working on our basic retail disciplines. We have not been delivering to a high enough standard on many of these; that is now changing.

There is a lot of work underway to improve our retail disciplines. For instance we are removing unnecessary task from colleagues so they can focus more time on customers. Store-friendly deliveries will take place out of hours and won't interfere with service. Deliveries will also be organised in a way that takes less time to check in and unload. Finally we are moving to pick-friendly warehouses so colleagues can easily find and replenish stock.

We also know that availability has been a key area where our service has disappointed customers. To improve we have introduced efficient hand-held scanners in each store that support us counting stock and maintaining the overall integrity of our stock file.

The business is currently holding an historic low of stock as a result of some improved processes and old stock clear-outs; however, in some areas this has impacted store availability and overall trading capability. During FY14 we anticipate investing an incremental £15m–20m in Retail stock. Part of this is natural rebuild but the majority will support improved in-store availability and our ambitions in PACs.

2. The H Factor

Reasserting our proposition authority is a priority we are labelling the H Factor.

Halfords has some award-winning products in many areas of the business but our analysis concludes we need to do even better for our customers. This means better product development and design, stronger value and better space allocation to support growth opportunities in new or existing ranges.

By the end of the summer we plan to have rebalanced *c.*100 stores, moving child seats downstairs in stores with mezzanine floors, releasing space to cycling, better segmenting our Cycle offer and reallocating space away from the Car Enhancement category.

Our research also demonstrates the need to focus on our core areas and to rebuild our credentials as a specialist retailer across the Auto and Cycling ranges. We believe more authority is a route to competitive advantage and that specialism is something we should celebrate.

Innovation is key and we will work harder to delight our customers and colleagues. We plan more special buys and to use our third pillar to trade against. For instance we have just bought 1,000 inflatable kayaks that we will retail at £99.99 as an exciting addition for family holiday adventures this summer.

Our initiatives within our motoring pillar include a new partnership with battery supplier, Yuasa, to introduce electronic diagnostic terminals into every store. This allows us to reset a car's electronic system after work on the battery of a modern stop/start car, something no other retailer is doing on such a large scale.

The government is expected to commit to a digital radio switch-over later this year. We are preparing for this opportunity with new audio ranges built through excellent relations with the world's leading radio manufacturers.

To Inspire Cyclists of Every Age we are planning to make this *The Year of the Cycle* at Halfords, building on the momentum created around the Olympics last year. We have a series of range re-launches planned, including our exclusive *Voodoo* and *Boardman* ranges. We are adding several new models to the successful *Pendleton* range and later in the year we are re-launching a new range of *Apollo* bikes. We have also just been appointed by *Sky* as their technical partner for *Sky Rides* across the country. This will help promote our Cycle Repair offer to the 150,000 participating cyclists alongside the *Sky* brand.

Meanwhile the launch of 15,000 PACs lines is going live this month and we are advertising our Cycle Repair offer on the radio and in the press.

To Equip Families for their Leisure Time we have just launched our new camping range, incorporating *Vango* for the first time, a brand synonymous with camping, as well as a new range of camping accessories.

This momentum will continue, with greater innovation to create more excitement for our customers.

3. Stores Fit to Shop

We have reviewed our store estate and concluded there is no good reason to reduce our store numbers significantly, as *c.*99% of our 466 stores generate a cash profit.

Our focus on driving profitable sales growth will keep the number of loss-making stores to a minimum. Over the next three years we will resize where we get the opportunity and will close a few stores as part of business as usual. We plan to make the space we occupy work harder and utilise our estate to support our digital ambitions. Nearly 90% of online transactions are already picked up in-store; once in store, we have the advantage of offering extra service.

We do need more stores in Greater London where we are currently under-represented. Over the coming years we will focus on achieving a higher level of store-penetration inside the M25.

We intend to maximise lease flexibility so we can manage our estate efficiently from a trading perspective. This involves securing more break clauses on lease renewals with our landlords and leveraging our position to mitigate rent-increase pressures.

In summary we don't anticipate any significant change in overall store numbers.

In terms of the look and feel of our stores there's a lot of work to do. Much of our estate is no longer at an acceptable standard of presentation and significantly lags behind our customers' expectations, especially cyclists, where a fresh and modern store environment is so important.

Last year we began to design a store format for the future with a trial of a number of so-called 'laboratory stores'. We have reviewed the progress of these stores throughout the year. There are some very positive learnings but overall we don't believe the design is right for roll-out. We have initiated a project to define a format that combines a more coherent customer journey, a focus on one centralised desk to support sales and service, introduces more live displays, brings our Cycle Repair and ***we***fit offer to the fore and supports us to trade the overall store environment harder.

Work is well underway and we expect to have three stores up and running in the new format (York, Coventry and Evesham) by the end of the summer; we anticipate *c.*10–15 stores in the new format by the end of FY14.

Over the next three years we expect to fully refurbish *c.*150 stores and modernise all our cycling departments. This will require an investment of *c.*£50m of capital expenditure.

4. 21st Century Infrastructure

The business has successfully completed the reorganisation of our distribution network around a central distribution centre in Coventry and a specialised cycle centre in Redditch. We are now focusing our supply-chain work on supporting our service in-store, consistent stock availability and digital ambitions. We have started a trial of air-lock deliveries where stock is delivered overnight, to be worked on before the store opens in the morning so that it doesn't detract from colleagues serving customers and doesn't incur the costs of a night shift.

We are also reviewing our multichannel infrastructure as well as the operations of our fleet. Like many other retailers, the Halfords IT system has much room for improvement. Our systems have been modified to reflect increasing demands but are no longer suitable for our current or future needs. In the short-term, we have a number of 'must do' core projects to complete, including a data-centre relocation, a SAP upgrade and a new store voice and data network. We are investing in our IT infrastructure and have recently recruited an IT Director to lead this work.

Together with our digital plans we will invest *c.*£38m of capital expenditure over the next three years in our IT and Digital plans.

5. Click with the Digital Future

Building our digital proposition is a key route to driving future top-line growth and maintaining our ongoing relevance.

Our ambition is to create a service-led digital proposition. Of all retailers Halfords has the opportunity to be truly multichannel – combining the best of the web with friendly expertise in-store. Our digital review, in conjunction with an external consultancy, shows that our current multichannel proposition doesn't provide a satisfactory customer experience. We are therefore putting in place a schedule of work that centres on a new website aligned around our three strategic pillars so that customers can shop in dedicated product zones. The site will be optimised for tablets and mobile devices, as these currently account for around 24% of online Retail sales; usage is expected to double over the next few years. We will also develop community features, live chats, integrated dynamic content, improved customer account management and help pages.

We are working to improve our online fulfilment, especially on *Reserve & Collect*, stock availability, our returns capabilities and staff training to improve service levels in-store. Our recent focus on stock in the second half of the year has already resulted in improvements in our *Reserve & Collect* net promoter scores.

Investment

Through our review we believe we now have the right key priorities and have detailed and clear action plans in place.

We have the opportunity to be a specialist retailer with real service and product authority in core categories. Our ranges will be more innovative and will be designed to excite and delight customers. Our stores will be more inspirational environments where customers want to shop and where they will be greeted by knowledgeable colleagues who offer friendly expertise.

Under ***Getting Into Gear 2016*** we will be investing around £100m in Retail capital expenditure over three years which is an incremental £40m against previous run-rate guidance. Around £50m of the investment will be targeted directly at stores.

We also intend to invest around £21m in Retail operating costs in FY14 over and above our FY13 expenditure, of which *c.*£11m is volume and performance dependent. Key elements of this will be to support the Service Revolution and to support an uplift in LfL sales.

Group Chief Executive Officer's Review continued

Milestones

We have set operational milestones for both internal and external use. These are not financial metrics but sustainable profitability will flow from the delivery of these milestones. The following are some of the milestones that will support our target of £1bn of Group revenues in FY16:

Milestones: Colleagues

		FY14	FY15	FY16
3-Gears	All qualifying colleagues through Gear 1	✔		
	50% colleagues through Gear 2		✔	
	80% colleagues through Gear 2			✔
	Two Gear 3 colleagues per store			✔
Reduce % of colleagues leaving within 3 months	<12.5%		✔	
	<10%			✔
Colleague Engagement (Group)	>85%			✔

Milestones: Operational

	FY14	FY15	FY16
Autocentres opened	20–30	20–30	20–30
Launch PACs	✔		
Annual PACs sales growth		20%	20%
Cycle Repair sales growth	25%	25%	25%
Cycle departments brought up to date	100	180	180
Full store refits	10–15	*c.*60	*c.*75
Launch new Retail website	✔		
Mobile & tablet optimised site launched	✔		

Milestones: Customers

		FY14	FY15	FY16
Net Promoter Score	>60%	✔		
	>65%		✔	
	>70%			✔
Stores working stock outside peak trading hours	25%	✔		
	Majority of stores		✔	

Current Activity

Many of our strategic projects that will reposition Halfords Retail are already underway.

The results of this year's Colleague Engagement Survey shows that we have made significant progress from last year's results – taking our Group colleague engagement score from 64% to 77%.

We are already seeing a step change in retail standards across our business.

The new management team is taking shape. Rob Swyer was appointed as Retail Director, David Durie as Marketing Director, Anna Barsby as IT Director and, most recently, Emma Fox as Commercial Director.

The 3-Gears programme was launched to our store managers at our recent spring conference and the first training has taken place. Our new recruitment website is already in operation and our new store format plan is taking shape.

We have appointed a new advertising agency, *Mother*; they are currently working on our summer campaign.

We have begun trialling out-of-hours delivery to stores.

Thousands of new PACs lines are being launched online this month, which is the culmination of a long period of planning and preparation.

We have also started to improve our credentials within the communities in which we operate. We have run a series of *Kids Bikes Workshops* over the Easter period, teaching thousands of kids basic bike maintenance skills and hopefully enthusing the next generation of cyclists and Halfords customers.

Conclusion

Our review concludes that Halfords fulfils an important role for its customers. Their busy lives and leisure time rely on the products and services that we provide. We have a huge competitive advantage if we can deliver on our promise of friendly expert service and inspire and excite more people to shop with us.

The plans we are putting in place are essential to reposition Halfords to meet the challenges ahead. We are targeting delivering profitable revenue growth over the medium and long-term.

There is a lot of activity now underway at Halfords to execute this programme. At this stage we anticipate that profits in FY14 may reduce as we invest. It is anticipated that Group EBITDA may not exceed current levels until FY16.

The Board is acutely aware of the importance of Halfords' dividend to our shareholders. However, our need to invest whilst maintaining both an appropriate level of earnings cover and a robust balance sheet has led the Board to recommend a rebasing of the dividend. Taking this action will ensure Halfords has a robust foundation on which to build and to maximise longer-term shareholder returns.

On behalf of the Board, I would like to thank all of our colleagues for their immense contribution and commitment to the progress of our business and the implementation of our plan to reposition Halfords.

Matt Davies
Group Chief Executive
23 May 2013

Halfords engaging the next generation of cyclists through our Kids Holiday Bike Clubs

Transforming Halfords

Halfords is a good business with a really clear strategic framework in place. However, there is some repositioning necessary to move Halfords from being good to being great. Our single most important objective is to drive profitable sales growth over the medium and long-term, and to do this through leveraging our expertise.

Over the next three years we shall be delivering a programme to make Halfords great!

This programme – *Getting Into Gear 2016* – is specifically designed to drive profitable top line growth and will transform Halfords.


cycle workshop
service | build | repair
FIRE
EXIT
Why
Halfords?

halfords

Service Revolution

Enhancing value through expert advice

To deliver the step change we want to achieve in customer experience, we have embarked upon a series of changes to how we get the best from our people.

The service revolution is made up of the following key activities

- improving our approach to recruiting the very best people
- providing a structured development programme for all – our 3-Gears programme
- paying colleagues based on level of skill and expertise
- incentivising all colleagues in-store to drive sales and a great customer experience through net promoter scores ("NPS")
- reducing time spent on non-value adding tasks and increasing customer contact

Recruiting the very best people – we have streamlined our recruitment process, trained all store managers to recruit, introduced the latest screening techniques to ensure we hire colleagues with the right attitude – people who love customers.

The 3-Gears programme – all colleagues now undertake a structured three month induction (Gear 1), followed by a nine month programme (Gear 2) which includes workshops, e-learning and demonstrated expertise on the shop floor. By the end of the financial year we will also have launched Gear 3 for a limited group of colleagues which will establish them as real technical experts in automotive & leisure or cycling.

"These changes will allow colleagues to deliver friendly expert service to customers and are key to driving our top line growth."

Learn to Earn – once Gear 2 is reached, colleagues will receive a meaningful increase in pay, so long as they maintain the higher level of expertise. Similarly with Gear 3. The benefit of this approach is that colleagues will be motivated to learn more and maintain their skills, the increased pay will also help with attraction of high calibre people and improve retention levels, all of which benefit customer experience.

One bonus scheme for all – all store colleagues are now incentivised to drive the top line and to improve the customer experience (measured through NPS and mystery shopping). The scheme targets are based quarterly and accumulated through the year, but paid out annually, which again helps with improving colleague retention.

Task reduction – as well as increasing contract time for customer service advisers, we are reducing tasks that have no direct benefit to customers (smarter deliveries, less administration, etc.) so that we can use our time better to serve customers.

These changes will allow colleagues to deliver friendly expert service to customers and are key to driving our top line growth.

FY14 Operational Milestones

- All qualifying colleagues through Gear 1.
- Group Net Promoter Score greater than 60%.

The 3-Gears Programme

Gear 1	Gear 2	Gear 3
■ All Colleagues	■ 9 month Training	■ Guru
■ Completed in 3 months	■ Expert level of product knowledge	■ Qualified to train others
■ Structured e-learning	■ Specialise in auto & leisure or cycle	■ Training through
— Retail Skills	■ E-learning	— Workshops
— Product knowledge	■ Training and Tuition	— Product shows
— Customer Service	■ Regular refresh	— Supplier visit
■ Qualifications to serve our customers	■ Pay award	■ Leadership development
		■ Pay award

The H Factor

Reasserting our Motoring proposition

The H Factor — reasserting our proposition authority

Over the years Halfords had become the natural destination for Automotive, Cycling and Travel Solution products and services that we offer; however, more recently this authority in our range and products has waned as our proposition no longer inspired our customers and our service levels were inconsistent.

However, we have the building blocks to once again be the "place to shop" for our products and to give our customers the confidence that "what they want", we stock. We already stock great cycling products; from kids' bikes, family bikes, and commuter bikes right up to the premium *Boardman* and *Pinarello* bikes. We also carry a wide range of automotive after-market products from car cleaning to bulbs, blades and batteries through to our Halfords Autocentres garages providing a wide range of service, maintenance and repair expertise. Our camping brands, including *Gelert*, *CampingGaz*, *Outwell, Vango* and our own brand *Urban Escape,* provide families with the equipment to enjoy their leisure time.

We are driven by the need to bring passion and excitement back to our stores, we need to attract customers back to browse our stores, be excited by the innovative products on offer, by the solutions we can offer them in their busy lives and be awed by the level of specialism and associated knowledge and expertise of our colleagues.

> ***"By the end of the summer we will have rebalanced some 100 stores with a focus of moving child seats downstairs in stores, releasing space to cycling, better segmenting our Cycle offer and taking space away from car enhancement."***

Consequently over the next few years we are going to restore and celebrate our specialism in our the three core pillars. We will continue *Supporting Drivers of Every Car* by increasing our coverage of the UK car parc, and looking to reduce delivery time to our stores for the product lines we don't regularly carry. This will complement and supplement our 3Bs fitting offer where we have seen the number of jobs grow by *c.*32% in FY13 as more of our customers become aware of this cost-effective, hassle-free solution to their busy lives. We will continue to *Inspire Cyclists of Every Age* with our wide ranging cycle offer from our range of children's bikes and matching accessories; such as the *Apollo Cupcake* bike, helmet & bell through to our premium brands of *Boardman* and the recently introduced *Pinarello*.

We will seek to mirror our success in our 3Bs fitting offer by committing resources in-store and developing our 3-Gears programme to build our cycle repair offer, delivering a significant revenue stream and increasing our authority as a comprehensive cycle shop. By the end of the summer we will have rebalanced some 100 stores with a focus of moving child seats downstairs in stores, releasing space to cycling, better segmenting our Cycle offer and taking space away from car enhancement. Our customers will be able to find what they want when they want it, engaging with knowledgeable colleagues who can build trust and confidence and revenues.

In providing trustworthy solutions to our customers, supporting their use of both the car and the bike, Halfords is already Equipping Families for their Leisure Time and as we continue to develop this area from camping products to caravan accessories, we will continue to look to excite both colleagues and customers through the introduction of new leisure products that build on Halfords' authority in bikes and cars and drives revenue growth in this area.

All of this must recreate and enhance the H Factor: the confidence and trust with which customers can turn to Halfords as the natural destination for their automotive, cycling and leisure products.

FY14 Operational Milestones

- Cycle Repair sales growth.
- Launch PACs.

Reproduced with kind permission from Mountain Biking[UK].

Stores Fit to Shop

We need to bring passion and excitement back to our stores! Do our customers shop at Halfords because they need to or because they enjoy the visit? A large number of our stores are not of an acceptable standard, they lag behind our customers' expectations, fuelling the impression that our offer is tired and boring.

During last year we announced a trial of laboratory stores and whilst these were successful in certain areas, e.g. cycle segmentation, collection points, changing rooms, we concluded that these models are not the answer to revitalising our estate; that we could do better. We need to make the stores less sterile and we want to build an emotional connection with our customers, a desire to shop at Halfords, an anticipation of shopping in pleasant surroundings, and an eagerness to use our stores as a means to shop Halfords in different ways, be that in-store or online. A place to enjoy the shopping experience rather than endure it.

We plan to step change the improvement in store environment to surpass customer expectations, to make them warm agreeable places to shop. It is important that our stores feel fresh and modern and support the digital customer, the smartphone user, and the online buyer. Approximately 90% of our online sales are collected in-store.

We must also leverage our store space better to maximize our sales opportunities. We will continue to invest in cycle segmentation, provide changing rooms to support our cycle clothing ambitions, a major revenue growth opportunity, build our authority in 3Bs through dedicated product zones and also extend these product specific zones to other products such as child seats. Helping our customers shop our stores for the products they want and need supported by dedicated and knowledgeable colleagues.

To help us in this ambition we have initiated programme 50:39. A programme, named after Sir Bradley Wiggins' winning time in the Olympic Time Trial event and designed to deliver engagement with our customers' shopping experience by implementing the learnings from specific laboratory-store successes. These stores will up the level of emotional engagement, provide a more coherent customer journey, focus on one centralised desk to support sales and service, introduce more live displays, bring our cycle repair and ***we***fit offer to the fore and support us to trade the overall store environment harder.

All this must create a compelling environment that excites customers, improves the experience and emotional engagement of our customers and our colleagues in-store, and bring passion back to Halfords!

FY14 Operational Milestones

- 10–15 full store refits.
- 75 Cycling departments brought up to date.
- 20–30 Autocentres opened.

> ***"These stores will up the level of emotional engagement and provide a more coherent customer journey."***


kids
Starlight

halfords

21st Century Infrastructure

Our Supply Chain and IT infrastructure needs to support our service focus in-store and our digital ambitions.

Our IT systems are out of date and in need of upgrading. In common with many retailers new business opportunities have been supported to bespoke changes to existing systems. As a result our systems landscape is complex and expensive to maintain with changes to support new business opportunities taking too long to implement and being too costly.

Our Supply Chain needs to adapt to deliver better on shelf availability and ensure colleagues can focus on serving customers rather than being blinded by the task of stocking shelves. We also need to put in place the capacity and capability to support our ambitious digital growth strategy and make the customer experience seamless between stores and online.

"We have started a trial of airlock deliveries where stock can be delivered overnight."

We have started a trial of airlock deliveries where stock is delivered overnight and can be worked first thing in the morning before the store opens. We intend to roll this to further stores over the next 12 months. To improve availability we have invested in new hand-held scanners in each store that together with new processes support us counting stock and maintaining the overall integrity of our stock file. We're also getting back to a real focus on good old-fashioned stock management disciplines.

We've already started a number of core IT infrastructure projects including the upgrade of SAP, the installation of a new faster store network and the move of our data centre. Beyond these we will look to invest in world class, scalable systems that support our digital and service growth ambitions in order to drive profitable sales growth.

FY14 Operational Milestones

- 25% of all stores working stock outside peak trading hours.


halfords
5W/30

Click with the Digital Future

To support our 21st century ambitions of interacting with our customers in as many exciting ways as possible and thereby driving engagement and revenue growth, we need to embrace the digital future. Our young customers may not be embracing the automobile as their parents once did, but they are the i-generation seeking innovative ways of shopping and interacting with products.

Halfords is well placed to take advantage of this phenomenon with most of our products being well suited to online display and demonstration and we are able to offer 2.5 times more SKUs (stock-keeping units) online than in-store. The mobile version of our site enables our customers to research and purchase online while they are on the move. Mobile traffic and revenues have experienced significant growth and over 40% of all visits and almost a third of our online sales are now through these devices. The Halfords App and quick response ("QR") codes at the point of sale are other mobile innovations that we have introduced to enhance our customers' buying experience; they 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 800,000 visits to our App last year and around 15,000 QR codes were scanned.

However, unfortunately, even with all this work the multichannel experience provided to our customers remains average at best. As mentioned earlier our logistics solution does not support our ambitions and we experience strong competition in certain categories from pure play retailers.

"We must invest in our digital future to make Halfords a market leading integrated multichannel business centred around our three pillars."

We had mixed success in FY13 where we have seen a sustained increased online participation in Baby & Child products, Bikes, PACs and Car Parts, although online participation lags behind the wider market in other categories. However, we continue to see compelling revenue opportunities in PACs and Camping.

With our ambition to drive profitability revenue growth over the medium and long-term we must invest and improve our web-based offer. Over the next 12 months we plan to provide a much better website experience. It will be aligned around our three product pillars so if you are a cyclist, you will shop in a dedicated cycling site where we won't be trying to sell you engine oil – maybe just a few energy bars. This will then develop into a cycle shop we can be proud of by the end of 2014 with community features, live chat and integrated dynamic content.

This redesign will make our site easier to search and navigate, provide personalised merchandising and create passion in our products through online communities. It will attract more customers; inspire, inform and convince customers to buy our products; enable them to transact and checkout easily and securely; and with the right support will ensure that goods are delivered/collected on time. This will ensure a pleasing shopping experience that results in customers returning to the site.

We must invest in our digital future to make Halfords a market leading integrated multichannel business centred around our three pillars.

FY14 Operational Milestones

- Launch new Retail website.
- Mobile and Tablet optimised site launched.


MOTOROLA
halfords

Group Finance Director's Report

Andrew Findlay
Group 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

	FY13 £m	FY12 £m	Change
Group Revenue	**871.3**	863.1	+1.0%
Gross Profit	**477.1**	472.8	+0.9%
EBIT	**78.1**	97.2	-19.7%
Finance Costs	**(6.1)**	(5.0)	+22.0%
Profit Before Tax and non-recurring items	**72.0**	**92.2**	**-21.9%**
Profit Before Tax after non-recurring items	**71.0**	94.1	-24.5%
EBITDA	**103.4**	123.6	-16.3%

All items above are shown before non-recurring items unless otherwise stated.
EBITDA means earnings before non-recurring items, finance costs, tax, depreciation and amortisation.

The "FY13" accounting period represents trading for the 52 weeks to 29 March 2013 ("the year"). The comparative period "FY12" represents trading for the 52 weeks to 30 March 2012 ("the prior year").

Group revenue in FY13, at £871.3m, was up +1.0% and comprised Retail revenue of £745.5m and Autocentres revenue of £125.8m. This compared to FY12 Group revenue of £863.1m, which comprised Retail revenue of £752.3m and Autocentres revenue of £110.8m.

