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.

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

			52 weeks to 2 April 2010
Income statement	Retail £m	Car Servicing £m	Total £m
Revenue	818.1	13.5	831.6
Segment result before non-recurring items	119.4	0.6	120.0
Non-recurring items	(7.4)	—	(7.4)
Segment result	112.0	0.6	112.6
Unallocated expenses[1]			(0.3)
Operating profit			112.3
Net financing expense			(2.6)
Profit before tax			109.7
Taxation			(32.7)
Profit for the year			77.0

[1] Unallocated expenses have been disclosed to reflect the format of the internal management reports reviewed by the Chief Operating Decision maker and comprise an amortisation charge of £2.2m in respect of assets acquired through business combinations (2010: £0.3m).

Notes to the Financial Statements continued

1. Operating segments continued

Other segment items:	Retail £m	Car Servicing £m	52 weeks ended 1 April 2011 Total £m
Capital expenditure	**16.6**	**6.2**	**22.8**
Depreciation expense	**19.1**	**1.3**	**20.4**
Amortisation expense	**2.5**	**—**	**2.5**
Inventory write-down	**11.0**	**—**	**11.0**

Other segment items:	Retail £m	Car Servicing £m	52 weeks ended 2 April 2010 Total £m
Capital expenditure	20.1	0.3	20.4
Depreciation expense	21.8	0.1	21.9
Impairment expense (property, plant and equipment)	5.0	—	5.0
Amortisation expense	1.9	—	1.9
Inventory write-down	14.9	—	14.9

There have been no transactions between segments in the 52 weeks ended 1 April 2011 (2010: £nil).

2. Operating expenses

For the period	52 weeks to 1 April 2011 £m	52 weeks to 2 April 2010 £m
Selling and distribution costs before non-recurring items	**306.5**	280.2
Non-recurring selling and distribution costs	**—**	6.8
	306.5	287.0
Administrative expenses before non-recurring items	**50.4**	52.8
Non-recurring administrative expenses	**7.5**	0.6
	57.9	53.4
	364.4	340.4

3. Operating profit

For the period	**52 weeks to 1 April 2011 £m**	52 weeks to 2 April 2010 £m
Operating profit is arrived at after charging/(crediting) the following expenses/(incomes) as categorised by nature:		
Operating lease rentals:		
— plant and machinery	**2.2**	1.8
— property rents	**87.4**	82.9
— rentals receivable under operating leases	**(7.2)**	(7.1)
Landlord surrender payments	**(0.6)**	(1.1)
Loss on disposal of property, plant and equipment	**0.1**	0.7
Amortisation of intangible assets	**4.6**	2.2
Depreciation of:		
— owned property, plant and equipment	**19.9**	21.4
— assets held under finance leases	**0.5**	0.5
Impairment of property, plant and equipment	**—**	5.0
Trade receivables impairment	**0.1**	0.2
Staff costs (see note 4)	**144.2**	126.5
Cost of inventories consumed in cost of sales	**375.6**	369.0

The total fees payable by the Group to KPMG Audit Plc and their associates during the period was £0.4m (2010: £1.1m), in respect of the services detailed below:

For the period	**52 weeks to 1 April 2011 £'000**	52 weeks to 2 April 2010 £'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	**184**	236
Other services supplied pursuant to such legislation	**15**	15
Other services relating to taxation	**136**	439
Other services relating to corporate finance activities	**—**	299
Internal audit services	**57**	34
All other services	**—**	9
	422	1,062

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 (2010: £0.1m).

Notes to the Financial Statements continued

4. Staff costs

For the period	52 weeks to 1 April 2011 £m	52 weeks to 2 April 2010 £m
The aggregated remuneration of all employees including directors comprised:		
Wages and salaries	**129.6**	112.8
Social security costs	**9.4**	7.6
Equity-settled share-based payment transactions (note 22)	**2.4**	2.5
Contributions to defined contribution plans (note 24)	**2.8**	3.2
Non-recurring redundancy costs (note 5)	**—**	0.4
	144.2	126.5

	Number	Number
Average number of persons employed by the Group, including Directors, during the period:		
Stores/Autocentres	**10,495**	9,066
Central warehousing	**148**	162
Head offices	**590**	529
	11,233	9,757

Full details of Directors' remuneration and interests are set out in the Directors' Remuneration Report on pages 84 to 93 which form part of these financial statements.

Key management compensation

For the period	52 weeks to 1 April 2011 £m	52 weeks to 2 April 2010 £m
Salaries and short-term benefits	**1.9**	2.9
Social security costs	**0.2**	0.6
Pensions	**0.3**	0.3
Share-based payment charge	**1.0**	0.8
	3.4	4.6

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

There were no outstanding balances at the year end (2010: £nil).

5. Non-recurring items

For the period	52 weeks to 1 April 2011 £m	52 weeks to 2 April 2010 £m
Non-recurring operating expenses:		
Lease guarantee provision[1]	**7.5**	–
Central Europe closure[2]	**–**	7.4
Non-recurring items before tax	**7.5**	7.4
Tax on non-recurring items[3]	**(2.1)**	(1.4)
Non-recurring items after tax	**5.4**	6.0

[1] A non-recurring expense of £7.5m was incurred in the year. This expense relates to the creation of a provision for the potential liabilities arising from lease guarantees provided by Halfords prior to July 1989. An estimate of the potential liability relating to these guarantees was previously disclosed as a contingent liability in the Interim financial statements. 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 the ownership of the Ward White Group. Focus DIY entered into administration in May 2011.

