10 November 2016

# Halfords Group plc

## Interim Results: Financial Year 2017

## Strong sales growth and strategic progress

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 30 September 2016 ("the period").

**<u>Group Financial Summary</u>**

| | H1 FY17 £m | H1 FY16 £m | change | Like-for-Like Revenue ("LFL") |
|---|---|---|---|---|
| **Total Group Revenue** | 567.3 | 533.5 | +6.3% | +2.2% |
| *Retail* | *489.1* | *458.0* | *+6.8%* | *+2.4%* |
| *Autocentres* | *78.2* | *75.5* | *+3.6%* | *+0.9%* |
| **Gross Margin** | | | | |
| *Retail* | *47.6%* | *50.3%* | *-275 bps* | |
| *Autocentres* | *65.0%* | *64.6%* | *+38 bps* | |
| **Group EBITDA** | 57.1 | 62.3 | -8.3% | |
| **Profit Before Tax and non-recurring items** | 40.8 | 46.4 | -12.1% | |
| **Basic Earnings Per Share, before non-recurring items** | 16.6p | 19.2p | -13.5% | |
| **Profit Before Tax, after non-recurring items** | 39.1 | 46.4 | -15.7% | |
| **Basic Earnings Per Share, after non-recurring items** | 15.9p | 19.2p | -17.2% | |
| **Interim Dividend Per Share** | 5.83p | 5.66p | +3.0% | |

***Revenue growth across all areas of the business***

- Robust Retail sales improving through the period
- Motoring +1.1% and Cycling +4.6% on a LFL basis, with total Cycling sales up 15.4%
- Tredz & Wheelies revenues up 25% year-on-year since acquisition
- Autocentres sales +0.9% LFL and +3.6% in total
- Online sales across the Group increased 30%

***Operating margins impacted by investments in long-term growth, FX and promotional activity***

- Average hedged US$ rate declined from $1.56 to $1.46 accounting for circa 100bps of gross margin, to be mitigated over time
- Mix impact from first-time inclusion of lower-margin Tredz and Wheelies
- Cycling promotional activity during the Summer was deeper than last year
- Investment in training and pay as part of our Gears programme, leading to lowest ever colleague turnover

***Strong strategic progress***

- Investment in services delivered an increase in service-related sales by 13.8%
- Significant progress in Single Customer View; 31% of sales now matched to customers
- Delivered Single View of Stock, Tradecard online and CycleRepublic.com. Other major IT projects in pilot
- Refurbishment of 12 Retail stores and 12 Autocentres, opening of 2 Autocentres and 2 Cycle Republic stores
- New products, services and collaborations, including Wiggins and Trott bike ranges, Orla Kiely camping and travel accessories, and re-launch of Tradecard

***Increased dividend underpinned by progress on strategy implementation and good cash flow***

- Interim dividend per share of 5.83p, up 3.0%
- Free cash flow of £24.2m, up 24.1%
- Net debt at £64.8m, representing 0.6x EBITDA

***Outlook***

- The depreciation of Sterling against the US Dollar brings cost headwinds, but we have developed a number of mitigation initiatives
- Management anticipates FY17 Profit Before Tax to be in line with market consensus

**Jill McDonald, Chief Executive, commented:**
"The first half sales performance was strong, improving through the period, with growth across all areas of our business. Our service-led offer is a key point of difference for Halfords and continued investment in this area has led to good progress in service-related sales.

I'm pleased with the momentum that is building as we implement our strategy. There is demonstrable progress across the plan, with more to come in the year ahead, and the benefits for colleagues and customers are starting to come through.

The depreciation of Sterling brings cost headwinds. However, we have developed a number of initiatives to mitigate the profit impact and remain confident in the underlying performance of the Group."

## H1 Revenue Performance

| | H1 FY17<br><br>% change | | 13 weeks to 1 July 2016<br><br>% change | 7 weeks to 19 August 2016<br>% change | 6 weeks to 30 Sept 2016<br>% change |
|---|---|---|---|---|---|
| **TOTAL REVENUE** | | | | | |
| **Halfords Group** | **+6.3** | | **+2.1** | **+9.3** | **+12.3** |
| Retail | +6.8 | | +1.5 | +10.3 | +14.6 |
| Autocentres | +3.6 | | +5.9 | +2.3 | 0.0 |
| | | | | | |
| **LFL REVENUE** | | | | | |
| **Halfords Group** | **+2.2** | | **-0.6** | **+4.3** | **+6.1** |
| Retail | +2.4 | | -1.2 | +5.0 | +7.8 |
| *Motoring* | *+1.1* | | *+0.6* | *+0.6* | *+3.3* |
| *Car Maintenance* | *+1.8* | | *+2.3* | *+0.6* | *+2.1* |
| *Car Enhancement* | *-3.5* | | *-4.2* | *-3.3* | *-2.1* |
| *Travel Solutions* | *+7.0* | | *+4.4* | *+5.5* | *+17.1* |
| *Cycling* | *+4.6* | | *-4.0* | *+12.5* | *+16.0* |
| Autocentres | +0.9 | | +3.1 | 0.0 | -2.3 |

Note: as previously communicated, we have changed the reporting calendar in H1. Going forwards we will report on the first 20 weeks of the year instead of the first 13 weeks. This year we reported both the 13 week and 20 week periods.

