12 November 2015

Halfords Group plc

Interim Results: Financial Year 2016
and
Strategy update: Moving Up A Gear

Halfords Group plc, the UK's leading retailer of motoring, cycling and leisure products and a leading independent operator in garage servicing and auto repair, today announces its interim results for the 26 weeks to 2 October 2015 ("the period") and the new strategy: *Moving Up A Gear*.

Group Financial Summary

	H1 FY16 £m	H1 FY15 £m	change	Like-for-Like Revenue ("LFL")
Total Group Revenue	533.5	524.1	+1.8%	+1.7%
Retail	*458.0*	*451.9*	*+1.3%*	*+1.4%*
Autocentres	*75.5*	*72.2*	*+4.6%*	*+3.3%*
Gross Margin				
Retail	*50.3%*	*50.6%*	*-29 bps*	
Autocentres	*64.6%*	*63.8%*	*+76 bps*	
Group EBITDA	62.3	63.6	-1.9%	
Profit Before Tax and non-recurring items	46.4	49.4	-5.9%	
Basic Earnings Per Share, before non-recurring items	19.2p	20.1p	-4.5%	
Profit Before Tax, after non-recurring items	46.4	49.6	-6.3%	
Basic Earnings Per Share, after non-recurring items	19.2p	20.2p	-4.7%	
Interim Dividend Per Share	5.66p	5.5p	2.9%	

Key Points for the First Half

- Group revenue +1.8% with Retail LFL +1.4% and Autocentres LFL + 3.3%
- All Retail categories grew except Cycling, due to weak sales in July and August
- Motoring performed well, especially Car Maintenance with sales up 6.5%
- In-store service income up 14.0%, driven by 3Bs fitting and Cycle Repair
- Group PBT down 5.9%, in line with expectations
- Net debt down £7.9m year-on-year to £62.4m
- Interim dividend per share of 5.66p, up 2.9%

Strategy Update

- *Getting Into Gear* evolves into *Moving Up A Gear*
- After three years of investing to stabilise the foundations, improve service levels and grow sales, Halfords is now a fundamentally strong business, but the job is not yet done
- We are introducing a new strategy called *Moving Up A Gear*, which has five pillars:
    - *Putting Customers in the Driving Seat* – investing in customer data and insight capabilities to maximise the lifetime customer value
    - *Service in our DNA* – embedding the focus on customer service
    - *Building on our Uniqueness* – exclusive products, relevant innovation and unique partnerships, such as our new collaboration with British Olympian and Tour de France winner Sir Bradley Wiggins
    - *Better Shopping Experience* - a seamless customer experience, online as well as in store
    - *Fit for Future Infrastructure* - moving from fixing the basics to improving efficiency and fulfillment
- We will continue to invest to modernise the business to sustain long-term growth
- Profit in FY17 expected to be broadly unchanged on FY16, with growth thereafter
- Target to grow the dividend every year, with coverage of around 2 times earnings over time

Jill McDonald, Chief Executive, commented:
"In the first half the motoring side of the business performed well and in-store service sales grew strongly, reflecting our focus on this key area of differentiation. The Cycling performance in the second quarter was disappointing and, given the seasonal mix towards Cycling during the summer, this contributed to the decline in Group profitability for the period. Looking forward, there are plenty of reasons for us to remain confident that the Cycling market will continue to grow over the long-term.

Today I am announcing a new Group strategy called *Moving Up A Gear*. After three years of investing to stabilise the foundations, improve service levels and grow sales, Halfords is now a fundamentally strong business, operating in markets with good growth prospects. However the modernisation process is not yet complete. Under the new strategy we will continue to invest to move from fixing the basics to enabling sustainable growth. There are a number of significant opportunities for further improvement, which include the leveraging of customer data and analytics, relentless innovation, a better shopping experience, enhanced customer service and services, and a fulfilment infrastructure for modern times. We look forward with confidence to growing Halfords over the long term."

Quarterly Performance

	H1 FY16 % change		**Q1 FY16 % change**	**Q2 FY16 % change**
TOTAL REVENUE				
Halfords Group	**+1.8**		**+3.6**	**0.0**
Retail	+1.3		+3.4	-0.7
Autocentres	+4.6		+5.0	+4.2
LFL REVENUE				
Halfords Group	**+1.7**		**+3.6**	**-0.2**
Retail	+1.4		+3.5	-0.6
Cycling	*-2.9*		*+2.0*	*-7.6*
Car Maintenance	*+6.5*		*+5.9*	*+7.1*
Car Enhancement	*+0.6*		*-0.3*	*+1.5*
Travel Solutions	*+4.7*		*+9.2*	*+1.1*
Autocentres	+3.3		+4.0	+2.6

FY16 Guidance

	UPDATED	**PREVIOUS**
Cycle Republic % of retail sales	c. 0.5%	c. 1%
Retail Gross Margin	A decline of 25-75bps	A decline of 25-75bps
Retail Operating Costs	+2.5 to 3.5%	+4 to 5%
Retail Capital Expenditure	c.£40m	c.£45m
Autocentres EBITDA	Low double digit % increase	Low double digit % increase
Autocentres Capital Expenditure	c.£8m	c.£8m
Group Depreciation Charge	c. £30m	c. £30m
Net Finance Costs	c. £3m	c. £3m
Effective Tax Rate	c. 20%	c. 20%

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Notes

1. Where appropriate, revenues denominated in foreign currencies have been translated at constant rates of exchange.
2. Like-for-like sales represent revenues, including those attributable to Click & Collect, from UK and Irish stores and UK centres trading for greater than 365 days, plus online revenues from direct deliveries, with growth calculated at constant currency rates
3. All profit numbers shown in this statement are before non-recurring items, unless stated otherwise.
4. EBITDA denotes earnings before net finance costs, tax, depreciation, amortisation and non-recurring items.
5. Q1 FY16 represents the 13-week period ending Friday 3 July 2015. Q2 FY16 represents the 13-week period ending Friday 2 October 2015.

Results Presentation

A presentation for analysts and investors will be held today starting at 9.15am at London Stock Exchange, 10 Paternoster Square, London EC4M 7LS. Attendance is by invitation only. A live webcast of the presentation will be available at www.halfordscompany.com.

Forthcoming Newsflow

Halfords Group plc will publish a third-quarter trading statement on 21 January 2016.

Notes to Editors

www.halfords.com
www.halfordscompany.com
www.halfordsautocentres.com

Halfords is the UK's leading retailer of motoring, cycling and leisure products and, through Halfords Autocentres, is also one of the UK's leading independent operators in garage servicing and auto repair. Customers shop at 463* Halfords stores and 8* Cycle Republic shops 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 307* sites nationally and offers motorists high-quality MOTs, repairs and car servicing at affordable prices.

Halfords employs approximately 11,000 colleagues and sells around 9,000 product lines in store, increasing to around 165,000 Retail products online. The Retail offering encompasses significant ranges in car parts, cycling products, in-car technology, child seats, roof boxes and camping equipment. Halfords' own cycling brands include *Apollo, Carrera*, *Boardman* and *13* cycles, augmented by a range of other brands of cycles and accessories, including *Kona*, *Mongoose, Raleigh* and *Pinarello*. In Auto, the *Halfords Essentials* and *Halfords Enhanced* ranges are sold alongside brands such as *General Electric, Bosch, Garmin* and *TomTom.* In Travel Solutions, Halfords sells a premium range of equipment including camping brands such as *CampinGaz* and *Outwell*. 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.

Cautionary Statement

This report contains certain forward-looking statements with respect to the financial condition, results of operations, and businesses of Halfords Group plc. These statements and forecasts involve risk, uncertainty and assumptions because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. These forward-looking statements are made only as at the date of this announcement. Nothing in this announcement should be construed as a profit forecast. Except as required by law, Halfords Group plc has no obligation to update the forward-looking statements or to correct any inaccuracies therein.

*as at 12 November 2015

Chief Executive's Statement

Summary of Group Results

Group sales of £533.5m were up 1.8%, with Group gross profit up by 1.6%. Total operating costs rose by 3.5% reflecting investments in the *3-Gears* training programme and associated wage uplifts, an increase in depreciation, and the move to more frequent deliveries to stores, which was implemented in October 2014. Group earnings before finance costs, tax and non-recurring items ("EBIT") were £47.9m, which compares with £51.2m in the prior period.

Earnings before non-recurring items, finance costs, depreciation and amortisation ("EBITDA") were down 1.9% to £62.3m. Profit before tax and non-recurring items was £46.4m and earnings per share before non-recurring items were 19.2p, down 5.9% and 4.5% respectively.

Group inventory and capital expenditure continued to be managed tightly. Net debt at the end of the period was £7.9m lower than the prior year at £62.4m, with net debt:EBITDA reducing to a ratio of 0.6:1 on a rolling 12 month basis.

The Board has approved an interim dividend of 5.66 pence per share (H1 FY15: 5.5 pence), an increase of 2.9%. This will be paid on 22 January 2016 to shareholders on the register at the close of business on 18 December 2015.

Operational Review: Retail

Sales were £458.0m, up 1.3% on the previous year and 1.4% on an LFL basis.

