halfords

18 November 2010

HALFORDS GROUP DELIVERS 13% PROFIT BEFORE TAX GROWTH

Halfords Group plc, the UK's leading retailer of automotive and leisure products and leading operator in garage servicing and auto repair, announces its Interim Results for the 26 weeks to 1 October 2010.

Group Financial Summary

	26 Weeks to 1 October 2010	26 Weeks to 2 October 2009	52 Weeks to 2 April 2010
	Reported	Reported	Pre non recurring[1]
Revenue	£456.3m	£425.1m	£831.6m
Like-for-like Sales[2]	-4.9%	+1.7%	+1.3%
Operating Profit	£69.1m	£62.0m	£119.7m
Operating Margin	15.1%	14.6%	14.4%
Profit Before Tax	£68.7m	£60.9m	£117.1m
Basic EPS	24.1p	20.6p	39.7p
Net Debt	£109.8m	£106.0m	£155.5m
Interim Dividend	8.0p	6.0p	20.0p

Financial Highlights

On a comparable 26-week basis the Group's performance is summarised:

- Revenue £456.3m, 7.3% increase with like-for-like sales[2] decreasing by 4.9%
- Operating profit £69.1m up 11.5%, representing 15.1% of sales (2009: 14.6%)
- Profit before tax £68.7m up 12.8%
- Basic earnings per share 24.1p up 17.0%
- Net debt at £109.8m (2009: £106.0m) represents 0.7x pro-forma EBITDA
- Interim dividend 8.00p (2009: 6.00p), up 33.3%

Business Highlights

- Sales and market share growth in Car Maintenance, Premium Cycling and Outdoor Leisure
- Service differentiation continues, with strong growth in ***we***fit and ***we***repair jobs
- Multi-channel accounts for c.9% of total revenue after further strong growth
- Retail gross margin gains reflect increased service penetration & active trading strategies
- Successful delivery of infrastructure initiatives, reducing annualised costs by £8m per annum
- Autocentre development plan on track, rebranding of all centres to be completed early 2011
- Successful refinancing of Group's maturing debt arrangements.

David Wild, Chief Executive, commented on the results:

"This has been a period of considerable progress for the Group. In addition to increasing profits, we have successfully completed a number of significant change initiatives. These include the reconfiguration of the Group's warehouse and distribution network, the remodelling of staffing structures and the closure of our Central European operations. In total these reduce costs, enhance customer service and provide a strong platform for our next phase of growth that will be clearly focussed in the UK. We are also pleased to have concluded the refinancing of the Group's debt arrangements on favourable terms.

Our Autocentres business has made good progress, gaining market share. Our development plan is on track with 15 new centres to be opened and the entire network to be re-branded Halfords Autocentres by the end of the financial year. In Spring 2011 we will launch a national advertising campaign to drive sales and firmly position Halfords as the UK's leading independent operator in garage servicing and auto repair. We remain enthusiastic about our investment in this adjacent sector and the opportunity it provides for further profitable growth.

During this period we have demonstrated that Halfords is a resilient and cash generative business that can adapt to our customers' changing needs and deliver growth initiatives for the future. Consumer spending is clearly under pressure and we believe this environment will continue into 2011. We hold market-leading positions however and remain confident that our strategy will deliver long-term sustainable earnings growth.

In the six weeks since the end of the half-year, trading conditions for Retail have remained challenging with like-for-like sales at –5.0%. Autocentres' performance has been encouraging resulting in like-for-like sales growth of +1.2%. We would expect profits for the full financial year to be within the range of market expectations."

Notes:
1. Non-recurring items represent the exit costs associated with the closure of the Group's Central European Operation.
2. Like-for-like sales represent revenues from stores trading for greater than 365 days. Where appropriate, revenues denominated in foreign currencies have been translated at constant rates of exchange.
3. Consensus FY11 Profit before Taxation is £132m representing a year-on-year increase of 12.7%, with a range of £127m to £136m. (Source: Bloomberg 16 November 2010)

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Results presentation
A presentation for analysts and investors will be held, today, at 9.30 a.m. at The City Presentation Centre, 4 Chiswell Street, London EC1Y 4UP. An audio recording of the presentation will be available on the corporate website later today.

An interview with David Wild will be available on the Halfords corporate website later today and can be viewed by clicking on the following link http://www.halfordscompany.com/hal/pr/video).

Forthcoming Newsflow
Halfords Group will provide a trading update on 13 January 2011 for the third quarter that will cover the 13 weeks and 39 weeks to 31 December 2010.

Notes to Editors:

www.halfords.co.uk
www.halfordscompany.co.uk
www.nationwideautocentres.co.uk

Halfords Group plc

The Group is the UK's leading retailer of automotive, leisure and cycling products and through Nationwide Autocentres also the UK's leading independent car servicing and repair operator.

Halfords employs approximately 11,000 staff and sells over 12,000 different product lines with significant ranges in car parts, cycles, in-car technology, child seats, roof boxes, outdoor leisure and camping equipment. Halfords own brands include the in-store *Bikehut* department, for cycles and cycling accessories, *Apollo* and *Carrera* cycles and exclusive UK distribution rights of the premium ranged *Boardman* cycles and accessories. In outdoor leisure, we sell a premium range of camping equipment, branded *URBAN Escape*. Halfords offers customers expert advice and a fitting service called *"**we**fit"* for car parts, child seats, satellite navigation and in-car entertainment systems, and a *"**we**repair"* service for cycles.

Halfords customers shop at 462 stores in the UK and Republic of Ireland and at *halfords.com* for pick-up at their local store or direct home delivery. Halfords Autocentres operates from 227 sites nationally and offers motorists dealership quality MOTs, repairs and car servicing at affordable prices.

Cautionary Statement

CHIEF EXECUTIVE'S REVIEW

The first half-year performance provides a good foundation for the rest of year and the medium-term. Operational efficiency initiatives have delivered a strong platform to facilitate future revenue growth and generated cost savings at a time when consumer confidence is adversely impacting retail demand.

Group Operating Profit at £69.1m represents year-on year-growth of 11.5% with Halfords Retail contributing growth of 5.5%, with the balance from Autocentres that was acquired in February 2010. While we were disappointed with Halfords Retail revenue growth, there have been sound like-for-like performances from Premium Cycles and Camping and further like-for-like progression from Car Maintenance. Gross margin per cent continued to increase year-on-year, improving by 170 basis points ("bps") at the Group level and 40bps within Halfords Retail where sales mix to higher margin categories remains positive and traction on key trading strategies such as fitting continues.

Our ongoing focus on cost management has delivered, through a number of key strategic programmes, a substantially and sustainably lower base with like-for-like Group Operating costs reducing significantly.

Progress against the Autocentre development plan remains on track. A strong pipeline of potential new sites provides the prospect of substantial organic portfolio expansion and following the completion of the re-branding exercise by early 2011, the marketing of Autocentres under the Halfords brand provides an opportunity to substantially increase operating profits within this segment and further establish its market leading credentials.

Robust cash flow remains a hallmark of the Group and as a consequence of higher profits and ongoing investment discipline, net debt reduced by £45.7m to £109.8m.

The Group has secured a £300m revolving credit facility, which will operate for four years, with a fifth year option, from 5 November 2010. This provides the Group with sufficient headroom and sufficient working capital and undrawn financing facilities to service its operating activities and ongoing capital investments.

BUSINESS REVIEW

Financial year 2011 has seen an extended period of economic uncertainty and a fragile consumer market. Recognising this backdrop, the Group has focused on delivering the development plan within the recently acquired Autocentres business and on the core Halfords Retail division. Specifically, the Group successfully introduced a number of changes to deliver a more efficient, flexible and cost effective retail business model. The Group remains committed to its strategy, investment of capital in high return projects and exercising strong financial discipline.