## Enquiries


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## Notes

1. Like-for-like sales represent revenues, including those attributable to Click & Collect, from stores and centres trading for greater than 365 days, plus online revenues from direct deliveries. Where appropriate, revenues denominated in foreign currencies have been translated at constant rates of exchange.
2. The Motoring category of sales comprises the aggregate of Car Maintenance, Car Enhancement and Travel Solutions.
3. All numbers shown in this statement are before non-recurring items, unless stated otherwise.
4. Underlying EBITDA denotes earnings before net finance costs, tax, depreciation, amortisation and non-recurring items.

**Results Presentation**

A presentation for analysts and investors will be held today starting at 9.30am at Investec, 2 Gresham Street, London, EC2V 7QP. Attendance is by invitation only. A live webcast of the presentation will be available at www.halfordscompany.com.

**Forthcoming Newsflow**

On 19 January 2017 we will report on trading for the 15 weeks to 13 January 2017, which includes the peak Christmas trading period.

**Notes to Editors**

www.halfords.com
www.halfordsautocentres.com
www.halfordscompany.com
www.cyclerepublic.com
www.boardmanbikes.com
www.tredz.co.uk
www.wheelies.co.uk

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 460* Halfords stores and 12* 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 311* sites nationally and offers motorists high-quality MOTs, repairs and car servicing at affordable prices. Customers can also shop at three Tredz stores and a Giant store in South Wales as well as online at tredz.co.uk and wheelies.co.uk for cycling products and direct home delivery.

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, Pendleton, Wiggins and Trott* cycles, augmented by a range of other brands of cycles and accessories, including *Kona*, *Mongoose, Raleigh* and *Pinarello* and, through Tredz, a wide range of premium brands including *Giant*, *Specialized*, and *Cannondale*. 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 30 September 2016

# Chief Executive's Statement

## Summary of Group Results

Group sales of £567.3m were up 6.3%, with Group gross profit up by 1.5% and gross margin of 50.0% (H1 FY16: 52.3%). Total operating costs rose by 4.5% reflecting investments for the *Moving Up A Gear* strategy, the National Living Wage and the first-time inclusion of the operating expenditure in respect of the acquired Tredz and Wheelies businesses. Group earnings before finance costs, tax and non-recurring items ("EBIT") were £41.8m, which compares with £47.9m in the prior period.

Earnings before non-recurring items, finance costs, depreciation and amortisation ("EBITDA") were down 8.3% to £57.1m. The increase in cost of goods associated with the depreciation in sterling was c.£6m, which was more than the year on year reduction in profit. Profit before tax and non-recurring items was £40.8m and earnings per share before non-recurring items were 16.6p, down 12.1% and 13.5% respectively.

Cash generation was strong, with free cash flow of £24.2m up 24% on H1 last year. Reflecting the cash generative nature of the Group, net debt of £64.8m at the end of the period was only £2.4m higher than the prior half year, despite the acquisition in May this year of Tredz and Wheelies for an initial cash consideration of £18.0m. Net debt:EBITDA at the period end was 0.6:1 on a rolling 12 month basis.

The Board has approved an interim dividend of 5.83 pence per share, an increase of 3.0% (FY16 interim dividend: 5.66 pence, FY16 total dividend: 17.0 pence). This will be paid on 20 January 2017 to shareholders on the register at the close of business on 16 December 2016.

## Operational Review

In Retail, sales were £489.1m, up 6.8% on the previous year and 2.4% on an LFL basis.

Motoring sales grew by 1.1% in the first half and excluding Sat Navs were up 3.2%. Sales of Car Maintenance products and services grew by 1.8%, driven by car parts, the fitting and sale of bulbs, blades and batteries ("3Bs") and new ranges of motorcycling parts and accessories. Travel Solutions LFL revenues increased 7.0% as we reinforced Halfords' credentials as the place to go for customers' journeys. Roof boxes and bars performed well, driven by strong ranges and clear bundle offers. Child car seat sales continued in strong growth, reflecting the investments in training colleagues in product knowledge and fitting demonstrations, as well as a refreshed product range. Car Enhancement LFL revenues decreased by 3.5%, reflecting the overall market decline in Sat Navs, which has accelerated over the last year. Sat Nav sales now only represent 4% of Retail sales having been circa 20% at their peak a few years ago. Dash cams continue to grow strongly and Halfords is the market leader, aided by our service offering; a large proportion of dash cam customers are opting for the fitting service.