Cycling LFL revenues declined by 2.9% for the half. The second-quarter Cycling LFL was -7.6%, an improvement on the -11.0% reported for the 8 weeks to 28 August 2015. The majority of the Cycling year-on-year sales decline was in a 4 week period from mid-July to mid-August and reflected particularly strong comparatives exacerbated by poor weather, discounting across the market and annualising against the Yorkshire Grand Départ of the Tour de France. Our Cycling sales for the final five weeks of the quarter were in marginal growth. Mainstream Bikes and Parts, Accessories and Clothing ("PACs") were the most affected elements of the Cycling category, whilst Premium Bikes and Children's Bikes remained in growth in the first half. Cycle Repair sales increased by 24.0%, reflecting the investments made last year in equipment and trained colleagues. Over 2 years, cycling LFL sales growth in the first half was 12.6%.

LFL sales of Car Maintenance products and services grew by 6.5% in the first half, driven by car parts and tool sets. The fitting of wiper blades, bulbs and batteries ("3Bs") continued to grow strongly, with sales up 15.5%.

Car Enhancement LFL revenues increased by 0.6% with declines in Sat Nav and car cleaning products, offset by growth in dash cams and new in-car connectivity equipment.

Travel Solutions LFL revenues increased by 4.7%, driven by growth in child safety seats and camping products.

Online Retail revenues grew by 0.9% and represented 12.1% of total Retail sales (H1 FY14: 12.2%). 90% of online orders were collected in store, reflecting the on-going importance of the physical store network to our overall offer. Home delivery sales increased by 34%, helped by the introduction of the Halfords eBay site in November 2014.

In the period, total in-store service income, included within all of the above categories, increased by 14.0% to £12.9m, with the majority of revenues emanating from 3Bs fitting and Cycle Repair services.

Operational Review: Autocentres

Total Autocentres revenues were up 4.6% and, on a LFL basis, 3.3%. The business has achieved eight successive quarters of LFL growth; now against strong comparatives.

The gross margin improved by 76 bps year-on-year, reflecting a reduced mix of lower margin tyres, whilst at the same time maintaining the strong margin on service, maintenance and repair work.

We opened four centres and closed one in the period. We continue to anticipate opening a further 10-15 Autocentres this year. We also anticipate fewer centre closures this year compared to last year when we took the opportunity to exit a number of sub-optimal locations.

All of the new centres were opened in the new concept style that has been piloted in Croydon since its launch in October 2014. In addition we refreshed 11 centres within the existing estate using the key principles of the new concept centre.

Halfords Strategic Review

Introduction

I joined Halfords as Chief Executive in May this year and promptly commenced a review of the business in conjunction with the management team and endorsed by the Board. In this statement I firstly set out the findings of our business review and then explain the new strategy that we launch today.

Business Review

Over the last few months we have conducted extensive customer research, reviewed the markets in which we operate and internally appraised the business.

Markets

Halfords principally operates in two broad markets: motoring and cycling. Around 70% of Group sales are generated from products that are principally motoring related with the remaining 30% coming from cycling. At a profit level, the contribution of motoring is even greater.

Within motoring, the Halfords Group operates in two segments:

- Car parts, accessories, consumables and technology, with a total market worth up to an estimated £7bn. This element of the motoring market has grown by around 3% per annum in the last few years. Halfords Retail competes in a portion of this market worth circa £3bn, holding around a 15% market share.
- Car servicing and aftercare, with a total market worth around £9bn. This element of the market has grown by around 2% per annum in the last few years and is where Autocentres competes, holding around 1.5% share of a highly fragmented market.

Going forward we anticipate the motoring market to continue to grow at an average rate of 2-3% per annum over the medium term. The number of cars on the road is rising and the mileage being driven is increasing. The volume of new drivers in 2014 was at its highest for three years and the number of new car registrations for the ten months to the end of October 2015 was the biggest on record. The average age of cars in the UK is steady at around 7.5 years.

Cars are also becoming more complex, with greater variety of models and enhanced technology making it more difficult or even impossible for people to “Do it Yourself”. For example, replacing a stop-start battery requires connection with the on-board computer – something that Halfords stores and colleagues are equipped to do, but is not possible for an individual. This complexity, combined with a change in needs from increasingly time-poor consumers, is driving the “Do It For Me” trend.

Whilst cycling is the smaller of the two parts of our business, given the sales decline over the summer we have conducted a proportionately more detailed review of the market. The cycling market is not particularly well documented, with data difficult to come by, which is reflective of the fragmented nature of the operators within it.

As such, over the last couple of months we have conducted our own extensive, bespoke customer and market research, some of which we have included in this report.

The cycling market has been growing at a compound annual growth rate of around 6-8% over the past three years with 2014 showing particularly strong growth. Our performance, driven by the sale of bikes, has by far exceeded this. PACs sales have grown broadly in line with the market.

The market for bikes is estimated to be around £800m and for PACs around £750m. In recent years we have gained share in bikes, now standing at around 24% of the market. Our share of the parts, accessories and clothing market has remained steady at around 15%. In Cycle Repair, a market of around £100m, our investments in equipment and people have resulted in strong growth, and we believe we have been taking share over the past 12 months.

Our Cycling sales have been extraordinarily strong over the past two years. A combination of factors has driven new cyclists into Halfords:

- The economic conditions have been favourable with true disposable income recovering to drive big ticket purchases.
- There has been plenty of positive media coverage driving awareness around cycling – the fantastic achievements of Team GB at the London Olympics, the Tour de France starting in Yorkshire and more amateur cycling and triathlon events.
- The government has continued to invest in infrastructure and safety, particularly in London.
- Whilst the Cycle to Work initiative has been in place for some time now, awareness and participation grew significantly over the past two years.
- Finally, we saw consistently warm and sunny summers in 2013 and 2014.

New cyclists look for entry level bicycles around the £200-300 mark and our fantastic Apollo and Carrera ranges meant Halfords was better positioned than most to benefit from this.

Looking forward we have confidence in the long-term growth potential of the cycling market, based on our understanding of the customer and macro factors, both economic and social.

Our research has identified cyclists by how they use their bike and how often they use it, and although there are many subtleties in the segmentation, we broadly see three types of customers:

- Those who use their bike for leisure – cycling with family and friends for light exercise
- Those who commute
- Those who are cycling for fitness and potentially entering competitions and cycling with clubs.

The fitness cyclists are not the only set who cycle frequently and are engaged or enthusiastic about cycling. Our research has revealed that many of the leisure cyclists are cycling just as often and are just as engaged.
Reflecting on the different customers, we know that we over-index in our share of cyclists riding for leisure purposes and conversely under-index with those who cycle for fitness or cycle in clubs. We know these groups behave and therefore spend differently, so we have a dual offering in cycling with Halfords and now Cycle Republic.

The total pool of people now cycling has increased and they are cycling more often and more miles than previously. We have confidence that those who are currently cycling will continue to do so. Our research shows that these more frequent cyclists replace their bikes more often - a large proportion of frequent cyclists plan to replace their bikes within the next year. Fitness cyclists are more likely to increase their bike spend the most – sometimes doubling it. They are also the group that buy more PACs.

Our research also looked at those not cycling today and we were very encouraged by the proportion of them that intended to buy a bike within 12 months.

In addition to understanding the customer we've also looked at future market drivers. We know that participation in the UK is still low and there is large scope for new entrants as well as increased spend from existing cyclists.

Also, female participation is particularly low, but growing. This presents an opportunity for us because we know that an increase in female cyclists will also drive an increase in families and children taking up cycling. Furthermore, there is significant government support in London and in many other cities. For example, there are now four cycle super-highways in London and five more to come.

Based on our assessment of the growth potential, we anticipate cycling market growth of 3-5% per annum on average over the medium term, driven by both new entrants into the market as well as existing participants replacing and upgrading their bikes and accessories.

Strengths

Halfords has a number of very clear strengths:

- Well-known brand with great overall awareness and a strong heritage.
- A wide and authoritative range of products and services across the categories in which Halfords operates, with a reputation amongst customers for quality products.
- Leaders in many categories and operating in markets with positive tailwinds going forward.
- Specialist positioning; 80% of Halfords Retail customers need some form of assistance with their purchases.
- Strong cross-shop: 85% of Halfords' cycling customers also shopping in motoring categories.
- The car parts fitting and cycle service and repair propositions are on trend to support customers who want someone to "do it for them" rather than doing it themselves.
- A wide store network, which is central to the specialist service offering and underpins Halfords' competitive advantage.

Opportunities

We have many opportunities ahead, including:

- Significant headroom for continued growth in motoring and cycling. For example, there is an opportunity to continue to improve awareness of our *WeFit* proposition, with its clear differentiation of being on-demand and better value than the competition.
- Improving brand consideration amongst younger customers.
- Currently we only match 3% of our sales to customers, we can grow this to better understand customers and increase their lifetime value.
- New technologies across in-car technology and dash cams.
- There are some niches where we have not fulfilled our potential, such as PACs.
- Improving our warehouse and distribution capability in order to facilitate growth opportunities.
- Investment in IT infrastructure to develop and deliver applications and information that benefit our colleagues and customers.

Watch outs

There are also a few areas to watch out for, including:

- The competitive threat is constantly evolving and we will continue to monitor our competitors closely. It is imperative that we maintain and build upon the specialist positioning, service credentials, reputation for quality, and wide store network of Halfords to provide good protection from online, generalist and discounter alternatives.
- In addition, customer expectations are ever evolving and increasing and we need to be more in tune with them. The online channel and customer fulfilment expectations continue to develop at pace and we will need to ensure we have the infrastructure to enable us to compete.
- Halfords is also not immune to the impact of the Great British weather – we need to continue to find opportunities to mitigate the effect of unfavourable conditions.

Conclusion

After a period of investing to rebuild the foundations, improve service levels and grow sales, Halfords is now a fundamentally strong business, operating in healthy markets. However the process of modernising Halfords is not yet complete and we will continue to invest to move from fixing the basics to enabling sustainable long-term growth. In addition to this there are a number of significant opportunities for further improvement.