[2] Exit costs associated with the closure of all seven stores in Central Europe. Results for Central Europe for the period was £1.9m (2010: £5.9m), generating an operating loss before non recurring items of £0.4m (2010: £2.5m).

[3] This represents the tax credit at 28% on these non-recurring costs; in 2010 this credit was lower than the UK corporation tax standard rate of 28% due to the non-deductibility of certain legal expenses and depreciation associated with store infrastructure.

6. Finance income and costs

Recognised in profit or loss for the period	52 weeks to 1 April 2011 £m	52 weeks to 2 April 2010 £m
Finance costs:		
Bank borrowings	**(2.1)**	(2.7)
Amortisation of issue costs on loans	**(0.4)**	(0.5)
Commitment and guarantee fees	**(0.6)**	(0.2)
Costs of forward foreign exchange contracts	**(0.4)**	(0.1)
Interest payable on finance leases	**(0.8)**	(0.8)
Interest payable on rent reviews	**–**	(0.3)
Finance costs	**(4.3)**	(4.6)
Finance income:		
Bank and similar interest	**0.9**	2.0
Other interest receivable	**0.9**	–
Finance income	**1.8**	2.0
Net finance costs	**(2.5)**	(2.6)

Other interest includes £0.9m relating to the settlement of amounts due from HMRC in the period.

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

	52 weeks to 1 April 2011 £m	52 weeks to 2 April 2010 £m
Total interest income on financial assets	**1.8**	2.0
Total interest expense on financial liabilities	**(3.9)**	(4.5)

Notes to the Financial Statements continued

7. Taxation

For the period	52 weeks to 1 April 2011 £m	52 weeks to 2 April 2010 £m
Current taxation		
UK corporation tax charge for the period	**35.7**	35.5
Adjustment in respect of prior periods	**(4.1)**	(1.1)
	31.6	34.4
Deferred taxation		
Origination and reversal of timing differences	**(0.2)**	(2.5)
Adjustment in respect of prior periods	**1.2**	0.8
	1.0	(1.7)
Total tax charge for the period	**32.6**	32.7

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

For the period	52 weeks to 1 April 2011 £m	52 weeks to 2 April 2010 £m
Profit before tax	**118.1**	109.7
UK corporation tax at standard rate of 28% (2010: 28%)	**33.1**	30.7
Factors affecting the charge for the period:		
Depreciation on expenditure not eligible for tax relief	**1.2**	1.8
Employee share options	**1.2**	(0.2)
Non-taxable income	**(0.7)**	–
Other disallowable expenses	**0.7**	0.7
Adjustment in respect of prior periods	**(2.9)**	(0.3)
Total tax charge for the period	**32.6**	32.7

On 22 June 2010 the Chancellor announced that the main rate of UK corporation tax will reduce from 28% to 27% with effect from 1 April 2011. This tax change became substantively enacted in July 2010 and therefore the effect of the rate reduction on the deferred tax balances as at 1 April 2011 has been included in the figures above. On 23 March 2011 the Chancellor announced a further reduction in the main rate of UK corporation tax to 26% with effect from 1 April 2011. This change became substantively enacted on 29 March 2011 and therefore the effect of the rate reduction has been reflected in the figures above as it was substantively enacted prior to the balance sheet date.

The Chancellor also proposed changes to further reduce the main rate of corporation tax by 1% per annum to 23% by 1 April 2014, but these changes have not yet been substantively enacted. It has not yet been possible to quantify the full anticipated effect of this further 3% rate reduction, although this will further reduce the Group's future current tax charge and reduce the Group's deferred tax assets and liabilities accordingly.

In this financial period, the UK corporation tax standard rate was 28% (2010: 28%).

The effective tax rate of 27.6% (2010: 29.8%) differs from the UK corporation tax rate principally due to the non-deductibility of depreciation charged on capital expenditure, the reassessment of anticipated future tax deductions from employee share schemes and the reassessment of historic tax provisions required against tax uncertainties.

The tax charge of £32.6m (2010: £32.7m) includes a credit of £2.1m (2010: £1.4m) in respect of the tax on non-recurring costs, as detailed in note 5.

An income tax credit of £1.1m (2010: £0.6m charge) 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.

8. Dividends

For the period	**52 weeks to 1 April 2011 £m**	52 weeks to 2 April 2010 £m
Equity – ordinary shares		
Final for the 52 weeks to 2 April 2010 – paid 14.00p per share (2010: 10.90p)	**29.3**	22.8
Interim for the 52 weeks to 1 April 2011 – paid 8.00p per share (2010: 6.00p)	**16.9**	12.5
	46.2	35.3

In addition, the Directors are proposing a final dividend in respect of the financial period ended 1 April 2011 of 14.00p per share (2010: 14.00p per share), which will absorb an estimated £29.5m (2010: £29.3m) of shareholders' funds. It will be paid on 6 August 2011 to shareholders who are on the register of members on 1 July 2011.

9. Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. The weighted average number of shares excludes shares held by an Employee Benefit Trust (see note 21) and has been adjusted for the issue/purchase of shares during the period.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the 52 weeks to 1 April 2011.

For the period	**52 weeks to 1 April 2011 Number of shares £m**	52 weeks to 2 April 2010 Number of shares £m
Weighted average number of shares in issue	**211.5**	210.2
Less: shares held by the Employee Benefit Trust	**(1.1)**	(1.1)
Weighted average number of shares for calculating basic earnings per share	**210.4**	209.1
Weighted average number of dilutive shares	**2.4**	1.5
Total number of shares for calculating diluted earnings per share	**212.8**	210.6

For the period	**52 weeks to 1 April 2011 £m**	52 weeks to 2 April 2010 £m
Basic earnings attributable to equity shareholders	**85.5**	77.0
Non-recurring items (see note 5):		
Operating expenses	**7.5**	7.4
Tax on non-recurring items	**(2.1)**	(1.4)
Underlying earnings before non-recurring items	**90.9**	83.0

Earnings per share is calculated as follows:

For the period	**52 weeks to 1 April 2011**	52 weeks to 2 April 2010
Basic earnings per ordinary share	**40.7p**	36.8p
Diluted earnings per ordinary share	**40.2p**	36.6p
Basic earnings per ordinary share before non-recurring items	**43.2p**	39.7p
Diluted earnings per ordinary share before non-recurring items	**42.7p**	39.4p

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

Notes to the Financial Statements continued

10. Acquisition of subsidiary undertaking in prior year

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

The acquisition had the following effect on the Group's assets and liabilities:

	Pre-acquisition carrying amounts £m	Fair value adjustments £m	Recognised values on acquisition £m
Acquiree's net assets at the acquisition date			
Property, plant and equipment	5.4	(0.2)	5.2
Intangible assets	—	18.2	18.2
Inventories	1.2	—	1.2
Trade and other receivables	5.7	—	5.7
Trade and other payables	(16.6)	(0.4)	(17.0)
Provisions	(0.7)	(1.7)	(2.4)
Current tax liabilities	(0.9)	(0.4)	(1.3)
Deferred tax liabilities	0.3	(4.7)	(4.4)
Net identifiable assets and liabilities	**(5.6)**	**10.8**	**5.2**
Goodwill on acquisition (see note 11)			**69.7**
Consideration paid			**74.9**

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

There have been no subsequent changes to the fair value of the net assets acquired at the time of purchase.

Contingent consideration

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

£1.0m of the additional cash consideration was payable on 17 February 2011 and was settled on that date. The remaining £0.7m is payable on 17 February 2012.

The deferred consideration of £0.9m has been settled in the year.

11. Intangible assets

	Brand names and trademarks £m	Customer relationships £m	Favourable leases £m	Computer software £m	Goodwill £m	Total £m
Cost						
At 3 April 2009	0.2	—	—	16.1	274.8	291.1
Additions	—	—	—	3.5	—	3.5
Assets acquired through business combinations	0.9	14.9	2.3	0.1	69.7	87.9
At 2 April 2010	1.1	14.9	2.3	19.7	344.5	382.5
Additions	—	—	—	2.6	—	2.6
At 1 April 2011	**1.1**	**14.9**	**2.3**	**22.3**	**344.5**	**385.1**
Amortisation						
At 3 April 2009	0.2	—	—	9.7	21.7	31.6
Charge for the period	0.1	0.2	—	1.9	—	2.2
At 2 April 2010	0.3	0.2	—	11.6	21.7	33.8
Charge for the period	0.4	1.7	—	2.5	—	4.6
At 1 April 2011	**0.7**	**1.9**	**—**	**14.1**	**21.7**	**38.4**
Net book value at 1 April 2011	**0.4**	**13.0**	**2.3**	**8.2**	**322.8**	**346.7**
Net book value at 2 April 2010	0.8	14.7	2.3	8.1	322.8	348.7

No intangible assets are held as security for external borrowings.

Included in computer software are internally generated assets of £0.3m (2010: £0.4m). Product rights of £0.2m, which are fully amortised, have been included within Brand names and trademarks.

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

The goodwill arising on the acquisition of the Nationwide Autocentres is attributable to a) future income to be generated from new retail, fleet customer contracts and related relationships, b) the Nationwide 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 and expectations for future market developments.