The first half of the financial year saw the completion of the project to reconfigure the Group's distribution infrastructure. The relocation of the principal warehouse to Coventry and the rationalisation from three sites to two, will result in annualised savings of £4m. This was achieved with only minor implementation challenges early in the transition period when a number of stores experienced stock shortages which had an estimated negative impact on sales of c.2.8% across a 6-week period, and first half sales being depressed by c.0.7%.

Store colleagues successfully implemented a remodelled store rota initiative during the first quarter of the year resulting in improvements in colleague availability and a more efficient utilisation of resource in store. Key service performance indicators in both service and accessory attachment have continued to show significant improvement that has been in part facilitated through improved colleague scheduling. These cost saving initiatives increased by a further £2m to that originally planned and will deliver £4m on an annualised basis.

The Group's Central European operations were closed at the end of the March. The majority of trading locations were assigned to a single new market entrant reducing the Group's financial exposure and providing employment opportunities for our colleagues.

The exit from Central Europe, will eliminate annualised operating losses of c. £3m, and leaves the Group firmly focused on domestic activities, which are represented by two core businesses: Halfords Retail and Halfords Autocentres.

The preliminary results in June articulated the Group's long-term aspirations to deliver sustainable earnings growth averaging at 15% over the medium-term, through a combination of:

1. The ability to drive high single digit operating profit growth from its retail operations,
2. The growth opportunity provided through the acquisition of quality, adjacent, domestic businesses.
3. The operation of an efficient balance sheet with excess capital being returned to shareholders.

The management team remain committed to delivering against the medium-term target. The first half-year, despite a challenging trading environment, has seen earnings per share grow at 17%.

Halfords Retail Growth Strategy

The Group's ability to leverage its leading positions in growing markets, a successful multi-channel offer, and a unique service proposition are at the core of the Group's strategy which has been consistently adhered to.

The four elements of Halfords Retail organic strategic growth plan are:

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

1. Extending range and service advantage

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

Car Maintenance

Halfords is the UK's number one parts retailer and a destination store for "needs-driven" transactions where customers are looking to purchase replacement products such as car bulbs, windscreen wiper blades and batteries ("3Bs"). The ***we***fit service proposition continues to gain traction with the consumer. Growing customer awareness of Halfords fitting of the 3Bs and high levels of in-store stock availability continue to drive revenue. Furthermore, our scale provides a unique ability to develop and source high quality, own brand alternatives to branded ranges, and to bring the latest "new car" technology quickly to the after sales market. Revenues in the period increased by 0.6% on a like-for-like basis, reflecting the resilient nature of this category.

Car Enhancement

This category covers staple products, such as car cleaning and car accessories and larger ticket items including car audio and portable satellite navigation devices. Halfords is the market leader in in-car technology, where our exclusive ranges and unique "set-up and demo" proposition provide a clear point of competitive differentiation. We firmly believe that the ongoing innovation of new technologies for use in the car will provide a constant source of new sales opportunities but equally recognise the natural and relatively short lifecycle of those products.

The market for satellite navigation devices is mature and although manufacturers continue to innovate, consumers have reduced spending on such discretionary purchases, significantly reducing sales volumes. While revenues have declined in the period by 16% on a like for like basis for these products, we remain the clear leader in this market and have been partially successful in compensating for reduced revenues through a focus on significantly increasing sales of higher margin satellite navigation accessories, where the attachment penetration has increased to over 60%.

Technology innovation provides a flow of important and high value products for the car aftermarket and Halfords' leadership in this market means we can secure distribution from major manufacturers to capitalise on the next wave of development. The introduction of the UK's largest range of digital (DAB) radios and converters has allowed Halfords to clearly establish its credentials in this market in advance of the significant opportunity that will ultimately be provided by the switch to digital later in the decade.

Leisure

The leisure category consists of Cycling and Travel solutions, with the latter including roof box, child travel and safety and camping offers.

Cycling

Cycling continues to grow in popularity, powered by demand for a healthier lifestyle, environmental concerns and economic pressures.

Halfords' leading position in this growth category is underpinned by its market leading own brands, including *Apollo, Carrera* and *Boardman,* with *Apollo* remaining as the biggest selling bike brand in the UK. This is supported by a strong before and after sales service proposition and direct sourcing capability from the Far East.

The *Boardman* range, designed by Olympic Champion Chris Boardman, leads our premium bike offer through an exclusivity agreement in the UK. The *Boardman* range has been widely acclaimed for its leading designs, construction and price competitiveness. Sales have grown significantly since the launch two and a half years ago to a level that we believe to be in line with some of the more established premium brands distributed via independents.

Halfords' cycle service proposition clearly differentiates us from other mainstream-market participants and continues to be well received by customers; with more than 95% of the bikes we sell being built in-house. All new bikes purchased come with the offer of a free six-week check-up and we aim to develop an ongoing service and repair relationship through the sale of a Bike Care Plan, providing customers with the certainty of labour-free repairs.

The small like-for-like revenue decline experienced in the period was disappointing even when set against the strong comparative in the previous year where sales increased by over 20%. Sales were adversely affected by Far East supply disruption impacting the introduction of our new *Apollo* range of mainstream cycles and from reduced availability of key cycle accessories at the time of transition to our new distribution centre configuration.

Each of these issues has now been addressed leading to improved ranging and availability in the second half of the financial year.

Travel Solutions

Halfords has established a reputation as the destination store for travel solutions. Products such as roof boxes and bars, cycle carriers and child seats help make our customers' journeys easier, while our camping range means they can enjoy their leisure time more actively.

While core travel and touring products declined in sales versus a particularly strong comparative, Camping had another successful year with record sales in key lines enabling a clean stock exit and achieving further gains in market share. Our direct sourcing capabilities allow us to provide customers with great value offers like our market leading family tent pack at £99.99.

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

Service

The macro economic challenges faced by the UK and its impact upon the consumer has resulted in consumers demanding a strong value proposition and perceived "deals" from retailers. Halfords Retail provides the consumer with the largest range of automotive and leisure products and within the core areas of Car Maintenance and Cycling has a price architecture that provides choice to our customers. Complementing the price points is a national network of trained store colleagues that provides expert knowledge, advice and service that makes the Halfords offer a compelling value proposition.

All product categories include a core service element, for example Bike Care Plan, Free Bike Build (***we***build) and 6 week service (***we***check) within cycling and "Set-up and Demo" within technology. The platform for the proposition remains, ***we***fit, being the on-demand fitting of Car Bulbs, Windscreen Blades and Batteries ("3 Bs") and although we set stretching targets to increase awareness, uptake and service revenue, we continue to exceed our internal expectations. During the first half of the year the 3Bs penetration has doubled over the last two years with currently 20% of all batteries, 48% of bulbs and 33% of wiper blades that are sold being fitted. The investment made in remodelling colleague rotas and training, has ensured colleague availability and visibility to meet real time customer fitting requirements.

Assisted purchases by our knowledgeable and informed store colleagues have seen attachment rates of accessories continue to increase with the penetration in both cycle accessories and satellite navigation accessories at c.60%. Internet sales continue to grow strongly and with more than 80% of such sales involving a visit to the store, store colleagues have the opportunity to ensure that sales made are fit for purpose and have the opportunity to assist customers in trading up and purchasing essential accessories, such as cycle helmets when purchasing a cycle.

During the first half of the year c.1.0 million ***we***fit and ***we***repair jobs were completed and we remain confident that fitting penetration can be increased further. Service remains at the heart of the Halfords customer offer, generating value to the customer, providing differentiation from the competition and generating attractive levels of return to the Group.