Group gross profit at £477.1m (FY12: £472.8m) represented 54.8% of Group revenue (FY12: 54.8%), reflecting an increase in the Retail business of 12 basis points ("bps") and a gross margin of 63.7% (FY12: 65.9%) in the Autocentres business.

Total Operating costs before non-recurring items increased to £399.0m (FY12: £375.6m), of which Retail represented £323.4m (FY12: £307.0m), Autocentres £73.8m (FY12: £66.4m) and unallocated costs £1.8m (FY12: £2.2m). Unallocated costs represent amortisation charges in respect of intangible assets acquired through business combinations (the acquisition of *Nationwide Autocentres Ltd* in February 2010), which arose on consolidation of the Group.

Net finance costs for the year were £6.1m (FY12: £5.0m).

Group Profit Before Tax and non-recurring items for the year was down 21.9% at £72.0m (FY12: £92.2m).

Net non-recurring expenses of £1.0m (FY12: income £1.9m) during the year represented costs of £1.2m in respect of two onerous lease contracts, asset impairment costs of £0.8m to support the "Stores Fit to Shop" initiative, and non-recurring income of £1.0m from the partial release of the *Focus DIY* lease guarantee provision, recognised as a non-recurring cost in FY11, resulting from better than anticipated settlements.

Group Profit Before Tax for the year after non-recurring items was down -21.9% at £72.0m (FY12: £92.2m).

Halfords Retail

	FY13 £m	FY12 £m
Sales	**745.5**	752.3
Gross Profit	**397.0**	399.8
Gross Margin	**53.3%**	53.1%
Operating Costs before non-recurring items	**(323.4)**	(307.0)
Operating Profit before non-recurring items	**73.6**	92.8
Non-recurring (expense)/income	**(1.0)**	1.9
Operating Profit after non-recurring items	**72.6**	94.7
EBITDA	**94.6**	114.6

Revenue for the Retail business of £745.5m reflected, on a constant-currency basis, a like-for-like sales decline of -0.7%. Non like-for-like stores contributed £1.6m revenue in the year, with total revenue declining -0.9%.

"Group revenue in FY13, at £871.3m, was up 1.0% and comprised Retail revenue of £745.5m and Autocentres revenue of £125.8m."

Supporting City Centre cycle racing through the Halfords Cycling Tour Series 2012

Cycling revenues were down 0.4% with the benefit of the Olympics offset by poor early-summer and final-quarter weather.

Car Maintenance revenues were up +5.1%, primarily driven by the success of the Bulbs, Blades and Batteries ("3Bs") fitting initiative, and helped by extended cold winter conditions.

Car Enhancement revenues were down -4.2%, a significantly better comparable performance than in recent years, with growth in Audio and a reduced decline in Sat Nav sales.

Travel Solutions revenues were down -6.8%, with camping revenues being impacted by the lack of any conducive summer weather conditions. Child car seats declined due to the continued focus on managing the category for cash.

Revenue for the Retail business is split by category below:

	FY13 (%)	FY12 (%)
Cycling	**29.6**	29.5
Car Maintenance	**32.6**	30.8
Car Enhancement	**24.9**	25.8
Travel Solutions	**12.9**	13.9
Total	**100.0**	100.0

Gross profit for the Retail business at £397.0m (FY12: £399.8m) represented 53.3% of sales, 12bps up on the prior year (FY12: 53.1%). This was a result of increased Car Maintenance parts and fitting revenues, with lower levels of shrinkage as a result of the focus on Retail disciplines in the period. Sales of winter chemicals also enhanced gross margin, though there were a number of opposing influences, including the intra-category mix within Car Enhancement and the increased focus on the exit of old inventories. The success of lower-margin premium-cycle sales also had a dilutive impact on margin.

The Retail gross margin is anticipated to decline by 125–175bps in FY14 reflecting the normalisation of mix, more aggressive ongoing clearance, plus increased activity to emphasise our value credentials. This includes increased use of "WIGIGs" ("when it's gone it's gone") and establishing more 'KVI' (key value indicators) products. The decline also includes the impact of the full-scale launch online of third-party-branded, lower-margin Cycling parts, accessories and clothing ("PACs") and the continued influence of premium-bike sales.

The adverse pressures will be partly offset by the continued focus on higher-margin Car Maintenance fitting and Cycle Repair.

It is anticipated that Halfords Retail will continue to generate a gross margin of over 50% throughout the medium-term.

Operating costs before non-recurring items were £323.4m (FY12: £307.0m), up 5.3% on the prior year. The breakdown is set out below.

	FY13 £m	FY12 £m	Change
Store Staffing	**85.1**	80.1	+6.2%
Store Occupancy	**140.1**	138.1	+1.5%
Warehouse & Distribution	**28.5**	27.5	+3.6%
Support Costs	**69.7**	61.3	+13.7%
Total Operating Costs before non-recurring items	**323.4**	307.0	+5.3%

Note: To align this year's cost breakdown, the above figures reflect a prior year reallocation of carriage costs from Store Occupancy to Warehouse & Distribution upon the launch of the 24-hour *Reserve & Collect* fulfilment proposition, and a realignment of Warehouse & Distribution management costs from Support Costs to Warehouse & Distribution.

In line with the objective to capture the Car Maintenance parts and fitting market opportunity, payroll hours were invested in 3Bs fitting activity during the year with over 450 additional fitters recruited in time for winter peak trading. This, together with investment in training time in both technical and employee engagement skills, and the underlying uplift in national minimum-wage rates, led to a +6.2% increase in Store Staffing costs.

Store Occupancy costs increased by +1.5% year on year. Business rate increases of +2.2% and continued pressure from upward-only rent reviews were partially mitigated by continued rent negotiations and a reduction in other property-related costs.

Warehouse & Distribution costs increased by +3.6% driven by the anticipated increase in carriage costs associated with the enhanced 24-hour multichannel fulfilment offering launched in March 2012.

Support Costs increased by +13.7% as a result of the investment in improved recruitment and training in stores and enhanced Support Centre capability (Procurement, IT, Human Resources and Multichannel), with particular expertise associated with the launch of

Group Finance Director's Report continued

> *"Car Maintenance revenues were up 5.1%, primarily driven by the success of the Bulbs, Blades and Batteries ("3Bs") fitting initiative, and helped by extended cold winter conditions."*

the extended range of PACs. The one-off costs associated with the change of Chief Executive, Commercial Director and Retail Director were also included within Support Costs.

To support Halfords' plans the Board anticipates a year-on-year increase in FY14 Retail operating expenses of around +6%, a significant proportion of which is dependent on volumes/performance. Some of the costs associated with these plans are expected to increase further in FY15 with, for example, the annualisation of pay awards linked to the newly-launched 3-Gears training programme.

It is anticipated that Halfords Retail will generate low double-digit EBITDA margins throughout the medium term (FY13: EBITDA Retail margin 12.7%).

Halfords Autocentres

	FY13 £m	FY12 £m
Sales	**125.8**	110.8
Gross Profit	**80.1**	73.0
Gross Margin	**63.7%**	65.9%
Underlying Operating Costs	**(73.8)**	(66.0)
Underlying Operating Profit	**6.3**	7.0
One-off Support Centre Relocation Costs	**–**	(0.4)
Statutory Operating Profit	**6.3**	6.6
EBITDA	**8.8**	9.0

Autocentres generated total revenues of £125.8m (FY12: £110.8m), an increase of +13.5% on the prior year. Non like-for-like centres generated £8.3m of incremental revenue in the year. Twenty-three new Autocentres opened in the year and took the total number of Autocentre locations to 283 as at 29 March 2013. The increase in revenues from the like-for-like centres reflected the impact of enhanced media support and investment, growth in tyre sales, as well as the success of online bookings which represented 12% of total FY13 Autocentres revenues.

Gross profit at £80.1m (FY12: £73.0m) represented a gross margin of 63.7% against a prior year margin of 65.9%, driven primarily by increased volumes of lower-margin tyre sales, which represented 15.8% of total sales (FY12: 11.2%). Underlying Service, MOT and Repair margins were underpinned by improvements in parts buying.

It is anticipated that Halfords Autocentres will deliver a broadly-flat gross-margin performance throughout the medium-term. Autocentres' underlying operating profit was down 10.0% at £6.3m (FY12 £7.0m) reflecting the continuing investment in the business in capability and training, the cost associated with the opening of 23 new centres together with the related expansion of the support-centre structure. Halfords is committed to the continued investment in the Autocentres business to secure long-term growth and has targeted the opening of a further 20–30 new centres in FY14. Autocentres' earnings before interest, tax, depreciation, amortisation and non-recurring items in FY14 is expected to be marginally ahead of that in FY13.

It is anticipated that Halfords Autocentres will generate a mid-to-high single-digit EBITDA margin throughout the medium term (FY13: EBITDA Retail margin 7.0%).

Portfolio Management

The store and centre portfolio at the end of the year comprised 466 stores (end of FY12: 467) and 283 Autocentres (end of FY12: 260).

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

	Number	Stores
Relocation	5	Durham, Chester, Oxford, Blanchardstown, Chingford
Leases re-negotiated	10	Stafford, Coventry, Norwich, Dartford, Weymouth, Plymouth, Evesham, Bognor, Putney, Scarborough
Downsize	5	Ipswich, Guildford, Peterborough, Southampton, Cheltenham
Opened	–	–
Closed	1	Preston

Within Retail, five stores were relocated to smaller/cheaper units, five stores were downsized, and ten leases were re-signed with re-geared lease terms.

In Autocentres, the portfolio was extended by 23 centres to 283 in the year, with four opened after the year end.

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-year term at inception and with an average lease length of 7.5 years.

In the year, one store was closed (Preston, Ribbleton Lane) in line with its lease expiry; no Autocentres were closed.

Net Non-Recurring Expenses

The following table outlines the components of the net non-recurring expenses incurred in the year.

	FY13 £m	FY12 £m
Onerous lease charges	**(1.2)**	–
Asset impairment charges	**(0.8)**	–
Release of *Focus DIY* lease guarantee provision	**1.0**	1.9
Net non-recurring (expenses)/income	**(1.0)**	1.9

Onerous lease charges of £1.2m in respect of two properties were recognised during the year, reflecting the challenging property market for vacant properties, and the high cost to exit lease agreements.

£0.8m of assets from certain stores were impaired as a result of the investment in laboratory-store development.

At the end of FY11, an exceptional charge of £7.5m was recognised in respect of a provision for property leases to which Halfords was a guarantor, triggered by the demise of the *Focus DIY* retail chain. At 30 March 2012 the provision was £3.1m, reflecting the settlement of a number of leases and utilisation for ongoing rent, insurance and service charges, and had reduced further at 29 March 2013 to £1.0m as a result of a £1.0m release relating to a lease settlement and £1.1m utilisation.

Finance Expense

The net finance expense was £6.1m (FY12: £5.0m). The expense included a £0.8m accelerated amortisation of facility fees in the current year. This follows the Board's decision to refinance the bank facility, which expires in November 2014. The underlying net finance expense was broadly flat year-on-year and the net financing cost in FY14 is anticipated to be marginally lower compared to FY13.

Taxation

The taxation charge on profit for the financial year was £18.3m (FY12: £25.7m), including a £0.1m charge (FY12: £0.9m) in respect of tax on non-recurring items. The full-year effective tax rate of 25.7% (FY12: 27.3%) is higher than the UK corporation tax rate (24.0%) principally due to the non-deductibility of depreciation charged on capital expenditure and other permanent differences arising in the year.

The FY14 effective tax rate is anticipated to be 23–24%.

Earnings Per Share ("EPS")

Basic EPS before non-recurring items was 27.7 pence (FY12: 33.7 pence), a 17.8% decrease on the comparable year. Basic EPS after non-recurring items was 27.2 pence (FY12: 34.2 pence). Basic weighted-average shares in issue during the year were 194.3m (FY12: 199.9m).

Dividend

The Board has recommended a final dividend of 9.1 pence per share, a reduction of 35.0% on the prior year (FY12: 14.0 pence). If approved, this will be paid on 2 August 2013 to shareholders on the register at the close of business on 5 July 2013. The proposed full-year dividend is 17.1 pence (FY12: 22.0 pence).

The 35.0% reduction of the final dividend would have the effect of similarly rebasing future dividend pay-outs. It is anticipated that the FY14 full-year dividend would be reset to around 14 pence per share and that the full-year dividend would potentially remain around this level as the business approaches nearer 2x dividend/earnings cover over the medium term. This would reflect a more-sustainable level for the business, the requirement to invest and the maintenance of a robust balance sheet

Capital Expenditure

Capital investment in the year totalled £18.8m (FY12: £19.7m) comprising £13.2m in Retail and £5.6m in Autocentres. Consistent with prior years, management has continued to adopt a prudent approach with regard to capital investment and has focused on investments generating material returns.

Within Retail, £5.8m was invested in stores, including the laboratory store concepts, relocations and right-size activity, and general capital spend relating to store roofing/flooring and security. Additional investments in Retail infrastructure included a £5.0m investment in IT systems, with further development in the online proposition, £1.4m in logistics and £1.0m in central facilities.

Group Finance Director's Report continued

Expert knowledge is at the heart of our fitting offer

A further £5.6m (FY12: £4.5m) was invested in Autocentres to drive the centre roll-out plan and upgrade centre equipment, especially in relation to the delivery of the tyre-fitting proposition.

The Retail capital expenditure requirement in FY14 is anticipated to be around £32m, whilst the respective investment in Autocentres is anticipated to be around £6m.

To support the delivery of ***Getting Into Gear 2016***, Retail capital expenditure is expected to total around £100m between FY14 and FY16.

Inventories

Group inventory held at the year-end was £133.2m (FY12: £146.7m), down -9.2% on the prior year. Autocentres inventory was £1.3m, flat on the prior year.

The management of inventory remains a key area of focus for the Retail business; however, management recognises the need to ensure that availability meets customer expectations and supports the business's profitable-sales growth aspirations. During FY14 we anticipate investing £15–20m in extended levels of Retail inventory.

The Autocentres business model is such that only small levels of inventory are held within the centres, with most parts being acquired on an as-needed basis.

Cash Flow and Borrowings

The Group has continued its strong track record of operating cash generation.

Net cash generated from operating activities in the year was £93.5m (FY12: £89.7m). After taxation, capital expenditure and net finance costs, free cash flow of £71.8m (FY12: £70.4m) was generated.

Reported net debt was lower than anticipated due to the expectation of settlement of a number of prior-year outstanding tax computations in FY13. These account for *c.*£20m and are fully provided for within the balance sheet; it is anticipated that this provision will crystallise in FY14.

Group net debt of £110.6m (FY12: £139.2m) represented a year-on-year decrease of £28.6m. At this level, the ratio of Net Debt to 12-month EBITDA was 1.1:1 (FY12: 1.1:1). It is anticipated that this ratio will reach no more than *c.*1.5:1 throughout the medium-term.

The current bank loan facility expires in November 2014. The Board has approved refinancing of the Group's debt funding in the current financial year.

Treasury Policy

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

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

Treasury activities are delegated by the Board to the Finance Director ("FD"). The FD controls policy and performance through the line management structure to the Group Treasurer and by reference to the Treasury Committee. The Treasury Committee meets quarterly 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 through 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.

“Group net debt of £110.6m (FY12 £139.2m) represented a year-on-year decrease of £28.6m.”

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 + or – 1% the impact on the results in the Income Statement and equity would be a decrease/increase of £1.0m (FY12: £1.2m).

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 April 2011 and April 2012, the Group managed its capital structure partly through a share buy-back scheme.

The Group manages capital by operating within debt ratios. These ratios are lease adjusted net debt to Earnings Before Interest, Tax, Depreciation and Amortisation (“EBITDA”) and fixed charge cover. Lease-adjusted net debt is calculated as being net debt and leases capitalised at eight times, as a multiple of EBITDA plus operating lease charges. Fixed charge cover is calculated as being EBITDA plus operating lease charges as a multiple of interest and operating lease charges.

Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was £32.1m (FY12: £28.6m).

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 29 March 2013, 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 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, in line with Treasury Policy. The counterparty credit risk is reviewed in the Treasury report, which is forwarded to the Treasury Committee and the Treasurer reviews credit exposure on a daily basis.

The risk is measured through review of forecast liquidity each month by the Treasurer to determine whether there are sufficient credit facilities to meet forecast requirements, and through monitoring covenants on a regular basis to ensure there are no significant breaches, which would lead to an “Event of Default”. Calculations are submitted bi-annually to the club bank agent. There have been no breaches of covenants during the reported periods.

Andrew Findlay
Group Finance Director
23 May 2013

halfords

Risks and Uncertainties

Strategic Pillars

Supporting drivers of every car

Inspiring cyclists of every age

Equipping families for their leisure time

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 72 to 81 describes the systems and internal control processes through which the Directors identify, assess, manage and mitigate risks.

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	Strategic Pillar	Getting Into Gear 2016
Economic			
The economy is a major influence on consumer spending. Trends in employment, inflation, taxation, consumer debt levels, weather and interest rates impact consumer expenditure in discretionary areas. Changes in Government policies (e.g: Cycle2Work, DAB switchover) 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.		stores fit to shop 21st century infrastructure the 'h' factor
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 if 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.		stores fit to shop 21st century infrastructure the 'h' factor service revolution click with the digital future
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. Our Click with the Digital Future initiative will provide an improved multichannel experience.		the 'h' factor click with the digital future
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 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.		21st century infrastructure
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. Our H Factor initiative will improve product development and design.		stores fit to shop the 'h' factor click with the digital future

Risks and Uncertainties continued

Key Risks and Uncertainties	Mitigation	Strategic Pillar	Getting Into Gear 2016
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 multichannel approach to sales in our stores and a high-service-based customer proposition in our stores and autocentres. This is complemented by training from Cytech (Cycles), RoSPA, and the Institute of Motor Industries, ensuring that colleagues at both stores and centres are capable of supporting the Halfords brand. Training will be further enhanced by our Service Revolution initiative.		21st century infrastructure; the 'h' factor; service revolution
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.		21st century infrastructure
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, or through unavailability of stock as a result of disruption to the supply chain (e.g: unavailability of a distribution centre).	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 innovative 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 this will be enhanced by our Service Revolution initiative. 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. Repairs are subject to extensive quality assurance processes. The business has developed and tested continuity plans.		21st century infrastructure; the 'h' factor; service revolution

Stocking a vast range of bulbs covering most of the UK car market

Key Risks and Uncertainties	Mitigation	Strategic Pillar	Getting Into Gear 2016
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, multichannel and distribution systems, could potentially compromise our operational capability for a period of time. With ambitious growth plans for our multichannel 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 Support Centre. 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 additional access to a further data support centre elsewhere in the UK in case of a major incident. We have recently recruited an IT Director to oversee enhancements to our IT infrastructure.		21st century infrastructure the 'h' factor service revolution click with the digital future
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.	Our Remuneration Policy outlined on page 83 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.		service revolution

halfords

Corporate Responsibility Report

Our new 3-Gears programme also introduces a training and colleague qualification programme that puts expertise at our core.

Aim to Win and Earn Trust – Corporate Responsibility

Halfords aims to contribute positively to the communities and environment in which we operate. We recognise that acting responsibly in all our operations, and towards our colleagues, customers and stakeholders, also benefits our business and our brand. Throughout the year our Commercial Director was responsible for ensuring that our corporate responsibility policy was aligned with the strategic aims of our business. Executive management monitors achievement of related KPIs.

Recognising that ultimately Halfords is a business and so our focus is on operating our business to provide our customers with high quality products and services, and to generate value for our shareholders, we continually strive to improve upon the management of our environmental, social and corporate governance impact. It is essential that we live our values by continually monitoring our exposure and responding to safeguard not only our business, but also the environment and the societies in which we operate.

In support of this, we have been looking to expand our corporate responsibility initiatives in recent years. During the period, we commenced a work inclusion programme with Bikeworks, which is discussed further at page 61, and appointed a dedicated Community & CSR Manager to develop the opportunities that Halfords has to make a positive contribution to our local communities, as described at page 60. Further information will be made available on our Corporate Website as the developments progress and will be described fully in next period's annual report and accounts.

Work as a Team — Workplace

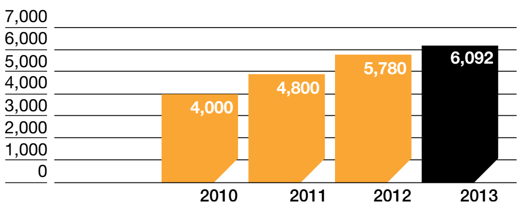
Colleagues

As the many faces of our business, our colleagues are fundamental to the achievement of our customer experience ambitions. We strive to be an employer of choice, where commitment to good service standards and our values is both celebrated and rewarded. Our colleagues are expected to be customer-focused, helpful individuals who work as a team to earn trust of our customers in our product and service knowledge so inspiring our customers to invest in products and services from our stores and autocentres – in so doing our colleagues aim to win. In return for this, we offer our colleagues equal opportunities to work in a fulfilling and stimulating environment and further develop their careers within the Group on the basis of merit.

To provide our colleagues with the knowledge to empower them to confidently deliver great service, *c.*80% of our Retail fitting colleagues (excludes store managers and duty managers) are accredited (2013: 6,092; 2012: 5,780), whilst around 60% (2012: *c.*60%) of our Autocentres colleagues hold an industry-recognised qualification. There are currently 160 apprentices (2012: *c.*140) participating in the Autocentres training academy apprenticeship programme, a three-year fully funded technician programme leading to the Institute of Motor Industry NVQ 3 and Diploma, as well as an Automotive Technician Accreditation assessment. Our IMI accredited Academy of Learning delivers a range of technical and management qualification opportunities to Autocentres colleagues.

Our new 3-Gears programme also introduces a training and colleague qualification programme that puts expertise at our core and has the potential to revolutionise our approach to building colleague expertise and our customers' experience.

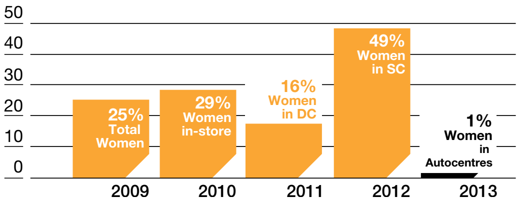
Retail Staff Holding Accredited Fitting Qualifications



Diversity amongst our Colleagues

We are committed to operating as an equal opportunities organisation whilst recognising that the nature of our business is more likely to attract certain profiles of colleagues than others. Our commitment to diversity is upheld by the Board as described at page 75 and our Equal Opportunities policy sets out our commitments and expectations as regards diversity, colleague behaviours and how colleagues are treated within the business.

Women Colleagues Employed by the Group



Accessibility

As a household brand, our stores and autocentres should be accessible to customers and colleagues alike. We work hard to deliver our products and services in surroundings that are as comfortable and convenient to work and shop in as possible.

Health and Safety Management

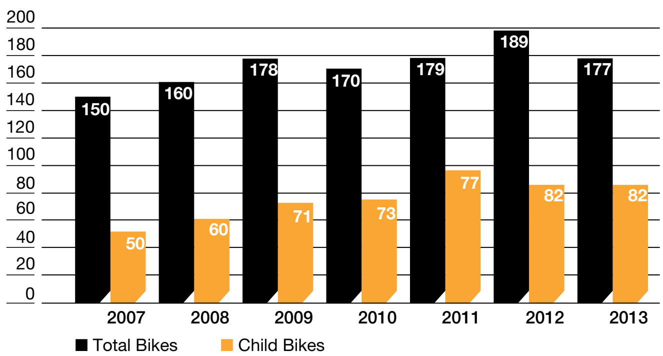
Halfords is committed to high standards of occupational health and safety to minimise the risk of injuries and ill health to employees, contractors, customers, visitors and others who come into contact with the business. Our overall annual incident rate remains below the benchmarks of the industries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

Think Customer — Marketplace

We are committed to helping and inspiring our customers with their life on the move by:

- Continuing to be the largest retailer of bicycles and cycling-related products, stocking a wide range of 177 bicycles suitable for every taste and budget for beginners, intermediate cyclists and enthusiasts alike.