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 1 April 2011 and 2 April 2010 are as follows:

		Retail		Car Servicing	
	Notes	**2011**	2010	**2011**	2010
Discount rate	1	**14.2%**	12.2%	**14.9%**	13.9%
Growth rate	2	**0.0%**	0.0%	**0.0%**	0.0%

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

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

Notes to the Financial Statements continued

12. Property, plant and equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Payments on account and assets in course of construction £m	Total £m
Cost				
At 3 April 2009	49.1	287.8	0.2	337.1
Additions	0.7	8.9	7.3	16.9
Effect of movements in exchange rates	0.1	0.8	–	0.9
Assets acquired through business combinations	3.0	2.2	–	5.2
Disposals	(0.7)	(3.7)	–	(4.4)
Reclassifications	0.1	–	(0.1)	–
At 2 April 2010	52.3	296.0	7.4	355.7
Additions	5.3	14.7	0.2	20.2
Disposals	(0.6)	(6.5)	–	(7.1)
Reclassifications	0.5	6.9	(7.4)	–
At 1 April 2011	**57.5**	**311.1**	**0.2**	**368.8**
Depreciation				
At 3 April 2009	20.8	208.8	–	229.6
Depreciation for the period	2.5	19.4	–	21.9
Impairment charge	0.3	4.7	–	5.0
Disposals	(0.5)	(3.2)	–	(3.7)
At 2 April 2010	23.1	229.7	–	252.8
Depreciation for the period	3.0	17.4	–	20.4
Disposals	(0.5)	(6.5)	–	(7.0)
At 1 April 2011	**25.6**	**240.6**	**–**	**266.2**
Net book value at 1 April 2011	**31.9**	**70.5**	**0.2**	**102.6**
Net book value at 2 April 2010	29.2	66.3	7.4	102.9

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

The prior period impairment charge included the impairment of assets in relation to the closure of stores in Central Europe. These assets have been fully disposed of in the period.

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 1 April 2011			
Cost	12.7	0.8	13.5
Accumulated depreciation	(3.6)	(0.8)	(4.4)
Net book value	**9.1**	**–**	**9.1**
As at 2 April 2010			
Cost	12.7	0.8	13.5
Accumulated depreciation	(3.0)	(0.8)	(3.8)
Net book value	9.7	–	9.7

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

Finance lease liabilities are payable as follows:

	Minimum lease payments 2011 £m	Interest 2011 £m	Principal 2011 £m	Minimum lease payments 2010 £m	Interest 2010 £m	Principal 2010 £m
Less than one year	**1.0**	**0.7**	**0.3**	1.0	0.8	0.2
Between one and five years	**4.3**	**2.9**	**1.4**	4.2	2.9	1.3
More than five years	**14.7**	**4.6**	**10.1**	15.8	5.3	10.5
	20.0	**8.2**	**11.8**	21.0	9.0	12.0

13. Inventories

	2011 £m	2010 £m
Finished goods for resale	**147.6**	138.5

Finished goods inventories include £8.4m (2010: £8.4m) of provisions to carry inventories at fair value less costs to sell where such value is lower than cost. The Group did not reverse any unutilised provisions during the period.

During the period £11.0m was recognised as an expense in respect of the write-down of inventories (2010: £14.9m) to net realisable value which, in the prior period, included the impairment of inventories in relation to the closure of stores in Central Europe.

No inventories are held as security for external borrowings.

14. Trade and other receivables

	2011 £m	2010 £m
Falling due within one year:		
Trade receivables	**10.4**	10.2
Less: provision for impairment of receivables	**(0.3)**	(0.3)
Trade receivables — net	**10.1**	9.9
Other receivables	**2.8**	5.8
Prepayments and accrued income	**29.1**	27.2
	42.0	42.9

During the period the Group created a provision of £0.3m (2010: £0.3m) for the impairment of trade receivables and utilised £0.1m (2010: £0.1m).

15. Cash and cash equivalents

	2011 £m	2010 £m
Cash at bank and in hand	**2.7**	36.5

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

Notes to the Financial Statements continued

16. Borrowings

Current	2011 £m	2010 £m
Unsecured bank overdraft	**7.3**	—
Finance lease liabilities	**0.3**	0.2
	7.6	0.2
Non-current		
Unsecured bank loan and other borrowings[1]	**86.8**	180.0
Finance lease liabilities	**11.5**	11.8
	98.3	191.8

[1] The above borrowings are stated net of unamortised issue costs of £3.2m (2010: £nil).

The Group has renegotiated its debt facility with effect from 5 November 2010 and secured a four-year £300m revolving credit facility from that date (with an option to extend by a further year). While variable in line with the level of Group debt, at the Group's optimal gearing level of 1.5× EBITDA, the facility carries an interest margin of approximately 200bps.

With revised facilities in place the Board has determined that it has sufficient working capital and undrawn financing facilities to service its operating activities and ongoing capital investments following the signing. The Board retains its preference for financial flexibility and lower gearing whilst pursuing high return investments. Accordingly the Group's pro forma gearing at the end of the period was 0.7× EBITDA.

The revolving credit facility permits further borrowings of £210m up to a maximum of £300m.

17. Trade and other payables — current

	2011 £m	2010 £m
Trade payables	**80.7**	74.0
Other taxation and social security payable	**18.1**	10.9
Other payables	**5.4**	4.7
Deferred income — lease incentives	**3.7**	3.7
Accruals and other deferred income	**34.1**	38.2
	142.0	131.5

18. Provisions

	Central Europe exit £m	Distribution reorganisation £m	Property related £m	Other trading £m	Total £m
At 2 April 2010	3.5	6.8	11.8	1.6	23.7
Charged during the period	–	–	8.4	1.2	9.6
Utilised during the period	(2.0)	(6.8)	(2.8)	(0.8)	(12.4)
Released during the period	(0.7)	–	(2.1)	(0.2)	(3.0)
At 1 April 2011	**0.8**	**–**	**15.3**	**1.8**	**17.9**
Analysed as:					
Current liabilities	**0.8**	**–**	**7.8**	**1.8**	**10.4**
Non-current liabilities	**–**	**–**	**7.5**	**–**	**7.5**

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

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

Property related provisions consist of costs associated with vacant property, rent reviews and dilapidations. Also included in the current period are £7.5m of 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.

