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 1 April 2016 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 39, 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 1 April 2016, whilst the comparative period covered the 53 weeks to 3 April 2015.

Basis of Consolidation
Subsidiary Undertakings
A subsidiary is an entity controlled by Halfords. Control is achieved when Halfords is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power, directly or indirectly, over the investee.

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 subsidiary undertakings of the Company at 1 April 2016 are detailed in note 4 to the Company balance sheet on page 116.

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.

Accounting Policies continued

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

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

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

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

Foreign Currency Translation
Functional and Presentation Currency
The consolidated financial statements are presented in pounds sterling, which is the Group's presentation currency and are rounded to the nearest hundred thousand, except where it is deemed relevant to disclose the amounts to the nearest pound. Items included in the financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

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

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

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

Employee Benefits
i) Pensions
The Halfords Pension Plan is a contract based plan, where each member has their own individual pension policy, which they monitor independently. The Group pays fixed contributions and has no legal or constructive obligation to pay further amounts. The costs of contributions to the scheme are charged to the income statement in the period that they arise.

ii) Share based Payment Transactions
The Group operates a number of equity-settled share based compensation plans.

The fair value of the employee services received under such schemes is recognised as an expense in the income statement. Fair values are determined by use of an appropriate pricing model and incorporate an assessment of relevant market performance conditions.

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

At each balance sheet date, the Group revises its estimates of the number of share incentives that are expected to vest. The impact of the revision of original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity.

Taxation

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

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

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

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

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

Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Dividends

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

Intangible Assets

i) Goodwill

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

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

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

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

ii) Computer Software

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

iii) Acquired Intangible Assets

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

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

- Brand names and trademarks 2 years, in respect of Autocentres, and 10 years in respect of cBoardman;
- 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.

Accounting Policies continued

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 are recognised on a straight-line basis over the term of the lease.

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

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

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

Provisions
A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

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

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

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 quantum and/or timing of the amounts payable, and the time value of money has been incorporated in to the provision amount to take account of this sensitivity.

Provision is also made for onerous contracts in loss-making stores and autocentres which management do 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.

A dilapidations provision is recognised when there are future obligations relating to the maintenance of leasehold properties. The provision is based on management's best estimate of the obligation which forms part of the Group's unavoidable cost of meeting its obligations under the lease contracts. Key uncertainties are the estimates of amounts due.

Provisions for employer and product liability claims are recognised when an incident occurs or when a claim made against the Group is received that could lead to there being an outflow of benefits from the Group. The provision is based on management's best estimate of the settlement assisted by an external third party. The main uncertainty is the likelihood of success of the claimant and hence the pay-out however a provision is only recognised where there is considered to be reasonable grounds for the claim.

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 share 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.

Accounting Policies continued

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

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

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

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.

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

Impairment of Assets
Goodwill and other assets are subject to impairment reviews based on whether current or future events and circumstances suggest that their recoverable value may be less than their carrying value. Recoverable amount is based on a calculation of expected future cash flows, which includes management assumptions and estimates of future performance. Details of the assumptions used in the impairment review of goodwill and other assets are explained in note 11.

The carrying amount of these assets and liabilities can be seen in the notes to the financial statements on pages 92 to 118.

Adoption of new and revised standards

The following standards and interpretations are applicable to the Group and have been adopted in the current period as they are mandatory for the year ended 1 April 2016 but either have no material impact on the result or net assets of the Group or are not applicable.

- IAS 36 'Impairment of assets' (Amendment) — the amendments reverse the unintended requirement in IFRS 13 to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed.
- IAS 39 'Financial instruments: Recognition and measurement' — amendments relating to novation of derivatives and continuation of hedge accounting.
- Annual improvements to IFRS 2010-2012 Cycle.
- Annual improvements to IFRS 2011-2013 Cycle.
- IFRIC 21 'Levies'.

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 'Presentation of financial statements' — amendments relating to the Disclosure Initiative.
- IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets' — amendments relating to clarification of acceptable methods of depreciation and amortisation.
- IAS 27 'Separate financial statements' — amendments relating to Equity method in separate financial statements.
- IFRS 10 'Consolidated financial statements' and IAS 28 'Investments in associates and joint ventures' — amendments relating to sale or contribution of assets between an investor and its associate or joint venture.
- IFRS 11 'Joint arrangements' — amendments relating to acquisitions of interests in joint operations.
- Annual improvements to IFRS 2012–2014 Cycle.

The following standards and interpretations have been published but not yet endorsed by the EU. 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 7 'Statement of cash flows' — amendment relating to the Disclosure Initiative.
- IAS 12 'Income taxes' — amendment relating to recognition of deferred tax assets for unrealised losses.
- IFRS 9 'Financial instruments' — finalised version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition.
- IFRS 14 'Regulatory deferral accounts' — new standard.
- IFRS 15 'Revenue from contracts with customers' — new standard and amendments.

In addition to the above, IFRS 16 'Leases', has been published but not yet endorsed by the EU. The Group is undertaking an impact assessment of the likely effect on the consolidated results and financial position of the Group, given that all operating leases with a contract life over 12 months will be treated in much the same way as a finance lease on balance sheet.