Number of Cycles Stocked



- Delivering over 13,500 Cycle2Work schemes to date for private and public sector organisations of varying types and sizes.
- Assisting our customers to keep their vehicles on the road for longer by providing high-quality car maintenance products in stores and car servicing and initiatives, such as **brakes4life**, a lifetime replacement of brake pads and brake shoes, at our autocentres.
- Supporting the Automotive Technician Accreditation (ATA) scheme to ensure our technicians' knowledge remains current, enabling them to deliver efficient servicing to our customers

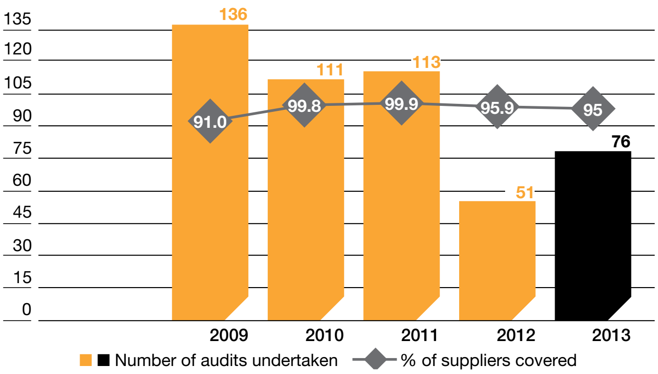
We recognise that whilst our customers seek quality, reliable products and/or services at reasonable prices, they also expect us to carry out business responsibly. We work hard to ensure that our products meet our high standards, which are consistent with or stronger than relevant legislation, international conventions and codes of practice. For example, our autocentres fit parts which meet OE standards not only maintaining the warranties on our customers' vehicles but meeting legislative requirements. In addition, we have our own quality control systems in place as well as a mystery shopper programme to ensure that our expected standards are upheld. The external organisations VOSA and Trading Standards also monitor our activities. We also take advantage of opportunities to work closely with trade associations, research institutes, standards authorities, universities and government organisations to improve performance standards and safety, and develop and influence best practice. For example, our Autocentres CEO is heavily involved in the VOSA modernisation programme.

Corporate Responsibility Report continued

> ***"We place high standards on our selected suppliers, maintaining an Ethical Trading policy which we expect our suppliers to sign up to."***

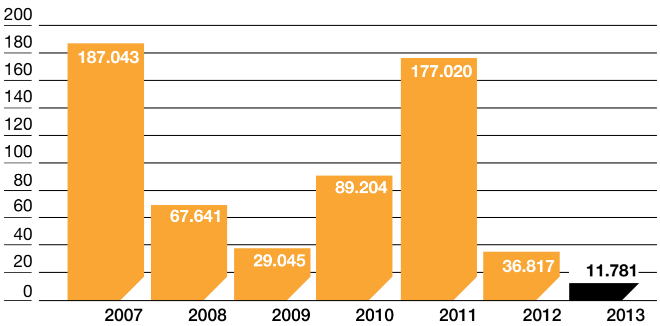
Similarly, we place high standards on our selected suppliers, maintaining an Ethical Trading policy which we expect our suppliers to sign up to. This policy is available on our Corporate Website. We will visit manufacturing sources to verify their quality procedures, supply chain arrangements and interactions with their local communities. Our suppliers are expected to, like us, seek to improve their offering and reduce any undue impact on local stakeholders and their localities generally.

Ethical Trading Audits

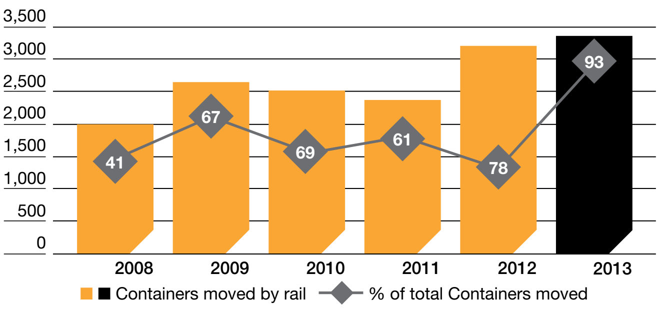


The potential impact that our business could have on our stakeholders and the wider world is considered throughout the product or services' lifecycle when we make decisions on choice of offer, packaging and procedures. One such example is that the majority of our products are imported so we are careful to monitor our carbon emissions and restrict our use of airfreight. Typically we ship products, which once landed in the UK, travel via rail to our Distribution Centres in the Midlands.

Tonnes of Product Airfreighted



Number of Containers moved by Rail



Our Autocentres business uses small vans which are route managed not dedicated in order to make deliveries as efficient and minimise the environmental impact as practicable.

Throughout the year, our People Team worked closely with Which? Magazine regarding childseat fitting training at Halfords, and as part of the umbrella Digital Radio UK with members of the SMT Working Group for DAB conversion, including the design of an accredited installation and approval of DAB programme.

Be Helpful — The Environment

We recognise that our business can have a direct, as well as an indirect, effect on the environment. We are committed to understanding any impact that our products, stores, autocentres, Support Centre and delivery fleet have on the environment so that we can work to improve the management of them. We acknowledge that in some cases such environmental impact management can result in improved performance within our supply chain. We have identified the following areas as overall objectives in managing our environmental responsibilities:

Fuel Efficiency

Distance driven by fleet delivering products to stores	6,233,896 (FY12: over 7,000,000) km
Greenhouse Gas emissions (converted using DEFRA's 2012 Freight Transport conversion factor of 1.10316)	6,876,984 (FY12: over 6,000,000) kg CO_2e per vehicle km

Our overall greenhouse gas emissions have stayed broadly flat this year as we continue to better utilise our Main and Cycling Distribution Centre, improve the management of store deliveries and use larger and double-decker trailer units to carry more stock per vehicle.

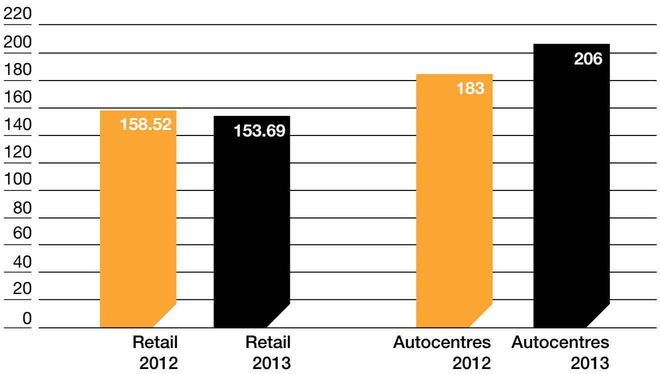
Natural Resources

Retail store water consumption	-3.1 (FY12: -12.4) %
Car batteries recycled by Retail stores	1725 tonnes (broadly equivalent to 115,000 batteries)

In our stores, we continue to invest in "smart" water meters which help us to identify water leaks at an early stage so as to help reduce our water consumption. As motor vehicle servicing centres, our autocentres are continually disposing of "motor vehicle" related waste safely.

Autocentre water consumption (average)	206 (FY12: 183) cm^3
Percentage of Autocentre waste recycled	60%
Car batteries recycled by Autocentres	3,891 batteries
Tyres recycled by Autocentres	297,482 (2012: 197,200)
Oil recycled by Autocentres	950,957 (2012: 876,300) litres

Average Water Consumption per Unit (kWh)



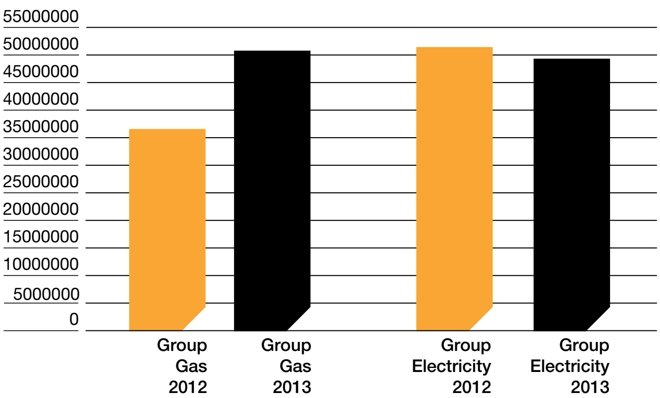
Energy and Reducing CO_2 Emissions

Average consumption of gas per autocentre	-4.6% (FY13: 60,744, FY12: 63,670kWh)
Average consumption of electricity per autocentre	-9.7% (FY13: 27,838, FY12: 30,834kWh)
Average consumption of gas per store	-39% (FY13: 50,520,744* FY12: 36,466,880kWh)
Average consumption of electricity per store	-3% (FY13: 49,381,659 FY12: 50,974,409kWh)

* The increase year on year was due to the prolonged winter period.

We continue to add energy management systems to our new properties and implement specific action plans around voltage reduction.

Total Energy Usage per Store and Autocentre (kWh)



Corporate Responsibility Report continued

Inspire Others — Community

Charity of the Year

Across our stores and autocentres, we partnered with Cancer Research UK for a two-year period, ending on 29 March 2013. Activities in the past year included the CycleSlam, colleague donation stations in all stores and autocentres, auctions and participation in their Dryathlon campaign.

Apprenticeships

We operate the largest independent Apprentice Scheme in the motor industry via our autocentres. In twenty years of operation, we offered employment to the majority of apprentices who completed the three-year scheme.

A dedicated Community & CSR Manager was appointed in January 2013 to look at how the Group engages with its local community and in so doing inspires others. In recent months, the following initiatives have been launched:

Re~Cycle

At the beginning of April 2013, Halfords began a long-term partnership with Re~Cycle, a UK charity that sends unwanted bikes to Africa. In some areas of Africa, a bike can be the only means of transport and owning a bike enables people to travel to work, school and carry goods and passengers, whilst small scale farmers and traders can reach customers further afield. The bikes can similarly be an invaluable resource for travelling health workers and provide access to training and employment, helping to improve lives in a sustainable way.

However, bikes can be too expensive for the majority and additionally the skills to maintain them might not exist, whereas millions of unused bikes go to waste in sheds and garages in the UK. Through our partnership, we plan to work with Re~Cycle to build on the fantastic work it has already achieved since 1997 to increase the number of bikes sent to Africa and also raise funds to help the charity grow.

BEN

In our Autocentres we agreed a long-term partnership with BEN, the dedicated charity for those who work, or have worked, in the automotive and related industries, as well as their dependants.

Kids Bikes Workshops

At the beginning of Easter, we began to offer a free Kids Holiday Bike Club for children to help create closer links with each store's local community. Run during the school holidays, the workshops show children – and their parents – the key things to check on a bike, providing a perfect starting point for children to go back home and, together with their parents, make sure their bikes are safe. Over Easter, nearly 2,500 children, plus their parents, attended a workshop.

“Free Kids Holiday Bike Club for children to help create closer links with each store’s local community.”

Bikeworks

Bikeworks & Halfords changing lives through cycling

Bikeworks began working in partnership with Halfords in the summer of 2012 with Halfords supporting Bikeworks’ “Cycle into Work” programme which gives individuals from disadvantaged backgrounds the opportunity to change their lives around and gain employment in the cycling industry.

Bikeworks conducts outreach work in the community where individuals undertake short “Build a Bike” courses learning the basics of bike maintenance. Participants then have the opportunity to apply to join the full “Cycle into Work” programme where trainees are put through a programme of accredited training in cycle mechanics and customer service alongside “soft” skills training in communication and interpersonal skills.

Towards the end of Cycle into Work trainees undertake work placements within Halfords stores which if successful can develop into permanent roles.

So far Halfords has helped Bikeworks to achieve these outcomes:

- 48 people have completed Build a Bike courses
- 20 individuals have gone through the Cycle into Work programme
- 9 graduates have so far secured employment at Halfords stores
- 18 trainees successfully completed work placements at Halfords stores.

On 6 March 2013, our new CEO Matt Davies attended a graduation ceremony at Bikeworks where successful graduates were presented with a tool kit worth £150 supplied by Halfords. The event was a great success. Taking away a quality tool kit meant a lot to individuals as recognition of their success and hard work.

Case study — Leo

“Leo is a young man from Hackney, East London. Before coming to Bikeworks Leo had not been involved in any training or employment for some time.

Leo progressed really well through Cycle into Work showing strong ability in cycle mechanics ultimately gaining level 2 City & Guilds accreditation with flying colours. During his time on Cycle into Work Leo also successfully completed a work placement at Halfords Stoke Newington and is now employed on a full-time basis at Halfords in Tottenham.

The work we have been doing with Halfords has been a fantastic partnership. Not only are we helping our trainees secure a better future but at the same time supporting Halfords’ desire to become famous for cycling by providing skilled mechanics to the business so it’s a win win situation.

We believe that by working together we can achieve much more over the next few years and are excited about the future of the partnership.”

Dave Miller — Managing Director (Bikeworks)

driving the top line

Read online:
halfords.annualreport2013.com/governance

Governance

halfords

Board of Directors

Dennis Millard
Chairman
n (Chair)
r

Matt Davies
Group Chief Executive
n

Dennis Millard

Chairman

Joined 28 May 2009

Additional Roles Held

Chairman of Smiths News plc and a Non-Executive Director and Senior Independent Director of Debenhams plc and Premier Farnell plc.

Past Roles

His former appointments include Group Finance Director of Cookson Group plc, Finance Director of Medeva plc, Non-Executive Director of Exel plc and a member of the Economic Affairs Committee of the CBI.

Brings to the Board

Dennis has a broad commercial and financial experience in the retail, service, distribution and manufacturing sectors in the UK and internationally. Dennis is a member of the South African Institute of Chartered Accountants and holds an MBA from the University of Cape Town.

Dennis is a keen cyclist and rides a *Boardman Road Team Carbon.* Last year he participated in the Dallaglio Flintoff Cycle Slam Ride 2012 from Olympia to London and the Deloitte Ride Across Britain. He is also an avid surfer and keen golfer.

Matt Davies

Group Chief Executive

Joined 4 October 2012

Additional Roles Held

Matt is a Non-Executive Director at the Dunelm Group plc.

Past Roles

Matt was Chief Executive of Pets At Home for eight years having originally joined as Finance Director in 2001.

Brings to the Board

Under Matt's leadership, Pets at Home developed into a market-leading UK retailer, offering an outstanding customer experience. The approach was to create a strong culture of work ethic and enjoyment amongst colleagues combined with a determination to provide exceptional customer service. Matt also has in-depth experience in corporate finance with Rothschild and Hawkpoint and extensive financial experience in the consumer-facing retail sector with both Caudwell Communications and as Finance Director of Pets at Home.

Matt rides a *Boardman Air Pro* and can often be found on a weekend cycling the lanes of the Lake District with his family and friends. His two dogs Archie and Bear form a big part of his life!

Andrew Findlay
Group Finance Director

Bill Ronald
Senior Independent Director
a
n
r

a Audit Committee
n Nomination Committee
r Remuneration Committee

Andrew Findlay
Group Finance Director
Joined 1 February 2011

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

Brings to the Board
A track record in retail and other competitive, consumer and business facing industries. Andrew has experience of: operational and commercial finance, refinancing and pension scheme funding; bid defence; non-merchandise procurement; shared services; financial accounting, tax and audit.

Andrew's first car was a Hillman Imp under which he spent many an hour fixing! He now rides a *Carrera TDF* at weekends when he gets the chance.

Bill Ronald
Senior Independent Director
Joined 17 May 2004

Additional Roles Held
Bill is currently Chairman of Dialight plc, Chairman of The Compleat Food Group, Chairman of Fever Tree and Chairman of the Muscular Dystrophy Campaign.

Past Roles
Bill spent 23 years in a variety of roles within the Mars Corporation ending up as Managing Director of the UK confectionery operation and Vice-President of Masterfoods Europe. More recently, Bill was also CEO of Uniq plc and a 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.

Bill rides a *Carrera Crossfire* but prefers skis in the winter.

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Board of Directors continued

Keith Harris
Independent Non-Executive Director
a
n
r (Chair)

David Adams
Independent Non-Executive Director
a (Chair)
n
r

Keith Harris

Independent Non-Executive Director

Joined 17 May 2004

Additional Roles Held

Keith is currently on the Boards of Cooper Gay (Holdings) Limited and Sellar Investments Limited.

Past Roles

Previously Keith was Executive Chairman of Seymour Pierce Limited following its acquisition from Investment Management Holdings plc, Chairman of the Football League, Chief Executive of HSBC Investment Bank plc and a Benfield plc board member.

Brings to the Board

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

David Adams

Independent Non-Executive Director

Joined 1 March 2011

Additional Roles Held

David is the Chairman of two privately held businesses — Musto Ltd and Park Cameras Ltd, a Non-Executive Director of the British Retail Consortium (Trading) Ltd , and a Director and Trustee of Walk The Walk, the breast cancer charity.

Past Roles

David was the Deputy Chief Executive and Finance Director of House of Fraser until its sale in 2006, and was Executive Chairman of Jessops plc then Non-Executive Chairman of Snap Equity Ltd (after Jessops was taken private) until early 2012. Previous Non-Executive roles include Chairman of Moss Bros plc and Alexon plc , and Non-Executive Director at Ottakars, Eidos, Whittard of Chelsea, JJB Sports and HMV.

Brings to the Board

He brings extensive and relevant experience from over 25 years in retail. David has been a plc Finance Director for 10 years and has had two other Audit Committee Chair roles in plc companies in the last three years.

David is a keen tennis player and golfer, and a fair weather cyclist!

Claudia Arney
Independent Non-Executive Director
a
n
r

Claudia Arney

Independent Non-Executive Director

Joined 25 January 2011

Additional Roles Held

Claudia is a Non-Executive Director of Telecity Group PLC, and of Which? She is Chair of the Public Data Group, and a member of the Advisory Boards of the Shareholder Executive, and of Huawei.

Past Roles

Claudia was the Group Managing Director, Digital at EMAP Inform until late 2010 where she led the development and execution of online publishing strategy as well as managing the public sector and media divisions. Prior to this she was Director of the Enterprise and Growth Unit at HM Treasury, which she joined from Goldman Sachs where she was an Executive Director. She has also worked at FT.Com, and Mckinsey, and was Managing Director of TheStreet.co.uk from 1998 to 2000.

Brings to the Board

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

Claudia and her family are keen campers and are regularly found out and about in their *Urban Escape Kurai* tent. Destinations have ranged from France to Scotland to their back garden, and all have been much enjoyed.

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Directors' Report

The Directors present their report and the audited financial statements of Halfords Group plc (the "Company") together with its subsidiary undertakings (the "Group") for the period ended 29 March 2013.

Halfords Group plc

Registered Number	04457314
Registered Office Address	Icknield Street Drive, Washford West, Redditch, Worcestershire, B98 0DE
Country of Incorporation	England and Wales
Type	Public Limited Company
Principal Activities	Whilst the Company is a holding company, the Group is a retailer of automotive, leisure and cycling products operating, as at 29 March 2013, from 466 retail stores (2012: 467); and offers Car Servicing and repair from 283 autocentres (2012: 260).

Summary of General Disclosures (incorporated into this Directors' Report)

The following information required to be disclosed in this Directors' Report has been provided by the Company:

Halfords Group plc
Annual Report & Accounts 2013
online version
www.halfords.annualreport2013.com

Profits and Dividends

The Group's results for the year are set out in the Consolidated Income Statement on page 104. The profit before tax on ordinary activities was £71.0m (2012: £94.1m) and the profit after tax amounted to £52.7m (2012: £68.4m). The Board proposes that a final dividend of 9.1 pence per ordinary share be paid on 2 August 2013 to shareholders whose names are on the register of members at the close of business on 5 July 2013. This payment, together with the interim dividend of 8 pence per ordinary share paid on 24 January 2013, makes a total for the year of 17.1 pence per ordinary share. The total final dividend payable to shareholders for the year is estimated to be £17.7m. Computershare Nominees (Channel Islands) 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 8 to 13 are appropriate measures for the delivery of the strategy of the Group via its Retail and Autocentres divisions.

Directors

The following persons were Directors of the Company during the period ended 29 March 2013 and unless otherwise stated at the date of this Annual Report:

Dennis Millard

David Wild (resigned 18 July 2012)

Matt Davies (appointed 4 October 2012)

Paul McClenaghan (resigned 12 April 2013)

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 29 March 2013 will offer themselves for re-election at the AGM on 30 July 2013[(1)]. Matt Davies, who was appointed on 4 October 2012, will stand for election at the AGM.

(1) As Paul McClenaghan resigned his directorship on 12 April 2013, he will not be offering himself for re-election.

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 101. 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 were considered and approved by the Board in accordance with the Company's Articles of Association and each Director informed of the authorisation and any terms on which it was given.

Directors' Indemnities

The Company maintains liability insurance for its Directors and officers. The Directors of the Company, and the Company's subsidiaries, have the benefit of a third-party indemnity provision, as defined by section 236 of the Companies Act 2006, in the Company's Articles of Association.

Auditor

At the 2012 AGM, KPMG Audit Plc was appointed as the Company's Auditor. KPMG Audit Plc has indicated its intention to notify the Company of its orderly wind down of business so that this statutory entity would cease to act as Auditor of the Company. A resolution proposing the appointment of KPMG LLP, an intermediate parent of KPMG Audit Plc, is expected to be contained in the Notice of the AGM and will be put to the shareholders at the meeting.

Disclosure of Information to the Auditor

So far as the Directors are aware, there is no relevant audit information of which the Auditor is unaware and the Directors have taken all reasonable steps to ascertain any relevant audit information and ensure the Auditor is aware of such information. The Directors are responsible for maintaining the integrity of financial information including this Annual Report, together with other financial statements, presentations and announcements on the Company's corporate website. Legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Report continued

The Group's strategic objectives are monitored by the Board through KPIs and the periodic review of various aspects of the Group's operations.

Going Concern

With effect from 5 November 2010 the Group secured a four-year £300m revolving credit facility (extendable by a further year) and at 29 March 2013 the Group had undrawn borrowing facilities of £197m (30 March 2012: £160m). 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.

Colleagues

The Group has established a framework of colleague communications, including a monthly colleague magazine, to provide colleagues with information on matters of concern to them and business performance, as well as to encourage the engagement of every colleague in the Board's commitment to high standards of customer care and service provision. This is reinforced via training initiatives across the business, details of which can be found on pages 29, 37 and 56, and the facilitation of colleague share ownership via a Sharesave Scheme.

The Group is dedicated to the principle of equal opportunity in employment. No potential or current 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.

A whistleblowing policy and procedure enables colleagues to report concerns on matters affecting the Group or their employment, without fear of recrimination. In addition, the Group takes a zero-tolerance approach to matters of discrimination, harassment and bullying in all aspects of its business operations, including in relation to gender, race, national origin, disability, age, religion or sexual orientation. Appropriate policies and procedures are in place for reporting and dealing with such matters.

Donations

During the year the Group contributed £50,000 (2012: £50,000) to charities in the UK, including donations to BEN, a charity supporting individuals and families linked to the motor industry and associated trades, and Cancer Research UK, its Charity Partner until the end of the financial year.

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 2012 Annual General Meeting ("AGM") that provided for limited authority for such expenditure, such authority remaining valid until the earlier of 29 September 2013 or the conclusion of the AGM to be held in 2013, and as such the Company will be asking for this limited authority to be renewed at the AGM to be held on 30 July 2013.

Supplier Payment Policy

The Group does not follow any formal code of practice on payment, agreeing terms and conditions for transactions when orders for goods or services are placed, and including relevant terms in contracts, as 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 as at 29 March 2013 for the Group was 57 days (2012: 59 days). The Company is a holding company and has no trade creditors.

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.

