23 May 2013

Halfords Group plc

Preliminary Results Financial Year 2013

Halfords Group plc, the UK's leading retailer of automotive and leisure products and leading independent operator in garage servicing and auto repair, today announces its preliminary results for the 52 weeks to 29 March 2013 ("the period"). All numbers shown in this statement are before non-recurring costs, unless otherwise stated.

Group Financial Summary

	FY13 £m	FY12 £m	% Change
Total Group Revenue	871.3	863.1	+1.0
Retail	*745.5*	*752.3*	*-0.9*
Autocentres	*125.8*	*110.8*	*+13.5*
Gross Margin			
Retail	*53.3%*	*53.1%*	*+12bps*
Halfords Autocentres	*63.7%*	*65.9%*	*-221bps*
Profit Before Tax, before non-recurring items	72.0	92.2	-21.9
Basic Earnings Per Share, before non-recurring items	27.7p	33.7p	-17.8
Profit Before Tax, after non-recurring items	71.0	94.1	-24.5
Basic Earnings Per Share, after non-recurring items	27.2p	34.2p	-20.5
Net Debt	110.6	139.2	-20.5
Proposed Final Dividend Per Share	9.1p	14.0p	-35.0
Proposed Full-Year Dividend Per Share	17.1p	22.0p	-22.3

Key Points For The Year

- Group revenues up 1.0%
- Successful implementation of areas of strategic focus, particularly Car Maintenance and Online fulfilment
- Broadly-flat Retail gross margin and a decline in the Autocentres gross margin reflecting tyre mix
- Retail operating costs up 5.3% with investment in colleagues and strategic initiatives
- Decline in profit before tax and non-recurring items of 21.9%, in line with expectations
- 23 new Autocentres opened as investment for long-term growth continues
- Free cashflow of £71.8m and net debt down 20.5%
- Final dividend of 9.1 pence proposed

Getting Into Gear 2016

- Existing three-pillared strategic framework robust, recognising the many strengths of Halfords
- Autocentres strategy remains unchanged; growth of 20-30 new centres per year to continue
- Re-positioning of Retail business: focus on sales growth to support ongoing sustainable profitability
- The three-year Retail plan contains the following five elements:
    - *Service Revolution*: a step change in customer service
    - *The H Factor*: reasserting Halfords authoritative category propositions
    - *Stores Fit To Shop*: upgrading the Halfords store estate
    - *21st Century Infrastructure*: developing necessary IT and supply-chain capabilities
    - *Click With The Digital Future*: creating a service-led digital proposition
- The plan includes c.£100m of Retail capital investment over three years, underpinned by a significant increase in both operating costs and stock
- Group sales target of £1bn in FY16

Matt Davies, Chief Executive, commented:
"Halfords Retail sales performance in FY13 reflected a demanding trading environment and demonstrated how we can exploit our offer with investment and by focusing on areas of opportunity. The Autocentres performance was satisfactory against a backdrop of a declining market and particular challenges in the fleet sector. The fall in Group profitability however illustrates the pressing need for sustainable revenue growth to offset ongoing cost inflation.

Today I am announcing our '*Getting Into Gear 2016*' plan, designed to significantly improve our Retail customer experience and bring about sustainable and profitable sales-growth momentum. This programme will focus on supporting our colleagues to deliver consistent friendly expertise backed by major improvements in store environments, plus building on the authority of our offer, infrastructure and digital capabilities. We expect these vital investments will inevitably reduce short-term Retail profitability but will deliver long-term revenue and profit growth together with sustainable shareholder value."

Notes

Where appropriate, revenues denominated in foreign currencies have been translated at constant rates of exchange.

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Results Presentation

A presentation for analysts and investors will be held today starting at 10am at Inmarsat Conference Centre, 99 City Road, London EC1Y 1AX. 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 its first-quarter interim management statement on 10 July 2013.

Notes to Editors

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

Halfords Group plc

The Group is the UK's leading retailer of automotive, leisure and cycling products and through Halfords Autocentres also one of the UK's leading independent car servicing and repair operators. Halfords customers shop at 466* stores in the UK and Republic of Ireland and at halfords.com for pick-up at their local store or direct home delivery. Halfords Autocentres operates from 287* sites nationally and offers motorists dealership-quality MOTs, repairs and car servicing at affordable prices.

Halfords employs approximately 12,000 colleagues and Halfords Retail sells around 10,000 product lines in stores, increasing to around 30,000* lines online. The product offering encompasses significant ranges in car parts, cycles, in-car technology, child seats, roof boxes, outdoor leisure and camping equipment.