Strategy Update
Today we launch our new strategy for the Group.

We evolve from *Getting Into Gear* to *Moving Up a Gear* and this new strategy has 5 key pillars:

1. ***Putting Customers in the Driving Seat*** – investing in customer data and insight capabilities to maximise the lifetime customer value
2. ***Service in our DNA*** – embedding the focus on customer service
3. ***Building on our Uniqueness*** – exclusive products, relevant innovation and unique partnerships, such as our new collaboration with British Olympian and Tour de France winner Sir Bradley Wiggins
4. ***Better Shopping Experience*** – a seamless customer experience, online as well as in store
5. ***Fit for the Future Infrastructure*** – moving from fixing the basics to improving efficiency and fulfillment

1. Putting Customers in the Driving Seat
The Halfords brand has a strong heritage and high awareness but it is often seen as functional and can appear old fashioned for some younger customers. So we have clarified our brand purpose and framework. Our goal is to be customers' first choice for their life on the move and we will achieve this by being *Committed to Making Customers' Journeys Better.*

We will be introducing a new marketing end line, *Halfords – For Life's Journeys,* that customers will start to see next year as well as a new approach to advertising. This new brand positioning will also be manifested across key customer touch points in stores and online starting next year.

We are investing in building customer data and our insight capabilities. The data that currently exists is held in different places across the business and our relationship marketing is currently email-based with only basic customer segmentation by product. There is huge scope for improvement here in order to maximise the lifetime customer value. The benefits of this include increased frequency of visit, greater cross-shop between motoring and cycling, and higher basket size.

We will collect more data about our customers and build a single customer view across the business whilst transforming our marketing campaigns to be customer segment led, rather than product category led. This month we are introducing e-receipts into Halfords Retail enabling us to build a clearer picture of who our customers are and what they are buying. Our investments in IT will enable us to introduce coupons at till in FY17 and start to better motivate our customers through better targeting of offers and service.

We will be measuring our progress on how many customers we know and talk to and their response rates.

A Cycle Republic loyalty card is already being tested and in its first three months we matched over 50% of transactions to customers and 23% of customers made at least one return visit.

Customers are increasingly savvy in their shopping habits; for example, 45% of our customers check the price they are paying in store with the prices on the website, and that trend is likely to increase. Improving our value perception can increase our conversion of customers. Where price really matters to our customers we will be at our sharpest.

However, we know that value is complex and not just about price. Our customers are looking for an unbeatable combination of the right price, great service and outstanding quality. We are exploring a number of steps to create value leadership, including reviewing our range architecture in some key categories to ensure it reflects consumer demand across a good, better, best hierarchy and that we have the right opening price points. We will also review our own brand portfolio to ensure our own brands offer fantastic value for money. The imperative for us is to provide an unmatchable mix through a combination of price, quality, service, and collaborations with sports professionals and designers.

2. Service in our DNA
Halfords has been through a service revolution and now we need to embed it in how we do business. Our ability to offer great service is one of our key differentiators. We will continue to build on the strategies that are working

for us, including the 3-Gears programme, improved recruitment processes and offering longer contracted hours to store colleagues.

We will be increasing the emphasis on service and selling in the training that we deliver. We will be ensuring we shout about the expertise our colleagues have through recognised accreditation. By the end of this financial year we will have new motoring Gear 3 colleagues in every car parts fitting store, alongside our existing Gear 3 colleagues in cycling. We've already seen the impact of having that higher level of skill on our cycle service and repair business.

Building our pipeline of Assistant Store Managers and Store Managers through our Aspire programme will continue and we remain committed to Apprenticeships in both Retail and Autocentres.

The new £7.20 national living wage takes effect from April 2016. We will continue to reward skills and are introducing a new supplement for completion of Gear 1 training which is 20p an hour above the national living wage for over 25s and 20p above the starter rate for under 25s. This leads to an improved combined Gear 1 and Gear 2 premium of 63p, with a further 43p for Gear 3 colleagues. We will maintain all of our geographical pay premiums over and above the minimum wage and national living wage.

We have defined a new key performance indicator that we will be using to monitor our progress in developing our services proposition: service-related sales. This comprises the revenue from the fitting or repair work plus any product sold with the service. Over the past few years this has grown at a faster rate than our overall sales. This is a key area for us and financially it makes sense, because it is higher-margin and is strategically important as it builds our specialist credentials, providing clear differentiation from generalist and online competitors. We can offer these on-demand services by having a wide store network and trained colleagues.

3. Building on our Uniqueness

Halfords occupies a unique position in the markets in which we operate and building upon this further strengthens our clear differentiation. We will do this through exclusive products, relevant innovation and unique partnerships. These all drive purchase intent and have the potential to encourage customer to trade up.

Within the motoring side of the business we have a number of new initiatives and products, some of which are immediate and some of which will be phased in over the coming months. These include:

- Rolling out digital vehicle registration look ups for stores as well as online to help customers find out exactly which blade, battery and bulb they need for their car.
- Launching the world's first 130% brighter bulb – this is already in stores.
- Introducing a lifetime guarantee on certain car batteries, again already in stores, and increasing convenience for customers through a home delivery option.
- Extending our range of motorcycle products. We know there are over 1 million motorbikes and scooters in the UK and the market is growing and fragmented. From April 2016 we will be offering a 2B's (bulbs and batteries) product and fitting service for motorbikes, as well as extending our range of consumables and accessories.
- Introducing new connectivity products such as wireless charging as well as fun products such as light-up cables.
- Extending our range in store and online of gifts and toys. For this Christmas we have many new products including camera drones, *Disney Frozen* roller skates and hoverboards as well as gift versions of our popular tool products.

There is also an opportunity to grow our share of trade customers within motoring. Our potential trade market comprises students, apprentices, mechanics, companies with fleets of vehicles and independent garages. We only address a portion of that market currently and we believe there is room to grow our penetration of customers as well as increase spend of our existing trade customers.

To do this we will be developing ranges that are specifically for trade card customers – we have no bespoke products today. Currently the cards can only be used in store but we will enable the cards on Halfords.com, both for application and transactions. We will also up-weight our marketing and in-store presence, and introduce interest-free credit for larger transactions.

In cycling, the current and future innovations include:

- Recent launch of 34 new kids' bikes for Christmas; the first major update of this category for 3 years. We also have a new range of kids' and junior accessories, as well as more licensed products, such as *Disney Frozen* and *Minions*.
- A new collaboration with the designer Orla Kiely under her 'Olive and Orange' range, with a new range of bikes, accessories and camping equipment that will launch next spring.
- A new Boardman brand and range of bikes. The *Elite* series launches this afternoon and the *Performance* series of bikes will be launched into Halfords and Cycle Republic at the end of January 2016.
- Opening a Boardman Performance Centre next year; a world-class, first-to-market project combining a cycling-specific wind tunnel and performance testing laboratory, giving the enthusiast a unique experience.

We are also delighted to announce today a new collaboration with British Olympian and Tour De France winner Sir Bradley Wiggins to launch an exclusive range of kids' bikes next July. Sir Bradley is passionate about one thing: he wants to get more kids into cycling. And just as you'd expect from a British national hero, a winning sportsman and a style icon, he wants a bike that stands out in the market. His vision is for a great-looking range of lightweight kids' bikes that are created specifically for under 16s. He wants his range to be high quality, accessible, affordable stylish and made for toddlers rising up to teenagers.

4. Better Shopping Experience

We can do more to offer customers a seamless experience online as well as in store. Halfords.com has been improved and is simpler and easier to use. Most recently, in August we enhanced the site look and feel to make it easier for customers to find products. Conversion has since improved by 1%. However there is much more to do. In the fourth quarter of this year we will be redesigning the web pages to grow conversion further as well as improving the quality of merchandising and content.

Investment in IT is required to create a single view of stock, which will help to enhance our online ordering reliability and we will need to invest in warehouse and distribution capability to improve fulfilment and support an enhanced customer proposition.

We have made a number of improvements to the fulfilment proposition already including adding delivery time slots, Sunday deliveries and moving to an 8pm cut-off for next day orders. We will shortly also be offering order tracking as well as extending our order cut-off again to 9pm. We will continue to develop and improve our home delivery proposition and stay close to customers as their expectations evolve.

Our current store refresh format has been well received by customers; store navigation is improved, our specialist credentials are reinforced and the overall experience is better for customers. However we can do more to modernise our store design and encourage more visits. We will be building on the strengths of the current designs but we will slow down the pace of roll-out whilst we create a more progressive "Store of the Future" refresh concept. We will also be creating a "Store of the Future Light" design in order to apply the principles to stores where the economics of a full refresh are not appropriate. In FY17 we anticipate refreshing 15 to 25 stores. Once we are happy with the new refresh approach we will determine the rollout rate for subsequent years.

The strategic rationale for Cycle Republic remains strong: we continue to anticipate the cycling market to be in healthy growth over the medium term, we under index in London and city centres, and evidence suggests engagement and the propensity to trade up is rising amongst cyclists. Through Cycle Republic we have an opportunity to grow our share of the customer segments that spend more on cycling.

Initial customer feedback has been very good with customers seeing the brand as a specialist but more approachable and accessible than competitors with a number of clear differentiation points. We will have around

10 stores by the end of this year and we anticipate opening a further 5 to 10 in FY17, in London and key cycling towns.