2. Leveraging the Halfords brand in multi-channel

The Internet is increasingly shaping consumer shopping patterns and behaviour through the ability to research products, and identify real-time stock availability and prices.

Halfords Retail provides 3 ways to shop online:

1. *Reserve and Collect* — a service where products researched online are reserved for immediate collection at a convenient nearby store.
2. *Order and Collect* — allows customers to order products from our more extensive online catalogue and have it delivered to their local store for collection free of charge.
3. *Direct delivery* — products ordered online are delivered direct to customers' homes.

Halfords strong brand, leading internet site and focus on developing this channel has seen a 57% increase in our online business, which currently represents approximately 9% of Halfords Retail overall sales. Visitor numbers to our website, which is now firmly established in the IMRG Hitwise Hot Shops' top 30, exceeded 20 million, a 47% year-on-year increase.

Our strategy continues to be the integration of *halfords.com* and our store operations. This strategy delivers what our customers have said they want, namely that they like the convenience of buying online but also want to visit our stores for knowledgeable, expert advice and recommendation and benefit from the added value services such as fitting.

Online participation is strongest in child travel and safety where one in four child seats are purchased through the web with 21% of premium bike sales and 15% of satellite navigation devices and accessories being sold online. While there exist opportunities to significantly extend the range of products we offer there is also a large opportunity to grow the participation of existing product lines sold on the web such as in-car entertainment units such as MP3 connectivity and CD audio, as well as cycle accessories and hand tools.

Enhancing our online offer, whether for normally ranged products or for our increasing number of extended ranges held outside of stores, and further extending our multi-channel presence remains a priority. Halfords continues to encourage customer ratings and reviews to the site, which together with the site's "Ask and Answer" facility, allows customers to benefit from the expertise and experience of other users and customers.

3. Ongoing focus on cost control

The efficiency and operational effectiveness initiatives that have been in planning during the last two years are now being delivered with all areas of the Retail business having been reviewed. This strategy ensures an efficient use of resources and an appropriate and flexible operating base for the current economic environment.

Logistics

During the second quarter of the financial year Halfords Retail completed the reconfiguration of its logistics infrastructure. This reconfiguration, which has seen the reduction of three warehouses down to two, will deliver annualised cost savings in excess of £4m, including rent savings, transport reductions and labour efficiencies.

At the heart of the new configuration is a new 320,000 sq ft national distribution centre ("DC") located at the Retail division's centre of gravity in Coventry that became fully operational in September. In addition to operating at a lower cost, this facility, which, is equipped with contemporary logistics technology such as radio frequency scanning also has capacity to support the future growth of the Group's retail and web operations and will ensure the more efficient delivery of stock to Halfords stores enabling further labour efficiencies in store.

Store Operations

Following the initial improvements made to store colleague rotas in the first quarter of the 2010 calendar year, a further efficiency programme in stores has been implemented which will reduce labour costs while improving colleague availability and therefore providing better service for our customers. The savings from this programme total £4m on an annualised basis.

The programme has realigned store grades, rostering and schedules across the store, week and network, delivering a net reduction in colleague hours with resource being removed from low footfall periods and in-store processes being made more efficient. Improved performance across the suite of our key service metrics around fitting and accessorisation provides high confidence that the reductions have been made while maintaining our key customer service differential.

The changes, which have impacted the majority of store-based colleagues, provide clearer career paths for colleagues and strengthens our position in the recruitment market.

Cost Discipline

A culture of cost control discipline has been firmly established within Halfords.

While the most significant opportunity now rests within property, where rent settlements are at a historic low and near term lease maturities provide a further opportunity to reduce rental cost, opportunities have been identified across the business including product sourcing which represents our largest cost.

We continue to identify products that could be sourced directly from manufacturers across Asia increasing the level of direct sourcing from its present 30%. Furthermore, our Far East sourcing team, based in Hong Kong and Shanghai, China, operates an agile sourcing model, moving manufacture of products designed by the Group's category management resource in the UK, between regions and countries as cost and duty profiles change.

4. Investing in the store portfolio

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

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

Halfords Retail operates from 462 stores in the UK and Republic of Ireland including 397 superstores, 33 compact stores, together with 31 small format Metro stores located on high streets where no suitable edge of town retail opportunity is locally available. During the half year, the Halfords Retail portfolio reduced by a net seven stores reflecting the closure of the Central European stores, the closure of a *Bikehut* store and the opening of a new superstore in Lichfield.

Halfords Retail continues to invest in its existing estate to ensure that it remains contemporary and management focus has involved the development of a refresh and reconfiguration project, "Store of the Future", which is designed to introduce new ranges, rebalance space allocation, improve merchandising and in-store navigation. The project is currently in a pilot phase and results so far have been very encouraging.

The Group is confident that there is a long-term opportunity to grow the retail store portfolio by a further 50 stores. During the second half of the year there are a number of conversions and relocations planned although there is unlikely to be any material net increase in the portfolio as the lack of quality, new retail sites and the poor condition of recycled property provides a challenge in developing new store opportunities.

Halfords Autocentres

The recently acquired Nationwide business complements Halfords Retail closely and builds on our growing car parts and ***we***fit service business creating the largest specialised UK operator focussed on the car maintenance, servicing and car repair market**.**

There is significant scope to grow the acquired operation, that will be rebranded during the current year to Halfords Autocentres, establishing a unique proposition within this £9bn market, delivering the quality and trust expected from the Dealer network at a more affordable cost presently associated with independent garages. Operational scale will significantly increase by opening 200 further centres in key towns over the next seven years, with 80 centres anticipated to open in the next three years. Further growth opportunities exist from cross marketing the Group's complementary customer base, increased fleet penetration and there will also be cost and purchasing synergies.

Progress against our development plan, in the first seven months of ownership, has been extremely encouraging.

Six new Autocentres have opened to date, including two Nationwide centres that were relocated and re-opened as Halfords Autocentres, and we have established a significant property pipeline to under-write our ambition to open up to 15 Autocentres this financial year, accelerating to between 25 and 30 in FY12.

A cost effective re-branding model has been developed and to date 50 centres have been branded under the Halfords logo, a further 120 centres are planned to be completed before Christmas and the chain completed towards the end of the 2011 financial year-end. The completion of the re-branding will enable the commencement of a national advertising campaign that will be designed to build awareness of the Halfords Autocentre brand and service proposition.

Purchasing synergies have also exceeded our initial expectations.

Operational performance in the period has been challenging as consumers seek to defer non-essential purchases. We are however encouraged by the growth achieved within the Fleet market and the growth in customer numbers and market share. Our belief that purchase deferrals in the first half were not sustainable in the long-term appears to be supported by the return to positive revenue growth in the six weeks after the half-year.

In line with our guidance at the time of acquisition operating profits in the period are broadly flat in the year after adjusting for development costs.

Outlook

In the six week trading period since 1 October conditions have remained challenging, with like-for-like revenue declines within Halfords Retail of 5.0%. However, continued growth in customer numbers and an improvement in average transaction value from increased discretionary purchases has generated consistent positive like-for-like sales growth within Autocentres of 1.2%.

With the cost savings from the programmes delivered in the first half year now firmly on stream, we would expect profits for the full financial year to be within the range of market expectations.

Although we expect the consumer environment to remain challenging, we have again demonstrated that the Halfords business can make good progress in these conditions and improve operating returns. The Group's strong market positions, ongoing actions to reduce costs and strong cash flow characteristics provide a solid platform for future sustainable earnings growth through our core strategic growth initiatives.