Share Capital

Details of the Company's share capital, including changes during the year in the issued share capital and details of the rights attaching to the Company's ordinary shares, are set out in Note 20 on page 134. All ordinary shares, including those acquired through Company share schemes and plans, rank equally with no special rights. All shareholders are entitled to attend and speak at the general meetings of the Company, appoint proxies, receive any dividends, exercise voting rights and transfer shares without restriction. There are no known arrangements which may restrict the transfer of shares or voting rights.

The Company has term and revolving credit facilities which require the Company in the event of a change of control to notify the facility agent and, if required by the majority lenders, these facilities may be cancelled. 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.

Rules relating to the appointment or removal of the Directors, and their powers, are contained within the Company's Articles of Association, which in accordance with legislation can only be changed with shareholder approval.

Major shareholders

At 29 March 2013, the Company's register of substantial shareholdings showed the following interests of 3% or more of the Company's issued ordinary shares:

Holder	Number of shares	% of issued shares
Norges Bank	6,036,869	3.03
Invesco Limited	9,036,967	4.53
Legal & General Group Plc	9,671,846	4.85
BlackRock, Inc	11,021,000	5.54

Authority to Purchase Shares

At the 2012 AGM, shareholders approved a special resolution authorising the Company to purchase a maximum of 19,906,322 shares, representing less than 10% of the Company's issued share capital at 19 June 2012, such authority expiring at the conclusion of the AGM to be held in 2013.

Annual General Meeting

The AGM will be held at the Crowne Plaza Birmingham NEC, Pendigo Way, National Exhibition Centre, Birmingham, B40 1PS on Tuesday 30 July 2013. 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
23 May 2013

Corporate Governance Report

Building the range of parts, accessories and clothing

Statement of Compliance with the UK Corporate Governance Code

For the period ended 29 March 2013 the Board considers that the Group has complied fully with the UK Corporate Governance Code 2010 except where Dennis Millard stood in as Interim Executive Chairman between 18 July 2012 and 21 November 2012 as described on page 74 and except with respect to the ongoing service of Keith Harris and Bill Ronald as described on page 75. 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.

"As a Board we are committed to continually reviewing and refreshing the Group's Corporate Governance framework. Examples throughout the year were the implementation of stronger Delegated Authority arrangements and the Group Treasury and Tax Strategy and policy documents."

Dennis Millard
Chairman

To allow for effective decision-making within the Group, the Board maintains a schedule of matters formally reserved for its decision, coupled with a schedule delegating other decisions to its Committees, Executive Directors and management. In summary:

Matters Reserved for the Board	Include: ■ **Authority** e.g. division of responsibilities and review of its own performance. ■ **Strategy and Management** e.g. approval of the annual operating and capital expenditure budgets and any material changes thereto. ■ **Structure and Capital** e.g. changes to structure or listing status. ■ **Investor Relations** ■ **Contracts** e.g. significant corporate transactions. ■ **Audit, Financial Reporting and Controls** e.g. reviewing the effectiveness of the Group's risk and control processes to support its strategy and objectives. ■ **Nominations to the Board** ■ **Executive Remuneration**	Available on our Corporate Website.
Board Committees	The terms of reference of each Committee establish its responsibilities; these are summarised on pages 78 to 81.	Available on our Corporate Website.
Executive Directors and Management	Day-to-day decisions are delegated to the Executive Directors and management via established procedures for approving decisions within business functions. Examples of decisions delegated in this way are approval of adverts, signature of day-to-day contracts, engaging of new suppliers, entering into tenders and promotional activity.	A formal delegated authorities document confirms how and by whom approval can be obtained and what evidence is required of such approval. This document has been reviewed during the year, and tighter controls have been put in place.

Leadership

The Role of the Board

Responsibility	Specific Actions		
Shareholders, customers, employees and other stakeholders.	Acting in the best interests of the Company to generate value for shareholders.	Monitoring material customer service issues including resultant activities, e.g. Which? report, Service Revolution.	Employee engagement survey, review of bonus scheme and whistleblowing process.
Risk management and accountability controls.	Consideration and approval of all regulatory and statutory announcements, including those pertaining to results and dividends.	Review of the risk management strategy and systems of internal controls.	Approval of corporate governance arrangements and policies, including Group Treasury and Tax Strategy and Policy documents, Health & Safety policy, and introduction of tighter delegated authority arrangements.
Long-term direction and strategy.	Two full days dedicated to strategy discussions.	Regular review of forecast versus actual financial performance.	Regular updates on the progress of key strategic initiatives.
Right resources to deliver.	Consideration of commercial initiatives such as logistics and business systems improvements.	Monitoring of colleague retention data.	Implementation of a regular colleague engagement survey and analysis of results.
Management performance.	Clear division of responsibilities between Chairman and Chief Executive available on our Corporate website.*	Regularly reviewing of standard agenda and special management reports.	Interlinking of management performance to non-financial, as well as financial, KPIs.
Values and standards.	CSR and Community programmes e.g. Bikeworks, Charity Partnerships, Kids Holiday Bike Clubs	More frequent visits by the Non-Executive Directors to stores, autocentres and the Support Centre.	Introduction of regular meetings between colleagues and senior management.

* From 18 July 2012 to 21 November 2012 Dennis Millard held the role of both Chairman and Chief Executive when he stood in as Interim Executive Chairman following David Wild's departure.

Corporate Governance Report continued

The Company has appropriate Directors' Liability Insurance in place.

The table below shows the composition of the Board and its Committees, and sets out the number of meetings attended by each individual throughout the period.

The Board†

Meeting Attendance (* indicates attendance by invitation)

Board Member	Role	Date of Appointment	Board	Audit Committee	Remuneration Committee	Nomination Committee
			Scheduled: 14	Scheduled: 3	Scheduled: 6	Scheduled: 3
Dennis Millard	Chairman and Chair of Nomination Committee	28 May 2009	14	3*	6	3
Matt Davies	Chief Executive (current)	4 October 2013	3	1*	2*	1
David Wild	Chief Executive (former)	4 August 2008	7	2*	2*	n/a
Andrew Findlay	Finance Director	1 February 2011	14	3*	n/a	n/a
Paul McClenaghan	Commercial Director (former)	31 March 2007	13	2*	n/a	n/a
Bill Ronald	Senior Independent Director	17 May 2004	14	3	6	3
David Adams	Non-Executive Director and Chair of Audit Committee	1 March 2011	13	3	6	3
Claudia Arney	Non-Executive Director	25 January 2011	14	3	6	3
Keith Harris	Non-Executive Director and Chair of Remuneration Committee	17 May 2004	14	3	6	3

† Includes David Wild who resigned on 18 July 2012, Matt Davies who was appointed on 4 October 2012 and Paul McClenaghan who resigned on 12 April 2013.

The Board recognises that it is preferable that the position of Chairman and Chief Executive are not held by the same individual and maintains a clear division of the responsibilities of these two roles. However, from 18 July 2012 to 21 November 2012 Dennis Millard acted as Interim Executive Chairman whilst the Company undertook a search for a new Chief Executive. It was felt that Dennis Millard was best placed to lead the Company during this brief period of four months due to his knowledge and experience of the Company. Following the presentation of the Group's interim results on 21 November 2012 the Company returned to the position of having a separate Chairman and Chief Executive in compliance with the UK Corporate Governance Code.

Non-Executive Directors

The Non-Executive Directors are responsible for providing independent challenge and rigour to deliberations by:

- contributing to strategy discussions;
- considering the reporting of performance by managers against agreed goals and objectives, and providing critique where necessary;
- ensuring the financial information, risk management and controls processes of the Group are appropriately vigorous;
- undertaking regular meetings with senior management and periodic visits to stores and autocentres;
- meeting together regularly without the Executive Directors present; and
- considering Executive Director remuneration and succession planning.

The Senior Independent Director, Bill Ronald:

- is available to act as an intermediary for the other Directors or a sounding board for the Chairman as required;
- leads meetings with the other Non-Executive Directors without the Chairman at least annually to appraise his performance; and
- can be contacted by shareholders if direct contact with the Chairman, Chief Executive or other Executive Directors has not alleviated their concerns, or if such contact would not be appropriate.

Concerns over any unresolved business can be recorded on behalf of a Director in the minutes of the relevant meeting. At the time of resignation, a Non-Executive Director is able to raise any concerns in a written letter to the Chairman who will bring such concerns to the attention of the Board.

Effectiveness

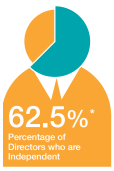
The Composition of the Board

The Directors possess an appropriate combination of skills, experience, independence and knowledge of the Company to collectively act in the best interests of the Company via the Board and its Committees, without responsibilities or decision-making being dominated by any one individual or small group. Each Director commits sufficient time and attention as is necessary to discharge their duties.

Skills*

* Includes David Wild who resigned on 18 July 2012, Matt Davies who was appointed on 4 October 2012 and Paul McClenaghan who resigned on 12 April 2013.

All the Non-Executive Directors are considered by the Board to be independent in character and judgement. As at 17 May 2013, both Keith Harris and Bill Ronald will have served as Non-Executive Directors of the Company for nine years. The Board acknowledges that under the UK Corporate Governance Code it should determine whether service of more than nine years from the date of first election of each individual affects their independence. The Board considers that both Keith Harris and Bill Ronald continue to be independent in character and judgement. Nevertheless a process has commenced to recruit two new Non-Executive Directors to replace both Bill Ronald and Keith Harris in the year ahead and thus both Keith Harris and Bill Ronald will offer themselves for re-election.

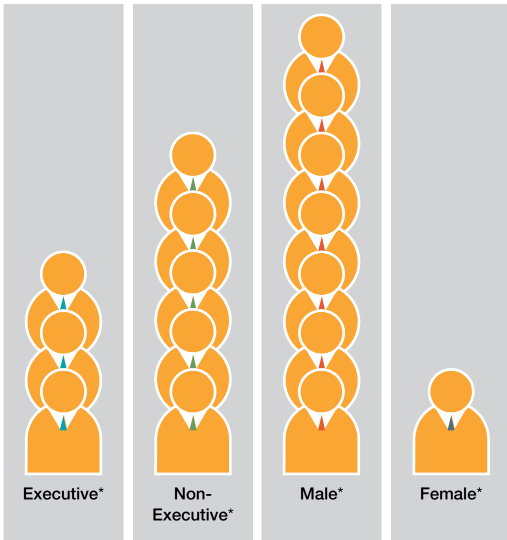


* Shows the percentage of Directors considered independent in character and judgement throughout the period.

Diversity

The Terms of Reference of the Nomination Committee state that potential candidates should be considered "on merit and against objective criteria, and with due regard for the benefits of diversity on the Board, including gender". The Board, which includes one female member, considers the background and experience brought to the Board by each individual to contribute to its diversity. In any recruitment, the Board prefers to select the best-qualified candidate to provide the Board with the support and expertise required to implement its long-term strategy, rather than to fulfil any fixed quota.

In recommending new appointments to the Board, the Nomination Committee considers the existing balance of skills, knowledge and experience on the Board, the capabilities of the nominees and the time they have available to commit to the Company when making recommendations to the Board.



* Shows situation as maintained throughout the period to 29 March 2013. On 12 April 2013, Paul McClenaghan resigned and so the Company now has two Executive Directors and six male members of the Board.

Appointments to the Board

During the period, Matt Davies was recruited as Chief Executive. Egon Zehnder International ("EZI") were engaged by the Company to conduct the search for suitable candidates and short-listed several candidates who met individually with members of the Board. Feedback from these one-to-one meetings was fed back to the Chairman. The Nomination Committee subsequently met to discuss the potential appointment and to recommend the appointment of Matt Davies to the Board, which met on 3 October 2012 to formally approve the appointment.

Experience*

* Includes David Wild who resigned on 18 July 2012, Matt Davies who was appointed on 4 October 2012 and Paul McClenaghan who resigned on 12 April 2013.

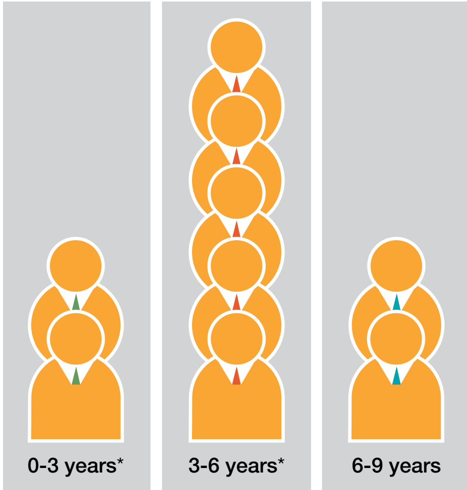
Development and Support

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. The Chairman, with the assistance of the Company Secretary, prepared a comprehensive induction programme for Matt Davies when he joined the Company. This included: extensive store and distribution centre visits and on-site discussions with store and distribution centre colleagues; one-to-one meetings with the senior management teams; and the provision of induction materials covering the operational and organisational structure of the business, as well as the strategic aims and key initiatives of the Company.

Ongoing resources available to the Directors to maintain and develop their knowledge are:

- membership of the Deloitte Academy, a training and guidance resource for boards and directors;
- a programme of head office and store visits through the period;
- regular reviews with the Chairman to identify any training and development needs;
- advice and the services of the Company Secretary on governance, relevant legislative changes affecting the business or their duties as directors; and
- access to independent professional advice at the Company's expense.

Knowledge of the Company*



* Includes David Wild who resigned on 18 July 2012, Matt Davies who was appointed on 4 October 2012 and Paul McClenaghan who resigned on 12 April 2013.

Evaluation

Egon Zehnder International ("EZI") conducted a Board Effectiveness Review (the "EZI report") during May 2012. The process comprised:

- circulation of a pre-discussion guide
- meetings of *c.*2 hours between EZI and each Board member and the Company Secretary
- review of the EZI report with the Chairman
- circulation of the EZI report to the Board
- discussion of the EZI report at the Board meeting in June 2012 with EZI consultants in attendance
- individual feedback to the Chairman from EZI and the Senior Independent Director
- individual feedback to the other Directors from the Chairman

The overall conclusion of EZI was that the levels of engagement and openness throughout the process were very high and EZI were encouraged that the Board were so keen to enhance Board effectiveness. The Board remains mindful of the conclusions of the EZI report and continues to look for ways to improve.

Re-election

In compliance with the Code and the Company's Articles of Association, all Directors on the Board as at 29 March 2013, except for Paul McClenaghan, will seek re-election at the Company's AGM. Matt Davies who was appointed to the Board on 4 October 2012 will offer himself for election at the AGM.

Board Committees

The Board discharges some of its responsibilities via Nomination, Audit and Remuneration Committees, and more detail about these follows this section. The Company Secretary also acts as the secretary to each Committee. Whilst not entitled to attend, other Directors, professional advisors and senior management attend when invited to. The Auditor attends certain Audit Committee meetings by invitation. No member is present at Nomination and Remuneration Committee discussions pertinent to them.

Senior members of the finance and treasury teams manage the day-to-day treasury needs of the Group via a Treasury Committee chaired by the Finance Director.

Final market announcements are approved prior to release via a Disclosure Committee made up of a minimum of two Directors.

Other ad hoc committees may be set up by the Board to consider specific issues.

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 101.

Nomination Committee

Chairman
Dennis Millard

"The Nomination Committee is encouraged to see the impact that Matt Davies' appointment, and those of other senior executives recently appointed, is having on colleagues and the generation of refreshing ideas within the business. Egon Zehnder International have worked well alongside the Nomination Committee throughout the year both in relation to Matt's appointment, and the external board evaluation."

Other Members	Meetings
Matt Davies	3
David Adams	
Keith Harris	
Bill Ronald	
Claudia Arney	

The Nomination Committee is chaired by Dennis Millard and, with the exception of Matt Davies (formerly David Wild), all members of the Committee are considered independent. 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 that as all Non-Executive Directors sit on the Committee, the Chairman of the Group should chair the Committee. Senior members of management and advisors are invited to attend meetings as appropriate.

Annual Activity

The Committee has responsibility for:

- considering the size, structure and composition of the Board of the Company;
- 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.

Standing Items	One-Off Considerations
July 2012	
Executive management succession plans	Update on CEO recruitment
Non-Executive Director succession plans	
Committee evaluation	
September 2012	
	Update on CEO recruitment and recommendation of the appointment of Matt Davies
March 2013	
Review size, structure and composition of the Board	
Terms of Reference	
Confirm Directors standing for re-election at AGM	
Approve Committee memberships	
Confirm Committee Chairman attendance at AGM	

Accountability

Audit Committee

Chairman
David Adams

"The Audit Committee is pleased to see that the Head of Internal Audit appointed during the period is commencing the process towards the annual audit plan for future years being completed by the in-house team. The Audit Committee will continue to monitor and review the effectiveness of the Group's internal control and risk management systems with the support of this new resource."

Other Members	Meetings
Keith Harris Bill Ronald Claudia Arney	3

All the members of the Audit Committee are independent Non-Executive Directors. Having been the Deputy Chief Executive and Finance Director of the House of Fraser Plc, David Adams is considered by the Board to have recent and relevant financial experience and so the requisite experience to chair the Committee. Each of the other independent Non-Executive Directors 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 two such meetings in the period ended 29 March 2013 and nothing of note was reported.

Annual Activity

The Audit Committee is responsible for:

- making recommendations to the Board on the appointment of the Auditor, including on independence, non-audit work undertaken (against a formal policy) and remuneration;
- reviewing the accounting principles, policies and practices adopted throughout the Period;
- assisting 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;
- ensuring that an effective system of internal financial and non-financial controls is maintained; and
- approving a formal whistleblowing 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, and includes arrangements to investigate and respond to any issues raised.

Standing Items	One-Off Considerations
May 2012	
Recommend the Preliminary Statement to the Board for approval	Update on compliance and strategic initiatives
Recommend to the Board approval of the Annual Report	Approval of the Non-audit Fee Policy
Review of External Auditor's Report	
Review Statement of External Auditor's Independence	
Review of Internal Auditor's Full-Year Report	
Group Whistleblowing Policy	
Committee Evaluation	
November 2012	
Recommend to the Board the approval of the Interim Statement	
Review of Internal Audit Half-Year Report	
External Auditor's Non-Audit Fees	
Terms of Reference	
January 2013	
Review and Recommendation of External Auditor's Fees	
Approval of External Auditor's Annual Programme	
Approval of Internal Auditor's Annual Strategy	

Corporate Governance Report continued

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 29 March 2013, 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 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.

During the period ended 29 March 2013, the Company engaged KPMG to support the internal audit process. KPMG do not perform a management role. An experienced in-house Head of Internal Audit and Risk was appointed in October 2012 and it is planned that following further recruitment, the annual audit plan for future years will be completed by an in-house team supplemented by specialist consultants as necessary.

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 which cover both the Retail and Autocentres businesses 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 senior Executives on the effectiveness of the identification of major risks and of the monitoring of internal controls within their areas of responsibility.

During the year, we reviewed our risk management system. Key elements now include:

- oversight by the Head of Internal Audit and Risk;
- regular meetings and workshops to identify and discuss key risks and mitigations with a broad sample of Group senior management and Executives;
- review of the corporate risk register in terms of completeness and accuracy with Executive team; and
- Audit Committee discussion of the latest corporate risk register and the risk management system with subsequent reports to the Board.

During the financial period to 29 March 2013 and up to the date of this report the risk management system 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 30 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 52 to 55.

Remuneration

Remuneration Committee

Chairman
Keith Harris

"The Committee has looked to ensure that our Remuneration Policy is appropriate not only to attract and retain a high-calibre CEO, but to incentivise all colleagues to deliver a sustainable business based on the Company's strategy, leading ultimately to an increase in shareholder value."

Other Members	Meetings
Dennis Millard	6
Bill Ronald	
David Adams	
Claudia Arney	

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.

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.
- Determining 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 including pension rights; any compensation payments; and the implementation of Executive incentive schemes. In accordance with the Committee's Terms of Reference, no individual 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 101. A resolution to approve the Directors' Remuneration Report will be proposed at the forthcoming AGM.

Relations with Shareholders

During the period ended 29 March 2013 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.

During the period under review the Chief Executive, Finance Director and 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 also brings 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 of communication during the year with all of the Company's shareholders. The Board recognises the importance of the Internet as a means of communicating widely, quickly and cost-effectively and a Corporate and Investor Relations website facilitates communication with shareholders. Information available online includes copies of the full and half-year financial statements, press releases, corporate governance information, the Terms of Reference for the Audit, Nomination and Remuneration Committees and the Matters Reserved for the Board. The Company's financial calendar and other shareholder information, which are also available online, are set out on page 147.

The Board welcomes the opportunity to meet with shareholders and to hear their views and answer their questions about the Group and its business at the Company's AGM which will be held on Tuesday, 30 July 2013 at the Crowne Plaza Birmingham NEC, Pendigo Way, National Exhibition Centre, Birmingham, B40 1PS. 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.

By order of the Board

Alex Henderson
Company Secretary
23 May 2013

Directors' Remuneration Report

Dear shareholder,

FY13 continued to be a challenging year for many retailers. At Halfords we responded to these challenges by announcing in April 2012 a revised strategy to deliver a sustainable business.

This, therefore, has been a year of embedding the processes, procedures and incentives across the business to deliver this new strategy.

During the year David Wild resigned, and following this resignation the Board recruited Matt Davies as the new CEO. He was appointed to the Board in October 2012.

In light of these changes, the Committee has looked to ensure that our Remuneration Policy is appropriate not only to attract and retain a high-calibre CEO, but to incentivise all colleagues to deliver a sustainable business based on the Company's strategy, leading ultimately to an increase in shareholder value.

The Committee has faced three major challenges during the year.

1. Recruitment arrangements for the new CEO

In attracting a new CEO the Committee looked not only at the annual package required to attract a high-calibre individual, but also at how to incentivise that individual against the need to develop a sustainable business and shareholder value, aligning his remuneration with these goals. More details about these arrangements can be found on pages 85 and 96 to 97. The Committee therefore decided it was appropriate, as part of his recruitment package, to make him a CEO Co-investment award.

On recruitment the new CEO invested £500,000 in Halfords shares. He was then awarded a maximum matching share award of 3.5 times his investment. These matching shares may vest over a period between three and five years from award based on achieving stretching share price performance targets. The Committee believes this plan was necessary to recruit this high-calibre individual and will incentivise him to generate significant value for shareholders.

2. Annual Bonus performance measures

As set out in the Remuneration Report last year, the Committee decided to include in 2012/13 bonuses an element based on the achievement of key strategic goals which the Committee ultimately believes will lead to the creation of shareholder value. The bonus is therefore based 75% on PBT and 25% on strategic goals. For 2013/14, the Committee determined that the strategic objectives would be linked to the delivery of the Company's strategy of delivering sustainable and profitable revenue growth through Helping and Inspiring our Customers with their Life on the Move and the delivery of the ***Getting Into Gear 2016*** programme.

3. Review of the performance measures for the Performance Share Plan ("PSP")

Our strategic focus for the medium-term is on putting in place the foundations to deliver a sustainable business, focusing on an authoritative range of products, colleague and service excellence, digital participation and helpful store environments with the ultimate goal of delivering profitable top line revenue growth and therefore creating shareholder value. As a consequence, during the year the Committee reviewed the performance measures used for the PSP. The Committee determined that Total Shareholder Return and Earnings per Share were no longer the most suitable mechanisms for measuring and incentivising the successful delivery of this strategy.

The Committee is currently consulting with shareholders regarding the most suitable performance conditions for use in aligning the Executives with the delivery of the Company's strategy, these proposed changes and final details will be provided in a Stock Exchange announcement, once finalised, and next year's Directors' Remuneration Report.

Remuneration received in respect of 2012/13

A salary review conducted during the year resulted in an increase of 1.8% in October 2012 for all colleagues except the Executive Directors.