As referenced above, our PACs sales have performed in line with healthy market growth over recent years, but have more recently fallen below our own high expectations. Halfords is actually the largest retailer of PACs in the UK, with our sales currently concentrated around the lower priced end of the PACs range architecture. This reflects the make-up of our Halfords customer base with its bias towards leisure customers. Our research shows that around two-thirds of spend in the PACs market is concentrated on more serious fitness cyclists. The opportunity exists to grow penetration amongst these cyclists but we need to do this through the right channel.

In FY17, we will launch a dedicated transactional Cycle Republic website designed and ranged to cater for the more serious fitness and commuter cyclists with Halfords.com focusing on the mainstream and family market. This will enable us to have a clearer and more compelling offer for the different customer segments. We will also be reviewing our pricing and value proposition. Whilst we do compete favourably on price on key branded PACs lines we have an opportunity to improve our own label proposition where we can be seen as expensive.

We see our plans in PACs as a medium term development and in the meantime we have lots of other exciting areas to grow in as well.

5. Fit for the Future Infrastructure

There are 463 Halfords Retail stores, 98% of which are profitable. Our wide store network is a real asset and we do not anticipate a significant change in the numbers of Halfords stores in the medium term. Our strategy is focused on right sizing, relocating and renegotiating leases when possible and this will continue. Since 2013 we have completed 16 right-sizes, 15 relocations and 64 lease renegotiations, reducing rented space by 160,000 square feet, the equivalent of around 18 stores, and decreasing rent and rates by over £2m. Going forward, we have 93 leases expiring between FY17 and FY20 and we will continue to look for opportunities to right-size, relocate and renegotiate leases.

Our warehousing and distribution cost to sales ratio has grown in recent years as a result of increased volumes and bigger cube sizes through our logistics network, courier costs, external storage and the move to 5-day deliveries. We successfully transitioned to an outsourced 3-day delivery model in August, which will serve us well for the medium term. However, we know that our distribution capability will have to improve in the future to support our growth. We are reviewing the options and will provide an update on the solution at the preliminary results announcement next summer.

A lot of work had to be done in IT over the past 2 years improving the core architecture so that it is fit for purpose today. We are now concentrating our resources on our colleague and customer facing applications ensuring that they are flexible and can support our growth. They will provide group wide efficiencies and help improve business processes. There are opportunities for IT to support our central teams to get it right first time for colleagues in store, ensuring they have the right tools for the job.

Examples of investments we'll be making over the next year or so include:

- Implementing an in-store labour management system to reduce store workload and bring efficiencies from optimising colleague scheduling.
- Replacing our till hardware and software to make customer interactions quicker, to reduce store workload, and to facilitate sales growth opportunities, such as targeted offers.
- Introducing CRM capability so that we can maximise the lifetime customer opportunity.

Operational measures

Going forward we plan to report on our progress against our strategic objectives using the following operational measures:

- Proportion of trained colleagues (specifically: the percentage on Gear 1, Gear 2 and Gear 3);
- Service-related sales growth (calculated as the growth in total sales of the combined services and directly associated products; for example a sale of a bulb fitting and the bulb itself);
- Proportion of Retail transactions matched to a customer;

- A new measure of customer experience to be developed over the next 6 months;
- Store and centre openings;
- Store and centre refreshes; and,
- Online sales as a proportion of total Retail sales.

Autocentres
The strategy for our Autocentres business was launched last November and we have since continued to make progress against this.

We have increased the number of services you can book on the web and added timed slots. Our MOT pricing has been simplified and we have made our offers clearer and consistent online and in the garages.

Our customer retention has improved year-on-year by 100 basis points, but it is still below 50% so there remains a big opportunity to improve this. We have started to use our CRM data to understand how and when to communicate effectively with our customers and we continue to reward our colleagues based on customer service.

We have made progress in improving standards in our centres. We have evaluated our concept centre in Croydon, opened in October 2014, and all new centres are now opened in the new concept style. We are also rolling out some of the elements that have worked to the rest of the estate, including customer service pods, TV screens, Wi-Fi, coffee and large viewing windows. In the first half of this year we refreshed 11 centres.

In terms of leveraging the Halfords brand, we have continued to run a basic car check service consistently across our stores and garages, and this year, our Autocentre *Winter Prep Service* includes a voucher redeemable in any Halfords store. In addition to using Halfords car batteries and oils, our garages are now also using Halfords antifreeze. There are also further examples of buying synergies, such as sourcing heavy duty *Kärcher* product for washing cars.

We have continued to invest in our people. Half of our technicians have attended at least one training course this year and we are training more technicians to become MOT testers. Our apprentice scheme goes from strength to strength. We have 180 apprentices today and plan to have one per centre in the next few years. We are reviewing our garage team structures in order to improve productivity, allowing us to be open longer including weekends, and also to improve our colleague retention.

Investments
Halfords has been much improved over the last three years, with significant investment to stabilise the foundations. To enable the *Moving Up a Gear* strategy we will continue to invest to modernise the business and enable sustainable long-term growth.

We anticipate Retail capital expenditure to continue at similar levels to the *Getting Into Gear* phase, at around £100m over the next 3 years, slightly front-end weighted. We have plenty of value-adding investment opportunities in this business. In Retail, the priorities will be delivery, logistics and IT capabilities, to improve customer fulfilment, store refreshes including full and light versions of the Store of the Future concept, and a transactional website and more shops for Cycle Republic.

In Autocentres the priorities will be new centre openings, at a rate of 10-15 a year, a centre refresh programme and continual investment in technology to ensure we are at the forefront of capability. For this we expect to invest an average of £5m to £10m per annum over the next few years.

In total we anticipate Group capital expenditure of £30-40m per annum over the next few years.

There will also be investment for growth in Retail operating expenses. We will continue to improve efficiency, reengineering our processes to become leaner and more effective. For example, we recently redesigned the bike build process, to take out 8 minutes per bike, which on an annual build of 1.3 million bikes, is a lot of time and money. On top of those continuing improvements, we will also be investing in resources to improve customer service and sales growth. Our priorities will include:

- Maintaining the Gears training programme and the associated increased pay for skills.
- Investing in customer data, customer insight, and CRM.
- Investing in service and convenience, which includes improving our home/work delivery capability.
- Repositioning the brand across advertising and the key customer touch points, including in-store point of sale materials and online ‘look and feel’, which will be phased in over several years.

In addition to those investment priorities for capital and operating expenditure, we have cost increases ahead which we will have to absorb, such as living wage, as set out below. Going into next year, costs will also increase by the annualisation of the Gear 2 and Gear 3 pay premia that have been phased in during this year and there will be the increase in depreciation from the higher capital expenditure of recent years and in the years ahead.

For these reasons, as sales grow over the next few years, we would expect the Group EBITDA percentage margin to be roughly flat at the current level. With the increase in depreciation next year, we expect profit next year to be broadly unchanged, before returning to growth thereafter.

Impact of national living wage

We anticipate the impact of living wage to be up to £2m for FY17. This is a prudent estimate as there may be some cost mitigations that can bring that down. Our assumptions in arriving at that cost are that we will:

1. Increase the Gear 1 rate to 20 pence above the starting rate (national living wage for those over 25).
2. Increase the Gear 2 premium to 63p and maintain the Gear 3 premium at 106p.
3. Retain the various location premia that we currently pay.
4. Increase the lower band of management salaries to ensure there is clear pay progression between roles.

Looking further ahead, we anticipate the living wage to add up to £6m per annum to our payroll costs by FY20. This is before concluding our work on potential cost mitigations.

Financial targets and capital allocation priorities

Going forward we aim to achieve four key financial targets:

1. Grow sales faster than the markets in which we operate. We anticipate that the motor market will grow at an average rate of 2-3% pa and the cycling market at an average rate of 3-5% per annum over the medium term. We will aim to beat whatever those growth rates are.
2. Maintain Group EBITDA % margin roughly flat over the next few years, as we continue to invest for sustainable growth.
3. Grow the dividend per share every year with coverage of around 2 times underlying earnings on average over time.
4. Develop a debt target, which we will announce at the preliminary results next summer. Our intention will be to stay close to that debt target over time, and, in particular, we will not have the ambition of using cash to pay down debt below that level.

Our top priority will be to maintain a strong and prudent balance sheet, and we will use our debt target as a guide for that. Thereafter cash will be applied firstly to invest to grow the business, secondly to pay and grow the dividend and thereafter any excess would be available for additional distribution to shareholders.

Summary

Halfords is a fundamentally strong business operating in good markets, many of which we are leaders in, and we see plenty of opportunities to grow market share in both motoring and cycling.

The strategic focus is shifting from looking at customers from the inside out and fixing the basics to looking forward through the customers’ eyes and investing in the next generation of growth drivers. The turnaround the business has been going through is impressive, colleagues are more engaged and customers have noticed the changes.

Whilst the job to modernise Halfords has made great progress it is not yet complete and we will continue to invest to sustain long-term growth. We expect profit in FY17 to be broadly unchanged on FY16, with growth thereafter. However, our strong cashflow and balance sheet will enable us to continue to grow the dividend whilst at the same time investing to modernise the business.

On behalf of the Board, I would like to thank all colleagues for their fantastic contribution, support and commitment.

Jill McDonald
Chief Executive, November 2015

CHIEF FINANCIAL OFFICER'S REPORT

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

Reportable Segments

Halfords Group operates through two reportable business segments:

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

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

The "H1 FY16" accounting period represents trading for the 26 weeks to 2 October 2015 ("the period"). The comparative period "H1 FY15" represents trading for the 26 weeks to 26 September 2014 ("the prior period").