We estimate that the cycling market declined in 2015 and, whilst gradually stabilising, remained fragile in the early part of 2016. This was compounded by relatively high stock levels in the market and poor weather, which prompted heavier and earlier discounting by competitors than in previous years. The peak summer period benefited from warmer weather and also the success of Team GB at the Rio Olympics, which helped to clear much of the stock that had been building up in the market.

Cycling LFL revenues increased by 4.6% for the half, with a strong performance during the peak Summer trading period more than offsetting the weather-impacted soft market conditions in April to June. The sales performance was driven by new ranges across kids and mainstream bikes, continued strong growth in premium bikes, and our competitive "20% off all bikes" promotion. Whilst we have been comfortable with our stock levels throughout the Summer, our promotion was in response to discounting observed in the market. The buoyant cycling sales momentum continued beyond the end of the promotion and into the Autumn, with 16.0% LFL growth in the final six weeks of the half. Parts, Accessories and Clothing ("PACs"), which were not included in the promotion, returned to LFL growth, with the performance improving over the half.

The Cycle Republic stores that have been open for 12 months or more delivered strong double digit LFL growth and the online sales are building following the launch of the transactional website in August. We also opened two new stores: Purley (South London) and Birmingham. Tredz and Wheelies, acquired in May 2016, performed well with sales growth of 25% year-on-year for the period since acquisition. The combination of robust LFL growth, the rollout of Cycle Republic and the acquired businesses have driven overall growth in Group cycling revenues of 15.4% for the first half.

Service-related sales, which consist of the revenue generated from in-store fitting and repair services plus the associated product attached to the transaction, grew by 13.8% with particularly strong performances from 3Bs fitting and cycle repair reflecting our investments and focus on growing and improving our service proposition.

Group online revenues grew by 12.6% on a LFL basis and 29.7% in total, including the first-time inclusion of Tredz and Wheelies, and represented 15.9% of total sales (H1 FY16: 13.0%). 88% of online orders from Halfords.com and Cyclerepublic.com were collected in store, reflecting the on-going importance of the physical store network to our overall offer. In contrast, 88% of Tredz and Wheelies sales were delivered direct to home, reflecting the online focus of those businesses.

The Retail gross margin declined by 197 bps, after adjusting for the first-time inclusion of Tredz and Wheelies. The depreciation in Sterling in the 12 months prior to the EU referendum accounted for circa 100 bps of this decline, reflecting a reduction in our average hedged US$ rate of $1.46 in H1 FY17 (H1 FY16: $1.56). The remainder of the gross margin decline was driven by the Cycling promotion in the Summer and the mix impact from Cycling sales growing faster than Motoring.

Total Autocentres revenues were up 3.6% and, on a LFL basis, 0.9%. Online-booking revenues grew 34.6% in the half, contributing 23.1% of sales. LFL sales moved from growth at the start of the period to a decline for the final 6 weeks of the half. Consistent with putting customers in the driving seat and service in our DNA, we have introduced Sunday opening and a new technician pay grading system this year, to reward teamwork and training, which are both in the long term interests of our customers, but will take some time to settle. We remain confident in the long-term growth prospects and will continue to invest to grow.

Autocentres gross profit at £50.8m (H1 FY16: £48.8m) represented a gross margin of 65.0%; an increase of 38 bps on the prior period, with a slightly increased mix of lower-margin tyres more than offset by improved margin on service, maintenance and repair work. The upside in gross profit was offset by higher operating costs as we continued to invest in people, systems and centres to improve the customer proposition to drive long-term growth. This resulted in a decline in Autocentres' EBITDA to £3.4m (H1 FY16: £3.9m). We closed five Autocentres in the period, taking the opportunity to exit a number of sub-optimal locations. In addition, we opened two new centres and refreshed 12 centres within the existing estate.

## Strategy Update

Halfords principally operates in two broad markets: motoring and cycling. Around 70% of Group sales are generated from products and services that are principally motoring related with the remaining 30% coming from cycling.

Within motoring, the Halfords Group operates in two segments:

- Car parts, accessories, consumables and technology. The total market is worth circa £7bn and 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 is where Autocentres competes, holding around 1.5% share of a highly fragmented market.

The markets in which we operate, motoring and cycling, continue to display favourable trends and we are particularly well placed to capitalise on these given our strong service proposition, technical expertise and geographic footprint.

In Motoring, the increasing complexity of cars coupled with recent new car growth and the average age of cars in the UK remaining steady at around 7.5 years, plays strongly to our service proposition. Complexity means that customers increasingly need support for small as well as large maintenance jobs. In addition, we support cars that are over three years old, what we call the "second life of the car", as they require expert help and advice. Overall, we are seeing an on-going trend from 'do it yourself' to 'do it for me', which plays strongly to our growing service and services proposition and provides an opportunity for us to better the market growth rates of an average of 2-3% per annum.