The CEO earned a bonus of 37.5% of salary and the Executive Directors earned bonuses of 20% of salary. The Committee determined that this level of bonus was appropriate, reflecting strong performance against key strategic objectives during the year. PSP awards granted in 2010 will lapse in 2013 because the EPS and TSR targets were not met.

Remuneration reporting

In light of industry consultations in 2012 and the publication of draft BIS regulations, which will apply for Halfords for the 2013/14 year-end, the Committee has sought to introduce new disclosures into the Directors' Remuneration Report. We hope shareholders find these changes useful.

Priorities for 2013/14

The priorities for the Committee in the forthcoming year continue to be to ensure that the Company's policy is aligned with the strategy and long-term sustainable success of the business.

In summary the Committee has dealt with a number of changes over the last year both specific to the Company and in response to Government consultations and is committed to ensuring that the Company's remuneration arrangements are designed to drive sustained shareholder value and that the proper levels of transparency are maintained.

Yours faithfully

Keith Harris
Chairman of the Remuneration Committee
23 May 2013

Executive Remuneration Policy

The Remuneration Committee seeks to support the delivery of the Group's corporate strategy through establishing appropriate remuneration arrangements. Our goal is to build a strong long-term business by delivering ongoing sales growth and sustainable shareholder returns through the delivery of authoritative ranges of products, colleague and service excellence, digital participation and helpful store environments.

Consequently, the overall 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:

- *Attract and retain* – Enable the Group to attract and retain management of the right calibre with the necessary financial, retail, customer service, and digital skill sets required to deliver a sustainable business model and drive shareholder returns. Remuneration arrangements are set at levels which are appropriate to achieve this goal without paying more than is necessary. Benchmarking exercises are undertaken at appropriate intervals to inform the position of executives' pay relative to the market, and without seeking to "match the median" to identify and mitigate the risk of losing strong performers.
- *Variable pay linked to the delivery of the strategy* – Provide management with the opportunity to earn competitive remuneration through annual and long-term variable-based pay arrangements that are designed to support delivery against key strategic objectives. Performance measures are aligned with strategic goals so that remuneration arrangements are transparent to Executives, shareholders and other stakeholders. Different elements of executive pay are delivered over the short and longer terms and are designed to ensure that a substantial proportion of the Executives' remuneration is variable and performance-related.
- *Executives as shareholders* – Align management's interests with those of shareholders by incentivising management to deliver the Group's long-term strategy of a sustainable, growing business and thus enhance shareholder value. A significant portion of reward is delivered in shares to create alignment of interests.
- *Sustainable performance* – Remuneration arrangements are designed to support the sustainable delivery of performance and to prevent excessive risk taking.

The overall balance is illustrated on page 86.

Fixed Pay (26% – 100% of pay depending on performance)	**Performance Related Pay (0% – 74%% of pay depending on performance)**	
	Annual	**Long-term**
Base Pay	Annual Bonus – Based on delivery of financial and strategic objectives	Performance Share Plan – Awards vesting at the end of a 3-year performance period dependent on the delivery of performance conditions aligned to business strategy.
Benefits		Co-Investment Share Award – One-off award to CEO only. CEO was required to invest £500,000 into shares with the opportunity to earn matching shares based on meeting share price performance targets over years 3, 4 and 5 of a 5-year performance period.
Pension		

Key Elements of Remuneration Policy

	Purpose and link to strategy	Operation	Maximum Opportunity	Performance Measures	Changes in the Year
Base Salary	Base salary is set at an appropriate level to attract and retain management of the right calibre with the necessary financial, retail, customer service, and digital skill sets required to deliver a sustainable business model and drive shareholder returns.	Policy is to position salaries at around median levels, subject to experience and performance and without seeking to "match the median". Executive Directors and executive managers' remuneration is benchmarked at appropriate intervals compared to other companies of a similar size and complexity and compared to other UK listed retailers.	n/a	n/a	None
Annual Bonus	To incentivise executives to achieve annual earnings targets and performance against strategic goals. The CEO is further incentivised to manage risk and align his long-term interests with those of shareholders through deferral into shares.	Targets set annually to ensure they are appropriately stretching for the delivery of threshold, target and maximum performance. For the CEO, two-thirds of the bonus is paid in cash with one-third deferred in shares for three years. For the Finance Director, the bonus is paid in cash. Bonuses are non-pensionable.	CEO: Maximum award 150% of base salary. Finance Director: Maximum award 100% of base salary.	On appointment, the Committee agreed that the CEO should participate in an annual bonus for his period from appointment on 4 October 2012 to the end of the financial year, 29 March 2013. His maximum bonus opportunity for this period was set at 50% of this normal maximum (i.e. 75% of his full year base salary), with two-thirds paid in cash and one-third deferred into shares for a period of three years. 50% of the bonus was based on PBT performance and 50% was based on the delivery of key personal performance objectives. 75% of the bonus is based on the achievement of PBT targets. 25% of the bonus is based on the achievement of strategic project goals. PBT targets range from 92% of budget, where payment is zero to 106% of budget for maximum payment. In determining whether any bonus are payable the Committee 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.	All Executive Directors will be measured against PBT and the Strategic project goals which are determined each year by the Committee to ensure continued focus on the Company's ongoing strategy. The Committee has selected new project goals for 2013/14 which are aligned with our strategy of building a sustainable business.

	Purpose and link to strategy	Operation	Maximum Opportunity	Performance Measures	Changes in the Year
Benefits	Attract and retain management of the calibre required to execute the Company's strategy.	Base salary for executives is supplemented with a car plus fuel or cash allowance, private health insurance and life assurance.	n/a	n/a	None
Pensions	Enable the Company to offer market competitive remuneration through the provision of additional retirement benefits.	Defined contribution funding to the Halfords Pension Plan or payments into a personal fund.	CEO: 20% of base salary. FD: 15% of base salary.	n/a	None
Performance Share Plans	To attract and retain executives of the right calibre, whilst aligning their interests with those of our shareholders by incentivising them to deliver against the three-year Company Strategy that seeks to create a sustainable business and maximise returns to shareholders.	Annual awards of shares and vesting over a three-year performance period	Maximum core award 150% of base salary. Performance multiplier of 1.5x core award for exceptional performance.	The Committee is currently consulting with shareholders regarding proposed new measures and will provide final details a Stock Exchange announcement when finalised and in the DRR next year.	During the year the Committee considered the performance measures used for the PSP and is proposing to change the measures to create better alignment with our three-year strategic priorities.
CEO Co-Investment Award	To recruit and retain a high-calibre CEO, whilst aligning his interests with those of our shareholders and rewarding growth in share price.	The CEO was required to invest £500,000 in Halfords shares to participate in this plan. The CEO can receive an award of matching shares that vest over a period of between three and five years.	The maximum number of matching shares is 3.5x the number of investment shares acquired.	Share price performance targets set in years 3, 4 and 5.	Introduced during the year as a one-off incentive on the appointment of the new CEO.
Director Shareholding Guidelines	To align Directors' interests with those of our shareholders and to incentivise the delivery of the corporate strategy, thus creating value for all shareholders.	Executive Directors are required to acquire and retain shares with a value equal to 100% of their annual base salary. Executive Directors have a five-year period to build this shareholding following their appointment.	n/a	n/a	None

Remuneration Policy for New Hires

When hiring a new Executive Director, the Committee will seek to align the remuneration package with the above policy. However, to ensure that the right calibre of individual is appointed to the Board the Committee retains discretion to make remuneration proposals that are outside this standard policy where it considers it is necessary to do so. In determining the appropriate arrangements the Committee may look to benchmark the role and remuneration against its peer group and may also take into account other relevant factors such as the remuneration levels of other Executive Directors and the type of remuneration being offered.

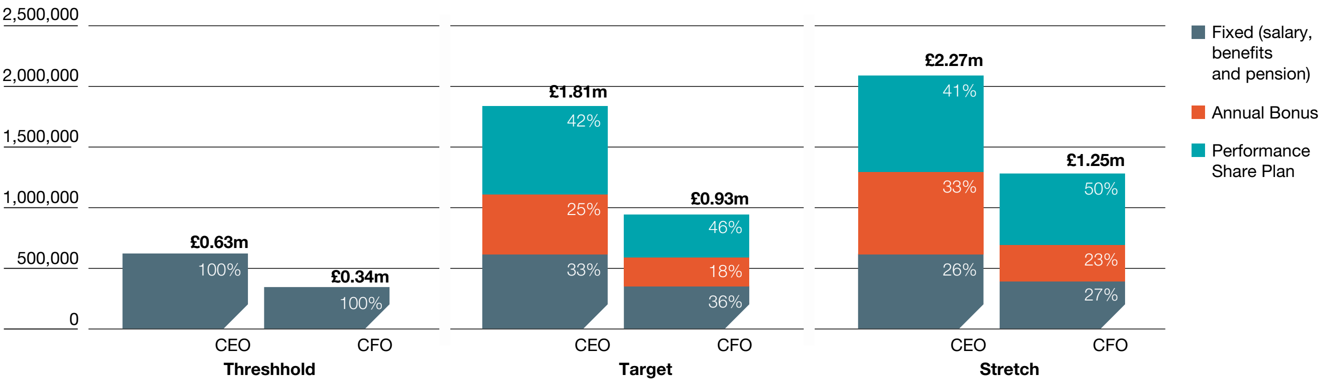
The Committee may also make arrangements to compensate the new Executive for 'loss' of existing remuneration benefits when leaving a previous employer. In doing so the Committee may take account of the form in which they were granted, the relevant performance conditions and the length of the time that the performance periods have to run.

Remuneration Arrangements in Different Performance Scenarios

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 charts below illustrate remuneration arrangements in different performance scenarios. The assumptions for each scenario are outlined below:

Threshold performance	■ Fixed pay (base salary, benefits and pension) only
On-target performance	■ Fixed pay ■ 90% of salary annual bonus payout for CEO, 60% of salary annual bonus payout for Finance Director ■ 100% of salary payout under the Performance Share Plan ■ CEO only – Award annualised by one-third to take account of one-off nature of award, 30% of matching share award vests
Stretch target performance	■ Fixed pay ■ 150% of salary annual bonus payout for CEO, 100% of salary annual bonus payout for Finance Director ■ 225% of salary payout under the Performance Share Plan ■ CEO only – Award annualised by one-third to take account of one-off nature of award, 100% of matching share award vests



Executive director	Base salary	Benefits	Pension	Total fixed remuneration
Matt Davies (CEO)	£500,000	£28,636	£100,000	£628,636
Andrew Findlay (CFO)	£280,500	£16,335	£41,250	£338,085

Share Arrangements in Place

The Company had adopted three share plans: The Halfords Sharesave Scheme; the Halfords Company Share Option Scheme ("CSOS"), a market value share option plan; and the Halfords Performance Share Plan ("PSP").

In 2012 the Company also made the new CEO a one-off Co-Investment Share Award. This was made under Listing Rule 9.4.2, where the long-term incentive scheme arrangements are for an "individual whose appointment as a director is being contemplated and the arrangement is established specifically to facilitate, in unusual circumstances the recruitment and retention of the relevant individual". It is currently not intended that further Co-Investment Share Awards will be made.

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 3.34%.

Plan	Date of Adoption	Eligibility	More Information
Halfords Sharesave Scheme ("SAYE")	May 2004	An all-employee SAYE scheme in which all Executive Directors are eligible to participate.	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.
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 Performance Share Plan ("PSP")	July 2005	The PSP is intended to be the main incentive vehicle for Executive Directors and senior executives immediately below the Board, with awards generally made on an annual basis.	Awards granted under the plan are subject to performance conditions and vest over a three year period.
CEO Co-Investment Award	January 2013	Chief Executive only	A one-off award made under Listing Rule 9.4.2 on the appointment of a new CEO in October 2012. The CEO invested £500,000 into Halfords shares and received a maximum matching award of 3.5 shares for each invested share. Matching shares may vest subject to achieving share price performance targets over a period between three and five years.

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. The Company is aware that companies are encouraged to consider notice periods of less than 12 months, and in contracting with the new CEO it was agreed that a notice period of six months was appropriate. The notice periods of the other Executive Directors remain limited to 12 months. The Committee will continue to review this policy, to ensure that it is more in line with the Company's overall remuneration policy.

	Date of Service Agreement	Notice Period
Matthew Davies	4 October 2012	6 months
Andrew Findlay[1]	16 November 2010	12 months
Paul McClenaghan[2]	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.
(2) Paul McClenaghan resigned on 12 April 2013.

Early Termination of contract

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 in accordance with the appropriate notice periods. 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 (six months for the CEO) of the Executive Director's then salary, benefits and pension contributions, which he would have received during the contractual notice period, the sum of which shall be payable in 12 monthly instalments (six for the CEO). In respect of any bonus entitlement earned during a financial period prior to termination of employment this will be calculated by the Remuneration Committee, if the Director is deemed by the Committee to be a Good Leaver, on a pro rata basis by reference to their period of service in the financial period in which their employment is terminated. If the Director's employment is terminated in circumstances that the Committee reasonably believes that they cannot be designated a Good Leaver the Director shall forfeit any entitlement to a bonus payment.

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, 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. In Good Leaver circumstances the Executive Director might be offered a lump sum termination payment paid at the time they cease employment which in all cases will be less than he would receive if he were to be paid his annual salary over 12 months (six months for the CEO).

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.

Loss of Office Payments

The Company's policy towards exit payments is that under no circumstances will they exceed the contractual obligations afforded to the Executive Director and contained within their contract of employment. There are a number of ways in which an Executive Director can leave the business and each circumstance is dealt with differently in respect of how exit payments are calculated.

Share plans – leaver treatment

The treatment of outstanding share awards in the event that an Executive Director leaves is governed by the relevant share plan rules. The following table summarises leaver provisions under the executive share plans. In specific circumstances the Committee may exercise its discretion to modify the policy outlined if the rules of the share plan allow such discretion.

	'Good leavers' as determined by the Committee	**Leavers in other circumstances (other than gross misconduct)**
Halfords Company Share Option Scheme	The Committee may determine that awards should vest at the time of leaving taking into account performance. The exercising of any such vest must take place within 6 months of the leaving date. 6 months from leaving to exercise options.	Awards normally lapse on leaving unless the Committee determines otherwise. 6 months from the date of leaving to exercise vested but unexercised options.
Halfords Performance Share Plan	Awards may vest at the end of the performance period, generally taking into account time in employment and performance. Alternatively the Committee may determine that awards should vest at the time of leaving, generally taking into account time in employment and performance. 12 months from vesting to exercise options if awards structured as nil-cost options.	Awards normally lapse on leaving. 12 months to exercise vested but unexercised options (if applicable) unless the Committee determines otherwise.
CEO Co-Investment Award	The Committee may determine that matching shares may vest at the normal vesting date or at the time of leaving based on performance taking into account time in employment. 12 months from vesting to exercise matching shares.	Unvested Matching Shares normally lapse on leaving. 12 months to exercise any Matching Shares that have vested at cessation of employment.

The leavers treatment under the Halfords Sharesave Scheme is determined in accordance with HMRC provisions.

In the event of gross misconduct all outstanding share awards would generally be forfeited.

Non-Executive Directors' Remuneration Policy

The fees of Non-Executive Directors shall be reviewed every two years to ensure that they are in line with market norms so that the Company can attract and retain individuals of the appropriate calibre and any changes to said fees will be approved by the Board as a whole following a recommendation from the Chief Executive.

Current fees for Non-Executive Directors are as follows:

Chairman	£165,000
Base fee	£45,000
Additional fees	
Senior Independent Directors	£15,000
Committee Chairman (Audit and Remuneration)	£5,000

None of the Non-Executive Directors has an employment contract with the Company. However, each has entered into a letter of appointment with the Company confirming their appointment for a period of three years, unless terminated by either party giving the other not less than three months' notice or by the Company on payment of fees in lieu of notice.

The appointment period for each Non-Executive Director is set out below:

Director	Date of Appointment	Date of Current Appointment	Date of resignation	Expiry Date	Unexpired term at the date of this Report
Dennis Millard	28 May 2009	29 May 2012	–	29 May 2015	24 months
Bill Ronald	17 May 2004	2 August 2011	–	26 July 2013	2 months
David Adams	1 March 2011	2 August 2011	–	28 February 2014	9 months
Claudia Arney	25 January 2011	2 August 2011	–	24 January 2014	8 months
Keith Harris	17 May 2004	2 August 2011	–	26 July 2013	2 months

Their 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 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.

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.

Outside Appointments

Halfords recognises that its Executive Directors may be invited to become Non-Executive Directors of other companies. Such non-executive duties can broaden experience and knowledge which can benefit Halfords. Subject to approval by the Board, Executive Directors are allowed to accept non-executive appointments and retain the fees received, provided that these appointments are not likely to lead to conflicts of interest. David Wild is a Non-Executive of Premier Foods plc and between 31 March 2012 and 19 July 2012 received fees of £17,161 and Matt Davies is a Non-Executive Director of Dunelm Group plc and between 4 October 2012 and 29 March 2012 received fees of £15,000.

Remuneration Arrangements elsewhere in the Group

The remuneration policy for executive managers in the Group is similar to the policy for Executive Directors as set out in this report — a substantial proportion of remuneration is performance related in order to encourage and reward superior business performance and shareholder returns and remuneration is linked to both individual and Company performance. Basic salary is targeted at normal commercial rates for comparable roles and is benchmarked at appropriate intervals. 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.

Increases to Executive managers' base salaries are considered at the same time as all other colleagues across the Group and other than benchmarking increases to ensure that the Group is attracting and retaining the right calibre of executive, increases are in line with all colleagues. Increases have been as follows — October 2012: 1.8% (Executive Directors: £Nil), April 2012: 2% (Executive Directors: 2%).

All of the Group's *c.*12,000 colleagues are eligible to join the Halfords Sharesave Plan (SAYE) after they have served one complete month's service. At the same time they are all eligible for some form of quarterly or full year bonus, although the type, limits and performance conditions vary according to job level. Senior managers and other key management individuals are invited to join the Company Share Option Scheme.

In 2012/13 all newly appointed colleagues and other existing colleagues who had experienced a 'joining-trigger' event were eligible to join the Halfords Pension Plan 2009. All members of the Pension Plan are required to make a minimum contribution of 3% and the Company also contributes a minimum of 3%, dependent on length of service and seniority. The Company has also made plans to auto enrol all other colleagues as appropriate.

Dialogue with Shareholders

The views of our shareholders are very important to the Committee and it is our policy to consult with our largest shareholders in advance of making any material changes to the executive remuneration arrangements. The Committee is currently consulting with major shareholders regarding the proposed changes to the PSP performance conditions.

How the remuneration policy will be implemented for 2013/14

Base salary

Base salaries were last reviewed with effect from 1 October 2012 when no increases were awarded to Executive Directors. Current salaries are as follows:

CEO	£500,000
Finance Director	£280,500

In reviewing Executive Directors' responsibilities the Committee determined that the Group's Finance Director, Andrew Findlay, had assumed Board responsibility for a number of areas of the business, most importantly that of IT. This was considered by the Board to be a vital role in the delivery of the Company's ***Getting Into Gear 2016*** programme and as such the Committee considered it appropriate that Andrew receive an increased salary from 1 October 2013 of £325,000.

Annual bonus

The annual bonus opportunity for 2013/14 will remain unchanged as follows:

CEO	■ Maximum opportunity of 150% of base salary ■ two-thirds paid in cash ■ one-third paid in Halfords shares deferred for three years
Finance Director	■ Maximum opportunity of 100% of base salary ■ Paid in cash

The annual bonus for 2013/14 will continue to be based 75% on Profit Before Tax ("PBT") performance and 25% based on performance against strategic objectives. PBT targets range from 92% of budget, where payment is zero, to 106% of budget for maximum payment.

The Committee reviews the goals included in the strategic objectives portion of the bonus to ensure that remains appropriate. For 2013/14 the Committee determined that the strategic objectives should be linked to the delivery of the Company's long-term strategic goal is to deliver growth in top line revenues. The Executive Team have considered the ***Getting Into Gear 2016*** programme discussed on pages 29 to 32 and 34 to 35 and have identified measures that will determine the successful delivery of each initiative and these also represent the strategic non-financial KPIs that will form part of the Executive Team's 2013/14 annual bonus plan.

Strategy	Execution Priority	Measure
Top Line Revenue Growth	Service Revolution	Net promoter score – an industry-wide measure of customer service. Colleague engagement – a core measure of levels of commitment and advocacy amongst Halfords employees.
	The H Factor	Value added sales – a combination of our fitting, accessory and attachment sales growth.
	Stores Fit to Shop	Delivering an effective economic model for retail stores through the 50:39 project.
	21st Century Infrastructure	Value added Sales.
	Click with the Digital Future	Value added Sales.

In determining whether any bonuses are payable the Committee 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.

Performance Share Plan

The market environment continues to be challenging for retailers. Our strategic focus is on putting in place the foundations to deliver a sustainable business in the future, focusing on an authoritative range of products, colleague and service excellence, digital participation and helpful store environments with the ultimate goal of delivering profitable top line revenue growth and therefore creating shareholder value. As a consequence during the year the Committee reviewed the performance measures used for the PSP and determined that Total Shareholder Return and Earnings Per Share were no longer the most suitable mechanisms for measuring and incentivising the successful delivery of this strategy.

Core awards made under the PSP will continue to be 150% of base salary with the opportunity to earn up to 1.5x this level if exceptional performance is achieved.

The Committee is currently consulting with shareholders regarding these proposed changes and details will be provided in a Stock Exchange announcement when finalised and in next year's report.

How the remuneration policy was implemented in 2012/13

Single remuneration figure for 2012/13

	Base Salary	Bonus (due in respect of FY13)[2]	Benefits	Pension	PSP (due in respect of performance period ended FY13)[1]	**Single Figure 2013**	Single Figure 2012
David Wild (resigned 19 July 2012)	150,981	—	24,256	22,647	—	**197,884**	617,000
Matt Davies (appointed 4 October 2012)	246,795	187,500	14,318	50,000	—	**498,613**	—
Andrew Findlay	280,500	56,100	16,335	41,250	—	**394,185**	339,000
Paul McClenaghan (left on 12 April 2013)	290,700	58,140	17,338	57,413	—	**423,591**	350,000
Totals	968,976	301,740	72,247	171,310	—	**1,514,273**	1,306,000

(1) Shares were awarded in August 2010 in respect of the Halfords Share Performance Plan for the performance period April 2010 to March 2013 (see page 100). In May 2013 the performance conditions for these shares were measured. The Remuneration Committee deemed that none of these conditions had been reached and that all shares award under the 2010 scheme would lapse. The measurement of the performance conditions for the 2010–2013 scheme is given on pages 95 to 96.

(2) Calculation of the Bonus payable in respect of the period ended 29 March 2013 is given on page 94.

Calculation of FY12 Single figure comparative

	Base Salary	Bonus (due in respect of FY12)	Benefits	Pension	PSP (due in respect of performance period ended FY12)[3]	Single Figure 2012 [4]
David Wild	513,000	—	27,000	77,000	—	617,000
Matt Davies (appointed 4 October 2012)	—	—	—	—	—	—
Andrew Findlay	278,000	—	13,000	48,000	—	339,000
Paul McClenaghan	277,000	—	16,000	57,000	—	350,000
Totals	1,068,000	—	56,000	182,000	—	1,306,000

(3) Shares were awarded in August 2009 in respect of the Halfords Share Performance Plan for the performance period April 2009 to March 2012 (see page 100). In August 2012 the performance conditions for these shares was measured. The Remuneration Committee deemed that none of these conditions had been reached and that all shares award under the 2009 scheme would lapse.

(4) All 2012 figures have been rounded to the nearest thousand as per the Annual Report & Accounts 2012.

Directors’ Remuneration Report continued

Salary and Benefits

The last Group-wide salary review was undertaken in October 2011 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. Salary increases not exceeding 2% were made to all Group colleagues, including some Executive Directors in April 2012 following no increases in the previous 12 months. In October 2012 the Group reverted to the normal review timing and further increases of 1.8% were made to Group colleagues; however, Executive Directors were excluded from this round of increases.