Financial Results

	H1 FY16 £m	H1 FY15 £m	Change
Group Revenue	533.5	524.1	+1.8%
Group Gross Profit	279.2	274.7	+1.6%
Group EBIT*	47.9	51.2	-6.4%
Group EBITDA**	62.3	63.6	-1.9%
Net Finance Costs	(1.5)	(1.8)	-20.4%
Profit Before Tax and non-recurring items	**46.4**	**49.4**	**-5.9%**
Profit Before Tax, after non-recurring items	46.4	49.6	-6.3%
Basic Earnings per Share, before non-recurring items	19.2p	20.1p	-4.5%

** EBIT denotes earnings before net finance costs, tax and non-recurring items*
*** EBITDA denotes earnings before net finance costs, tax, depreciation, amortisation and non-recurring items*

Group revenue in H1 FY16, at £533.5m, was up 1.8% and comprised Retail revenue of £458.0m and Autocentres revenue of £75.5m. This compared to H1 FY15 Group revenue of £524.1m, which comprised Retail revenue of £451.9m and Autocentres revenue of £72.2m. Group gross profit at £279.2m (H1 FY15: £274.7m) represented 52.3% of Group revenue (H1 FY15: 52.4%), reflecting a decrease in the Retail gross margin of 29 basis points ("bps") to 50.3% and an increase in the Autocentres gross margin of 76 bps to 64.6%.

Total Operating Costs before non-recurring items increased to £231.3m (H1 FY15: £223.5m) of which Retail represented £183.5m (H1 FY15: £178.4m), Autocentres £47.2m (H1 FY15: £44.5m) and unallocated costs £0.6m (H1 FY15: £0.6m). Unallocated costs represent amortisation charges in respect of intangible assets acquired through business combinations, namely the acquisitions of Nationwide Autocentres Limited in February 2010 and Boardman Bikes Limited and Boardman International Limited ("*Boardman Bikes*") in June 2014, which arise on consolidation of the Group.

Group EBITDA before non-recurring items decreased 1.9% to £62.3m (H1 FY15: £63.6m), whilst net finance costs were £1.5m (H1 FY15: £1.8m).

Group Profit Before Tax and non-recurring items for the year was down 5.9% at £46.4m (H1 FY15: £49.4m).

There were no non-recurring costs during the period (H1 FY15: £0.2m income).

Group Profit Before Tax in the year after non-recurring items was £46.4m (H1 FY15: £49.6m).

Halfords Retail

	H1 FY16 £m	**H1 FY15 £m**	**Change**
Revenue	458.0	451.9	+1.3%
Gross Profit	230.4	228.6	+0.8%
Gross Margin	50.3%	50.6%	-29bps
Operating Costs	(183.5)	(178.4)	+2.8%
EBIT before non-recurring items	**46.9**	**50.2**	**-6.6%**
Non-recurring income	-	0.2	-
EBIT after non-recurring items	46.9	50.4	-7.0%
EBITDA before non-recurring items	**58.4**	**60.2**	**-2.7%**

Revenue for the Retail business of £458.0m reflected, on a constant-currency basis, a like-for-like ("LFL") sales increase of 1.4%. Non-LFL stores, including 7 brand new Cycle Republic store openings, since the prior period, contributed £3.8m revenue in the period.

Cycling LFL revenues were down 2.9% in the first half. This was principally driven by a challenging July and August for Mainstream Bikes, due to a number of factors including particularly strong comparatives, poor weather and discounting across the market. Mainstream Bikes LFL sales declined by 7.9% and PACs LFL revenues were down 4.7% in the half. Premium Bikes continued to be our best performing bike category with sales up 3.6% in the first half. The investments in Cycle Repair in FY15 drove LFL sales up 24% in the first half.

Car Maintenance LFL revenues increased by 6.5%. Parts sales were in strong growth, with the fitting of bulbs, blades and batteries ("3Bs") up 15.5%. The other standout performer was our Workshop category reflecting the increasingly popular Halfords Advanced range of toolsets.

Car Enhancement LFL revenues increased by 0.6%. Sat Nav sales continued to be impacted by structurally-declining markets and car cleaning sales also declined, with the big ticket items, such as pressure washers, being most affected due to unfavourable weather. This was more than offset by growth in sales of in-car connectivity equipment, dash cams and audio; the latter growing as customers took advantage of our new products to upgrade to digital or "connected" devices.

Travel Solutions LFL revenues were up 4.7%, driven by camping and child safety seats, offsetting a decline in roof bars and boxes.

Revenues for the Retail business (including *Boardman Bikes*) are split by category below:

	H1 FY16 (%)	**H1 FY15 (%)**
Cycling	36.6	38.0
Car Maintenance	27.9	26.6
Car Enhancement	21.7	21.7
Travel Solutions	13.8	13.7
Total	**100.0**	**100.0**

Gross profit for the Retail business at £230.4m (H1 FY15: £228.6m) represented 50.3% of sales, 29bps down on the prior year (H1 FY15: 50.6%). The margin-accretive factors principally comprised the mix benefit out of

Cycling into higher margin Car Maintenance along with the strong growth of in-store service income. These were more than offset by greater promotional activity in Cycling, including the pull forward of the end-of-summer sale, and increased third-party-branded product mix, particularly in Car Enhancement.

Management continues to anticipate a 25-75 bps decrease in Retail gross margin in FY16, reflecting a continued growth in third-party branded products and an assumption of a better relative performance of Cycling compared to the first half.

Operating Costs before non-recurring items were £183.5m (H1 FY15: £178.4m). The breakdown is set out below:

	H1 FY16 £m	**H1 FY15 £m**	**Change**
Store Staffing	52.1	49.2	+5.8%
Store Occupancy	69.8	68.6	+1.7%
Warehouse & Distribution	24.5	19.7	+24.4%
Support Costs	37.1	40.9	-9.3%
Total Operating Costs before non-recurring items	**183.5**	**178.4**	**+2.8%**

Store Staffing costs increased by 5.8%, principally due to an increase in sales volumes, the planned *Gears* pay increments and the uplift in the national minimum wage. The opening of 7 Cycle Republic stores since the first half of last year also contributed to the increase.

Store Occupancy costs increased by 1.7%. Higher depreciation and lower landlord premium income were partly offset by lower net rental charges.

Warehouse & Distribution costs increased by 24.4%. During the majority of the period in-house 5-day-a-week delivery schedule was operating and this compared to the mostly one-day outsourced model that was in place in the prior period. In August 2015 the out-sourced 3-day-a-week delivery solution was implemented, providing a more stable, flexible and cost effective platform.

Support Costs decreased by 9.3% with the impact of pay rises and increased depreciation more than offset by lower bonus accruals and efficiencies within marketing, including a rationalisation of the supplier base and a shift in the mix of activity towards digital marketing. The prior period also included the one-off transaction costs associated with the acquisition of *Boardman Bikes*.

Management anticipates an increase in Retail operating costs in FY16 of 2.5 to 3.5% compared to previous full year guidance of 4 to 5%. The decrease is driven by lower than expected Cycling sales in the first half, lower store change costs than originally expected and the realisation of targeted cost savings. In addition, now that the 3-day delivery solution is in place we can forecast with greater confidence the second-half cost impact.

<u>Halfords Autocentres</u>

	H1 FY16 £m	**H1 FY15 £m**	**Change**
Revenue	75.5	72.2	+4.6%
Gross Profit	48.8	46.1	+5.9%
Gross Margin	64.6%	63.8%	+76bps
Operating Costs	(47.2)	(44.5)	+6.0%
EBIT	**1.6**	**1.6**	**-**
EBITDA	**3.9**	**3.4**	**+12.1%**

Autocentres generated total revenues of £75.5m (H1 FY15: £72.2m), an increase of 4.6% on the prior period with a LFL revenue increase of 3.3%. Online-booking revenues grew 12.9% in the period and represented 18% of sales.

Gross profit at £48.8m (H1 FY15: £46.1m) represented a gross margin of 64.6%; an increase of 76 bps on the prior period. The mix out of lower margin tyres, whilst maintaining the strong margin on service, maintenance and repair work, has driven the year-on-year improvement.

Autocentres' EBITDA of £3.9m was 12.1% higher than H1 FY15 (H1 FY15: £3.4m), with the upside in gross profit being offset by continued cost investments as part of the on-going growth strategy. EBIT was flat at £1.6m (H1 FY15: £1.6m).

Management continues to anticipate Autocentres' EBITDA to increase by a low double-digit % in FY16.

Portfolio Management

The Retail store portfolio at 2 October 2015 comprised 470 stores (end of H1 FY15: 465; end of FY15: 467).

The following table outlines the changes in the Retail store portfolio over the 26 week period:

	Number	Stores
Relocations	2	Belfast (Connswater) & Biggleswade
Lease re-gears	13	Cardiff, Eastleigh, Fareham, Glasgow (Rutherglen), Hamilton, Hove, Loughton, Newhaven, Peterhead, Putney, Sheldon, Shoreham & Watford
Rightsizes	1	Luton
Openings	3	Bristol, Manchester & Nottingham

Four new Autocentres were opened and two (Tamworth and Slough) were closed in the period, taking the total number of Autocentre locations to 307 as at 2 October 2015 (end of H1 FY15: 298).

With the exception of eight long leasehold and two freehold properties within Autocentres, the Group's operating sites are occupied under operating leases, the majority of which are on standard lease terms, typically with a 5 to 15-year term at inception and with an average lease length of c.7 years.