In Cycling, Halfords has strong market shares of around 26% for bikes, 16% for PACs and 10% for cycle repair. The recent acquisition of Tredz and Wheelies alongside the development of Cycle Republic and the market leading position of Halfords means we can now meet the needs of all key customer segments. We remain confident in the long-term growth prospects of the cycling market, and expect the cycling market to grow on average at 3-5% per annum, driven by large scope for new cyclists as well as increased spend from existing cyclists. This is supported by significant government support in London and in many other cities, as well as consumer trends towards healthy activities. As evidenced by the differing performance in the early and late summer periods this year, the weather will continue to have an impact on the timing of customer purchase.

Our goal is to be customers' first choice for their "Life on the Move" which we aim to achieve through a strategy based on the following five elements, for which we highlight progress on below:

1. *Putting Customers in the Driving Seat:* investing in customer data and insight capabilities to maximise the lifetime customer value

   In June we launched our new brand positioning *Halfords – For Life's Journeys* in store, online and in our advertising. Customer feedback is positive and the new campaign is driving understanding of Halfords' offer, particularly amongst younger consumers. Phase 1 of our Single Customer View project has been completed, joining 15 data sources and adding nearly 2 million customer email addresses. In Retail we can now match 31% of sales to customers, compared to 3% a year ago.

   With this data we will now be able to create marketing campaigns targeted to our customers, highlighting products and services that will be of relevance to them, and evolve our future offering to customers, thereby driving incremental sales.

   After improving our Net Promoter Score ('NPS') significantly in the last three years we have now changed the way in which we collect feedback; opening up more channels to receive feedback, including surveying customers that did not buy anything on a particular visit. This is providing us with insightful feedback, which in turn we are using to understand more about the perception of our service and services.

2. *Service in our DNA:* embedding the focus on customer service

   As part of our investment in training and to reflect the National Living Wage, we updated our pay structures at the start of the period to improve our rewards and benefits package. All of our colleagues across the Group are paid above the minimum wage. We are now at our targeted levels of Gear 1, 2 and 3 training in Retail; going forwards we will continually refresh existing colleagues and train up new colleagues. In Autocentres we have introduced a new technician grading pay scheme, using similar principles to the Gears programme in Retail where pay is aligned to our training programmes. In addition, we continue to ensure our colleagues are trained in the latest technological developments; by April 2018 we will have trained one mechanic in every centre in electric and hybrid car maintenance.

   Retail colleague turnover has further improved to record lows and is now below 35% which will deliver long term benefits for the business.

   We continue to invest and focus hard on services; a combination of expert colleagues, improving customer awareness and a growing suite of in-store services helped increase service-related sales by 13.8% in the first half.

3. *Building on our Uniqueness:* exclusive products, relevant innovation and unique partnerships

   In recent months we have launched a number of new products and collaborations, many of which are exclusive to Halfords. In Motoring this included a new motorcycling parts and accessories range, motorcycling fitting, windscreen chip repair and a new Orla Kiely range of camping and travel accessories. Our dash cam fitting service is increasingly popular with customers, with our ability to install providing a clear differentiation between Halfords and online or generalist retailers. In Cycling we launched new ranges with Sir Bradley Wiggins and Laura Trott and we also refreshed our Apollo and Carrera ranges for the first time in several years. These new ranges have performed well, contributing to the strong Cycling performance in the first half.

We have increased our focus on Tradecard (which delivers discounts and targeted product ranges for trade customers), including enabling the cards to be used online and we have up-weighted the central Trade support team. First half sales of products using Tradecard are up 9% and we have added thousands more customers into our Tradecard offer.

Our sponsorship of two cars in the British Touring Car Championship also saw success, with Gordon Shedden winning the overall Championship in a Halfords Yuasa car.

4. *Better Shopping Experience:* a seamless customer experience, online as well as in store

We continue to refresh stores and Autocentres, with 12 of each being upgraded in the first half. Our Store of the Future concept store is progressing well and a trial store will be complete at the end of the month to test out various elements. We anticipate rolling out a further 3 new concept refreshes by the end of FY17 and then accelerate rollout in in FY18. Some of the features that we'll be trialling include: a "park up and relax" lounge with charging points and coffee, dedicated hub for trade customers, and colleague headsets, "High Street" visual merchandising and new in-store communications and design principles.

After a successful trial of contactless payments and Apple Pay in stores, both have now been rolled out across the estate. In September around 20% of payments in Retail were made using these improved payment options, thereby improving the shopping experience for our customers. During the first half we implemented a new agile approach, enabling us to accelerate the improvement of our websites.

In August we launched a transactional website for Cycle Republic, adding an online presence to the encouraging store performances; the stores that have been open for more than a year are delivering strong double digit LFL growth. We anticipate opening a total of 5 stores this financial year.

In Autocentres the extended opening hours are embedded and have been positively received by customers.