Annual Bonus for 2012/13

Annual Bonus for 2012/13 for the Finance Director and Commercial Directors was based 75% on Group PBT and 25% on key strategic projects. These key projects included delivering an increase in the Company’s Fitting proposition; increasing the range of parts, accessories and clothing on offer in the Company’s Cycling category; the development of new store formats; driving the Autocentres business; and improving both Colleague and Customer engagement with the Halfords brand.

Annual Bonuses reported in the above table and payable in May 2013 for the financial period ended 29 March 2013 were calculated as follows.

		Performance				
Measure	Bonus Opportunity (% of salary)	Below Threshold	Threshold	Target	Stretch	Bonus awarded (% of salary)
PBT	75%	0%	92%	100%	106%	PBT for the year of £72.0m during the year was below the level required for threshold levels of performance and therefore 0% is payable in relation to this proportion.
Strategic Projects	25%	0%	n/a	25%	n/a	20%
The Remuneration Committee have discretion to judge whether they believe that each of these projects has been attained and to the extent that they believe they have been achieved. In deliberating on each KPI the Committee concluded that the following percentage achievements had been realised:						
— Fitting proposition;	Increase in Revenues from Fitting by 36%.			100%	—	
— Cycling parts, accessories and clothing;	15,000 SKU’s ready for launch in June 2013.			50%	—	
— Development of new store formats;	Development of laboratory stores. Review and learnings for FY14 50:39 Project.			50%	—	
— Driving the Autocentres business;	Integration of Halfords Autocentres into Group Support Centre and opening of 23 new centres.			100%	—	20%
— and improving both Colleague and Customer engagement with the Halfords brand.	Colleague Engagement score increased from 64% in 2012 to 77% in April 2013.			100%	—	

On appointment, the Committee agreed that the CEO should participate in an annual bonus for his period from appointment on 4 October 2012 to the end of the financial year, 29 March 2013. His maximum bonus opportunity for this period was set at 50% of this normal maximum (i.e. 75% of his full year base salary), with two-thirds paid in cash and one-third deferred into shares for a period of three years. Fifty per cent of the bonus was based on PBT performance and 50% was based on the delivery of key personal performance objectives which were considered by the Committee to be key objectives for the initial period of his tenure. These included reviewing and formulating a new strategy, undertaking a review of the executive committee organisational capability and improving employee engagement.

The Committee reviewed the achievement of the new CEO’s bonus targets and concluded that he had met all of the personal performance objectives set on his appointment in October 2012. The key objectives included: a review of the business and the formulation of a new strategy; a review of the organisational capability of the business; the creation of a new executive management team; and, a positive movement in the Colleague Engagement score (which increased from 64% to 77%). Although the Group achieved profits in line with the guidance that was indicated to the market after the new CEO’s appointment, it was considered by the Committee that, given the profit performance of the Group relative to original budget and initial market guidance, no award for the profit element of his bonus be made. Thus 50% of the available pro rata bonus was payable, of which one-third would be deferred into shares.

The Committee reviewed the annual bonus payout in the context of the performance of the underlying business during the year and the delivery against strategy and determined that the level of bonus paid was appropriate in this context.

Benefits

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

Pension

Pension payments represent contributions made either to defined contribution pension schemes or personal funds, the purpose of which is to provide additional benefits, made by the Group during the period to 29 March 2013 in respect of qualifying services of the Executive Directors. Paul McClenaghan sacrificed some of his salary for like-for-like contributions to the Halfords Pension Plan.

Performance share plan

2010 awards based on performance between 27 March 2010 and 29 March 2013

Awards granted in 2010 were subject to the following performance conditions:

		TSR Performance Element (50% of award)	**EPS Performance Element (50% of award)**
Award "Multiplier" (up to 1.5 x initial award) i.e. 225% of salary.	1.5 x initial award vesting	Upper Decile performance	16% growth p.a. above RPI
	Straight-line vesting	Between Upper Quartile and Upper Decile performance	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 performance	Between 4% growth p.a. and 11% growth p.a. above RPI
	30% Vesting	Median performance	4% growth p.a. above RPI
	0% Vesting	Below Median performance	Below 4% growth p.a. above RPI

TSR and EPS performance is assessed on an independent basis. However, to ensure that the PSP continued to support sustainable performance, the multiplier for one measure is only applied if performance is at least at the threshold level for the other measure. The companies included in the TSR comparator group for awards granted in 2010 are as follows:

Brown Group; Carpetright; Carphone Warehouse; Debenhams; Dignity; Dixons Retail plc (formerly DSG International); Dunelm Group; Game Group (de-listed on 3 April 2012); Greggs; Home Retail Group; JD Sports Fashion plc; Darty (formerly Kesa Electricals); Kingfisher International; Marks & Spencer Group; Morrison (WM); Mothercare; Next; Sainsbury (J); Sports Direct; Tesco; WH Smith.

Based on TSR performance between 27 March 2010 and 29 March 2013, Halfords was ranked 16th against the comparator group and therefore no portion of the TSR element of the award will vest. EPS growth between FY10 and FY13 was below that of RPI over the same period and therefore no portion of the EPS element of the award will vest. The 2010 PSP award will therefore lapse in full in August 2013.

Outstanding PSP awards

PSP awards granted in 2011 and 2012 are subject to the same performance conditions as those outlined above for the 2010 PSP award. The companies included in the TSR comparator group are based on the FTSE 350 general retail and food retail companies on the date of grant.

CEO Co-Investment Award

On appointment the Company made the CEO a Co-Investment Award, the details of which are set out in the Stock Exchange announcement issued on his appointment. This Award is designed to recruit and retain an executive of calibre required to run the business and to incentivise the CEO to deliver exceptional shareholder value creation through the achievement of share price performance targets.

This plan was adopted for the sole purpose of making a one-off award to the Group's new CEO and was adopted under Listing Rule 9.4.2 where the long-term incentive scheme arrangements are for an "individual whose appointment as a director is being contemplated and the arrangement is established specifically to facilitate, in unusual circumstances, the recruitment and retention of the relevant individual". It is currently intended that no further awards either to the Group's CEO or other executives will be made under this plan.

Under the Plan the CEO invested £500,000 into Halfords shares, acquiring 164,056 shares at 302.22p per share. The CEO was then awarded a maximum matching award of 3.5× the number of invested shares (574,196 shares). Subject to continued employment these shares may vest up to a third in November 2015, up to two-thirds in November 2016 and in full in November 2017, depending on the following Threshold (30% vesting) and Maximum (100% vesting) share price performance targets of Halfords:

November	Threshold	Maximum
2015	350p	400p
2016	385p	440p
2017	425p	485p

Share Price performance will be assessed using the average mid-market closing share price for the 30 days following the announcement of the Interim results for the relevant year (normally November). At each relevant vesting date the CEO may decide to either exercise any portion of the award that has vested based on performance at that time (in which case any unvested shares in that tranche in respect of which the share price target has not been met will lapse) or roll forward that tranche in full to be subject to performance testing at the next vesting date. In the latter case ("roll-forward") the Participant will forfeit the right to exercise any awards that had become capable of vesting at the earlier vesting date.

Matching shares were granted in the form of nil cost options. Vested options can be exercised until the 10th anniversary of the date of grant. Matching shares may accrue additional shares related to dividends.

Prior to vesting the Committee will satisfy themselves that the achievement of the Share Price Target is a genuine reflection of the Company's underlying financial performance and may adjust the level of vesting accordingly. The Committee may determine that Matching Shares can be scaled back before exercise for circumstances such as material misstatement, the individual being responsible for serious reputational damage to the Company, or in circumstances where the Company suffers serious losses.

The Committee believes that the design of the plan is appropriate and necessary to recruit an individual of the CEO's calibre and that the structure will incentivise him to drive exceptional business performance.

Shareholding guidelines

The Committee believes that it is important that Executive Directors are also long-term shareholders in the business because as such Executives are incentivised to deliver the corporate strategy, thus creating value for all shareholders.

	Matt Davies	Andrew Findlay	Paul McClenaghan
Shareholding Guidelines (% of base salary)	100%	100%	100%
Current Shareholding	164,056	4,900	100,000
Current Value (based on share price on 29 March 2013)	£510,706	£15,254	£311,300
Current % of Salary	102%	5%	107.1%
Date by which guideline should be complied with	4 October 2017	1 February 2016	– Paul left on 12 April 2013

These figures include those of their spouse or civil partner and infant children, or stepchildren, as required by Section 822 of the Companies Act 2006. There was no change in theses beneficial interests between the 29 March 2013 and 23 May 2013.

Loss of Office Payments

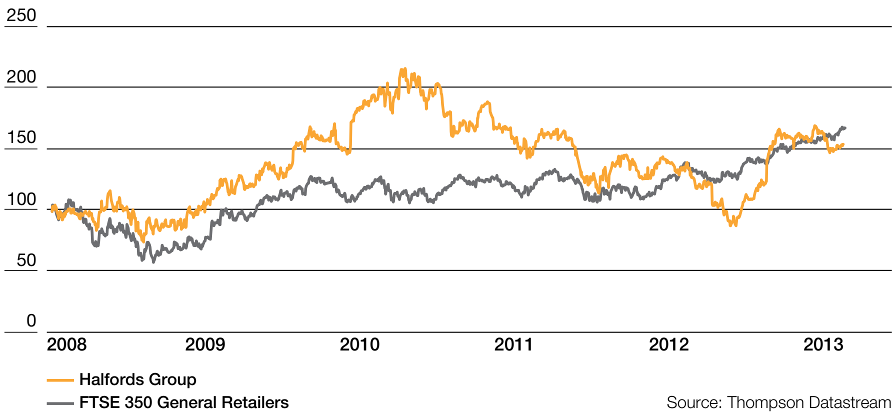
David Wild resigned from the business on 19 July 2012 and was paid his contractual obligations, the details of which were set out in the Stock Exchange announcement issued at the date of his resignation. Mr Wild shall receive a total of payment of £645,399 comprising salary and benefits for his notice period. This is being made in 12 equal instalments and Mr Wild has a duty to mitigate by making reasonable efforts to obtain suitable alternative employment. Paul McClenaghan who left the business on 12 April 2013 was treated as a Good Leaver and allowed to retain his PSP awards which will vest on a pro rata basis in relation to the time of the performance period and his leaving date. He was also paid a lump sum of £218,025 being equivalent to nine months' salary in full and final settlement of any contractual obligations.

TSR performance graph

The following graph shows the TSR performance of the Company since April 2008, 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.

TSR Graph



Source: Thompson Datastream

Importance of Pay

The Committee is aware of the importance of pay across the Group in delivering the Group's strategy and of shareholder views on executive remuneration and the relation of these payments to other cash disbursements. The following table shows the relationship between the Company's financial performance, payments made to shareholders, payments made to tax authorities and expenditure on payroll.

	2013	2012
EBITDA	**£103.4m**	£123.6m
PBT (underlying)	**£72.0m**	£92.2m
Payments to Shareholders;		
Dividend	**£42.7m**	£44.2m
Share Buyback	**£0.9m**	£62.3m
Payments to Tax Authorities(1)**;**		
Corporation Tax	**£18.2m**	£24.6m
Payroll Taxes	**£25.2m**	£33.2m
Other Taxes(2)	**£102.8m**(3)	£55.4m
Payments to Employees;		
Wages & Salaries	**£153.5m**	£150.8m
Including Directors(4)	**£1.51m**	£1.31m

(1) Includes payments made to both UK & Irish tax authorities
(2) Includes net VAT collected
(3) Includes Business Rates of £34.7m
(4) Based on the single figure calculation, not all of which is included within wages and salary costs.

Members of the Committee

During the year and the period to the date of this report the Remuneration Committee (the “Committee”) consisted of Keith Harris, Chairman; Dennis Millard; Bill Ronald; David Adams; and Claudia Arney.

Annual Activity

During the year and the period to the date of this report the Committee has;

Standing Items	One-Off Considerations
May 2012	
Approved Directors Remuneration Report for 2012.	Considered the introduction of non-financial KPIs as metrics for the Annual Bonus.
Discussed Annual Bonus parameters for FY13.	
Considered the appropriateness of the performance conditions of the Company’s Performance Share Plan. The Committee considered the performance measures that applied to the 2012–15 scheme and concluded that these continue to be appropriate for the business.	
Assessed TSR and EPS performance for the 2009–2012 Performance Share Plan. These targets were not met and therefore this award will not vest.	
Assessed EPS performance for the 2009–2012 Company Share Option Scheme. These targets were not met and therefore this award will not vest.	
July 2012	
Granted awards under the Company’s Performance Share Plan and Company Share Option Scheme.	Considered the quantum of any termination payments to be made on the exit from the business of David Wild.
	Approved the chosen non-financial KPIs for inclusion in the FY13 Annual Bonus Plan.
September 2012	
	Considered the remuneration package for a new CEO, Matthew Davies.
January 2013	
	Considered and approved the terms of the CEO Co-Investment award.
March 2013	
Considered the Group’s remuneration policy to ensure the broad policy continued to be aligned with the strategy and long-term success of the business.	Considered changes to the performance conditions of the Halfords Performance Share Plan.
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 performance conditions and targets for the Executive Directors’ and senior managers’ short-term bonus arrangements for 2013/14.	
May 2013	
Approved Directors’ Remuneration Report for 2013.	Considered the use of new performance conditions for the Halfords Performance Share Plan in order to give Executive Directors convergence with the share price targets associated with the Co-Investment Plan.
Assessed TSR and EPS performance for the 2010–2013 Performance Share Plan. These targets were not met and therefore this award will not vest.	Requested that the Chairman of the Committee consulted with the Company’s major shareholders to discuss possible changes to the performance conditions of the Company’s Performance Share Plan.
Assessed EPS performance for the 2010–2013 Company Share Option Scheme. These targets were not met and therefore this award will not vest.	
Considered the achievement of the 2012/13 bonus performance conditions.	
Approved the Committee’s Terms of Reference.	

Advisors

During the year the Committee has been supported by Jonathan Crookall, People Director, and Alex Henderson, Company Secretary. The CEO and CFO may also on occasion attend Committee meetings on the request of the Committee but are not present when their own remuneration is discussed. The Committee also engaged with Deloitte LLP, who have advised on the implementation, rules and performance conditions of the Halfords Group plc 2012 Co-Investment Plan, performance measures for the PSP, remuneration reporting and other remuneration matters. Deloitte are founding members of the Remuneration Consultants Group and adhere to the Remuneration Consultants Group Code of Conduct when dealing with the Committee. The Committee considers their advice to be independent and impartial. Fees paid to Deloitte for this advice were £68,100.

Shareholder voting

Halfords remains committed to ongoing shareholder dialogue and carefully reviews voting outcomes on remuneration matters. In the event of a substantial vote against a resolution in relation to Directors' remuneration, Halfords would seek to understand the reasons for any such vote, and would detail any actions in response to it in the Directors' Remuneration Report.

The following table sets out actual voting in respect of our last report in 2012:

% of votes	**For**	**Against**
For 2011/12 Directors' Remuneration Report (2012 AGM)	98.7%	1.3%

5,636,814 votes were withheld in relation to this resolution (*c.*3% of shareholders).

Audited information

Directors' Emoluments as disclosed in the Company's financial statements:

	Base Salary	Bonus	Benefits	Pensions	**2013**	2012
David Wild (resigned 19 July 2012)	517,650[(1)]	—	24,256	22,647	**530,000**	540,000
Matt Davies (appointed 4 October 2012)	246,795	—	14,318	50,000	**311,113**	—
Andrew Findlay	280,500	—	16,335	41,250	**349,600**	291,500
Paul McClenaghan (Left on12 April 2013)	290,700	—	17,338	57,413	**364,840**	293,500

(1) Includes £366,669 as compensation for loss of office.

Halfords Group plc 2005 Performance Share Plan

	Award Date	Mid-market price on date of awards	Awards held 30 March 2012	Awarded during the period	Dividend Reinvest-ment[(1)]	Forfeited during the period	Lapsed during the period	Exercised during the year	**Awards held 29 March 2013**	Performance period 3 years to
David Wild	3 August 2009	3.46	330,440	—	21,671	352,111	—	—	**–**	30 March 2012
	3 August 2010	4.86	171,444	—	11,244	182,688		—	**–**	29 March 2013
	8 August 2011	3.00	260,467	—	17,082	277,549	—	—	**–**	28 March 2014
Paul McClenaghan	3 August 2009	3.46	126,393	—	8289		134,682[(2)]	—	**–**	30 March 2012
	3 August 2010	4.86	96,280	—	8,633				**104,913**	29 March 2013
	8 August 2011	3.00	146,272	—	13,155	—	—	—	**159,427**	28 March 2014
	3 August 2012	2.20	—	198,502	4,486	—	—	—	**202,988**	3 April 2015
Andrew Findlay	8 August 2011	3.00	211,709	—	18,983	—	—	—	**230,692**	28 March 2014
	3 August 2012	2.20	—	191,537	4,329	—	—	—	**195,866**	3 April 2015

(1) Following the recommendation of the Remuneration Committee to reinvest dividends earned on shares awarded since 2009, interim and final dividends have been reinvested in shares at prices between £2.1347 and £4.8110.

(2) In August 2012 the Remuneration Committee measured the performance conditions of 2009 Performance Share Plan award and deemed that none of the performance conditions had reached median levels and therefore the whole award should lapse.

Halfords Group plc 2012 Co-Investment Plan

	Award Date	Awards held 30 March 2012	Awarded during the period	Dividend Reinvest-ment[1]	Lapsed during the period	Exercised during the year	**Awards held 29 March 2013**	Performance period 3–5 years
Matt Davies	28 January 2013	—	574,196[1]		—	—	**574,196**	November 2015 November 2016 November 2017

[1] This award represents 3.5 times Matthew Davies' initial investment of 164,056 shares purchased at a price of 302.22p on 4 October 2012.

Non-Executive Directors

Fees

Director	Role	Senior Independent Director	Committee Chairman Fees	Executive Chairman Fees[1]	Fees	**2013**	2012
Dennis Millard	Chairman	—	—	50,000	165,000	**215,000**	165,000
Bill Ronald	Senior Independent Director	15,000	—		45,000	**60,000**	60,000
David Adams	Audit Committee Chairman	—	5,000		45,000	**50,000**	50,000
Claudia Arney	NED	—	—		45,000	**45,000**	45,000
Keith Harris	Remuneration Committee Chairman	—	5,000		45,000	**50,000**	50,000

[1] Following the resignation of David Wild on 19 July 2012, the Board asked Dennis Millard, non-executive Chairman, to become interim Executive Chairman with immediate effect. The Remuneration Committee approved the payment of £50,000 to Dennis for his services as Executive Chairman. Such flat fee would cover the length of any period that Dennis might serve in this position. He continued in this position until 21 November 2012. Matt Davies was appointed CEO of the Company on 4 October 2012.

Non-Executive Director Shareholding

Director	**2013**	2012
Dennis Millard	**40,000**	32,500
Bill Ronald	**11,538**	11,538
David Adams	**6,000**	—
Claudia Arney	**21,052**	—
Keith Harris	**3,386**	3,846

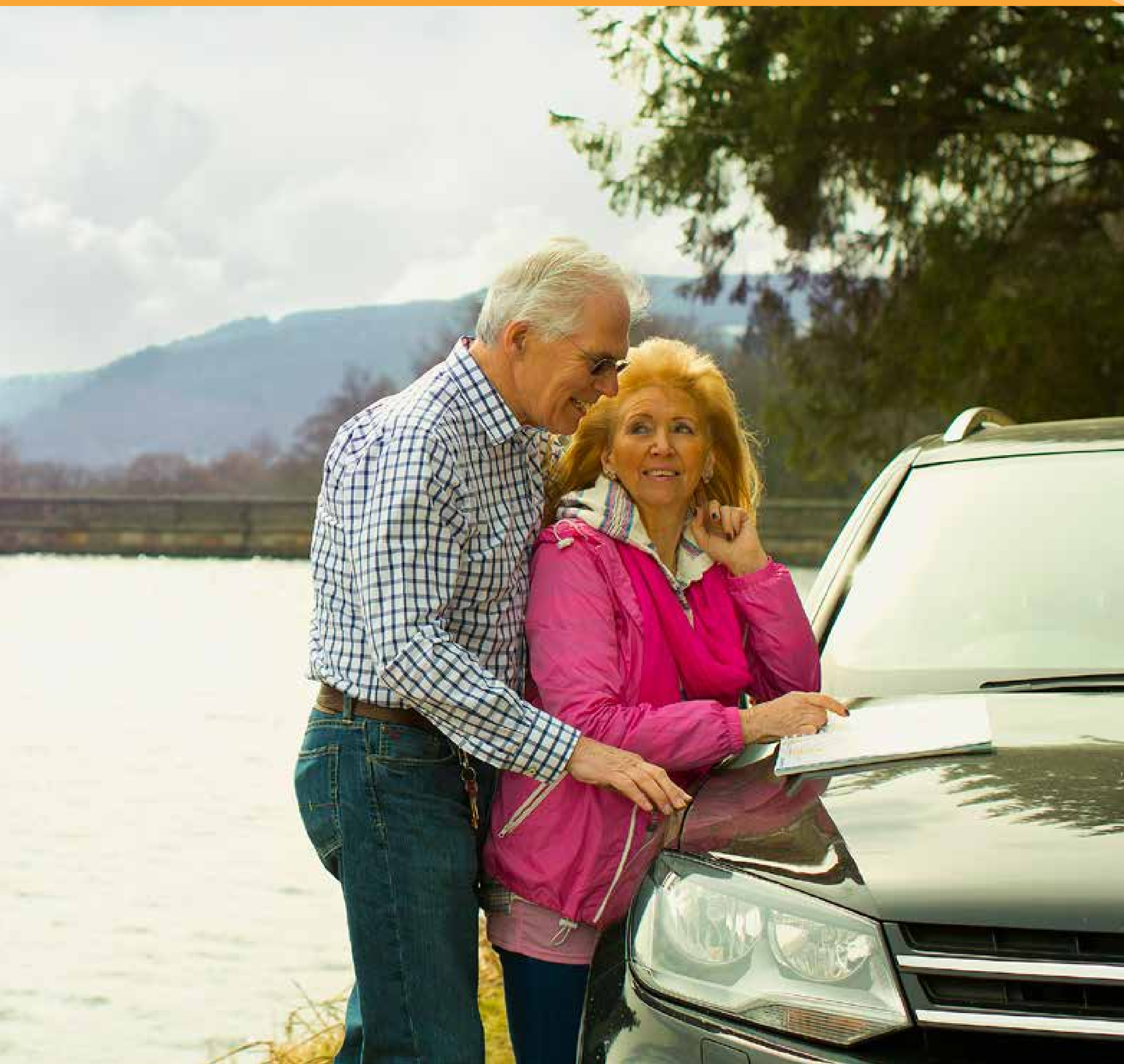
These figures include those of their spouses, civil partners and infant children, or stepchildren, as required by Section 822 of the Companies Act 2006. There was no change in these beneficial interests between 29 March 2013 and 23 May 2013.

Keith Harris
Chairman of the Remuneration Committee
23 May 2013

driving the top line

Read online:
halfords.annualreport2013.com/financials

Financials



Statement of Directors' Responsibilities in Respect of the Annual Report & Accounts

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 the Board

Dennis Millard
Chairman
23 May 2013

Independent Auditor's Report to the Members of Halfords Group plc

We have audited the financial statements of Halfords Group plc for the year ended 29 March 2013 [set out on pages [104] to [143]]. 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 Auditor

As explained more fully in the Directors' Responsibilities Statement [set out on page [104]], 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 29 March 2013 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; and
- 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 70, in relation to going concern;
- the part of the Corporate Governance Statement on pages 72 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.