Management anticipates having around 10 Cycle Republic shops by the end of the year and continues to anticipate opening 10-15 new Autocentres in FY16.

Net Non-Recurring expenses

The following table outlines the components of the non-recurring expenses recognised in the year:

	H1 FY16 £m	H1 FY15 £m
Onerous lease provision release	-	(0.2)
Net non-recurring income	**-**	**(0.2)**

In FY13 an onerous lease provision of £1.2m was created for two Retail stores, reflecting the challenging property market for vacant properties and the high cost to exit lease agreements. This provision had previously been charged as a non-recurring item. A final exit agreement in relation to the Wembley store was reached in the prior period, resulting in a provision release of £0.2m. The remaining £0.5m provision in relation to Wembley was utilised on exit of the lease.

Finance Expense

The net finance expense for the year was £1.5m (H1 FY15: £1.8m). Lower drawdowns and favourable interest rates following the amendment and extension agreed in November 2014 contributed to the reduced charge.

Management continues to anticipate the net finance expense to be around £3.0m in FY16.

Taxation

The taxation charge on profit for the financial year was £9.0m (H1 FY15: £10.4m, including £0.1m charge in respect of non-recurring items). The effective tax rate of 19.5% (H1 HY15: 21.0%) was lower than the UK corporation tax rate (20.0%) principally due to overseas tax rates and prior year adjustments.

Management continues to anticipate an effective tax rate of circa 20% in FY16.

Earnings Per Share (“EPS”)

Basic EPS before and after non-recurring items was 19.2 pence (H1 FY15: 20.1 pence before non-recurring, 20.2 pence after non-recurring), a 4.5% decrease on the prior period. Basic weighted-average shares in issue during the period were 194.4m (H1 FY15: 194.1m).

Dividend (“DPS”)

The Board has approved an interim dividend of 5.66 pence per share (H1 FY15: 5.5 pence), an increase of 2.9% on the prior period. This will be paid on 22 January 2016 to shareholders on the register at the close of business on 18 December 2015.

The Board has agreed a new target, to grow the dividend every year with an average cover of around 2 times over time.

Capital Expenditure

Capital investment in the period totalled £19.5m (H1 FY15: £12.5m) comprising £16.9m in Retail and £2.6m in Autocentres. Consistent with prior years, management has adopted a prudent approach with regard to capital investment and focused on investments generating material returns in line with the Retail and Autocentres strategies.

Within Retail, £8.5m (H1 FY15: £6.9m) was invested in stores, including 15 store refreshes, 3 of which were also store relocations or right-sizes, as well as general capital spend relating to training rooms, roofing, flooring and heating. By the end of H1 FY16, 87 stores were trading in the prevailing refreshed format. Retail continued to roll out the Cycle Republic brand, opening 3 dedicated stores in the period. Additional investments in Retail infrastructure included an £8.3m investment in IT systems, such as continual development of the online Retail proposition, the new Halfords Marketplace solution, refresh of store tills, investment in Vehicle Recognition software, tablets in store and investment in the underlying web platform.

The £2.6m (H1 FY15: £1.2m) investment in Autocentres comprised the opening of 4 centres in the year (FY15: 9) along with investment in refreshing existing centres.

On a cash basis, total capital expenditure in the period was £17.5m (H1 FY15: £15.3m).

Management now anticipates capital investment of c.£40m and c.£8m respectively in Retail and Autocentres in FY16, which would be c.£95m and c.£20m respectively for the three-year period ending FY16.

Inventories

Group inventory held at the period end was £159.0m (H1 FY15: £148.9m). Retail inventory increased to £157.6m (H1 FY15: £147.6m). Autocentres’ inventory was £1.4m (H1 FY15: £1.3m). The Autocentres business model is such that only modest levels of inventory are held within the centres, with most parts being acquired on an as-needed basis.

Other Working Capital

The change in trade and other receivables and payables represented a cash outflow of £5.0m (H1 FY15: £19.3m cash inflow) was £24.3m adverse to the same period last year. This was a timing effect, mostly on VAT, because of the change in period end date, which is expected to reverse in the second half.

Cashflow and Borrowings

Cash generated from operating activities during the period was £47.4m (H1 FY15: £86.1m). After taxation, capital expenditure and net finance costs, free cashflow of £19.5m (H1 FY15: £47.1m) was generated in the period.

Group net debt was £62.4m (H1 FY15: £70.3m), with the 12-month net debt: EBITDA ratio at 0.6:1.

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. The Directors consider that the principal risks and uncertainties that could have a material impact on the Group's performance in the remaining six months of FY16 are materially unchanged from those detailed in the section entitled 'Principal risks and uncertainties' on pages 32 to 35 of the Annual Report and Accounts for the year ended 3 April 2015. These include:

- Economic risk
- Business strategy risks
- Competitive risks
- Compliance
- Supply Chain Disruption
- Product and service quality
- Information technology systems and infrastructure
- Dependence on key management personnel

Specific risks associated with performance include Christmas trading, as well as weather-sensitive sales, particularly within the Car Maintenance and Cycling categories in the Retail business.

Jonny Mason
Chief Financial Officer, November 2015

HALFORDS GROUP PLC

Condensed consolidated income statement

For the 26 weeks to 2 October 2015

	Notes	**26 weeks to 2 October 2015 Unaudited £m**	26 weeks to 26 September 2014 Unaudited £m	53 weeks to 3 April 2015 £m
Revenue	6	**533.5**	524.1	1,025.4
Cost of sales		**(254.3)**	(249.4)	(479.1)
Gross profit		**279.2**	274.7	546.3
Operating expenses		**(231.3)**	(223.5)	(458.7)
Operating profit before non-recurring items		**47.9**	51.2	87.6
Non-recurring operating income/(expenditure)	7	**-**	0.2	(0.3)
Results from operating activities		**47.9**	51.4	87.3
Finance costs	8	**(1.5)**	(1.9)	(3.6)
Finance income	8	**-**	0.1	0.1
Net finance costs		**(1.5)**	(1.8)	(3.5)
Profit before tax and non-recurring items		**46.4**	49.4	84.1
Non-recurring operating income/(expenditure)	7	**-**	0.2	(0.3)
Profit before tax		**46.4**	49.6	83.8
Tax on recurring items	9	**(9.0)**	(10.3)	(17.9)
Tax on non-recurring items	7	**-**	(0.1)	(0.1)
Profit for the period attributable to equity shareholders		**37.4**	39.2	65.8
Earnings per share				
Basic earnings per share	11	19.2p	20.2p	33.8p
Diluted earnings per share	11	19.1p	19.8p	33.3p
Basic earnings per share before non-recurring items	11	19.2p	20.1p	34.1p
Diluted earnings per share before non-recurring items	11	19.1p	19.7p	33.5p

A final dividend of 11.00 pence per share for the 53 weeks to 3 April 2015 (2014: 9.10 pence per share) was paid on 25 August 2015. The directors have approved an interim dividend of 5.66 pence per share in respect of the 26 weeks to 2 October 2015 (2014: 5.50 pence per share).

HALFORDS GROUP PLC

Condensed consolidated statement of comprehensive income

For the 26 weeks to 2 October 2015

	26 weeks to 2 October 2015 Unaudited £m	26 weeks to 26 September 2014 Unaudited £m	53 weeks to 3 April 2015 £m
Profit for the period	**37.4**	39.2	65.8
Other comprehensive income			
Cash flow hedges:			
Fair value changes in the period	**(0.9)**	1.9	7.9
Transfers to inventory	**0.1**	1.4	(1.4)
Transfers to net profit:			
Cost of sales	**(0.7)**	(0.7)	(3.4)
Tax on other comprehensive income	**0.6**	(0.8)	(1.2)
Other comprehensive income for the period, net of tax	**(0.9)**	1.8	1.9
Total comprehensive income for the period attributable to equity shareholders	**36.5**	41.0	67.7

HALFORDS GROUP PLC

Condensed consolidated statement of financial position

For the 26 weeks to 2 October 2015

	Notes	**As at 2 October 2015 Unaudited**	As at 26 September 2014 Unaudited	As at 3 April 2015
Assets		**£m**	£m	£m
Non-current assets				
Intangible assets	12	**358.1**	357.6	356.8
Property, plant and equipment	12	**107.5**	93.2	103.8
Deferred tax assets		**2.6**	3.2	4.1
Total non-current assets		**468.2**	454.0	464.7
Current assets				
Inventories		**159.0**	148.9	149.3
Trade and other receivables		**61.5**	63.5	55.8
Derivative financial instruments		**1.4**	2.1	3.9
Cash and cash equivalents	13	**23.2**	3.7	22.4
Total current assets		**245.1**	218.2	231.4
Total assets		**713.3**	672.2	696.1
Liabilities				
Current liabilities				
Borrowings	13	**(27.6)**	(31.4)	(22.9)
Derivative financial instruments		**(0.6)**	-	(0.1)
Trade and other payables		**(183.6)**	(185.2)	(181.4)
Current tax liabilities		**(8.8)**	(13.9)	(12.4)
Provisions		**(9.4)**	(10.0)	(10.6)
Total current liabilities		**(230.0)**	(240.5)	(227.4)
Net current assets/(liabilities)		**15.1**	(22.3)	4.0
Non-current liabilities				
Borrowings	13	**(58.0)**	(42.5)	(61.3)
Accruals and deferred income – lease incentives		**(30.8)**	(30.0)	(31.5)
Provisions		**(8.0)**	(8.6)	(8.2)
Total non-current liabilities		**(96.8)**	(81.1)	(101.0)
Total liabilities		**(326.8)**	(321.6)	(328.4)
Net assets		**386.5**	350.6	367.7
Shareholders' equity				
Share capital	14	**2.0**	2.0	2.0
Share premium account	14	**151.0**	151.0	151.0
Investment in own shares		**(11.0)**	(14.1)	(13.6)
Other reserves		**0.7**	1.5	1.6
Retained earnings		**243.8**	210.2	226.7
Total equity attributable to equity holders of the Company		**386.5**	350.6	367.7