Halfords own brands include the in-store *Bikehut* department, for cycles and cycling accessories, *Apollo* and *Carrera* cycles and exclusive UK distribution rights of the premium-ranged *Boardman* cycles and accessories. In outdoor leisure, we sell a premium range of camping equipment including brands such as *Vango* 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 today*

Chief Executive's Statement

<u>Introduction</u>

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

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

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

<u>FY13 Review</u>

Summary of Group Results

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

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

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

Retail

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

Cycling

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

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

Car Maintenance

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

Car Enhancement

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

Travel Solutions

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

Online

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

*(Source: management estimates)

Autocentres

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

Growth was driven by our investment in marketing, the development of our tyre proposition, our exclusive *Brakes4Life* offer and the contribution from new centres. The significant increase in lower-margin tyre sales resulted in a 221bps decline in gross margin, with margins in our non-tyre business benefitting from scale.

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

<u>Halfords Business Review</u>

Introduction

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

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

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

Three-Pillared Strategy

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

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

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

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

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

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

Halfords Autocentres

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

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

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

Despite this Halfords has grown its Autocentre retail LfL sales by 4.3% in the same period, over 9% better than the market. This was achieved through better use of existing Autocentres capacity. We have recruited thousands of new customers by rebranding the estate and nationally advertising. We also offer customers a wider range of products like tyres and our innovative *Brakes4Life* offer.

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

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

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

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

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

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

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

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

Halfords Retail

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

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

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

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

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

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

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

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

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

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

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

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

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

Getting Into Gear 2016

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

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

1. Service Revolution

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

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

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

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

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

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

Gear 1

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

Gear 2

Gear 2 involves a nine-month training programme which leads to an expert level of product knowledge, with a specialism in either Auto & Leisure or Cycling. Tuition is both through e-learning and face-to-face training programmes. There are regular refresher courses for Gear2 colleagues and a pay award for those who attain this level.

Gear 3

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

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

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

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

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

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

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

2. The H Factor

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

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

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

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

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

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

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

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

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

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

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

3. *Stores Fit to Shop*

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

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

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

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

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

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

Last year we began to design a store format for the future with a trial of a number of so-called 'laboratory stores'. We have reviewed the progress of these stores throughout the year. There are some very positive learnings but overall we don't believe the design is right for roll-out. We have initiated a project to define a format that combines a more coherent customer journey, a focus on one centralised desk to support sales and service, introduces more live displays, brings our Cycle Repair and ***we***fit offer to the fore and supports us to trade the overall store environment harder. Work is well underway and we expect to have three stores up and running in the new format (York, Coventry and Evesham) by the end of the summer; we anticipate c.10-15 stores in the new format by the end of FY14.

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

4. *21st Century Infrastructure*

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

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

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

5. *Click With The Digital Future*

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

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

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

Investment

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

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

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

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

Milestones

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

Milestones: Colleagues

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

Milestones: Operational

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

Milestones: Customers

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

Current Activity

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

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

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

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

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

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

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

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

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

Conclusion

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

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

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

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

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

Matt Davies
Chief Executive
23 May 2013

FINANCE DIRECTOR'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.

Financial Results

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

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

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

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

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

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

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

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

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

Group Profit Before Tax for the year after non-recurring items was £71.0m (FY12: £94.1m).

Halfords Retail

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

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

Cycling revenues were down -0.6% with the benefit of the Olympics offset by poor early-summer and final-quarter weather.

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

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

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

Revenue for the Retail business is split by category below:

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

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

The focus will remain on maximising cash returns. In FY14 the Retail gross margin is anticipated to decline by 125-175bps, reflecting the normalisation of mix, more aggressive on-going clearance, plus increased activity to emphasise our value credentials. This includes increased use of ‘WIGIGs’ (when it’s gone it’s gone) and establishing more ‘KVI’ (key value indicator) products. The decline also includes the impact of the full-scale launch online of third-party-branded, lower-margin Cycling parts, accessories and clothing (“PACs”) and the continued influence of premium-bike sales. These dilutive pressures will be partly offset by the continued focus on higher-margin Car Maintenance fitting and Cycle Repair.

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

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

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

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

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

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

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

Support Costs increased by +13.7% as a result of the investment in improved recruitment and training in stores and enhanced Support Centre capability (Procurement, IT, Human Resources and Multichannel), with particular expertise associated with the launch of the extended range of PACs. The one-off costs associated with the change of Chief Executive, Commercial Director and Retail Director were also included within Support Costs.