Financial Review

Halfords Group

Performance Summary

Unaudited	26 weeks to		
	1 October 2010	2 October 2009	Change
Revenue (£m)	456.3	425.1	7.3%
Gross profit (£m)	251.1	226.6	10.8%
Gross margin (%)	*55.0%*	*53.3%*	*+170 bps*
Operating profit (£m)	69.1	62.0	11.5%
Operating margin %	*15.1%*	*14.6%*	*+50 bps*
Profit before tax (£m)	68.7	60.9	12.8%
Basic earnings per share	24.1 pence	20.6 pence	17.0%
Dividend per share	8.00 pence	6.00 pence	33.3%

Reportable Segments

Halfords Group operates through two reportable business segments or strategic business units:

Halfords Retail and
Halfords Autocentres.

Income Statement

Group revenue for the 26 weeks to 1 October 2010 was £456.3m (2009: £425.1m) an increase of 7.3% on the comparable period last year. Reported revenue for the period includes £49.1m from Halfords Autocentres, following its acquisition in February 2010.

Gross profit at £251.1m (2009: £226.6m) was up 10.8% with gross margin, at 55.0%, representing a 170bps improvement compared to the prior year (2009: 53.3%). This gross profit performance includes a £32.4m contribution from the Autocentres segment for the half-year.

Operating profit increased by 11.5% to £69.1m (2009: £62.0m) reflecting the strengthening of gross margin and the disciplined reduction in operating costs year on year this represented 15.1% of sales, an increase of 50bps on the margin achieved in the corresponding period in the prior year.

Profit before tax increased by 12.8% to £68.7m (2009: £60.9m).

Halfords Retail

<u>Revenue</u>

Revenue for the 26 weeks to 1 October 2010 was £407.3m (2009: £425.1m) a decrease of 4.2% on the comparable period last year, representing, on a constant currency basis, a decrease in like-for-like sales of 4.3%. As was illustrated in the Business Review, identifying suitable retail sites that would satisfy the Group's capital discipline has proved challenging and the absence of new store openings is reflected in the year-on-year reduction in contribution from new space to 0.6% (2009: 1.7%). Retail like-for-like sales declined year-on-year by 4.9% (2009: +1.7%) and by 3.5% (2009: +1.2%) on an underlying basis, adjusting for the timing of Easter (40bps), the closure of Central European stores (30bps) and revenue disruption arising from transition to the Coventry distribution centre (70bps).

<u>Gross Margin</u>

Gross profit at £218.8m (2009: £226.6m) was down 3.4% and gross margin at 53.7% (2009: 53.3%) represented a 40bps improvement compared to the prior year. This performance, against a significant currency headwind, reflects the continued successes in margin accretive activities such as source cost improvements, accessory attachment rates and increased penetration across the suite of fitting services that generate 100% gross margin.

Operating Costs

Halfords Retail continues to control operating costs while funding investment in strategic growth initiatives in order to manage overall cost growth. In the current environment it is also important that the retail cost base is both appropriate and flexible to changing levels of revenue. Significant progress has been made over the past year in both reducing the absolute level of our key cost elements, such as store colleague costs, while increasing their availability to assist in customer purchases.

As an example, following interventions to store based structures made in the second half of the previous financial year, the ratio of store labour to sales has reduced while increasing both sales of accessories with core product purchases and the contribution from service related revenues. Whilst making such changes we are always mindful not to sacrifice our core assisted service proposition for all customers.

Upward cost pressure from the store portfolio continues but at significantly reduced levels. While business rates and utility costs have increased, the rate of rental settlement inflation has slowed. Reflecting the more benign property environment, and the quality of Halfords as a tenant, we are adopting a more demanding stance on each rent review and expect rent inflation to slow further. In addition, we believe a more significant opportunity to achieve cost reductions in this area will arise at the point of lease maturity, where there are a significant number of such expiries in the next ten years.

The opportunity for Halfords to leverage value from its store portfolio through tactical re-sites and format re-configuration continues to exist, although the current economic climate has meant that the opportunities are arising less frequently and there are no signs of any significant improvement in the property market. There were no landlord contributions during the period, compared to £0.1m last year and the Group's guidance is for a full year contribution of between £0.5m and £1.0m.

Operating expenses as a per cent of Retail revenue at 37.7% decreased by 100bps versus the prior year (2009: 38.7%). This decrease represents a £11.2m reduction in costs and reflects the delivery of strategic efficiency initiatives, reduced colleague incentive provisions, the closure of the Central European stores and the release of property related provisions following reduced rent review settlements. A similar year-on-year quantum of savings will be achieved in the second-half as the strategic initiatives, warehousing and distribution and store colleague labour continue to flow through as well as the ongoing reduction in the level of costs associated with colleague incentives and property. Looking to next financial year our strategic cost initiatives provide sustainable cost saving opportunities with further property cost benefits anticipated from both rent renewal and rent maturity negotiations.

As a consequence of the actions outlined above operating profit increased by 5.5% to £65.4m (2009: £62.0m) and represented 16.1% of sales (2009: 14.6%).

Halfords Autocentres

Revenue for the 26 weeks to 1 October 2010 was in line with last year's performance at £49.1m. During the period five new centres were opened, of which two were relocations, generating a new centre contribution of 80 bps and resulting in a year-on-year like-for-like decline of 80bps.

Gross profit at £32.4m (2009: £32.8m) was down 1.2% and gross margin at 66.0% represented an 80bps reduction compared to the prior year (2009: 66.8%). This performance reflects the diluting impact from the increased penetration from lower margin tyre sales and reduced average service transaction values, offset by cost price gains achieved through buying synergies principally through the Group-wide purchase of oil.

The Autocentre cost base remains well controlled, with operating costs maintained at the same level as the prior year after the investment associated in new centres and re-branding. Adjusting for strategic investments where benefits will accrue in future financial periods, headline operating profits at £4.8m are broadly consistent with those delivered in the previous financial year (2009: £5.2m).

Finance Costs

Net finance costs for the half-year were £0.4m (2009: £1.1m). Finance costs continue to benefit from a prevailing lower level of average net debt and lower LIBOR that followed the Base Rate reductions last year and have resulted in interest on bank borrowings being £200k lower than last year. The reduction in net debt, leading to higher balances held on deposit have generated interest receivable £200k higher than last year.

Taxation

The underlying taxation charge on trading in the 26 weeks to 1 October 2010 is 29.8% (2009: 30.0%) principally due to the non-deductibility of depreciation charged on capital expenditure in respect of mezzanine floors and other store infrastructure.

The effective tax rate of 26.3% (2009: 29.2%) is lower than the underlying tax rate due to the reassessment of historic tax provisions required against tax uncertainties. The effective tax rate for the full financial year is, however, anticipated to be approximately 27.5%.

Net Debt and Cash Flow

Total net debt at 1 October 2010 was £109.8m (2 April 2010: £155.5m) including £11.9m (2 April 2010: £12.0m) in respect of the Head Office finance lease. The Group continues to generate strong net cash flows from operations, which prior, to financing and taxation payments, was £88.4m for the 26 weeks to 1 October 2010 (2009: £112.3m) and represented a cash conversion from EBITDA of 109%. (2009: 153%)

The reduction in cash flow from operations compared to the prior year primarily reflects the one-off working capital benefits crystallised in 2009 from the material reduction in inventory levels achieved in the previous financial year. Cash payments against year-end provisions, including the transition to our revised distribution configuration and the exit of the Group's Central European operations, have further reduced operating cash flow in the period.