5. *Fit for the Future Infrastructure:* moving from fixing the basics to improving efficiency and fulfillment

We have joined up our stock systems giving us a single view of stock, enabling better fulfilment of online purchases and improved availability in stores. We are also making good progress with our two major IT projects, iServe (replacing our till hardware and software) and Dayforce (our colleague resource planning system), with both now in pilot stage. Full rollouts of iServe across the Retail and Autocentres estates will commence towards the end of the financial year and run through the early part of FY18. The benefits include mobile transactional tablets, more efficient in-store processes that free up time for our Retail colleagues to spend with customers, better control over parts sourcing in Autocentres order to improve quality and sourcing costs, and enabling centres to hold and sell Retail products, such as consumables and accessories for cars. The Dayforce system is a cloud-based solution that replaces multiple people management systems. For colleagues it brings the ability to view and change shifts anytime from anywhere. For the business it enables us to review effectiveness of rotas compared to customer demand, and also frees up store manager time.

In supply chain, our 3-day-a-week delivery to store model has been in place for over a year now and is working well. We recently signed an agreement to consolidate numerous external storage warehouses into one site in Daventry, which will further improve efficiency and customer service levels.

Our *We Operate For Less* programme continues to deliver efficiency improvements. One of the more recent initiatives to be delivered in recent months is a stock put-away process, whereby we have saved around 3 hours per store per week by providing stock trolleys and redesigning the order in which stock is replenished onto the shelves.

**Financial targets and capital allocation priorities**
We reaffirm our four key financial targets:

1. Grow sales faster than the markets in which we operate. We continue to anticipate that the motoring market will grow at an average rate of 2-3% per annum 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 as we continue to invest for sustainable growth. The impact of adverse FX movements will reduce margin initially, until fully mitigated, which will take some time.
3. Grow the dividend per share every year, with coverage of around 2 times on average over time. The impact of adverse FX movements will reduce cover initially, until fully mitigated, which will take some time.
4. A debt target of 1.0x EBITDA with a range of up to 1.5x to allow for appropriate M&A. We anticipate moving towards the debt target over time.

We will maintain a strong and prudent balance sheet, and we will use our debt target as a guide for that. Thereafter our priorities for use of cash will be firstly capital investment to grow the business in line with previous guidance, secondly to pay and grow the ordinary dividend every year, thirdly for any appropriate M&A opportunities which may arise and thereafter any excess cash would be available for additional distribution to shareholders.

**Summary**
The first half sales performance was robust, with growth across all areas of our business and market share gains in both Motoring and Cycling. Our peak Summer trading was strong and this continued into the Autumn. Our focus on and investment in services was reflected in the growth of service-related sales in the first half. The addition of Tredz and Wheelies broadened our customer offer in Cycling and the business has performed very well since acquisition.

As an importer of goods, the Sterling devaluation brings input cost headwinds for the Group. However we do have a number of mitigation opportunities including working with suppliers, price, cost/process efficiencies and alternative product sourcing.

We anticipate FY17 Profit Before Tax to be in line with market consensus. Whilst the currency movements impact on reported earnings, the underlying business performance is strong and we remain confident in the long-term prospects for the Group. As such we will continue our targeted investment in *Moving Up A Gear* initiatives.

We are pleased with the momentum that we are building as we implement our strategy. There is demonstrable progress across each of the five pillars of the plan and plenty more to come in the year ahead.

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

**Jill McDonald**
Chief Executive, November 2016

## 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"), Halfords Autocentres ("Halfords Autocentres"/"Autocentres"). Halfords Retail includes Boardman Bikes Limited and Boardman International Limited (together, "Boardman Bikes"), and Tredz Limited and Wheelies Direct Limited (together, "Tredz and Wheelies") trading entities.

The "H1 FY17" accounting period represents trading for the 26 weeks to 30 September 2016 ("the period"). The comparative period "H1 FY16" represents trading for the 26 weeks to 2 October 2015 ("the prior period").

### Financial Results

| | **H1 FY17 £m** | **H1 FY16 £m** | **Change** |
|---|---|---|---|
| Group Revenue | 567.3 | 533.5 | +6.3% |
| Group Gross Profit | 283.4 | 279.2 | +1.5% |
| Group EBIT* | 41.8 | 47.9 | -12.7% |
| Group EBITDA** | 57.1 | 62.3 | -8.3% |
| Net Finance Costs | (1.0) | (1.5) | -33.3% |
| **Profit Before Tax and non-recurring items** | **40.8** | **46.4** | **-12.1%** |
| Profit Before Tax, after non-recurring items | 39.1 | 46.4 | -15.7% |
| Basic Earnings per Share, before non-recurring items | 16.6p | 19.2p | -13.5% |

** 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 FY17, at £567.3, was up 6.3% and comprised Retail revenue of £489.1m and Autocentres revenue of £78.2m. This compared to H1 FY16 Group revenue of £533.5m, which comprised Retail revenue of £458.0m and Autocentres revenue of £75.5m. Retail revenue was boosted, since acquisition in May 2016, by the inclusion of Tredz and Wheelies in H1 FY17, which added £16.5m. Group gross profit at £283.4m (H1 FY16: £279.2m) represented 50.0% of Group revenue (H1 FY16: 52.3%).The reduced gross profit margin reflected a mix impact on retail of 78 basis points ("bps") from the acquired Tredz and Wheelies, which operate in the lower-margin-percentage premium cycling segment, a c.100bps decline due to adverse FX movements and a further decline of c.100 bps from faster cycling sales growth and promotion, offset by an increase in the Autocentres gross margin of 38 bps.