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

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

Halfords Autocentres

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

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

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

It is anticipated that Halfords Autocentres will deliver a broadly-flat gross-margin performance throughout the medium-term.

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

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

Portfolio Management

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

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

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

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

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

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

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

Net Non-Recurring Expenses

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

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

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

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

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

Finance Expense

The net finance expense was £6.1m (FY12: £5.0m). The expense included a £0.8m accelerated amortisation of facility fees in the current year. This follows the Board's decision to re-finance the bank facility, which expires in November 2014. The underlying net finance expense was broadly flat year-on-year.

The net financing cost in FY14 is anticipated to be marginally lower compared to FY13.

Taxation

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

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

Earnings Per Share ("EPS")

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

Dividend

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

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

Capital Expenditure

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

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

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

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

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

Inventories

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

The management of inventory remains a key area of focus for the Retail business; however management recognises the need to ensure that availability meets customer expectations and supports the business' profitable-sales growth aspirations. During FY14 it is anticipated that £15-20m will be invested in extended levels of Retail inventory.

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

Cashflow and Borrowings

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

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

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

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

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

Andrew Findlay
Finance Director
23 May 2013

CONSOLIDATED INCOME STATEMENT

For the period		**52 weeks to 29 March 2013**			52 weeks to 30 March 2012		
		Before Non-recurring Items	**Non-recurring items (note 4)**	**Total**	Before Non-recurring Items	Non-recurring items (note 4)	Total
	Notes	**£m**	**£m**	**£m**	£m	£m	£m
Revenue		**871.3**	**-**	**871.3**	863.1	-	863.1
Cost of sales		**(394.2)**	**-**	**(394.2)**	(390.3)	-	(390.3)
Gross profit		**477.1**	**-**	**477.1**	472.8	-	472.8
Operating expenses	2	**(399.0)**	**(1.0)**	**(400.0)**	(375.6)	1.9	(373.7)
Results from operating activities	3	**78.1**	**(1.0)**	**77.1**	97.2	1.9	99.1
Finance costs	5	**(6.3)**	**-**	**(6.3)**	(5.5)	-	(5.5)
Finance income	5	**0.2**	**-**	**0.2**	0.5	-	0.5
Net finance expense		**(6.1)**	**-**	**(6.1)**	(5.0)	-	(5.0)
Profit before income tax		**72.0**	**(1.0)**	**71.0**	92.2	1.9	94.1
Income tax expense	6	**(18.2)**	**(0.1)**	**(18.3)**	(24.8)	(0.9)	(25.7)
Profit for the financial period attributable to equity shareholders		**53.8**	**(1.1)**	**52.7**	67.4	1.0	68.4
Earnings per share							
Basic	8	**27.7p**		**27.2p**	33.7p		34.2p
Diluted	8	**27.5p**		**26.9p**	33.5p		34.0p

All results relate to continuing operations of the Group.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**52 weeks to 29 March 2013 £m**	52 weeks to 30 March 2012 £m
Profit for the period		**52.7**	68.4
Other comprehensive income			
Foreign currency translation differences for foreign operations		**-**	(0.5)
Cash flow hedges:			
Fair value changes in the period		**2.8**	(0.9)
Transfers to inventory		**(0.7)**	1.3
Transfers to net profit:			
Cost of sales		**(0.1)**	(0.2)
Income tax on other comprehensive income	6	**(0.7)**	(0.3)
Other comprehensive income for the period, net of income tax		**1.3**	(0.6)
Total comprehensive income for the period attributable to equity shareholders		**54.0**	67.8