Inventory levels have increased by 2.3% at a Group level compared to the inventory held at 2 October 2009, of which 0.9% is represented by the inclusion of Autocentres inventory, and 1.4% represented by increased Retail inventory. The net increase in Retail reflects an increased investment in inventory to secure peak requirements, particularly in the Cycles category. We are confident that the Group inventory will exit the financial year at a level in line with our guidance of reducing or growing at a rate marginally less than sales.

Capital expenditure during the first half of the year totalled £7.9m of which £1.1m related to the acquired Autocentres segment (2009: £6.6m). Including the strategic investment in the Group's distribution infrastructure and the rebranding of 225 Autocentres, the Group is forecast to spend approximately £24m for the full year (52 weeks to 3 April 2009: £20.4m). We continue to invest to support strategic growth, with £3.5m expended in the period on new and refurbished locations (2009: £4.3m), and approximately £2m was spent on the DC project in the first half of the year and £2m investment in information technology infrastructure.

Free cash flow from the business totalled £47.6m (2009: £73.8m) after the payment of dividends to shareholders of £29.3m, 29% higher than the dividend flow of £22.8m in the equivalent period in the prior year. At a free cash flow cover of 2.6x, the dividend remains extremely well covered.

Balance Sheet and Bank Financing Arrangements

As illustrated by the performance in the period, the Group remains strongly cash generative with an organic growth plan that does not demand high capital investment. The Board's long-term intention remains to maintain an efficient capital structure, investing in value creating business development or returning excess capital to shareholders.

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 1.5x EBITDA, the facility carries an interest margin of approximately 200bps.

With revised facilities in place the Board has determined that it has sufficient facility in place to resource the Group at its optimal level of gearing and 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 0.7x EBITDA.

Dividend

The Company is committed to a progressive dividend policy and continued investment in the growth of the business, both through organic development and other business development opportunities as they might arise.

Furthermore, having considered in 2009, and given the consistent nature of the Group's earnings and cash-flow profile, it is the Board's intention to increase, over time, the proportion of the full year dividend represented by the interim dividend to approximately 40%.

In line with this intent and reflecting the Group's increased profitability the Board has increased the interim dividend by 33% to 8.00 pence per share (2009: 6.00 pence per share).

The dividend will be paid on 24 January 2011 to shareholders on the register on 17 December 2010.

Third Quarter Interim Management Statement

The Halfords Group will announce its interim management statement on 13 January 2011, covering trading for the 13 weeks ended 31 December 2010. Group revenue is not significantly seasonal in this or any quarter as, typically, sales in each half of the year are broadly similar.

Principal risks and uncertainties

The Board considers risk assessment, identification of mitigating actions and internal control to be fundamental to achieving Halfords' strategic corporate objectives, and in the Annual Report 2010 it set out what it considers to be the principal commercial and financial risks to achieving the Group's objectives. The main areas of potential risk and uncertainty in the balance of the financial year are described in note 3 to the condensed consolidated interim financial statements.

HALFORDS GROUP PLC

Condensed consolidated income statement

For the 26 weeks to 1 October 2010

	Notes	**26 weeks to 1 October 2010 Unaudited £m**	26 weeks to 2 October 2009 Unaudited £m	52 weeks to 2 April 2010 £m
Revenue	6	**456.3**	425.1	831.6
Cost of sales		**(205.2)**	(198.5)	(378.9)
Gross profit		**251.1**	226.6	452.7
Operating expenses		**(182.0)**	(164.6)	(340.4)
Operating profit before non-recurring items		**69.1**	62.0	119.7
Non-recurring operating expenses	7	**-**	-	(7.4)
Results from operating activities		**69.1**	62.0	112.3
Finance costs	8	**(1.8)**	(2.3)	(4.6)
Finance income	8	**1.4**	1.2	2.0
Net finance costs		**(0.4)**	(1.1)	(2.6)
Profit before tax and non-recurring items		**68.7**	60.9	117.1
Non-recurring operating expenses	7	**-**	-	(7.4)
Profit before tax		**68.7**	60.9	109.7
Income tax on recurring items	9	**(18.1)**	(17.8)	(34.1)
Income tax on non-recurring items	7	**-**	-	1.4
Profit for the period attributable to equity shareholders		**50.6**	43.1	77.0
Earnings per share				
Basic earnings per share	11	**24.1p**	20.6p	36.8p
Diluted earnings per share	11	**23.8p**	20.5p	36.6p

A final dividend of 14.00 pence per share for the 52 weeks to 2 April 2010 (2009: 10.90 pence per share) was paid on 6 August 2010. The directors have approved an interim dividend of 8.0 pence per share in respect of the 26 weeks to 1 October 2010 (2009: 6.0 pence per share).

HALFORDS GROUP PLC

Condensed consolidated statement of comprehensive income

For the 26 weeks to 1 October 2010

	26 weeks to 1 October 2010 Unaudited £m	26 weeks to 2 October 2009 Unaudited £m	52 weeks to 2 April 2010 £m
Profit for the period	**50.6**	43.1	77.0
Other comprehensive income			
Foreign currency translation differences for foreign operations	**0.1**	1.7	0.4
Cash flow hedges:			
Fair value losses in the period	**(3.3)**	(8.7)	(5.1)
Transfers to inventory	**(1.9)**	(8.1)	(7.3)
Transfers to net profit:			
Cost of sales	**1.5**	2.0	1.5
Income tax on other comprehensive income	**0.8**	0.1	(0.6)
Other comprehensive income for the period, net of income tax	**(2.8)**	(13.0)	(11.1)
Total comprehensive income for the period attributable to equity shareholders	**47.8**	30.1	65.9

HALFORDS GROUP PLC

Condensed consolidated statement of financial position

For the 26 weeks to 1 October 2010

	Notes	**26 weeks to 1 October 2010 Unaudited**	26 weeks to 2 October 2009 Unaudited	52 weeks to 2 April 2010
Assets				
Non-current assets				
Intangible assets	12	**348.9**	259.6	348.7
Property, plant and equipment	12	**98.2**	102.8	102.9
Deferred tax asset		**0.5**	3.6	-
Total non-current assets		**447.6**	366.0	451.6
Current assets				
Inventories		**145.9**	142.6	138.5
Trade and other receivables		**42.8**	37.0	42.9
Derivative financial instruments		**1.2**	2.7	3.0
Cash and cash equivalents	13	**82.1**	85.7	36.5
Total current assets		**272.0**	268.0	220.9
Total assets		**719.6**	634.0	672.5
Liabilities				
Current liabilities				
Borrowings	13	**(180.2)**	(0.2)	(0.2)
Derivative financial instruments		**(2.1)**	(3.1)	(0.8)
Trade and other payables	14	**(152.7)**	(119.9)	(131.5)
Current tax liabilities		**(27.6)**	(18.4)	(17.5)
Provisions	14	**(12.0)**	(16.8)	(20.4)
Total current liabilities		**(374.6)**	(158.4)	(170.4)
Net current assets		**(102.6)**	109.6	50.5
Non-current liabilities				
Borrowings	13	**(11.7)**	(191.5)	(191.8)
Accruals and deferred income – lease incentives		**(27.2)**	(28.0)	(28.0)
Provisions		**(2.9)**	(2.2)	(3.3)
Deferred tax liabilities		**-**	-	(0.5)
Total non-current liabilities		**(41.8)**	(221.7)	(223.6)
Total liabilities		**(416.4)**	(380.1)	(394.0)
Net assets		**303.2**	253.9	278.5
Shareholders' equity				
Share capital	15	**2.1**	2.1	2.1
Share premium account	15	**150.3**	146.2	146.5
Other reserves		**(0.3)**	0.6	2.5
Retained earnings		**151.1**	105.0	127.4
Total equity attributable to equity holders of the Company		**303.2**	253.9	278.5