Total operating costs before non-recurring items increased to £241.6m (H1 FY16: £231.3m) of which Retail comprised £190.8m (H1 FY16: £183.5m), Autocentres £49.9m (H1 FY16: £47.2m) and unallocated costs £0.9m (H1 FY16: £0.6m). Unallocated costs represent amortisation charges in respect of intangible assets acquired through business combinations, namely the acquisition of Autocentres in February 2010, Boardman Bikes in June 2014, and Tredz and Wheelies in May 2016, which arise on consolidation of the Group.

Group EBITDA before non-recurring items decreased 8.3% to £57.1m (H1 FY16: £62.3m), whilst net finance costs were £1.0m (H1 FY16: £1.5m). Group EBITDA margin was 10.1% (H1 FY16: 11.7%).

Group Profit Before Tax and non-recurring items for the year was down £5.6m or 12.1% at £40.8m (H1 FY16: £46.4m). The impact of adverse FX movement was c.£6m, slightly more than the reduction in profit for the period.

Non Recurring operating costs of £1.5m in the period (H1 FY16: none) related primarily to the acquisition of Tredz and Wheelies. In addition there were £0.2m (H1 FY16: none) of non-recurring finance costs.

Group Profit Before Tax in the year after non-recurring items was £39.1m (H1 FY16: £46.4m).

**Halfords Retail**

| | H1 FY17 £m | H1 FY16 £m | Change |
|---|---|---|---|
| Revenue | 489.1 | 458.0 | +6.8% |
| Gross Profit | 232.6 | 230.4 | +1.0% |
| Gross Margin | 47.6% | 50.3% | -275bps |
| *Gross Margin excluding Tredz and Wheelies* | *48.3%* | *50.3%* | *-197 bps* |
| Operating Costs | (190.8) | (183.5) | +4.0% |
| *Operating Costs excluding Tredz and Wheelies* | *(188.0)* | *(183.5)* | *+2.5%* |
| **EBIT before non-recurring items** | **41.8** | **46.9** | **-10.9%** |
| Non-recurring items | (1.5) | - | - |
| EBIT after non-recurring items | 40.3 | 46.9 | -14.1% |
| **EBITDA before non-recurring items** | **53.7** | **58.4** | **-8.0%** |

Revenue for the Retail business of £489.1m reflected, on a constant-currency basis, a like-for-like ("LFL") sales increase of 2.4%. Non LFL revenue includes sales relating to the recently acquired Tredz and Wheelies businesses, which contributed £16.5m for H1. Other non-LFL stores, including 5 brand new Cycle Republic store openings since the prior period, contributed £5.1m revenue in the year.

Motoring sales grew by 1.1% on a LFL basis against a strong comparative of 4.0%. Car Maintenance LFL revenues increased by 1.8%. Strong growth in car parts was led by the sale of bulbs, blades and batteries ("3Bs") product and fitting as well as new motorcycling parts and accessories ranges. Car Enhancement LFL revenues decreased by 3.5% with strong growth in dash cams offset by the decline in Sat Nav sales, continuing the accelerated market decline trend seen over the last 12 months. Travel Solutions LFL revenues increased 7.0% driven by roof bars and boxes, cycle carriers and child car seats.

Cycling experienced a strong first half with LFL up 4.6% and total sales up 15.4%. The second half of the period was particularly strong, benefitting from our new ranges, a competitive promotion, a successful Olympics for Team GB cyclists and favourable weather. The good sales growth continued beyond the end of the promotion and into Autumn. Cycle Republic delivered double-digit LFL growth and the Tredz and Wheelies businesses have grown their sales by 25% year-on-year for the period since acquisition in May 2016.

Service-related sales grew by 13.8%, reflecting our focus and investments in this area. 3Bs fitting and cycle repair continued to grow strongly. Online Retail revenues grew by 7.2% on a LFL basis and represented 12.6% of total Retail sales (H1 FY16: 12.1%).