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Attributable to the equity holders of the Company							
				Other reserves				
	Share capital £m	Share premium account £m	Investment in own shares £m	Translation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	**Total equity £m**
Balance at 1 April 2011	2.1	151.0	(0.6)	0.5	0.2	(0.6)	169.8	**322.4**
Total comprehensive income for the period								
Profit for the period	-	-	-	-	-	-	68.4	**68.4**
Other comprehensive income								
Foreign currency translation differences for foreign operations	-	-	-	(0.5)	-	-	-	**(0.5)**
Cash flow hedges:								
Fair value changes in the period	-	-	-	-	-	(0.9)	-	**(0.9)**
Transfers to inventory	-	-	-	-	-	1.3	-	**1.3**
Transfers to net profit:								
Cost of sales	-	-	-	-	-	(0.2)	-	**(0.2)**
Income tax on other comprehensive income	-	-	-	-	-	(0.3)	-	**(0.3)**
Total other comprehensive income for the period net of tax	-	-	-	(0.5)	-	(0.1)	-	**(0.6)**
Total comprehensive income for the period	-	-	-	(0.5)	-	(0.1)	68.4	**67.8**
Transactions with owners								
Share options exercised	-	-	4.6	-	-	-	(2.5)	**2.1**
Share-based payment transactions	-	-	-	-	-	-	2.1	**2.1**
Purchase of own shares	(0.1)	-	(18.0)	-	0.1	-	(44.7)	**(62.7)**
Income tax on share-based payment transactions	-	-	-	-	-	-	(0.4)	**(0.4)**
Dividends to equity holders	-	-	-	-	-	-	(44.2)	**(44.2)**
Total transactions with owners	(0.1)	-	(13.4)	-	0.1	-	(89.7)	**(103.1)**
Balance at 30 March 2012	**2.0**	**151.0**	**(14.0)**	**-**	**0.3**	**(0.7)**	**148.5**	**287.1**
Total comprehensive income for the period								
Profit for the period	-	-	-	-	-	-	52.7	**52.7**
Other comprehensive income								
Cash flow hedges:								
Fair value changes in the period	-	-	-	-	-	2.8	-	**2.8**
Transfers to inventory	-	-	-	-	-	(0.7)	-	**(0.7)**
Transfers to net profit:								
Cost of sales	-	-	-	-	-	(0.1)	-	**(0.1)**
Income tax on other comprehensive income	-	-	-	-	-	(0.7)	-	**(0.7)**
Total other comprehensive income for the period net of tax	-	-	-	-	-	1.3	-	**1.3**
Total comprehensive income for the period	-	-	-	-	-	1.3	52.7	**54.0**
Transactions with owners								
Share options exercised	-	-	0.8	-	-	-	-	**0.8**
Share-based payment transactions	-	-	-	-	-	-	0.1	**0.1**
Purchase of own shares	-	-	-	-	-	-	(0.9)	**(0.9)**
Income tax on share-based payment transactions	-	-	-	-	-	-	0.3	**0.3**
Dividends to equity holders	-	-	-	-	-	-	(42.7)	**(42.7)**
Total transactions with owners	-	-	0.8	-	-	-	(43.2)	**(42.4)**
Balance at 29 March 2013	**2.0**	**151.0**	**(13.2)**	**-**	**0.3**	**0.6**	**158.0**	**298.7**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	**52 weeks to 29 March 2013 £m**	52 weeks to 30 March 2012 £m
Cash flows from operating activities			
Profit after tax for the period before non-recurring items		**53.8**	67.4
Non-recurring items		**(1.1)**	1.0
Profit after tax for the period		**52.7**	68.4
Depreciation - property, plant and equipment		**19.9**	21.1
Impairment charge		**0.8**	-
Amortisation - intangible assets		**5.4**	4.9
Foreign exchange gains		**-**	(0.5)
Net finance costs		**6.1**	5.0
Loss on sale of property, plant and equipment		**1.7**	1.2
Equity-settled share based payment transactions		**0.1**	2.4
Fair value gains on derivative financial instruments		**(0.9)**	(0.9)
Income tax expense		**18.3**	25.7
Decrease in inventories		**13.5**	0.9
Increase in trade and other receivables		**(8.9)**	(3.0)
Increase in trade and other payables		**6.6**	0.2
Increase/(decrease) in provisions		**0.3**	(6.6)
Finance income received		**0.3**	0.4
Finance costs paid		**(4.2)**	(4.9)
Income tax paid		**(18.2)**	(24.6)
Net cash from operating activities		**93.5**	89.7
Cash flows from investing activities			
Acquisition of subsidiary undertaking, net of cash acquired		**-**	(0.7)
Purchase of intangible assets		**(3.7)**	(2.1)
Purchase of property, plant and equipment		**(16.7)**	(17.2)
Net cash used in investing activities		**(20.4)**	(20.0)
Cash flows from financing activities			
Net proceeds from exercise of share options		**0.8**	2.1
Purchase of own shares		**(0.9)**	(62.7)
Proceeds from loans, net of transaction costs		**202.0**	353.0
Repayment of borrowings		**(239.0)**	(302.1)
Payment of finance lease liabilities		**(0.3)**	(0.3)
Dividends paid		**(42.7)**	(44.2)
Net cash used in financing activities		**(80.1)**	(54.2)
Net (decrease)/increase in cash and bank overdrafts		**(7.0)**	15.5
Cash and cash equivalents at the beginning of the period	9	**10.9**	(4.6)
Cash and cash equivalents at the end of the period		**3.9**	10.9

1. Basis of preparation

The consolidated financial statements of Halfords Group plc and its subsidiary undertakings (together "the Group") are prepared on a going concern basis and under the historical cost convention, except where adopted IFRSs require an alternative treatment. The principal variations relate to financial instruments (IAS 39 "Financial instruments: recognition and measurement") and share based payments (IFRS 2 "Share-based payment").