Company No. 04457314

HALFORDS GROUP PLC

Condensed consolidated statement of changes in equity

For the 26 weeks to 1 October 2010

For the period ended 2 October 2009 (Unaudited)

	Attributable to the equity holders of the Company						
			Other reserves				
	Share capital £m	Share premium account £m	Translation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	**Total equity £m**
Balance at 3 April 2009	2.1	145.6	-	0.2	13.4	83.1	**244.4**
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	43.1	**43.1**
Other comprehensive income							
Foreign currency translation differences for foreign operations	-	-	1.7	-	-	-	**1.7**
Cash flow hedges:							
Fair value losses in the period	-	-	-	-	(8.7)	-	**(8.7)**
Transfers to inventory	-	-	-	-	(8.1)	-	**(8.1)**
Transfers to net profit:							
Cost of sales	-	-	-	-	2.0	-	**2.0**
Tax on other comprehensive income	-	-	-	-	0.1		**0.1**
Total other comprehensive income for the period net of tax	-	-	1.7	-	(14.7)	43.1	**30.1**
Transactions with owners, recorded directly in equity							
Share options exercised	-	0.6	-	-	-	-	**0.6**
Share-based payment transactions	-	-	-	-	-	1.6	**1.6**
Dividends to equity holders	-	-	-	-	-	(22.8)	**(22.8)**
Total transactions with owners	-	0.6	-	-	-	(21.2)	**(20.6)**
Balance at 2 October 2009	2.1	146.2	1.7	0.2	(1.3)	105.0	**253.9**

HALFORDS GROUP PLC

Condensed consolidated statement of changes in equity (continued)

For the 26 weeks to 1 October 2010

For the period ended 1 October 2010 (Unaudited)

	Attributable to the equity holders of the Company						
			Other reserves				
	Share capital £m	Share premium account £m	Translation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	**Total equity £m**
Balance at 2 April 2010	2.1	146.5	0.4	0.2	1.9	127.4	**278.5**
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	50.6	**50.6**
Other comprehensive income							
Foreign currency translation differences for foreign operations	-	-	0.1	-	-	-	**0.1**
Cash flow hedges:							
Fair value losses in the period	-	-	-	-	(3.3)	-	**(3.3)**
Transfers to inventory	-	-	-	-	(1.9)	-	**(1.9)**
Transfers to net profit:							
Cost of sales	-	-	-	-	1.5	-	**1.5**
Tax on other comprehensive income	-	-	-	-	0.8	-	**0.8**
Total other comprehensive income for the period net of tax	-	-	0.1	-	(2.9)	50.6	**47.8**
Transactions with owners, recorded directly in equity							
Share options exercised	-	3.8	-	-	-	-	**3.8**
Share-based payment transactions	-	-	-	-	-	1.2	**1.2**
Income tax on share-based payment transactions	-	-	-	-	-	1.2	**1.2**
Dividends to equity holders	-	-	-	-	-	(29.3)	**(29.3)**
Total transactions with owners	-	3.8	-	-	-	(26.9)	**(23.1)**
Balance at 1 October 2010	2.1	150.3	0.5	0.2	(1.0)	151.1	**303.2**

HALFORDS GROUP PLC

Condensed consolidated statement of cash flows

For the 26 weeks to 1 October 2010

	Notes	**26 weeks to 1 October 2010 Unaudited £m**	26 weeks to 2 October 2009 Unaudited £m	52 weeks to 2 April 2010 £m
Cash flows from operating activities				
Profit after tax for the period before non-recurring items		**50.6**	43.1	83.0
Non-recurring items		**-**	-	(6.0)
Profit after tax for the period		**50.6**	43.1	77.0
Depreciation - property, plant and equipment		**10.0**	10.4	21.9
Impairment charge		**-**	-	5.0
Amortisation - intangible assets		**2.3**	1.1	2.2
Foreign exchange loss		**0.6**	0.7	0.6
Net finance costs		**0.4**	1.1	2.6
Loss on disposal of property, plant and equipment		**0.1**	0.7	0.7
Equity settled share based payment transactions		**1.2**	1.6	2.5
Fair value gain on derivative financial instruments		**(0.6)**	(0.9)	0.1
Income tax expense		**18.1**	17.8	32.7
(Increase)/decrease in inventories		**(7.4)**	4.4	9.8
Decrease in trade and other receivables		**-**	0.6	0.5
Increase in trade and other payables		**21.9**	31.9	22.8
(Decrease)/increase in provisions		**(8.8)**	(0.2)	2.6
Finance income received		**1.2**	1.2	2.0
Finance costs paid		**(1.6)**	(2.6)	(4.5)
Income tax paid		**(7.0)**	(12.5)	(30.4)
Net cash from operating activities		**81.0**	98.4	148.1
Cash flows from investing activities				
Acquisition of subsidiary undertaking net of cash acquired		**(0.9)**	-	(72.3)
Purchase of intangible assets		**(2.5)**	(1.2)	(3.5)
Purchase of property, plant and equipment		**(6.1)**	(4.6)	(15.6)
Net cash used in investing activities		**(9.5)**	(5.8)	(91.4)
Cash flows from financing activities				
Net proceeds from issue of ordinary shares		**3.8**	0.6	0.9
Payment of finance lease liabilities		**(0.2)**	(0.2)	(0.2)
Dividends paid to shareholders		**(29.3)**	(22.8)	(35.3)
Net cash used in financing activities		**(25.7)**	(22.4)	(34.6)
Net increase in cash and bank overdrafts	13	**45.8**	70.2	22.1
Cash and cash equivalents at the beginning of the period	13	**36.5**	15.5	15.5
Effect of exchange rate fluctuations		**(0.2)**	-	(1.1)
Cash and cash equivalents at the end of the period	13	**82.1**	85.7	36.5

HALFORDS GROUP PLC

Notes to the condensed consolidated interim financial statements

For the 26 weeks to 1 October 2010

1. General information

The consolidated financial statements of the Halfords Group plc (the “Company”) comprise the Company together with its subsidiary undertakings (the “Group”).

The Company is a limited liability company incorporated, domiciled and registered in England and Wales. Its registered office is Icknield Street Drive, Washford West, Redditch, Worcestershire, B98 0DE.

The Company is listed on the London Stock Exchange.

These condensed consolidated interim financial statements were approved by the Board of Directors on 18 November 2010.

2. Statement of compliance

These condensed consolidated interim financial statements for the 26 weeks to 1 October 2010 have been prepared in accordance IAS 34 ‘Interim financial reporting’ as endorsed by the European Union. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the 2010 Annual Reports and Accounts, which have been prepared in accordance with IFRSs as adopted by the European Union.

The comparative figures for the financial period ended 2 April 2010 are not the Group’s complete statutory accounts for that financial year. Those accounts have been reported on by the Group’s auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

3. Risks and uncertainties

The Directors consider that the principal risks and uncertainties which could have a material impact on the Group’s performance in the remaining 26 weeks of the financial year remain the same as those stated on pages 55 and 57 of our Annual Report and Accounts for the 52 weeks to 2 April 2010, which are available on our website *www.halfordscompany.com.*

The main areas of potential risk and uncertainty facing the business for the remainder of the financial year are those identified below:

Economic and market conditions
The economy is a major influence on consumer spending. Trends in employment, inflation, taxation, consumer debt levels and interest rates impact consumer expenditure in discretionary areas.

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

Whilst many of the products that Halfords sell are non-discretionary in their nature and predicting future trends is difficult, Halfords reflects the latest independently sourced estimates in its internal plans.