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

| | **H1 FY17 (%)** | **H1 FY16 (%)** |
|---|---|---|
| Cycling | 40.4 | 36.6 |
| Car Maintenance | 26.7 | 27.9 |
| Car Enhancement | 19.1 | 21.7 |
| Travel Solutions | 13.8 | 13.8 |
| **Total** | **100.0** | **100.0** |

Gross profit for the Retail business at £232.6m (H1 FY16: £230.4m) represented 47.6% of sales, 275bps down on the prior year (H1 FY16: 50.3%). Excluding the impact of Tredz and Wheelies, which operate in the lower-margin-percentage but higher average selling price category of premium cycling, together with the impact of adverse FX movements of c.100 bps, the remaining Retail gross margin declined by c.100 bps from faster cycling sales growth and promotion,

Operating Costs before non-recurring items were £190.8m (H1 FY16: £183.5m). The breakdown is set out below:

| | **H1 FY17 £m** | **H1 FY16 £m** | **Change** |
|---|---|---|---|
| Store Staffing | 55.8 | 52.1 | +7.1% |
| Store Occupancy | 69.4 | 69.8 | -0.6% |
| Warehouse & Distribution | 23.1 | 24.5 | -5.7% |
| Support Costs | 39.7 | 37.1 | +7.0% |
| **Total Operating Costs before Tredz and Wheelies and non-recurring items** | **188.0** | **183.5** | **+2.5%** |
| Tredz and Wheelies | 2.8 | - | - |
| **Total Operating Costs before non-recurring items** | **190.8** | **183.5** | **+4.0%** |

Store Staffing costs increased by 7.1%. This reflected the changes in pay rates, principally due to National Living Wage and the Gears pay increments. Increased sales volumes and the opening of 5 Cycle Republic stores since the first half of last year also contributed to the increase.

Store Occupancy costs decreased by 0.6% with inflationary increases in rates offset by lower underlying rent costs and a slightly reduced amount of store refresh activity in the first half whilst the new ‘Store of the Future’ concept was being developed.

Warehouse & Distribution costs decreased by 5.7%, reflecting the year-on-year changes to the transport model. Towards the end of H1 FY16 the in-house 5-day-a-week delivery schedule switched to the more cost effective out-sourced 3-day-a-week delivery schedule.

Support Costs increased by 7.0% primarily as a result of increased depreciation in respect of IT investments and a planned uplift in marketing spend.

**Halfords Autocentres**

| | H1 FY17 £m | H1 FY16 £m | Change |
|---|---|---|---|
| Revenue | 78.2 | 75.5 | +3.6% |
| Gross Profit | 50.8 | 48.8 | +4.1% |
| Gross Margin | 65.0% | 64.6% | +38bps |
| Operating Costs | (49.9) | (47.2) | +5.7% |
| **EBIT** | **0.9** | **1.6** | **-43.8%** |
| **EBITDA** | **3.4** | **3.9** | **-12.8%** |

Autocentres generated total revenues of £78.2m (H1 FY16: £75.5m), an increase of 3.6% on the prior period with a LFL revenue increase of 0.9%. Online-booking revenues grew 34.6% in the period.

Gross profit at £50.8m (H1 FY16: £48.8m) represented a gross margin of 65.0%; an increase of 38 bps on the prior period. A slight increase in the mix towards lower-margin tyres was more than offset by good control of margins on service, maintenance and repair work.

Autocentres' EBITDA of £3.4m was 12.8% lower than H1 FY16 (H1 FY16: £3.9m) and EBIT was £0.7m lower than H1 FY16 at £0.9m (H1 FY16: £1.6m) with the upside in gross profit offset by higher operating costs as we invest in people, systems and centres to improve the customer proposition to drive long-term growth.

There were no non-recurring items related to the Autocentres business in either period presented.

**Portfolio Management**

The Retail store portfolio at 30 September 2016 comprised 472 stores (end of H1 FY16: 470; end of FY16: 472).

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

| | Number | Stores |
|---|---|---|
| **Relocations** | 5 | Aylesbury, Warrington, Crewe, Chichester, Hull Clough Road |
| **Leases re-negotiated** | 13 | Brentwood, Newcastle-under-Lyme, Erdington, Merry Hill, Pontefract, Carmarthen, Sunbury, Burgess Hill, Harrow, North Shields, Yate, Salisbury, Braehead |
| **Rightsizes** | 2 | Altrincham, Tonbridge |
| **Openings** | 3 | Purley (Cycle Republic), Birmingham (Cycle Republic), Wimbledon Plough Lane |
| **Closed** | 3 | Mitcham, Wimbledon Broadway, Hastings |

Five Autocentres were closed and two were opened in the period, taking the total number of Autocentre locations to 311 as at 30 September 2016 (end of H1 FY16: 307, end of FY16: 314).

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 opening a total of up to 5 Cycle Republic stores and up to 10 Autocentres in the full year.

**Net Non-Recurring expenses**

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

| | H1 FY17<br>£m | H1 FY16<br>£m |
|---|---|---|
| Acquisition related fees | 1.2 | - |
| Operating lease obligation | 0.3 | - |
| Acquisition related interest charge | 0.2 | - |
| **Net non-recurring cost** | **1.7** | **-** |

Non recurring expenses in H1 FY17 primarily related to the fees and other costs associated with the acquisition of Tredz and Wheelies in May 2016. In addition, there was an obligation to perform remedial works to a site on which the Group has an operating lease.