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

Restructuring provisions

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

Key assumptions within the Central Europe exit and Distribution reorganisation provisions 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.

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

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

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

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

Notes to the Financial Statements continued

19. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 26% (2010: 28%).

	2011 £m	2010 £m
The movement on the deferred taxation (provision)/asset is shown below:		
At the beginning of the period	**(0.5)**	2.7
Acquired through business combinations	**–**	(4.4)
Income statement (charge)/credit (note 7)	**(1.0)**	1.7
Credit/(debit) to equity	**1.2**	(0.5)
At the end of the period	**(0.3)**	(0.5)

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

Deferred tax liabilities:

	£m
At 3 April 2009	(5.7)
Acquired through business combinations	(5.0)
Credit to the income statement	1.2
Debit to other comprehensive income	(0.6)
At 2 April 2010	(10.1)
Credit to the income statement	1.1
Credit to other comprehensive income	1.1
At 1 April 2011	**(7.9)**

Deferred tax assets:

	£m
At 3 April 2009	8.4
Acquired through business combinations	0.6
Credit to the income statement	0.5
Credit to equity	0.1
At 2 April 2010	9.6
Debit to the income statement	(2.1)
Credit to equity	0.1
At 1 April 2011	**7.6**
Net deferred tax (liability)/asset	
At 1 April 2011	**(0.3)**
At 2 April 2010	(0.5)

Deferred tax liabilities represents the deferred tax calculated on the accelerated tax depreciation and fair value of financial instruments held at 1 April 2011.

Deferred tax assets represents the deferred tax calculated on provisions and share options held at 1 April 2011.

20. Financial instruments and related disclosures

Treasury policy

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

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

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

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

The Group's debt management policy is to provide an appropriate level of funding to finance the Business Plan over the medium term at a competitive cost and ensure flexibility to meet the changing needs of the Group. The Group has a syndicated four-year revolving credit facility totalling £300m that provides the Group with committed bank facilities until November 2014, which are extendable by a further year. See note 16.

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

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

Market risk

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

Interest rate risk

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

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

Financial liabilities	**2011 Carrying amount £m**	2010 Carrying amount £m
Finance leases	**11.8**	12.0
Variable rate instruments	**90.0**	180.0
	101.8	192.0

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

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

	2011 Increase in finance cost £m	**2011 Reduction in equity £m**	2010 Increase in finance cost £m	2010 Reduction in equity £m
1% increase in sterling interest rates	**(0.9)**	**–**	(1.8)	–

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

The movement in the income statement reflects the effect on finance costs on the unhedged borrowings of the Group as shown in the table. 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.

Notes to the Financial Statements continued

20. Financial instruments and related disclosures continued

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 1 April 2011, the foreign exchange management policy was to hedge via forward contract purchase between 75%–80% of the material foreign exchange transaction exposures on a rolling 12-month basis. Hedging is performed through the use of foreign currency bank accounts, monitoring of spot rates and forward foreign exchange contracts.

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

	1 April 2011			2 April 2010		
	GBP £m	**USD £m**	**Other £m**	GBP £m	USD £m	Other £m
Cash and cash equivalents	**(6.0)**	**–**	**1.4**	33.7	0.1	2.7
Trade and other receivables	**42.0**	**–**	**–**	42.9	–	–
Long-term borrowings	**(90.0)**	**–**	**–**	(180.0)	–	–
Trade and other payables	**(128.1)**	**(13.6)**	**(0.3)**	(116.2)	(15.0)	(0.3)
	(182.1)	**(13.6)**	**1.1**	(219.6)	(14.9)	2.4

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

	Average rate		**Reporting date spot rate**	
	2011	2010	**2011**	2010
USD	**1.56**	1.60	**1.60**	1.53
EUR	**1.18**	1.13	**1.13**	1.13

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.

	2011 Increase/ (decrease) in equity £m	2010 Increase/ (decrease) in equity £m
10% appreciation of the US dollar	**11.0**	8.4
10% depreciation of the US dollar	**(8.7)**	(7.5)

A strengthening of sterling, as indicated, against the USD at 1 April 2011 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.

Credit risk

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

Carrying amount	2011 £m	2010 £m
Cash and cash equivalents	**2.7**	36.5
Loans and receivables[1]	**12.5**	15.5
Forward exchange contracts used for hedging (assets)	**0.3**	3.0
Total financial assets	**15.5**	55.0

The £12.5m (2010: £15.5m) maximum exposure to credit risk, at the reporting date for loans and receivables related to the UK.

The Group does not have any individually significant customers.