Competition
The retail industry is highly competitive and dynamic. The Group competes with a wide variety of retailers of varying sizes and faces competition from UK retailers, in both stores and on-line, as well as international operators. Failure to compete with competitors on areas including price, product range, quality and service could have an adverse effect on the Group's financial results.

We aim to have a broad appeal in price, range and store format in a way that allows us to compete in different markets and to use service as a point of differentiation in each market segment. We have an established training infrastructure to ensure that our colleagues receive ongoing product and service training. We track performance against a broad range of measures that customers tell us are critical to their shopping experience, and monitor customer perceptions of ourselves to ensure we can respond quickly if required.

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

4. Significant accounting policies

As required by the Disclosure and Transparency Rules of the Financial Services Authority, the interim condensed consolidated financial statements have been prepared applying the accounting policies and presentation that were applied in the preparation of the 2010 Annual Reports and Accounts, which are published on the Halfords Group website*, www.halfordscompany.com, except* for the adoption of new standards and interpretations, noted below:

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

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

  - The definition of a business has been broadened, which is likely to result in more acquisitions being treated as a business combination.
  - Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss.
  - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  - Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss.
  - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

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

- Amendments to IAS 38 'Intangible Assets' - incorporates the impact of revised IFRS 3, relating to accounting for intangible assets acquired in a business combination and clarifies the valuation techniques for measuring fair value of intangible assets for which no active market exists. Revised IAS 38, which is mandatory for the Group's 2011 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior periods.

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

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

- Amendments to IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' – requires disclosures for non-current assets (or disposal groups) classified as held for sale or discontinued operations are specified in that standard. The amendments to IFRS 5 are mandatory for the Group's 2011 consolidated financial statements, and has not had a material impact.

- Amendments to IFRS 8 'Operating Segments' – states segment information for total assets only required if such information is regularly reported to chief operating decision-maker. The amendments to IFRS 8 are mandatory for the Group's 2011 consolidated financial statements, and has not had a material impact.

- Amendments to IAS 1 'Presentation of Financial Statements' - states that the classification of the liability component of a convertible instrument as current or non-current is not affected by terms that, at the option of the holder, result in settlement of the liability through issue of equity instruments. The amendments to IAS 1 are mandatory for the Group's 2011 consolidated financial statements, and has not had a material impact.

4. Significant accounting policies (continued)

- Amendments to IAS 17 'Leases' – means an entity can now classify a lease of land with an indefinite economic life as a finance lease, if the other criteria for a finance lease are met. The amendments to IAS 17 are mandatory for the Group's 2011 consolidated financial statements, and has not had a material impact.
- Amendments to IAS 36 'Impairment of Assets' - states that largest unit to which goodwill is allocated is operating segment level. The amendments to IAS 36 are mandatory for the Group's 2011 consolidated financial statements, and has not had a material impact.

5. Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from those estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the 52 week period ended 2 April 2010 and the 26 weeks ended 2 October 2009.

6. 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 Profit before tax. Management believe that these measures are the most relevant in evaluating the performance of the segment and for making resource allocation decisions.

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

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

Income statement	Retail Unaudited £m	Car Servicing Unaudited £m	26 weeks to 1 October 2010 Total Unaudited £m	26 weeks to 2 October 2009 Total Unaudited £m
Revenue	**407.3**	**49.0**	**456.3**	425.1
Segment result	**66.9**	**4.8**	**71.7**	63.8
Unallocated expenses [1]			**(2.6)**	(1.8)
Operating profit			**69.1**	62.0
Net financing expense			**(0.4)**	(1.1)
Profit before tax			**68.7**	60.9
Tax			**(18.1)**	(17.8)
Profit after tax			**50.6**	43.1

[1] Unallocated expenses have been disclosed to reflect the format of the internal management reports reviewed by the Chief Operating Decision maker and include an amortisation charge of £1.1m in respect of assets acquired through business combinations (2009: £nil).

6. Operating segments (continued)

Income statement	Retail £m	Car Servicing £m	52 weeks to 2 April 2010 Total £m
Revenue	818.1	13.5	831.6
Segment result before non-recurring items	123.5	0.7	124.2
Non-recurring items	(7.4)	-	(7.4)
Segment result	116.1	0.7	116.8
Unallocated expenses[1]			(4.5)
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 include an amortisation charge of £0.3m in respect of assets acquired through business combinations.

Other segment items:	Retail Unaudited £m	Car Servicing Unaudited £m	26 weeks to 1 October 2010 Total Unaudited £m	26 weeks to 2 October 2009 Total Unaudited £m
Capital expenditure	**6.8**	**1.1**	**7.9**	6.6
Depreciation expense	**9.5**	**0.5**	**10.0**	10.4
Amortisation expense[1]	**1.2**	**-**	**1.2**	1.1
Inventory write down	**5.1**	**-**	**5.1**	9.5

[1] This excludes the amortisation in respect of assets acquired through business combinations.

Other segment items:	Retail £m	Car Servicing £m	52 weeks to 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

6. Operating segments (continued)

Balance sheet	Retail Unaudited £m	Car Servicing Unaudited £m	26 weeks to 1 October 2010 Total Unaudited £m	26 weeks to 2 October 2009 Total Unaudited £m
Segment assets	**364.9**	**15.2**	**380.1**	380.9
Unallocated assets			**339.5**	253.1
Consolidated total assets			**719.6**	634.0
Segment liabilities	**(214.0)**	**(22.4)**	**(236.4)**	(200.1)
Unallocated liabilities			**(180.0)**	(180.0)
Consolidated total liabilities			**(416.4)**	(380.1)

Balance sheet	Retail £m	Car Servicing £m	52 weeks to 2 April 2010 Total £m
Segment assets	320.9	11.0	331.9
Unallocated assets			340.6
Consolidated total assets			672.5
Segment liabilities	(192.4)	(21.6)	(214.0)
Unallocated liabilities			(180.0)
Consolidated total liabilities			(394.0)

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

7. Non-recurring items

	26 weeks to 1 October 2010 Unaudited £m	26 weeks to 2 October 2009 Unaudited £m	52 weeks to 2 April 2010 £m
Non-recurring operating expenses:			
Central Europe closure	-	-	7.4
Tax on non-recurring items[2]	-	-	(1.4)
Non-recurring items after tax	-	-	6.0

Exit costs associated with the closure of all seven stores in Central Europe. Non-recurring operating expenses of £7.4m consisted of £0.4m redundancy costs, £5.3m in respect of property, plant and equipment and inventory, £2.4m onerous lease costs and £0.5m of other costs offset by £1.2m foreign currency translation gains.

[2] This represents the tax credit on these non-recurring costs; this credit is lower than the UK corporation tax standard rate at that time of 28% due to the non-deductibility of certain legal expenses and depreciation.

8. Net Finance Costs

	26 weeks to 1 October 2010 Unaudited £m	26 weeks to 2 October 2009 Unaudited £m	52 weeks to 2 April 2010 £m
Finance costs:			
Bank borrowings	**(1.3)**	(1.5)	(2.7)
Amortisation of issue costs on loans	**-**	(0.1)	(0.5)
Commitment and guarantee fees	**(0.1)**	(0.1)	(0.2)
Cost of forward foreign exchange contracts	**-**	-	(0.1)
Interest payable on finance leases	**(0.4)**	(0.4)	(0.8)
Interest payable on rent reviews	**-**	(0.2)	(0.3)
Finance costs before non-recurring finance costs	**(1.8)**	(2.3)	(4.6)
Finance income:			
Bank and similar income	**1.4**	1.2	2.0
Net finance costs	**(0.4)**	(1.1)	(2.6)

9. Income tax expense

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre tax income of the interim period.