Greg Watts (Senior Statutory Auditor)
for and on behalf of KPMG Audit plc, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
23 May 2013

Consolidated Income Statement

For the period	Notes	52 weeks to 29 March 2013 Before non-recurring items £m	52 weeks to 29 March 2013 Non-recurring items (note 5) £m	52 weeks to 29 March 2013 Total £m	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
Revenue	1	**871.3**	**–**	**871.3**	863.1	–	863.1
Cost of sales		**(394.2)**	**–**	**(394.2)**	(390.3)	–	(390.3)
Gross profit		**477.1**	**–**	**477.1**	472.8	–	472.8
Operating expenses	2	**(399.0)**	**(1.0)**	**(400.0)**	(375.6)	1.9	(373.7)
Results from operating activities	3	**78.1**	**(1.0)**	**77.1**	97.2	1.9	99.1
Finance costs	6	**(6.3)**	**–**	**(6.3)**	(5.5)	–	(5.5)
Finance income	6	**0.2**	**–**	**0.2**	0.5	–	0.5
Net finance expense		**(6.1)**	**–**	**(6.1)**	(5.0)	–	(5.0)
Profit before income tax		**72.0**	**(1.0)**	**71.0**	92.2	1.9	94.1
Income tax expense	7	**(18.2)**	**(0.1)**	**(18.3)**	(24.8)	(0.9)	(25.7)
Profit for the financial period attributable to equity shareholders		**53.8**	**(1.1)**	**52.7**	67.4	1.0	68.4

Earnings per share					
Basic	9	**27.7p**	**27.2p**	33.7p	34.2p
Diluted	9	**27.5p**	**26.9p**	33.5p	34.0p

All results relate to continuing operations of the Group.

The notes on pages 118 to 143 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Notes	52 weeks to 29 March 2013 £m	52 weeks to 30 March 2012 £m
Profit for the period		**52.7**	68.4
Other comprehensive income			
Foreign currency translation differences for foreign operations		**–**	(0.5)
Cash flow hedges:			
Fair value changes in the period		**2.8**	(0.9)
Transfers to inventory		**(0.7)**	1.3
Transfers to net profit:			
Cost of sales		**(0.1)**	(0.2)
Income tax on other comprehensive income	7	**(0.7)**	(0.3)
Other comprehensive income for the period, net of income tax		**1.3**	(0.6)
Total comprehensive income for the period attributable to equity shareholders		**54.0**	67.8

The notes on pages 118 to 143 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

	Notes	29 March 2013 £m	30 March 2012 £m
Assets			
Non-current assets			
Intangible assets	10	**342.2**	343.9
Property, plant and equipment	11	**90.6**	97.9
Deferred tax assets	18	**0.3**	—
Total non-current assets		**433.1**	441.8
Current assets			
Inventories	12	**133.2**	146.7
Trade and other receivables	13	**53.8**	45.0
Derivative financial instruments	19	**1.9**	0.3
Cash and cash equivalents	14	**7.9**	13.4
Total current assets		**196.8**	205.4
Total assets		**629.9**	647.2
Liabilities			
Current liabilities			
Borrowings	15	**(4.3)**	(2.8)
Derivative financial instruments	19	**(0.2)**	(1.5)
Trade and other payables	16	**(144.9)**	(140.4)
Current tax liabilities		**(26.3)**	(24.8)
Provisions	17	**(7.4)**	(8.8)
Total current liabilities		**(183.1)**	(178.3)
Net current assets		**13.7**	27.1
Non-current liabilities			
Borrowings	15	**(114.2)**	(149.8)
Accruals and deferred income — lease incentives	16	**(29.7)**	(28.8)
Provisions	17	**(4.2)**	(2.5)
Deferred tax liabilities	18	**—**	(0.7)
Total non-current liabilities		**(148.1)**	(181.8)
Total liabilities		**(331.2)**	(360.1)
Net assets		**298.7**	287.1
Shareholders' equity			
Share capital	20	**2.0**	2.0
Share premium	20	**151.0**	151.0
Investment in own shares		**(13.2)**	(14.0)
Other reserves	20	**0.9**	(0.4)
Retained earnings		**158.0**	148.5
Total equity attributable to equity holders of the Company		**298.7**	287.1

The notes on pages 118 to 143 are an integral part of these consolidated financial statements.

The financial statements on pages 106 to 111 were approved by the Board of Directors on 23 May 2013 and were signed on its behalf by:

Matt Davies
Chief Executive

Andrew Findlay
Finance Director

Company Number: 04457314

Consolidated Statement of Changes in Shareholders' Equity

	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
			Attributable to the equity holders of the Company					
				Other reserves				
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**
Total comprehensive income for the period								
Profit for the period	—	—	—	—	—	—	52.7	**52.7**
Other comprehensive income								
Cash flow hedges:								
Fair value changes in the period	—	—	—	—	—	2.8	—	**2.8**
Transfers to inventory	—	—	—	—	—	(0.7)	—	**(0.7)**
Transfers to net profit:								
Cost of sales	—	—	—	—	—	(0.1)	—	**(0.1)**
Income tax on other comprehensive income	—	—	—	—	—	(0.7)	—	**(0.7)**
Total other comprehensive income for the period net of tax	—	—	—	—	—	1.3	—	**1.3**
Total comprehensive income for the period	—	—	—	—	—	1.3	52.7	**54.0**
Transactions with owners								
Share options exercised	—	—	0.8	—	—	—	—	**0.8**
Share-based payment transactions	—	—	—	—	—	—	0.1	**0.1**
Purchase of own shares	—	—	—	—	—	—	(0.9)	**(0.9)**
Income tax on share-based payment transactions	—	—	—	—	—	—	0.3	**0.3**
Dividends to equity holders	—	—	—	—	—	—	(42.7)	**(42.7)**
Total transactions with owners	—	—	0.8	—	—	—	(43.2)	**(42.4)**
Balance at 29 March 2013	**2.0**	**151.0**	**(13.2)**	**—**	**0.3**	**0.6**	**158.0**	**298.7**

The notes on pages 118 to 143 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Notes	52 weeks to 29 March 2013 £m	52 weeks to 30 March 2012 £m
Cash flows from operating activities			
Profit after tax for the period, before non-recurring items		**53.8**	67.4
Non-recurring items		**(1.1)**	1.0
Profit after tax for the period		**52.7**	68.4
Depreciation — property, plant and equipment		**19.9**	21.1
Impairment charge		**0.8**	—
Amortisation — intangible assets		**5.4**	4.9
Foreign exchange gains		**—**	(0.5)
Net finance costs		**6.1**	5.0
Loss on disposal of property, plant and equipment		**1.7**	1.2
Equity-settled share based payment transactions		**0.1**	2.4
Fair value gains on derivative financial instruments		**(0.9)**	(0.9)
Income tax expense		**18.3**	25.7
Decrease in inventories		**13.5**	0.9
Increase in trade and other receivables		**(8.9)**	(3.0)
Increase in trade and other payables		**6.6**	0.2
Increase/(decrease) in provisions		**0.3**	(6.6)
Finance income received		**0.3**	0.4
Finance costs paid		**(4.2)**	(4.9)
Income tax paid		**(18.2)**	(24.6)
Net cash from operating activities		**93.5**	89.7
Cash flows from investing activities			
Acquisition of subsidiary undertaking, net of cash acquired		**—**	(0.7)
Purchase of intangible assets		**(3.7)**	(2.1)
Purchase of property, plant and equipment		**(16.7)**	(17.2)
Net cash used in investing activities		**(20.4)**	(20.0)
Cash flows from financing activities			
Net proceeds from exercise of share options		**0.8**	2.1
Purchase of own shares		**(0.9)**	(62.7)
Proceeds from loans, net of transaction costs		**202.0**	353.0
Repayment of borrowings		**(239.0)**	(302.1)
Payment of finance lease liabilities		**(0.3)**	(0.3)
Dividends paid		**(42.7)**	(44.2)
Net cash used in financing activities		**(80.1)**	(54.2)
Net (decrease)/increase in cash and bank overdrafts	I.	**(7.0)**	15.5
Cash and cash equivalents at the beginning of the period		**10.9**	(4.6)
Cash and cash equivalents at the end of the period	I.	**3.9**	10.9

The notes on pages 118 to 143 are an integral part of these consolidated financial statements.

Notes to Consolidated Statement of Cash Flows

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

	At 30 March 2012 £m	Cash flow £m	Other non-cash changes £m	**At 29 March 2013 £m**
Cash and cash equivalents at bank and in hand	10.9	(7.0)	–	**3.9**
Debt due after one year	(138.6)	37.0	(1.7)	**(103.3)**
Total net debt excluding finance leases	(127.7)	30.0	(1.7)	**(99.4)**
Finance leases due within one year	(0.3)	0.3	(0.3)	**(0.3)**
Finance lease due after one year	(11.2)	–	0.3	**(10.9)**
Total finance leases	(11.5)	0.3	–	**(11.2)**
Total net debt	(139.2)	30.3	(1.7)	**(110.6)**

Non-cash changes comprise finance costs in relation to the amortisation of capitalised debt issue costs of £1.7m (2012: £0.9m) and changes in classification between amounts due within and after one year.

Cash and cash equivalents at the period end consist of £7.9m (2012: £13.4m) of liquid assets and £4.0m (2012: £2.5m) 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 29 March 2013 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 70, 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 29 March 2013, whilst the comparative period covered the 52 weeks to 30 March 2012.

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 and 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 29 March 2013 are detailed on page 141 in note 4 to the Company balance sheet, which can be found on page138.

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 considers 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 in which 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.

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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 in which 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

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 is 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.

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, and 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 judgements 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 118 to 143.

Adoption of new and revised standards

The following standard is applicable to the Group and has been adopted in the current period as it is mandatory for the year ended 29 March 2013 but either has no material impact on the result or net assets of the Group or is not applicable.

- IAS 12 (Amendment): "Income taxes" — The amendments introduced a presumption, for deferred tax purposes, that recovery of the carrying amount of an investment property will normally be through sale.

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. The Group does not believe the adoption of these standards or interpretations would have a material impact on the consolidated results or financial position of the Group.

- IAS 1 (Amendment): "Presentation of financial statements" amends how components of other comprehensive income are presented. The amendments require the grouping of items of other comprehensive income into items that might be reclassified to the income statement in subsequent periods and items that will not be reclassified to the income statement in subsequent periods.
- IFRS 7 (Amendment): "Financial Instruments: Disclosures" amends disclosure requirements to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32.
- IFRS 10: "Consolidated financial statements" replaces the guidance of control and consolidation in IAS 27 and SIC 32: Consolidation — special purpose entities. The core principle that a consolidated entity presents a Parent and its subsidiaries as if they were a single entity remains unchanged, as do the mechanics of the consolidation.
- IFRS 11: "Joint arrangements" requires joint arrangements to be accounted for as a joint operation or as a joint venture depending on the rights and obligations of each party to the arrangement. Proportionate consolidation for joint ventures will be eliminated and equity accounting will be mandatory.
- IFRS 12: "Disclosure of interests in other entities" requires enhanced disclosures of the nature, risks and financial effects associated with the Group's interests in subsidiaries, associates, joint arrangements and unconsolidated structures entities.
- IFRS 13: "Fair value measurements" explains how to measure fair value and aims to enhance fair value disclosures. The standard does not change the measurement of fair value but codifies it in one place.
- IAS 27 (Revised): "Separate financial statements" makes revisions to the requirements for separate financial statements prepared by a Parent or an investor in a joint venture or associate.

In addition to the above, amendments to a number of standards under the annual improvements project to IFRS have been endorsed by the EU but not yet adopted. None of these amendments are expected to have a material impact on the Group's financial statements.

Halfords Group plc
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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 29 March 2013 Total £m
Revenue	**745.5**	**125.8**	**871.3**
Segment result before non-recurring items	**73.6**	**6.3**	**79.9**
Non-recurring items	**(1.0)**	**—**	**(1.0)**
Segment result	**72.6**	**6.3**	**78.9**
Unallocated expenses[(1)]			**(1.8)**
Operating profit			**77.1**
Net financing expense			**(6.1)**
Profit before tax			**71.0**
Taxation			**(18.3)**
Profit for the year			**52.7**

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

[(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 £1.8m in respect of assets acquired through business combinations (2012: £2.2m).

Other segment items:	Retail £m	Car Servicing £m	52 weeks ended 29 March 2013 Total £m
Capital expenditure	**13.2**	**5.6**	**18.8**
Depreciation expense	**17.4**	**2.5**	**19.9**
Impairment expense	**0.8**	**—**	**0.8**
Amortisation expense	**3.6**	**—**	**3.6**

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

There have been no significant transactions between segments in the 52 weeks ended 29 March 2013 (2012: £nil).

2. Operating expenses

For the period	52 weeks to 29 March 2013 £m	52 weeks to 30 March 2012 £m
Selling and distribution costs, before non-recurring items	**336.1**	318.2
Non-recurring selling and distribution costs	**—**	—
	336.1	318.2
Administrative expenses, before non-recurring items	**62.9**	57.4
Non-recurring administrative expenses	**1.0**	(1.9)
	63.9	55.5
	400.0	373.7

Notes to the Financial Statements continued

3. Operating profit

For the period	**52 weeks to 29 March 2013 £m**	52 weeks to 30 March 2012 £m
Operating profit is arrived at after charging/(crediting) the following expenses/(incomes) as categorised by nature:		
Operating lease rentals:		
— plant and machinery	**1.7**	1.9
— property rents	**91.0**	90.1
— rentals receivable under operating leases	**(5.5)**	(6.4)
Landlord surrender payments	**(0.9)**	(2.0)
Loss on disposal of property, plant and equipment	**1.7**	1.2
Amortisation of intangible assets	**5.4**	4.9
Depreciation of:		
— owned property, plant and equipment	**19.4**	20.6
— assets held under finance leases	**0.5**	0.5
Impairment of property, plant and equipment	**0.8**	—
Trade receivables impairment	**0.2**	0.1
Staff costs (see note 4)	**166.8**	155.8
Cost of inventories consumed in cost of sales	**384.1**	384.7

The total fees payable by the Group to KPMG Audit Plc and their associates during the period was £0.3m (2012: £0.3m), in respect of the services detailed below:

For the period	**52 weeks to 29 March 2013 £000**	52 weeks to 30 March 2012 £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	**205**	194
Other services supplied pursuant to such legislation	**15**	15
Internal audit services	**21**	76
All other services	**—**	12
	271	327

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 (2012: £0.1m).

4. Staff costs

For the period	52 weeks to 29 March 2013 £m	52 weeks to 30 March 2012 £m
The aggregated remuneration of all employees including Directors comprised:		
Wages and salaries	**153.5**	140.8
Social security costs	**10.2**	9.7
Equity-settled share based payment transactions (note 21)	**0.1**	2.4
Contributions to defined contribution plans (note 23)	**3.0**	2.9
	166.8	155.8

	Number	Number
Average number of persons employed by the Group, including Directors, during the period:		
Stores/Autocentres	**11,535**	11,276
Central warehousing	**211**	193
Head office	**651**	582
	12,397	12,051

Full details of Directors' remuneration and interests are set out in the Directors' Remuneration Report on pages 82 to 101 which forms part of these financial statements.

Key management compensation

For the period	52 weeks to 29 March 2013 £m	52 weeks to 30 March 2012 £m
Salaries and short-term benefits	**2.1**	2.1
Compensation for loss of office	**0.8**	—
Social security costs	**0.4**	0.3
Pensions	**0.3**	0.2
Share based payment charge	**0.1**	1.0
	3.7	3.6

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

Balances outstanding at the year-end totalled £0.9m (2012: £nil).

5. Non-recurring items

For the period	52 weeks to 29 March 2013 £m	52 weeks to 30 March 2012 £m
Non-recurring operating expenses:		
Lease guarantee provision (a)	**(1.0)**	(1.9)
Onerous lease provision (b)	**1.2**	—
Impairment of Property, Plant and Equipment (c)	**0.8**	—
Non-recurring items before tax	**1.0**	(1.9)
Tax on non-recurring items (d)	**0.1**	0.9
Non-recurring items after tax	**1.1**	(1.0)

(a) A non-recurring expense of £7.5m was incurred in 2011. 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 (now 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 the continued settlement of the Group's guarantor obligations has resulted in a release of £1.0m (2012: £1.9m) of the original amounts provided.

(b) A charge incurred in the period relating to stores where the present value of expected future cash flows is deemed to be insufficient to cover the lower of cost of exit or value in use.

(c) Impairment charge in respect of property, plant and equipment where the carrying amount of these assets has been deemed to exceed the recoverable amount.

(d) The tax charge of £0.1m represents a tax rate of 24% applied to non-recurring items after adjusting for the non-deductibility of the asset impairment charge and settlements to release Halfords from its guarantor obligations under the leases. The prior period 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.

Notes to the Financial Statements continued

6. Finance income and costs

Recognised in profit or loss for the period	**52 weeks to 29 March 2013 £m**	52 weeks to 30 March 2012 £m
Finance costs:		
Bank borrowings	**(2.1)**	(2.5)
Amortisation of issue costs on loans	**(1.7)**	(0.9)
Commitment and guarantee fees	**(1.2)**	(1.1)
Costs of forward foreign exchange contracts	**(0.1)**	(0.2)
Interest payable on finance leases	**(0.7)**	(0.8)
Other interest payable	**(0.5)**	–
Finance costs	**(6.3)**	(5.5)
Finance income:		
Bank and similar interest	**0.2**	0.1
Other interest receivable	**–**	0.4
Finance income	**0.2**	0.5
Net finance costs	**(6.1)**	(5.0)

7. Taxation

For the period	52 weeks to 29 March 2013 £m	52 weeks to 30 March 2012 £m
Current taxation		
UK corporation tax charge for the period	**21.5**	26.7
Adjustment in respect of prior periods	**(1.8)**	(0.8)
	19.7	25.9
Deferred taxation		
Origination and reversal of timing differences	**(1.8)**	(0.7)
Adjustment in respect of prior periods	**0.4**	0.5
	(1.4)	(0.2)
Total tax charge for the period	**18.3**	25.7

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

For the period	52 weeks to 29 March 2013 £m	52 weeks to 30 March 2012 £m
Profit before tax	**71.0**	94.1
UK corporation tax at standard rate of 24% (2012: 26%)	**17.1**	24.5
Factors affecting the charge for the period:		
Depreciation on expenditure not eligible for tax relief	**1.2**	1.7
Employee share options	**(0.2)**	0.5
Non-taxable income	**—**	(1.3)
Other disallowable expenses	**1.9**	0.5
Adjustment in respect of prior periods	**(1.4)**	(0.3)
Impact of overseas tax rates	**(0.4)**	—
Impact of change in tax rate on deferred tax balance	**0.1**	0.1
Total tax charge for the period	**18.3**	25.7

A reduction in the UK corporation tax rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 29 March 2013 has been calculated based on the rate of 23% substantively enacted at the balance sheet date.

The March 2013 Budget announced that the rate will further reduce to 20% by 2015 in addition to the planned reduction to 21% by 2014 previously announced in the December 2012 Autumn Statement. It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the Company's future current tax charge and reduce the Company's deferred tax asset accordingly.

In this financial period, the UK corporation tax standard rate was 24% (2012: 26%).

The effective tax rate of 25.7% (2012: 27.3%) differs from the UK corporation tax rate principally due to the non-deductibility of depreciation charged on capital expenditure and other permanent differences arising in the period.

The tax charge of £18.3m (2012: £25.7m) includes a charge of £0.1m (2012: £0.9m) in respect of tax on non-recurring items, as detailed in note 5.

An Income tax charge of £0.7m (2012: £0.3m) 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.

The Group engages openly and proactively with tax authorities both in the UK and internationally where the Group trades and sources products. The Group's Tax Policy is reviewed annually by the Board and is shared with HM Revenue & Customs ("HMRC"). The Group is fully committed to complying with all of its tax payment and reporting obligations throughout the business.

In FY13 the contribution to the UK Exchequer from both taxes paid and collected exceeded £147.2m with the main taxes including corporation tax £16.9m, net VAT £61.8m, PAYE £16.3m, Employees National Insurance Contributions £7.9m, Employers National Insurance Contributions £10.1m and Business Rates £34.2m.

8. Dividends

For the period	52 weeks to 29 March 2013 £m	52 weeks to 30 March 2012 £m
Equity — ordinary shares		
Final for the 52 weeks to 30 March 2012 — paid 14.00p per share (2012: 14.00p)	**27.2**	28.5
Interim for the 52 weeks to 29 March 2013 — paid 8.00p per share (2012: 8.00p)	**15.5**	15.7
	42.7	44.2

In addition, the Directors are proposing a final dividend in respect of the financial period ended 29 March 2013 of 9.10p per share (2012: 14.00p per share), which will absorb an estimated £17.7m (2012: £27.2m) of shareholders' funds. It will be paid on 2 August 2013 to shareholders who are on the register of members on 5 July 2013.

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 29 March 2013.

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 29 March 2013 Number of shares m	52 weeks to 30 March 2012 Number of shares m
Weighted average number of shares in issue	**199.1**	203.8
Less: shares held by the Employee Benefit Trust (weighted average)	**(4.8)**	(3.9)
Weighted average number of shares for calculating basic earnings per share	**194.3**	199.9
Weighted average number of dilutive shares	**1.5**	1.0
Total number of shares for calculating diluted earnings per share	**195.8**	200.9

For the period	52 weeks to 29 March 2013 £m	52 weeks to 30 March 2012 £m
Basic earnings attributable to equity shareholders	**52.7**	68.4
Non-recurring items (see note 5):		
Operating expenses	**1.0**	(1.9)
Tax on non-recurring items	**0.1**	0.9
Underlying earnings before non-recurring items	**53.8**	67.4

Earnings per share is calculated as follows:

For the period	52 weeks to 29 March 2013	52 weeks to 30 March 2012
Basic earnings per ordinary share	**27.2p**	34.2p
Diluted earnings per ordinary share	**26.9p**	34.0p
Basic earnings per ordinary share before non-recurring items	**27.7p**	33.7p
Diluted earnings per ordinary share before non-recurring items	**27.5p**	33.5p

10. Intangible assets

	Brand names and trademarks £m	Customer relationships £m	Favourable leases £m	Computer software £m	Goodwill £m	Total £m
Cost						
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
Additions	—	—	—	3.7	—	3.7
Disposals	—	—	—	(12.6)	—	(12.6)
At 29 March 2013	**1.1**	**14.9**	**2.3**	**15.5**	**344.5**	**378.3**
Amortisation						
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
Charge for the period	—	1.7	0.1	3.6	—	5.4
Disposals	—	—	—	(12.6)	—	(12.6)
At 29 March 2013	**1.1**	**5.3**	**0.2**	**7.8**	**21.7**	**36.1**
Net book value at 29 March 2013	**—**	**9.6**	**2.1**	**7.7**	**322.8**	**342.2**
Net book value at 30 March 2012	—	11.3	2.2	7.6	322.8	343.9

No intangible assets are held as security for external borrowings.

Included in computer software are internally generated assets of £0.3m (2012: £0.3m). Product rights of £0.2m, which are fully amortised, have been included within Brand names and trademarks.

Goodwill of £253.1m (2012: £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 29 March 2013 and 30 March 2012 are as follows:

		Retail		Car Servicing	
	Notes	**2013**	2012	**2013**	2012
Discount rate	1	**8.1%**	10.5%	**9.0%**	10.8%
Growth rate	2	**0.0%**	0.0%	**1.0%**	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 +/- 1.0% change in the discount rate, would not cause the carrying amounts to exceed the recoverable amounts.