The financial statements are presented in millions of UK pounds, rounded to the nearest £0.1m.

The accounts of the Group are prepared for the period up to the Friday closest to 31 March each year. Consequently, the financial statements for the current period cover the 52 weeks to 29 March 2013, whilst the comparative period covered the 52 weeks to 30 March 2012.

The preparation of consolidated financial statements in conformity with Generally Accepted Accounting Principles requires the use of accounting estimates and management to exercise its judgement in the process of applying the Group's accounting policies. These judgements and estimates are based on historical experience and management's best knowledge of the amounts, events or actions under review and the actual results may ultimately differ from these estimates. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are, where necessary, disclosed separately.

2. Operating expenses

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

3. Operating profit

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

4. Non-recurring items

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

(a) A non-recurring expense of £7.5m was incurred in 2011. This expense related to the creation of a provision for the potential liabilities arising from lease guarantees provided by Halfords prior to July 1989. The guarantees were provided to landlords of properties leased by *Payless DIY* (now part of *Focus DIY*) when both Halfords and *Payless DIY* were under ownership of the *Ward White Group*. *Focus DIY* entered into administration in May 2011. In the current year the continued settlement of the Group's guarantor obligations has resulted in a release of £1.0m (2012: £1.9m) of the original amounts provided.

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

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

(d) The tax charge of £0.1m represents a tax rate of 24% applied to non-recurring items after adjusting for the non-deductibility of the asset impairment charge and settlements to release Halfords from its guarantor obligations under the leases. The prior period represents a tax charge at 26% on all current year non-recurring items plus a prior year tax charge of £0.4m arising from the non-deductibility of two payments made to landlords to release Halfords from its guarantor obligations under those leases.

5. Finance income and costs

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

6. Taxation

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

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

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

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

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

The tax charge of £18.3m (2012: £25.7m) includes a charge of £0.1m (2012: £0.9m) in respect of tax on non-recurring items, as detailed in note 4.

An Income tax charge of £0.7m (2012: £0.3m) on other comprehensive income relates to the fair value of forward currency contracts outstanding at the year end. No other items within other comprehensive income have a tax impact.

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

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

7. Dividends

For the period	**52 weeks to 29 March 2013 £m**	52 weeks to 30 March 2012 £m
Equity – ordinary shares		
Final for the 52 weeks to 30 March 2012 – paid 14.00p per share (2011: 14.00p)	**27.2**	28.5
Interim for the 52 weeks to 29 March 2013 – paid 8.00p per share (2012: 8.00p)	**15.5**	15.7
	42.7	44.2

In addition, the directors are proposing a final dividend in respect of the financial period ended 29 March 2013 of 9.1p per share (2012: 14.00p per share), which will absorb an estimated £17.7m (2012: £27.2m) of shareholders' funds. It will be paid on 2 August 2013 to shareholders who are on the register of members on 5 July 2013.

8. Earnings per share

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

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the 52 weeks to 29 March 2013.

The Group has also chosen to present an alternative earnings per share measure, with profit adjusted for non-recurring items because it better reflects the Group's underlying performance.

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

For the period	**52 weeks to 29 March 2013 £m**	52 weeks to 30 March 2012 £m
Basic earnings attributable to equity shareholders	**52.7**	68.4
Non-recurring items (see note 4):		
Operating expenses	**1.0**	(1.9)
Tax on non-recurring items	**0.1**	0.9
Underlying earnings before non-recurring items	**53.8**	67.4

Earnings per share is calculated as follows:

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

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

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

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

Cash and cash equivalents at the period end consist of £7.9m (2012: £13.4m) of liquid assets and £4.0m (2012: £2.5m) of bank overdrafts.

10. Other information

The financial information set out above does not constitute the Company's statutory accounts for the 52 weeks ended 29 March 2013 or the 52 weeks ended 30 March 2012 but is derived from those accounts. Statutory accounts for 2012 have been delivered to the registrar of companies, and those for 2013 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for 2012 or 2013.