HALFORDS GROUP PLC

Condensed consolidated statement of changes in equity

For the 26 weeks to 2 October 2015

For the period ended 26 September 2014 (Unaudited)

	Attributable to the equity holders of the Company						
				Other reserves			
	Share capital £m	Share premium account £m	Investment in own shares £m	Capital redemption reserve £m	Hedging reserve £m	Retained Earnings £m	**Total equity £m**
Balance at 28 March 2014	2.0	151.0	(14.3)	0.3	(0.6)	187.7	**326.1**
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	39.2	**39.2**
Other comprehensive income							
Cash flow hedges:							
Fair value changes in the period	-	-	-	-	1.9	-	**1.9**
Transfers to inventory	-	-	-	-	1.4	-	**1.4**
Transfers to net profit:							
Cost of sales	-	-	-	-	(0.7)	-	**(0.7)**
Tax on other comprehensive income	-	-	-	-	(0.8)	-	**(0.8)**
Total other comprehensive income for the period net of tax	-	-	-	-	1.8	39.2	**41.0**
Transactions with owners, recorded directly in equity							
Share options exercised	-	-	0.2	-	-	-	**0.2**
Share-based payment transactions	-	-	-	-	-	1.1	**1.1**
Purchase of own shares	-	-	-	-	-	-	**-**
Tax on share-based payment transactions	-	-	-	-	-	(0.1)	**(0.1)**
Dividends to equity holders	-	-	-	-	-	(17.7)	**(17.7)**
Total transactions with owners	-	-		-	-	(16.7)	**(16.5)**
Balance at 26 September 2014	**2.0**	**151.0**	**(14.1)**	**0.3**	**1.2**	**210.2**	**350.6**

Condensed consolidated statement of changes in equity (continued)

For the 26 weeks to 2 October 2015

For the period ended 2 October 2015 (Unaudited)

	Attributable to the equity holders of the Company						
				Other reserves			
	Share capital £m	Share premium account £m	Investment in own shares £m	Capital redemption reserve £m	Hedging reserve £m	Retained Earnings £m	**Total equity £m**
Balance at 3 April 2015	2.0	151.0	(13.6)	0.3	1.3	226.7	**367.7**
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	37.4	**37.4**
Other comprehensive income							
Cash flow hedges:							
Fair value changes in the period	-	-	-	-	(0.9)	-	(0.9)
Transfers to inventory	-	-	-	-	0.1	-	0.1
Transfers to net profit:							
Cost of sales	-	-	-	-	(0.7)	-	(0.7)
Tax on other comprehensive income	-	-	-	-	0.6	-	0.6
Total other comprehensive income for the period net of tax	-	-	-	-	(0.9)	37.4	**36.5**
Transactions with owners, recorded directly in equity							
Share options exercised	-	-	2.6	-	-	-	**2.6**
Share-based payment transactions	-	-	-	-	-	1.1	**1.1**
Purchase of own shares	-	-	-	-	-	-	**-**
Tax on share-based payment transactions	-	-	-	-	-	-	**-**
Dividends to equity holders	-	-	-	-	-	(21.4)	**(21.4)**
Total transactions with owners	-	-	2.6	-	-	(20.3)	**(17.7)**
Balance at 2 October 2015	**2.0**	**151.0**	**(11.0)**	**0.3**	**0.4**	**243.8**	**386.5**

HALFORDS GROUP PLC

Condensed consolidated statement of cash flows

For the 26 weeks to 2 October 2015

	Notes	**26 weeks to 2 October 2015 Unaudited £m**	26 weeks to 26 September 2014 Unaudited £m	53 weeks to 3 April 2015 £m
Cash flows from operating activities				
Profit after tax for the period before non-recurring items		**37.4**	39.0	66.2
Non-recurring items		**-**	0.2	(0.4)
Profit after tax for the period		**37.4**	39.2	65.8
Depreciation - property, plant and equipment		**11.7**	9.8	20.2
Impairment charge		**-**	-	0.7
Amortisation - intangible assets		**2.7**	2.6	5.5
Net finance costs		**1.5**	1.8	3.5
Loss on disposal of property, plant and equipment		**0.1**	0.5	1.7
Equity settled share based payment transactions		**1.1**	1.1	1.4
Fair value loss/(gain) on derivative financial instruments		**0.3**	(0.8)	(2.0)
Corporation tax expense		**9.0**	10.4	18.0
(Increase)/decrease in inventories		**(9.7)**	1.3	0.9
Increase in trade and other receivables		**(5.7)**	(10.7)	(3.0)
Increase in trade and other payables		**0.7**	30.0	27.2
(Decrease)/increase in provisions		**(1.4)**	0.3	0.5
Finance income received		**-**	0.1	0.1
Finance costs paid		**(0.7)**	(1.7)	(3.2)
Corporation tax paid		**(9.9)**	(7.4)	(17.1)
Net cash from operating activities		**37.1**	76.5	120.2
Cash flows from investing activities				
Acquisition of subsidiary, net of cash acquired		**-**	(14.0)	(14.0)
Purchase of intangible assets		**(4.0)**	(4.1)	(7.5)
Purchase of property, plant and equipment		**(13.5)**	(11.2)	(32.1)
Net cash used in investing activities		**(17.5)**	(29.3)	(53.6)
Cash flows from financing activities				
Net proceeds from issue of ordinary shares		**2.6**	0.2	0.7
Proceeds from loans, net of transaction costs		**110.0**	91.0	220.2
Repayment of borrowings		**(114.0)**	(143.0)	(254.0)
Payment of finance lease liabilities		**(0.7)**	(0.3)	(0.3)
Dividends paid to shareholders	10	**(21.4)**	(17.7)	(28.4)
Net cash used in financing activities		**(23.5)**	(69.8)	(61.8)
Net decrease in cash and bank overdrafts	13	**(3.9)**	(22.6)	4.8
Cash and cash equivalents at the beginning of the period	13	**0.1**	(4.7)	(4.7)
Cash and cash equivalents at the end of the period	13	**(3.8)**	(27.3)	0.1

1. General information

The condensed consolidated interim financial statements of 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 11 November 2015.

2. Statement of compliance

These condensed consolidated interim financial statements for the 26 weeks to 2 October 2015 have been prepared in accordance with 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 2015 Annual Report and Accounts, which have been prepared in accordance with IFRSs as adopted by the European Union.

The comparative figures for the financial period ended 3 April 2015 are not the Group's statutory accounts for that financial period. Those accounts have been reported on by the Group's auditors and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor 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 32 to 35 of our Annual Report and Accounts for the 53 weeks to 3 April 2015, 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 have not changed from the year end.

4. Significant accounting policies

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the condensed consolidated interim financial statements have been prepared by applying the accounting policies and presentation that were applied in the preparation of the 2015 Annual Reports and Accounts, which are published on the Halfords Group website, *www.halfordscompany.com.*

The Directors consider that the Group has adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the condensed consolidated interim financial statements. The Group's forecasts and projections, taking into account reasonably possible changes in trading performance, show that the Group has adequate resources to continue in operational existence for the foreseeable future.

There are no new or amended standards effective in the period which have had a material impact on the interim consolidated financial information.

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 53 week period ended 3 April 2015 and the 26 weeks ended 26 September 2014.

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 and Boardman Bikes. The operations of the Car Servicing reporting segment comprise car servicing and repair performed from autocentres.

The Chief Operating Decision Maker is the Executive Directors. Internal management reports for each of the segments are reviewed by the Executive Directors on a monthly basis. Key measures used to evaluate performance are Revenue and Operating Profit. Management 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 operating profit, as included in the management reports that are reviewed by the Executive Directors. These internal reports are prepared in accordance with IFRS accounting policies consistent with these Group Financial Statements.

Notes to the condensed consolidated interim financial statements (continued)

For the 26 weeks to 2 October 2015

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

Income statement	Retail Unaudited £m	Car Servicing Unaudited £m	26 weeks to 2 October 2015 Total Unaudited £m	26 weeks to 26 September 2014 Total Unaudited £m
Revenue	**458.0**	**75.5**	**533.5**	524.1
Segment result before non-recurring items	**46.9**	**1.6**	**48.5**	51.8
Non-recurring items	**-**	**-**	**-**	0.2
Segment result	**46.9**	**1.6**	**48.5**	52.0
Unallocated expenses [1]			**(0.6)**	(0.6)
Operating profit			**47.9**	51.4
Net financing expense			**(1.5)**	(1.8)
Profit before tax			**46.4**	49.6
Tax			**(9.0)**	(10.4)
Profit after tax			**37.4**	39.2

[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 (£0.6m) in respect of assets acquired through business combinations (2014: (£0.6m)).

Income statement	Retail £m	Car Servicing £m	53 weeks to 3 April 2015 Total £m
Revenue	875.1	150.3	1,025.4
Segment result before non-recurring items	85.4	4.1	89.5
Non-recurring items	(0.3)	-	(0.3)
Segment result	85.1	4.1	89.2
Unallocated expenses[1]			(1.9)
Operating profit			87.3
Net financing expense			(3.5)
Profit before tax			83.8
Taxation			(18.0)
Profit after tax			65.8

[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 (£1.9m) in respect of assets acquired through business combinations (2014: (£1.7m)).