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 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
Additions	4.2	9.9	1.0	15.1
Disposals	(5.2)	(84.5)	—	(89.7)
Reclassifications	—	—	—	—
At 29 March 2013	**59.2**	**246.1**	**1.0**	**306.3**
Depreciation				
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
Depreciation for the period	3.8	16.1	—	19.9
Impairment charge	—	0.8	—	0.8
Disposals	(4.7)	(83.3)	—	(88.0)
At 29 March 2013	**28.0**	**187.7**	**—**	**215.7**
Net book value at 29 March 2013	**31.2**	**58.4**	**1.0**	**90.6**
Net book value at 30 March 2012	31.3	66.6	—	97.9

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 29 March 2013			
Cost	12.7	0.8	13.5
Accumulated depreciation	(4.6)	(0.8)	(5.4)
Net book value	**8.1**	**—**	**8.1**
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

(1) Relates to the Halfords support centre building lease, which expires in 2028.

Finance lease liabilities are payable as follows:

	Minimum lease payments 2013 £m	**Interest 2013 £m**	**Principal 2013 £m**	Minimum lease payments 2012 £m	Interest 2012 £m	Principal 2012 £m
Less than one year	**1.0**	**0.7**	**0.3**	1.0	0.7	0.3
Between one and five years	**4.5**	**2.6**	**1.9**	4.4	2.7	1.7
More than five years	**12.4**	**3.4**	**9.0**	13.5	4.0	9.5
	17.9	**6.7**	**11.2**	18.9	7.4	11.5

12 Inventories

	2013 £m	2012 £m
Finished goods for resale	**133.2**	146.7

Finished goods inventories include £16.7m (2012: £9.2m) 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 £15.0m was recognised as an expense in respect of the write-down of inventories (2012: £16.0m) to net realisable value. No inventories are held as security for external borrowings.

13. Trade and Other Receivables

	2013 £m	2012 £m
Falling due within one year:		
Trade receivables	**16.6**	12.5
Less: provision for impairment of receivables	**(0.5)**	(0.3)
Trade receivables — net	**16.1**	12.2
Other receivables	**7.7**	3.8
Prepayments and accrued income	**30.0**	29.0
	53.8	45.0

During the period the Group charged the provision with £0.2m (2012: £0.1m) for the impairment of trade receivables and utilised £nil (2012: £0.1m).

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

	2013 £m	2012 £m
Neither past due nor impaired	**18.3**	11.9
Past due by 1–30 days	**1.5**	1.7
Past due by 31–90 days	**1.8**	0.6
Past due by 91–180 days	**0.6**	0.4
Past due by more than 180 days	**0.1**	0.3
	22.3	14.9

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 £6.2m (2012: £2.7m) of other receivables.

14. Cash and cash equivalents

	2013 £m	2012 £m
Cash at bank and in hand	**7.9**	13.4

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

	2013 £m	2012 £m
Current		
Unsecured bank overdraft	**4.0**	2.5
Finance lease liabilities	**0.3**	0.3
	4.3	2.8
Non-current		
Unsecured bank loan and other borrowings[1]	**103.3**	138.6
Finance lease liabilities	**10.9**	11.2
	114.2	149.8

[1] The above borrowings are stated net of unamortised issue costs of £0.7m (2012: £2.4m).

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:

	2013 £m	2012 £m
Expiring within 1 year	**1.0**	1.0
Expiring between 1 and 2 years	**196.0**	–
Expiring between 2 and 5 years	**–**	159.0
	197.0	160.0

The overdraft facility expiring within one year is an annual facility subject to review at various dates during the period. The facility of £196.0m (2012: £159.0m) relates to the Group's revolving credit facility. All these facilities incurred commitment fees at market rates.

16. Trade and other payables

	2013 £m	2012 £m
Current liabilities		
Trade payables	**84.9**	81.2
Other taxation and social security payable	**10.6**	18.7
Other payables	**6.1**	5.1
Deferred income — lease incentives	**3.5**	4.0
Accruals and other deferred income	**39.8**	31.4
	144.9	140.4
Non-current liabilities		
Deferred income — lease incentives	**29.7**	28.8

17. Provisions

	Central Europe exit £m	Property related £m	Other trading £m	Total £m
At 30 March 2012	0.3	9.2	1.8	11.3
Charged during the period	—	3.9	1.2	5.1
Utilised during the period	(0.3)	(2.5)	(1.0)	(3.8)
Released during the period	—	(1.0)	—	(1.0)
At 29 March 2013	**—**	**9.6**	**2.0**	**11.6**
Analysed as:				
Current liabilities	**—**	**6.0**	**1.4**	**7.4**
Non-current liabilities	**—**	**3.6**	**0.6**	**4.2**

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 the continued settlement of the Group's guarantor obligations has resulted in a release of £1.0m (2012: £1.9m) of the original amounts provided.

Other trading provisions comprise 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 into 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 are expected to be additional obligations as a result of the rent review, which forms part of the Group's unavoidable cost of meeting its obligations under the lease 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.

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 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)
Credit/(charge) to the income statement	1.5	(0.6)	0.1	0.4	1.4
Charge to other comprehensive income	—	(0.7)	—	—	(0.7)
Credit to equity	—	—	0.3	—	0.3
At 29 March 2013	**(1.0)**	**3.6**	**0.6**	**(2.9)**	**0.3**

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:

	29 March 2013 £m	30 March 2012 £m
Deferred tax assets	**4.2**	5.1
Deferred tax liabilities	**(3.9)**	(5.8)
	0.3	(0.7)

19. Financial Instruments and Related Disclosures

Treasury Policy

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

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

Treasury activities are delegated by the Board to the Finance Director ("FD"). The FD controls policy and performance through the line management structure to the Group Treasurer and by reference to the Treasury Committee. The Treasury Committee meets quarterly 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 through 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 + or – 1% the impact on the results in the Income Statement and equity would be a decrease/increase of £1.0m (2012: £1.2m).

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 April 2011 and April 2012, the Group managed its capital structure partly through a share buy-back scheme.

The Group manages capital by operating within debt ratios. These ratios are lease adjusted net debt to Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") and fixed charge cover. Lease adjusted net debt is calculated as being net debt and leases capitalised at eight times, as a multiple of EBITDA plus operating lease charges. Fixed charge cover is calculated as being EBITDA plus operating lease charges as a multiple of interest and operating lease charges.

Fair Value Disclosures

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

Trade receivables, trade payables and finance lease obligations, short-term deposits and borrowings	The fair value approximates to the carrying amount because of the short maturity of these instruments, using an interest rate of 7.1% for long-term finance lease obligations.
Long-term borrowings	The fair value of bank loans and other loans approximates to the carrying value reported in the balance sheet as the majority are floating rate where payments are reset to 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:

	2013 £m	2012 £m
Cash and cash equivalents	**7.9**	13.4
Loans and receivables	**22.3**	14.9
Forward exchange contracts used for hedging (assets)	**1.9**	0.3
Total financial assets	**32.1**	28.6
Trade and other payables — held at amortised cost	**(121.6)**	(109.9)
Borrowings at amortised cost	**(104.0)**	(141.0)
Finance leases	**(11.2)**	(11.5)
Total financial liabilities	**(236.8)**	(262.4)

Trade and other payables within the scope of IAS 39 include all trade payables, all other payables and £30.6m (2012: £23.6m) of accruals and deferred income.

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 £32.1m (2012: £28.6m) 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 29 March 2013, 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:

	29 March 2013		30 March 2012	
	USD £m	**Other £m**	USD £m	Other £m
Cash and cash equivalents	**–**	**0.4**	4.8	1.0
Trade and other payables	**(15.9)**	**(0.5)**	(15.4)	(0.3)
	(15.9)	**(0.1)**	(10.6)	0.7

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.

	2013 Increase/ (decrease) in equity £m	2012 Increase/ (decrease) in equity £m
10% appreciation of the US dollar	**4.1**	10.2
10% depreciation of the US dollar	**(3.3)**	(8.5)

A strengthening/weakening of sterling, as indicated, against the USD at 29 March 2013 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 relates 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 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 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, in line with Treasury Policy. The counterparty credit risk is reviewed in the Treasury report, which is forwarded to the Treasury Committee and the Treasurer reviews credit exposure on a daily basis.

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

	29 March 2013 Bank borrowings £m	30 March 2012 Bank borrowings £m
Due less than one year	**3.6**	4.0
Expiring between 1 and 2 years	**106.3**	4.0
Expiring between 2 and 5 years	**–**	143.5
Expiring after 5 years	**–**	–
Contractual cash flows	**109.9**	151.5
Carrying amount	**103.3**	138.6

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 29 March 2013 (30 March 2012).

	Receivables £m	**2013 Payables £m**	Receivables £m	2012 Payables £m
Due less than one year	**36.7**	**(34.9)**	92.2	(93.4)
Due between 1 and 2 years	**–**	**–**	0.3	(0.3)
Contractual cash flows	**36.7**	**(34.9)**	92.5	(93.7)
Fair value	**1.9**	**(0.2)**	0.3	(1.5)

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

20. Capital and Reserves

	2013 Number of shares	2013 £000	2012 Number of shares	2012 £000
Ordinary shares of 1p each:				
Allotted, called up and fully paid	**199,063,222**	**1,991**	199,383,222	1,994

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 320,000 shares (2012: decreased by 12,602,776 shares). During the period the Company repurchased and cancelled 320,000 shares, and no new shares were issued in the period. There has been no significant impact on share premium as a result of the share transactions, with share premium remaining at £151.0m (2012: £151.0m).

In total the Company received proceeds of £0.8m (2012: £2.1m) from the exercise of share options.

Interest in Own Shares

At 29 March 2013 the Company held in Trust 4,651,810 (2012: 4,932,009) of its own shares with a nominal value of £46,518 (2012: £49,320). 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 29 March 2013 was £15.0m (2012: £15.4m). In the current period no shares (2012: 5,449,620 shares) were repurchased and transferred into the Trust, with 280,199 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 four 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 2010 and 2011 under the Performance Share Plan earned final dividends of 14p per share and were reinvested in shares at a cost of £2.13 per share. Shares awarded in 2010, 2011 and 2012 under the PSP earned interim dividends of 8p per share and were reinvested in shares at a cost of £3.54 per share.

4. Co-Investment Share Plan

In 2012 the Company adopted the Halfords Group plc 2012 Co-Investment Plan. This plan was adopted for the sole purpose of making a one-off award to the Group's new CEO. No further awards either to the Group's CEO or other Executives will be made under this plan.

On 4 October 2012 the new CEO purchased 164,056 Halfords Group plc shares at a price of 302.22 pence per share and will be entitled to receive Matching Shares equivalent to a maximum of 3.5 times this investment. Subject to continued employment these shares may vest up to a third in November 2015, up to two-thirds in November 2016 and in full in November 2017, depending on the following Threshold (30% vesting) and Maximum (100% vesting) share price performance by Halfords:

November	Threshold	Maximum
2015	350p	400p
2016	385p	440p
2017	425p	485p

Matching Shares have been granted in the form of nil cost options, with the participant having until the tenth anniversary of the date of grant to exercise the options, and will lapse on a pro rata basis if the required number of Investment Shares is not retained to the final vesting date.

At each relevant vesting date the participant can decide to exercise any portion of the award that has vested based on the performance at that time (in which case any unvested shares in that tranche in respect of which the share price target has not been met will lapse) or roll forward that tranche in full subject to performance testing at the next vesting date. In the latter case the participant will forfeit the right to exercise any awards that had become capable of vesting at the earlier vesting date.

The Participant will be entitled to receive an amount equivalent to the dividends that would have been paid either in cash or on a reinvested basis in shares during the period from grant to exercise in respect of the number of Matching Shares that vest.

The Barrier Black–Scholes Model is an adapted Black–Scholes Model and is used to calculate the estimated fair values of the Co-Investment Plan Options to include the impact of the share price based performance conditions. Using this method the fair value of the options granted has been estimated to be £1.35 per share.

The Group Income Statement charge recognised in respect of share-based payments for the current period is £0.1m (2012: £2.4m).

The following tables reconcile the number of share options outstanding and the weighted average exercise price (WAEP) for all share award plans except for the Co-Investment Plan, details of which are covered above.

Notes to the Financial Statements continued

21. Share Based Payments continued

For the period ended 29 March 2013

	CSOS		SAYE		PSP	
	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)
Outstanding at start of year	3,858	3.68	908	3.05	1,615	0.00
Granted	2,176	2.20	2,166	1.56	631	0.00
Shares representing dividends reinvested	–	–	–	–	133	0.00
Forfeited	–	–	(69)	2.27	–	0.00
Exercised	(209)	3.07	(73)	2.60	–	0.00
Lapsed	(634)	3.42	(581)	2.83	(1,163)	0.00
Outstanding at end of year	5,191	3.10	2,351	1.76	1,216	0.00
Exercisable at end of year	1,127	3.25	67	2.60	–	0.00
Exercise price range (£)		2.20 to 5.03		1.56 to 4.15		0.00
Weighted average remaining contractual life (years)		7.8		2.1		1.8

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

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

	52 weeks to 29 March 2013			52 weeks to 30 March 2012		
Grant date	**CSOS**	**SAYE**	**PSP**	CSOS	SAYE	PSP
Share price at grant date	£2.25	£2.20	£2.25	£3.04	£3.04	£2.93
Exercise price	£2.20	£1.56	£0.00	£2.96	£2.92	£0.00
Expected volatility	35%	31%	31%	33%	35%	34%
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	0.66%	0.31%	–	1.50%	1.09%	–
Expected dividend yield	9.80%	9.88%	9.80%	7.42%	7.42%	7.34%
Probability of forfeiture	33%	44%	30%	33%	44%	30%
Weighted average fair value of options granted	£0.24	£0.36	£1.64	£0.41	£0.44	£2.02

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

	2013 £m	2012 £m
Capital expenditure: Contracted but not provided	1.3	0.5

At 29 March 2013, the Group was committed to making payments in respect of non-cancellable operating leases in the following periods:

	Land and buildings 2013 £m	Other assets 2013 £m	Land and buildings 2012 £m	Other assets 2012 £m
Within one year	84.5	2.1	87.0	1.7
Later than one year and less than five years	274.0	3.9	285.2	3.0
After five years	299.1	0.3	325.4	0.4
	657.6	6.3	697.6	5.1

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 £5.5m (2012: £6.4m).

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 £3.0m (2012: £2.9m).

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 29 March 2013 amounted to £4.1m (2012: £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 138 to 143.

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 101. Key management compensation is disclosed in note 4.

Directors of the Company control 0.18% 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	29 March 2013 £m	30 March 2012 £m
Fixed assets			
Investments	4	**573.0**	572.9
Current assets			
Debtors falling due within one year	5	**51.6**	44.1
Cash and cash equivalents		**2.9**	8.6
		54.5	52.7
Creditors: amounts falling due within one year	6	**(0.3)**	(0.3)
Net current assets		**54.2**	52.4
Creditors: amounts falling due after more than one year	6	**(293.1)**	(257.8)
Net assets		**334.1**	367.5
Capital and reserves			
Called up share capital	8	**2.0**	2.0
Share premium account	9	**151.0**	151.0
Investment in own shares	9	**(13.2)**	(14.0)
Capital redemption reserve	9	**0.3**	0.3
Profit and loss account	9	**194.0**	228.2
Total shareholders' funds		**334.1**	367.5

The notes on pages 118 to 143 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 140.

The financial statements on pages 106 to 111 were approved by the Board of Directors on 23 May 2013 and were signed on its behalf by:

Matt Davies
Chief Executive

Andrew Findlay
Finance Director

Company number: 04457314

Reconciliation of Movements in Total Shareholders' Funds

For the period	**52 weeks to 29 March 2013 £m**	52 weeks to 30 March 2012 £m
Profit for the period	**9.3**	6.0
Shares options exercised	**0.8**	2.1
Purchase of own shares	**(0.9)**	(62.7)
Employee share options	**0.1**	2.1
Dividends	**(42.7)**	(44.2)
Net decrease in total shareholders' funds	**(33.4)**	(96.7)
Opening total shareholders' funds	**367.5**	464.2
Closing total shareholders' funds	**334.1**	367.5

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 29 March 2013, whilst the comparative period covered the 52 weeks to 30 March 2012. The accounts are prepared under the historical cost convention, except where Financial Reporting Standards require an alternative treatment in accordance with applicable UK accounting standards and specifically in accordance with the accounting policies set out below.

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.

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.

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

Share based Payments

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

In accordance with UITF Abstract 44 “FRS 20 (IFRS 2) — Group and treasury share transactions” the fair value of the employee services received under such schemes is recognised as an expense in the subsidiary undertaking’s 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 £9.3m (52 week period to 30 March 2012: £6.0m). 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 29 March 2013 the Company expensed £nil (2012: £0.1m) 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 101 which forms part of the audited information.

4. Investments

	£m
Shares in Group undertaking	
Cost	
As at 30 March 2012	572.9
Additions — share based payments	0.1
At 29 March 2013	**573.0**

The investments represent shares in the following subsidiary undertakings as at 29 March 2013 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 29 March 2013 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.

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.

Notes to the Financial Statements continued

5. Debtors

	2013 £m	2012 £m
Falling due within one year:		
Amounts owed by Group undertakings	**51.6**	44.1
	51.6	44.1

Amounts owed by Group undertakings are subject to interest. At 29 March 2013 the amounts bear interest at a rate of 4.83% (2012: 4.83%).

6. Creditors

	2013 £m	2012 £m
Falling due within one year:		
Accruals and deferred income	**0.3**	0.3
	0.3	0.3
Falling due after more than one year:		
Bank borrowings (note 7)	**103.3**	138.6
Amounts owed to Group undertakings:	**189.8**	119.2
	293.1	257.8

7. Borrowings

	2013 £m	2012 £m
Maturity of debt — bank loans		
Expiring between one and two years	**103.3**	–
Expiring between two and five years(1)	**–**	138.6
	103.3	138.6

(1) The above borrowings are stated net of unamortised issue costs of £0.7m (2012: £2.4m).

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

8. Equity Share Capital

	2013 Number of shares	2013 £000	2012 Number of shares	2012 £000
Ordinary shares of 1p each:				
Allotted, called up and fully paid	**199,063,222**	**1,991**	199,383,222	1,994

During the current period the Company's share capital decreased by 320,000 shares (2012: decreased by 12,602,776 shares). During the period the Company repurchased and cancelled 320,000 shares, and no new shares were issued in the period. There has been no significant impact on share premium as a result of the share transactions, with share premium remaining at £151.0m (2012: £151.0m).

In total the Company received proceeds of £0.8m (2012: £2.1m) from the exercise of share options.

Potential Issue of Ordinary Shares

The Company has four employee share option schemes. Further information regarding these schemes can be found in note 21 to the Group's financial statements.

Interest in Own Shares

At 29 March 2013 the Company held in Trust 4,651,810 (2012: 4,932,009) of its own shares with a nominal value of £46,518 (2012: £49,320). 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 29 March 2013 was £15.0m (2012: £15.4m).

9. Reserves

	Share premium account £m	Investment in own shares £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 30 March 2012	151.0	(14.0)	0.3	228.2	365.5
Profit for the financial period	—	—	—	9.3	9.3
Share options exercised	—	0.8	—	—	0.8
Share based payment transactions	—	—	—	0.1	0.1
Purchase of own shares	—	—	—	(0.9)	(0.9)
Dividends	—	—	—	(42.7)	(42.7)
At 29 March 2013	**151.0**	**(13.2)**	**0.3**	**194.0**	**332.1**

The Company settled dividends of £42.7m (2012: £44.2m) in the period, as detailed in note 8 to the Group's financial statements.

Included in the profit and loss account is £118m of reserves that are not distributable (2012: £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 29 March 2013 amounted to £4.1m (2012: £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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Read online:
halfords.annualreport2013.com/information

Shareholder and Customer Information

Five Year Record

	53 weeks to 3 April 2009 £m	52 weeks to 2 April 2010 £m	52 weeks to 1 April 2011 £mm	52 weeks to 30 March 2012 £m	**52 weeks to 29 March 2013 £m**
Revenue	809.5	831.6	869.7	863.1	**871.3**
Cost of sales	(388.1)	(378.9)	(384.7)	(390.3)	**(394.2)**
Gross profit	421.4	452.7	485.0	472.8	**477.1**
Operating expenses	(329.7)	(340.4)	(364.4)	(373.7)	**(400.0)**
Operating profit before non-recurring items	104.0	119.7	128.1	97.2	**78.1**
Non-recurring operating expenses	(12.3)	(7.4)	(7.5)	1.9	**(1.0)**
Operating profit	91.7	112.3	120.6	99.1	**77.1**
Net finance costs	(14.2)	(2.6)	(2.5)	(5.0)	**(6.1)**
Profit before tax and non-recurring items	94.4	117.1	125.6	92.2	**72.0**
Non-recurring operating expenses	(12.3)	(7.4)	(7.5)	1.9	**(1.0)**
Non-recurring finance costs	(4.6)	—	—	—	**—**
Profit before tax	77.5	109.7	118.1	94.1	**71.0**
Taxation	(26.3)	(34.1)	(34.7)	(24.8)	**(18.2)**
Taxation on non-recurring items	4.6	1.4	2.1	(0.9)	**(0.1)**
Profit attributable to equity shareholders	55.8	77.0	85.5	68.4	**52.7**
Basic earnings per share	26.6p	36.8p	40.7p	34.2p	**27.2p**
Basic earnings per share before non-recurring items	32.5p	39.7p	43.2p	33.7p	**26.9p**
Weighted average number of shares	209.5m	209.1m	210.4m	199.9m	**194.3m**

Key Performance Indicators

	53 weeks to 3 April 2009	52 weeks to 2 April 2010	52 weeks to 1 April 2011	52 weeks to 30 March 2012	**52 weeks to 29 March 2013**
Revenue growth	+1.5%	+2.7%	+4.6%	-0.8%	**+1.0%**
Gross margin	52.1%	54.4%	55.8%	54.8%	**54.8%**
Operating margin	11.3%	13.5%	13.9%	11.5%	**8.8%**

Analysis of Shareholders

As at 29 March 2013, the number of registered shareholders was 3,054 and the number of ordinary shares in issue was 199,063,222.

	No. of holdings	% of total shareholders	No. of Shares	% of Issued Share Capital
Range of holdings				
1–5,000	2,517	82.5	3,389,045	1.7
5,001–10,000	152	5.0	1,085,456	0.5
10,001–50,000	166	5.4	3,759,997	1.9
50,001–100,000	63	2.1	4,551,987	2.3
100,001–500,000	83	2.7	19,589,501	9.8
500,001 and above	73	2.3	166,687,236	83.8
Total	**3,054**	**100.0**	**199,063,222**	**100.0**
Held by				
Individuals	1,793	58.7	3,339,949	1.7
Institutions	1,261	41.3	195,723,273	98.3
Total	**3,054**	**100.0**	**199,063,222**	**100.0**

Company Information

Results and Financial Diary

Annual General Meeting: 30 July 2013.
Final dividend: 2 August 2013.
Record date: 5 July 2013.
Ex dividend date: 3 July 2013.
Half-year report: November 2013.

Annual General Meeting

The AGM will be held at the Crowne Plaza Birmingham NEC, Pendigo Way, National Exhibition Centre, Birmingham, B40 1PS on Tuesday 30 July 2013.

Each shareholder is entitled to attend and vote at the meeting.

Registered & Head Office

Halfords Group plc
Icknield Street Drive
Redditch
Worcestershire
B98 0DE

Registrars

Capita IRG Plc
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire
HD8 0LA

Auditors

KPMG Audit Plc
One Snowhill
Snowhill Queensway
Birmingham
B4 6GH

Joint Brokers

Investec Bank plc
2 Gresham Street
London
EC2V 7QP

J.P.Morgan Cazenove
10 Aldermanbury
London
EC2V 7RF

Solicitors

Clifford Chance
10 Upper Bank Street
London
E14 5JJ

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Shareholder Notes

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Halfords Group plc
Annual Report & Accounts 2013

online version
www.halfords.annualreport2013.com

Corporate and IR website
www.halfordscompany.com

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www.halfords.com

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