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

	2011 £m	2010 £m
Not past due	**10.0**	12.7
Past due by 1–30 days	**0.9**	1.4
Past due by 31–90 days	**1.3**	0.6
Past due by 91–180 days	**0.3**	0.8
	12.5	15.5

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

Liquidity risk

The Group ensures that it has sufficient cash or loan facilities to meet all its commitments when they fall due by ensuring that there is sufficient cash or working capital facilities to meet the cash requirements of the Group for the current Business Plan. The minimum liquidity level is currently set at £30.0m, 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 time of the drawdown of the bank facility in November 2010 all banks within the club were 'A' grade. 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. Reporting on covenant compliance forms part of the Treasury Report. There have been no breaches of covenants during the reported periods.

Notes to the Financial Statements continued

20. Financial instruments and related disclosures continued

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

2011	**Bank borrowings £m**	**Finance leases £m**	**Trade and other payables[2] £m**	**Total £m**
Due less than one year	**3.2**	**1.0**	**112.1**	**116.3**
Expiring between 1 and 2 years	**3.2**	**1.0**	**—**	**4.2**
Expiring between 2 and 5 years	**95.0**	**3.3**	**—**	**98.3**
Expiring after 5 years	**—**	**14.7**	**—**	**14.7**
Contractual cash flows	**101.4**	**20.0**	**112.1**	**233.5**
Carrying amount	**86.8**	**11.8**	**112.1**	**210.7**

2010	Bank borrowings £m	Finance leases £m	Trade and other payables[2] £m	Total £m
Due less than one year	2.4	1.0	111.6	115.0
Expiring between 1 and 2 years	180.6	1.0	—	181.6
Expiring between 2 and 5 years	—	3.2	—	3.2
Expiring after 5 years	—	15.8	—	15.8
Contractual Cash Flows	183.0	21.0	111.6	315.6
Carrying amount	180.0	12.0	111.6	303.6

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 1 April 2011 (2 April 2010).

		2011		2010
	Receivables £m	**Payables £m**	Receivables £m	Payables £m
Due less than one year	**95.4**	**(97.8)**	77.1	(75.2)
Expiring between 1 and 2 years	**1.2**	**(1.3)**	—	—
Contractual cash flows	**96.6**	**(99.1)**	77.1	(75.2)
Fair value	**0.3**	**(2.3)**	3.0	(0.8)

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

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

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 closing spot rate at the balance sheet date and the outright contract rate.

Fair value hierarchy

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

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

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

Cash flow hedges

Forward currency contracts

Forward dated foreign exchange contracts are undertaken to hedge known exposure to foreign purchases in US dollars. The fair value of such derivatives is shown in the table on page 128.

Borrowing facilities

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

	2011 £m	2010 £m
Expiring within 1 year	**1.0**	1.0
Expiring between 1 and 2 years	**—**	120.0
Expiring between 2 and 5 years	**210.0**	—
	211.0	121.0

The facilities expiring within one year were annual facilities subject to review at various dates during the period. The facility of £210.0m relates to the Group's revolving credit facility. All these facilities incurred commitment fees at market rates.

Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Between June 2006 and September 2009, the Group managed its capital structure partly through a share buy-back scheme and a new share buy-back scheme was initiated on 7 April 2011.

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

1. Trade and other receivables

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

	2011 £m	2010 £m
Trade and other receivables	**42.0**	42.9
Analysed as:		
Financial assets in the scope of IAS 39	**12.5**	15.5
Other assets	**29.5**	27.4
	42.0	42.9

Notes to the Financial Statements continued

20. Financial instruments and related disclosures continued

2. Trade and other payables and other non-current liabilities

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

	2011 £m	2010 £m
Trade and other payables	**142.0**	131.5
Analysed as:		
Financial liabilities in the scope of IAS 39	**112.1**	111.6
Other liabilities	**29.9**	19.9
	142.0	131.5

21. Capital and reserves

	2011 Number of shares	**2011 £000**	2010 Number of shares	2010 £000
Ordinary shares of 1p each:				
Allotted, called up and fully paid	**211,985,998**	**2,120**	210,710,960	2,107

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 increased by 1,275,038 shares (2010: 924,709 shares) due to the exercise by employees of share options which are shown in the tables in note 22. The effect of this increase in share capital was to increase share premium by £4.5m to £151.0m (2010: £146.5m).

In total the Company received proceeds of £4.5m (2010: £0.9m) from the exercise of share options.

Interest in own shares

At 1 April 2011 the Company held in Trust 1,108,520 (2010: 1,113,985) of its own shares with a nominal value of £11,085 (2010: £11,140). The Trust has waived any entitlement to the receipt of dividends in respect of its holding of the Company's ordinary shares. The market value of these shares at 1 April 2011 was £3.9m (2010: £5.4m).