Notes to the condensed consolidated interim financial statements (continued)

For the 26 weeks to 2 October 2015

Other segment items:	**Retail Unaudited £m**	**Car Servicing Unaudited £m**	**26 weeks to 2 October 2015 Total Unaudited £m**	26 weeks to 26 September 2014 Total Unaudited £m
Capital expenditure	**16.9**	**2.6**	**19.5**	12.5
Depreciation expense	**9.4**	**2.3**	**11.7**	9.8
Amortisation expense	**2.1**	**-**	**2.1**	2.0

Other segment items:	**Retail £m**	**Car Servicing £m**	**53 weeks to 3 April 2015 Total £m**
Capital expenditure	30.7	6.8	37.5
Depreciation expense	16.4	3.8	20.2
Impairment expense	0.7	-	0.7
Amortisation expense	3.6	-	3.6

There have been no significant transactions between segments in the 26 weeks ended 2 October 2015.

7. Non-recurring items

	26 weeks to 2 October 2015 Unaudited £m	26 weeks to 26 September 2014 Unaudited £m	53 weeks to 3 April 2015 £m
Non-recurring operating expenses:			
Lease guarantee provision[1]	-	-	(0.2)
Onerous lease provision[2]	-	(0.2)	(0.2)
Impairment of Property, Plant and Equipment[3]	-	-	0.7
Non-recurring (income)/expense before tax	**-**	**(0.2)**	**0.3**
Tax on non-recurring items	-	0.1	0.1
Non-recurring (income)/expense after tax	**-**	**(0.1)**	**0.4**

[1]A non-recurring expense of £7.5m was incurred in 2011. This expense related to the creation of a provision for the potential liabilities arising from lease guarantees provided by Halfords prior to July 1989. In prior years the settlement of these obligations has resulted in a partial release of the original amounts provided. There have been no further settlements in the current period.

[2]A charge incurred in prior periods relating to stores where the present value of expected future cash flows is deemed to be insufficient to cover the lower of cost of exit or value-in-use. The release in the prior year was reflective of a finalised deal to exit one of these stores, the cost of which was less than the provision being maintained.

[3]Impairment charge in respect of property, plant and equipment where the carrying amount of these assets has been deemed to exceed the recoverable amount.

Notes to the condensed consolidated interim financial statements (continued)

For the 26 weeks to 2 October 2015

8. Net Finance Costs

	26 weeks to 2 October 2015	26 weeks to 26 September 2014	53 weeks to 3 April 2015
	Unaudited	Unaudited	
	£m	£m	£m
Finance costs:			
Bank borrowings	**(0.4)**	(0.7)	(1.3)
Amortisation of issue costs on loans	**(0.3)**	(0.3)	(0.6)
Commitment and guarantee fees	**(0.3)**	(0.4)	(0.8)
Cost of forward foreign exchange contracts	**(0.1)**	(0.1)	(0.2)
Interest payable on finance leases	**(0.4)**	(0.4)	(0.7)
Finance costs	**(1.5)**	(1.9)	(3.6)
Finance income:			
Bank and similar income	**-**	0.1	0.1
Finance income	**-**	0.1	0.1
Net finance costs	**(1.5)**	(1.8)	(3.5)

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 effective tax rate before non-recurring items for the 26 weeks to 2 October 2015 is 19.5% (HY15: 21.0%). This rate differs from the UK corporation tax rate (20%) principally due to non-deductible depreciation charged on capital expenditure, overseas tax rates and prior year adjustments.

A reduction in the UK corporation tax rate from 24% to 23% (effective 1 April 2013) was substantively enacted on 3 July 2012. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. In the Budget on 8 July 2015, the Chancellor announced additional planned reductions to 18% by 2020. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 2 October 2015 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

10. Dividends

During the period the Group paid a final dividend of 11.00 pence per share in respect of the 53 weeks to 3 April 2015 (2014: 9.10 pence per share), which absorbed £21.4m of shareholders' funds (2014: £17.7m).

The directors have approved an interim dividend of 5.66 pence per share for the 26 weeks to 2 October 2015 (2014: 5.50 pence per share), which is expected to be £11.1m (2014: £10.7m) and will be paid on 22 January 2016 to those shareholders on the share register at the close of business on 18 December 2015.

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 2 October 2015.

	26 weeks to 2 October 2015	26 weeks to 26 September 2014	53 weeks to 3 April 2015
	Unaudited	Unaudited	
	Number	Number	Number
	m	m	m
Weighted average number of shares in issue	**199.1**	199.1	199.1
Less: shares held by the Employee Benefit Trust	**(4.7)**	(5.0)	(4.9)
Weighted average number of shares for calculating basic earnings per share	**194.4**	194.1	194.2
Weighted average number of dilutive share options	**1.2**	4.0	3.2
Total number of shares for calculating diluted earnings per share	**195.6**	198.1	197.4

	26 weeks to 2 October 2015	26 weeks to 26 September 2014	53 weeks to 3 April 2015
	Unaudited	Unaudited	
	£m	£m	£m
Basic earnings attributable to equity shareholders	**37.4**	39.2	65.8
Non-recurring items:			
Operating (income)/expenses	**-**	(0.2)	0.3
Tax charge on non-recurring items	**-**	0.1	(0.1)
Underlying earnings before non-recurring items	**37.4**	39.1	66.2
Basic earnings per share	**19.2p**	20.2p	33.8p
Diluted earnings per share	**19.1p**	19.8p	33.3p
Basic earnings per share before non-recurring items	**19.2p**	20.1p	34.1p
Diluted earnings per share before non-recurring items	**19.1p**	19.7p	33.5p

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 28 March 2014	437.4
Additions	12.5
Assets acquired through business combination	13.8
Disposals	(0.5)
Depreciation, amortisation, impairments and other movements	(12.4)
Net book value at 26 September 2014	**450.8**

	Unaudited
	£m
Net book value at 3 April 2015	**460.6**
Additions	**19.5**
Disposals	**(0.1)**
Depreciation, amortisation, impairments and other movements	**(14.4)**
Net book value at 2 October 2015	**465.6**

Notes to the condensed consolidated interim financial statements (continued)

For the 26 weeks to 2 October 2015

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

	At 28 March 2014	Cash flow	Other non-cash changes	**At 26 September 2014**
		Unaudited	Unaudited	**Unaudited**
	£m	£m	£m	**£m**
Cash in hand and at bank	(4.7)	(22.6)	-	**(27.3)**
Debt due after one year	(84.0)	52.0	(0.3)	**(32.3)**
Total net debt excluding finance leases	(88.7)	29.4	(0.3)	**(59.6)**
Finance leases due within one year	(0.3)	0.2	(0.3)	**(0.4)**
Finance leases due after one year	(10.6)	-	0.3	**(10.3)**
Total finance leases	(10.9)	0.2	-	**(10.7)**
Total net debt	(99.6)	29.6	(0.3)	**(70.3)**

	At 3 April 2015	Cash flow	Other non-cash changes	**At 2 October 2015**
		Unaudited	Unaudited	**Unaudited**
	£m	£m	£m	**£m**
Cash in hand and at bank	0.1	(3.9)	-	**(3.8)**
Debt due after one year	(50.7)	4.0	(0.3)	**(47.0)**
Total net debt excluding finance leases	(50.6)	0.1	(0.3)	**(50.8)**
Finance leases due within one year	(0.6)	0.7	(0.7)	**(0.6)**
Finance leases due after one year	(10.6)	-	(0.4)	**(11.0)**
Total finance leases	(11.2)	0.7	(1.1)	**(11.6)**
Total net debt	(61.8)	0.8	(1.4)	**(62.4)**

Non-cash changes comprise finance costs in relation to the amortisation of capitalised debt issue costs of £0.3m, new finance lease liabilities of £1.1m and changes in classification between amounts due within and after one year. Cash and cash equivalents at the period end consist of £18.1m of liquid assets, £5.1m of cash held in Trust and £27.0m of bank overdrafts.

14. Share Capital

	Number of shares m	Share capital £m	Share premium account £m
As at 28 March 2014 and 26 September 2014	199.1	2.0	151.0

	Number of shares m	Share capital £m	Share premium account £m
As at 3 April 2015 and 2 October 2015	**199.1**	**2.0**	**151.0**

During the 26 weeks to 2 October 2015, there were 53,410 new shares authorised but have yet to be issued. During the 26 weeks to 26 September 2014 there were no movements in the Company share capital. The shares held in treasury are used to meet options under the Company's share options schemes.

15. Contingent liability

The Group's banking arrangements include the facility for the bank to provide a number of guarantees in respect of liabilities owed by the Group during the course of its trading. In the event of any amount being immediately payable under the guarantee, the bank has the right to recover the sum in full from the Group. The total amount of guarantees in place at 2 October 2015 amounted to £3.9m.

Where right of set off is included within the Group's banking arrangements, credit balances may be offset against the indebtedness of other Group companies.

16. 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.

17. Related Party Transactions

There were no (2014: nil) related party transactions during the 26 weeks to 2 October 2015.

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

Jill McDonald, Chief Executive **Jonny Mason, Chief Financial Officer**

11 November 2015

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 2 October 2015 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 Conduct Authority ("the UK FCA"). 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 FCA.

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 2 October 2015 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Peter Meehan
for and on behalf of KPMG LLP
Chartered Accountants

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11 November 2015