The underlying tax charge on trading is 29.8% (2009: 30.0%), principally due to the non-deductibility of depreciation charged on capital expenditure in respect of mezzanine floors and other store infrastructure.

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of 4 years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% was substantively enacted on 20 July 2010 and will be effective from 1 April 2011. This will reduce the company's future current tax charge accordingly. It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax liabilities/assets accordingly.

10. Dividends

During the period the Group paid a final dividend of 14.00 pence per share in respect of the 52 weeks to 2 April 2010 (2009: 10.90 pence per share), which absorbed £29.3m of shareholders' funds (2009: £22.8m).

The directors have approved an interim dividend of 8.0 pence per share for the 26 weeks to 1 October 2010 (2009: 6.0 pence per share), which equates to £16.9m (2009: £12.5m) and will be paid on 24 January 2011 to those shareholders on the share register at the close of business on 17 December 2010.

11. Earnings Per Share

Basic earnings per share is calculated by dividing the earnings 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 the Employee Benefit Trust and has been adjusted for the issue/repurchase 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 26 weeks to 1 October 2010.

	26 weeks to 1 October 2010	26 weeks to 2 October 2009	52 weeks to 2 April 2010
	Unaudited	Unaudited	
	Number	Number	Number
	m	m	m
Weighted average number of shares in issue	**211.1**	210.8	210.2
Less: shares held by the Employee Benefit Trust	**(1.1)**	(1.1)	(1.1)
Weighted average number of shares for calculating basic earnings per share	**210.0**	209.7	209.1
Weighted average number of dilutive share options	**2.7**	0.1	1.5
Total number of shares for calculating diluted earnings per share	**212.7**	209.8	210.6

	26 weeks to 1 October 2010	26 weeks to 2 October 2009	52 weeks to 2 April 2010
	Unaudited	Unaudited	
	£m	£m	£m
Basic earnings attributable to equity shareholders	**50.6**	43.1	77.0
Non-recurring items:			
Operating expenses	**-**	-	7.4
Tax on non-recurring items	**-**	-	(1.4)
Underlying earnings before non-recurring items	**50.6**	43.1	83.0
Basic earnings per share	**24.1p**	20.6p	36.8p
Diluted earnings per share	**23.8p**	20.5p	36.6p
Basic earnings per share before non-recurring items	**24.1p**	20.6p	39.7p
Diluted earnings per share before non-recurring items	**23.8p**	20.5p	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.

12. Capital Expenditure – Tangible and Intangible Assets

	Unaudited
	£m
Net book value at 3 April 2009	367.0
Foreign exchange movement	1.0
Additions	6.6
Disposals	(0.7)
Depreciation, amortisation and impairments and other movements	(11.5)
Net book value at 2 October 2009	362.4

	Unaudited
	£m
Net book value at 2 April 2010	**451.6**
Foreign exchange movement	**-**
Additions	**7.9**
Disposals	**(0.1)**
Depreciation, amortisation, impairments and other movements	**(12.3)**
Net book value at 1 October 2010	**447.1**

The Group is expected to spend approximately £24.2m for the 52 weeks to 1 April 2011 (expenditure in the 52 weeks to 2 April 2010 was £20.4m). At 1 October 2010 the Group had capital expenditure contracted, but not provided for, of £4.5m (2009: £6.4m).

13. Analysis of Movements in the Group's Net Debt in the Period

	At 3 April 2009	Cash flow	Other non cash changes	At 2 October 2009
		Unaudited	Unaudited	Unaudited
	£m	£m	£m	£m
Cash in hand and at bank	15.5	70.2	-	85.7
Debt due after one year	(179.5)	-	(0.1)	(179.6)
Total net debt excluding finance leases	(164.0)	70.2	(0.1)	(93.9)
Finance leases due within one year	(0.2)	0.2	(0.2)	(0.2)
Finance leases due after one year	(12.0)	-	0.1	(11.9)
Total finance leases	(12.2)	0.2	(0.1)	(12.1)
Total net debt	(176.2)	70.4	(0.2)	(106.0)

	At 2 April 2010	Cash flow	Other non cash changes	**At 1 October 2010**
		Unaudited	Unaudited	**Unaudited**
	£m	£m	£m	**£m**
Cash in hand and at bank	36.5	45.8	(0.2)	**82.1**
Debt due within one year	-	-	(180.0)	**(180.0)**
Debt due after one year	(180.0)	-	180.0	**-**
Total net debt excluding finance leases	(143.5)	45.8	(0.2)	**(97.9)**
Finance leases due within one year	(0.2)	0.2	(0.2)	**(0.2)**
Finance leases due after one year	(11.8)	-	0.1	**(11.7)**
Total finance leases	(12.0)	0.2	(0.1)	**(11.9)**
Total net debt	(155.5)	46.0	(0.3)	**(109.8)**

Non-cash changes include £0.2m effect of exchange rate fluctuations and changes in classification between amounts due within and after one year.

As at 1 October 2010 the Group's debt facility comprised a £180m five-year non-amortising loan, maturing with bullet repayment on 13 July 2011 and a £120m revolving credit facility. The Group had sufficient headroom to enable it to conform to covenants on these existing borrowings and had sufficient working capital and undrawn financing facilities to service its operating activities and ongoing capital investments.

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). With revised facilities in place the Board has determined that it has sufficient facility in place to resource the Group at its optimal level of gearing of approximately 1.5x EBITDA and has sufficient working capital and undrawn financing facilities to service its operating activities and ongoing capital investments following the signing.

14. Trade and other payables

During the prior year, the Directors deemed that certain property related items within accruals and deferred income are more appropriately disclosed within provisions. Accordingly £6.8m included within accruals and other deferred income for the 26 weeks to 2 October 2009 is now recognised within provisions.

15. Share Capital

	Number of shares m	Share capital £m	Share premium account £m
As at 3 April 2009	209.8	2.1	145.6
Shares issued – employee options	0.2	-	0.6
Shares issued – employee LTIP	0.3	-	-
As at 2 October 2009	**210.3**	**2.1**	**146.2**

	Number of shares m	Share capital £m	Share premium account £m
As at 2 April 2010	210.7	2.1	146.5
Shares issued – employee options	1.1	-	3.8
As at 1 October 2010	**211.8**	**2.1**	**150.3**

During the 26 weeks to 1 October 2010, options exercised by employees resulted in 1.1m shares being issued for a total consideration of £3.8m.

16. Contingent liability

Other potential liabilities that could crystallise are in respect of previous assignments of leases where the liability could revert to the Group if the lessee defaulted. The Group's share of these leases has an estimated future commitment at 1 October 2010 of £4.1m (2009: £6.0m).

17. Seasonality

In general, the Group's results are not seasonal with revenue in the first half broadly similar to that of the second, however sales of certain products tend to fluctuate by season. For example, sales of children's cycles peak in the Christmas season and sales of adult cycles tend to peak in the summer. It should be noted that in the 52 weeks to 1 April 2011 there will be no Easter periods, whereas in the 52 weeks to 2 April 2010 there were two Easter periods.

18. Related Party Transactions

There were no related party transactions during the 26 weeks to 1 October 2010.

Responsibility statement of the directors in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

• the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;

• the interim management report includes a fair review of the information required by:
(a) DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
(b) DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board

David Wild, Chief Executive **Nick Wharton, Finance Director**

18 November 2010

Interim Review Report to Halfords Group plc

For the 26 weeks to 1 October 2010

Independent Review Report to Halfords Group plc

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 1 October 2010 which comprises the Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement of Cash Flows and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in Note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 1 October 2010 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

GA Watts
For and on behalf of KPMG Audit Plc
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

18 November 2010