Translation reserve

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

Capital redemption reserve

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

Hedging reserve

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

22. Share-based payments

The Group has three share award plans:

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

1. Halfords Company Share Option Scheme

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

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

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

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

Grant date	3 August 2009	7 August 2008	12 July 2007	6 July 2006	13 July 2005	2 June 2004
Share price at grant date	£3.4583	£3.0725	£3.9875	£3.010	£2.955	£2.600
Exercise price	£3.4583	£3.0725	£3.9875	£3.010	£2.955	£2.600
Number of employees	137	740	673	36	42	3,598
Shares under option	465,728	1,881,467	1,600,591	252,000	294,000	6,556,953
Vesting period (years)	3	3	3	3	3	3
Expected volatility	34%	27%	23%	35%	37%	40%
Option life (years)	10	10	10	10	10	10
Expected life (years)	4.85	4.85	4.85	4.85	4.85	3.85
Risk free rate	3.00%	4.61%	5.67%	4.70%	4.68%	4.68%
Expected dividend yield	4.49%	4.83%	4.10%	4.00%	4.00%	4.00%
Possibility of ceasing employment before vesting	32%	32%	32%	32%	32%	34%
Expectations of meeting performance criteria	100%	100%	100%	100%	100%	100%
Fair value per option	£0.75	£0.56	£0.75	£0.77	£0.79	£0.70
Expired during the period	70,165	232,254	216,511	—	—	18,000
Number of options outstanding at 1 April 2011	394,063	1,376,013	299,699	31,944	—	134,400

halfords

Notes to the Financial Statements continued

22. Share-based payments continued

Grant date	8 September 2010	3 August 2010
Share price at grant date	£5.030	£4.855
Exercise price	£5.030	£4.855
Number of employees	113	536
Shares under option	144,000	1,197,740
Vesting period (years)	3	3
Expected volatility	35%	35%
Option life (years)	10	10
Expected life (years)	4.85	4.85
Risk free rate	1.80%	2.15%
Expected dividend yield	4.00%	4.08%
Possibility of ceasing employment before vesting	33%	33%
Expectations of meeting performance criteria	100%	100%
Fair value per option	£1.10	£1.08
Expired during the period	1,500	19.885
Number of options outstanding at 1 April 2011	142,500	1,177,585

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

	Exercise price	**2011 Number of shares**	2010 Number of shares
2 June 2004	£2.60	**41,400**	81,400
6 July 2006	£3.01	**14,000**	134,884
12 July 2007	£3.99	**830,334**	—
7 August 2008	£3.07	**38,818**	28,876
		924,552	245,160

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

Grant date	10 August 2010	7 August 2009	7 August 2008	7 August 2007
Share price at grant date	£5.1383	£3.2592	£2.4083	£4.02
Exercise price	£4.1507	£2.6074	£1.9267	£3.22
Number of employees	541	403	821	1,064
Shares under option	295,737	305,750	1,491,586	929,890
Vesting period (years)	3	3	3	3
Expected volatility	39%	38%	29%	22%
Option life (years)	3	3	3	3
Expected life (years)	3.5	3.5	3.5	3.5
Risk free rate	1.49%	2.74%	4.58%	5.54%
Expected dividend yield	4.26%	4.42%	4.83%	4.10%
Possibility of ceasing employment before vesting	44%	44%	44%	44%
Expectations of meeting performance criteria	100%	100%	100%	100%
Fair value per option	£1.22	£0.95	£0.61	£1.01
Expired during the period	31,119	60,879	133,933	27,601
Forfeited during the period	—	280	1,949	4,749
Number of options outstanding at 1 April 2011	264,618	208,518	920,265	645

Share options exercised during the period by scheme grant date:

	Exercise price	**2011 Number of shares**	2010 Number of shares
1 August 2006	£3.01	**–**	52,135
7 August 2007	£3.22	**203,581**	2,436
7 August 2008	£1.93	**109,051**	17,562
7 August 2009	£2.61	**9,564**	—
		322,196	72,133

Notes to the Financial Statements continued

22. Share-based payments continued

3. Performance Share Plan

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

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

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

Grant date	**3 August 2010**	**3 August 2009**	**7 August 2008**	**12 July 2007**
Share price at grant date	£4.8550	£3.4583	£2.962	£4.02
Number of employees	25	20	20	21
Shares under option	320,288	824,927	866,340	539,893
Shares representing dividends reinvested	6,524	38,957	—	—
Vesting period (years)	3	3	3	3
Expected volatility	41%	41%	30%	22%
Option life (years)	3	3	3	3
Expected life (years)	3	3	3	3
Expected dividend yield	4.08%	4.49%	4.83%	4.10%
Possibility of ceasing employment before vesting	30%	30%	30%	30%
Expectations of meeting performance criteria	100%	100%	100%	100%
Fair value per option	£3.65	£2.74	£1.97	£2.69
Expired during the period	—	13,865	19,203	18,046
Forfeited during the period	—	128,687	—	—
Number of shares outstanding 1 April 2011	326,542	734,171	691,417	—

Share options exercised during the period by scheme grant date:

	Exercise price	**2011 Number of shares**	2010 Number of shares
11 July 2006	£0.00	**–**	311,716
12 July 2007	£0.00	**39,168**	295,700
7 August 2008	£0.00	**86,099**	—
		125,267	607,416

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

For 2009 awards onwards, the Committee has recommended the reinvestment of dividends earned on award shares, such shares to invest in proportion to the vesting of the original award shares. This is in line with best practice as contained in the ABI guidelines on executive remuneration. Following this recommendation the shares awarded in 2009 under the Performance Share Plan earned final dividends of 14p per share and were reinvested in shares at a cost of £4.81 per share. Shares awarded in both 2009 and 2010 under the PSP earned interim dividends of 8p per share and were reinvested in shares at cost of £4.10 per share

A reconciliation of option movements for the share award plans over the year to 1 April 2011 is shown below:

	1 April 2011		2 April 2010	
	Number ('000)	**Weighted average exercise price (£)**	Number ('000)	Weighted average exercise price (£)
Outstanding at start of year	**7,073**	**2.33**	6,943	2.36
Granted	**1,957**	**3.97**	1,596	1.51
Shares representing dividends reinvested	**45**	**3.94**	12	3.91
Forfeited	**(135)**	**0.15**	—	—
Exercised	**(1,372)**	**3.26**	(925)	0.98
Lapsed	**(865)**	**3.01**	(553)	2.68
Outstanding at end of year	**6,703**	**2.55**	7,073	2.33
Exercisable at end of year	**525**	**3.14**	298	2.16

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

1 April 2011				2 April 2010			
		Weighted average remaining life (years)				Weighted average remaining life (years)	
Weighted average exercise price	**Number of shares ('000)**	**Expected**	**Contractual**	Weighted average exercise price	Number of shares ('000)	Expected	Contractual
£1.93	**920**	**0.8**	**0.3**	£1.93	1,167	1.8	1.3
£2.60	**134**	**–**	**3.2**	£2.60	194	—	4.2
£2.61	**209**	**1.8**	**1.3**	£2.61	279	2.8	2.3
£3.01	**32**	**0.1**	**5.3**	£3.01	47	1.1	6.3
£3.07	**1,376**	**2.2**	**7.3**	£3.07	1,647	3.2	8.3
£3.22	**–**	**–**		£3.22	237	0.8	0.3
£3.46	**394**	**3.2**	**8.3**	£3.46	464	4.2	9.3
£3.99	**300**	**1.1**	**6.3**	£3.99	1,347	2.1	7.3
£4.86	**1,178**	**4.2**	**9.3**	—	—	—	—
£5.03	**143**	**4.2**	**9.3**	—	—	—	—
£4.15	**265**	**2.8**	**2.3**	—	—	—	—
£0.00	**1,752**	**0.7**	**0.7**	£0.00	1,692	1.8	1.8

The weighted average exercise price during the period for options exercised was £3.26 (2010: £0.98). The total charge for the year relating to employee share-based payment plans was £2.4m (2010: £2.5m), all of which related to equity-settled share-based payment transactions.

Notes to the Financial Statements continued

23. Commitments

	2011 £m	2010 £m
Capital expenditure: Contracted but not provided	**1.0**	3.9

At 1 April 2011, the Group was committed to making payments in respect of non-cancellable operating leases in the following periods:

	Land and buildings 2011 £m	Other assets 2011 £m	Land and buildings 2010 £m	Other assets 2010 £m
Within one year	**87.2**	**1.5**	90.5	1.2
Later than one year and less than five years	**300.2**	**2.6**	328.3	1.5
After five years	**350.5**	**0.7**	392.7	0.8
	737.9	**4.8**	811.5	3.5

The Group leases a number of stores and warehouses under operating leases of varying length for which incentives/premiums are received/paid under the relevant lease agreements. Land and buildings have been considered separately for lease classification. The operating lease commitments are shown before receipts of sublet income, which totalled £7.2m (2010: £7.1m).

24. Pensions

Employees are offered membership of the Halfords Pension, which is a contract based plan, where each member has their own individual pension policy, which they monitor independently. The costs of contributions to the scheme are charged to the income statement in the period that they arise. The contributions to the scheme for the period amounted to £2.8m (2010: £3.2m).

25. Contingent liabilities

The Group's banking arrangements include the facility for the bank to provide a number of guarantees in respect of liabilities owed by the Group during the course of its trading. In the event of any amount being immediately payable under the guarantee, the bank has the right to recover the sum in full from the Group. The total amount of guarantees in place at 1 April 2011 amounted to £3.9m (2010: £3.2m).

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

26. Related Party Transactions

Subsidiary undertakings

The Group's ultimate parent company is Halfords Group plc. A listing of all principal trading subsidiary undertakings is shown within the financial statements of the Company on page 142.

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 84 to 93. Key management compensation is disclosed in note 4.

Directors of the Company control 0.17% of the ordinary shares of the Company.

27. Off balance sheet arrangements

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

28. Post-balance sheet events

Share buyback programme

Following a review by the Board of the Group's capital structure and cash generation capabilities, with effect from 7 April 2011, the Group commenced a share buyback programme, returning up to £75m of cash to Shareholders over the following twelve months. As at 3 June 2011 approximately £20.7m of buyback has taken place via the purchase of 5.3 million shares.

Lease guarantee provision

A non-recurring expense of £7.5m was incurred in the year. This expense relates to the creation of a provision for the potential liabilities arising from lease guarantees provided by Halfords prior to July 1989. An estimate of the potential liability relating to these guarantees was previously disclosed as a contingent liability in the Interim financial statements. 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 the ownership of the Ward White Group. Focus DIY entered into administration in May 2011.