**Finance Expense**

The net finance expense (before non-recurring charges) for the year was £1.0m (H1 FY16: £1.5m). A lower average net debt year-on-year and favourable points on currency forward contracts were the primary cause of the lower charge.

Management continues to anticipate the net finance expense to be around £3.0m in FY17.

**Taxation**

The effective tax rate before non-recurring items for the 26 weeks to 30 September 2016 is 20.5% (H1 FY16: 19.5%). The effective tax rate is higher than the UK corporation tax rate principally due to the non-deductibility of depreciation charged on capital expenditure.

Management continues to anticipate an effective tax rate of circa 20% in FY17.

**Earnings Per Share ("EPS")**

Basic EPS was 16.6 pence before non-recurring items and 15.9 pence after non-recurring items (H1 FY16: 19.2 pence before and after non-recurring), a 13.5% decrease (before non-recurring items) on the prior period. Basic weighted-average shares in issue during the period were 195.3m (H1 FY16: 194.4m).

**Dividend ("DPS")**

The Board has approved an interim dividend of 5.83 pence per share (H1 FY16: 5.66 pence), an increase of 3.0% on the prior period. This will be paid on 20 January 2017 to shareholders on the register at the close of business on 16 December 2016.

We continue to target coverage of around 2 times on average over time. However, the impact of adverse FX movements will reduce cover initially until fully mitigated, which will take some time.

**Capital Expenditure**

Capital investment in the period totalled £15.3m (H1 FY16: £19.5m) comprising £13.7m in Retail and £1.6m 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 *Moving up a Gear* strategy.

Within Retail, £6.7m (H1 FY16: £8.5m) was invested in stores, including the opening of 2 Cycle Republics, 5 store relocations and 12 store refreshes. In addition there was general capital spend relating to training rooms, roofing, flooring and heating. Additional investments in Retail infrastructure included a £4.9m investment in IT systems, including the ‘iServe’ project (new till hardware and software), ‘Dayforce’ resource planning system and the new Cycle Republic website.

The £1.6m (H1 FY16: £2.6m) capital expenditure in Autocentres was largely in respect of refreshing 12 centres and opening 2 new centres.

On a cash basis, total capital expenditure in the period was £15.5m (H1 FY16: £17.5m).

Management continues to anticipate Group capital investment to average £40m a year over the medium term and amends the guidance for FY17 from capital expenditure of circa £45m to circa £40m. The reduced current year spend reflects timing of initiatives.

**Inventories**

Group inventory held as at the period end was £176.6m (H1 FY16: £159.0m). Retail inventory increased to £175.4m (H1 FY16: £157.6m) and includes £5.7m held by Tredz and Wheelies. The principal reason for the increase is the depreciation of Sterling, which is increasing the cost of imported products. On a constant currency basis the inventory holding was broadly flat year on year. Autocentres’ inventory was £1.4m (H1 FY16: £1.4m). 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.

**Cashflow and Borrowings**

Cash generated from operating activities during the period was £38.7m (H1 FY16: £37.1m). After taxation, capital expenditure and net finance costs, free cashflow of £24.2m (H1 FY16: £19.5m) was generated in the period, an increase of 24%.

Group net debt was £64.8m (H1 FY16: £62.4m), with the non-lease-adjusted 12-month net debt: EBITDA ratio at 0.6:1. For the year end we expect net debt to be broadly level with the FY16 year end position before the impact of the acquisition of Tredz and Wheelies, reflecting the FX impact on working capital.

**Brexit**

The decision of the UK to leave the European Union (“Brexit”) presents significant uncertainties to the Group as a result of the impact on the wider UK economy. The main areas in which Brexit is likely to impact the Group are as follows:

1) Impact on foreign currency exchange rates – the value of Sterling has fallen by approximately 20% since the end of FY16 following the Brexit result. The Group buys a significant proportion of its goods in US dollars, and as such is exposed to significant fluctuations in exchange rates. This risk is managed by forward buying currency, but a prolonged devaluation of Sterling will lead to higher input costs. We have hedged nearly 100% of our FY17 Dollar requirements at $1.41 and around 25% of our FY18 requirements at $1.37. We are confident that we can substantially mitigate the impact of the foreign currency impact from the movements observed to date, but it will take time to do so.

2) Prolonged uncertainty over exit terms and continued weakness in Sterling could lead to a slowdown in the UK economy, and consequent loss of consumer confidence, impacting trading conditions for the Group. However, Halfords has strong positions in fragmented Motoring and Cycling markets, and a service-led offer that differentiates us from our competitors, physical and online. Much of our sales are in needs-based categories that are more resilient to macro-economic cycles and our discretionary categories, such as cycling, camping and travel solutions, could benefit from an increase in the number of people choosing to stay at home rather than holidaying abroad; a trend that we observed in 2009.

## 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. In the Annual Report & Accounts the Board sets out what it considers to be the principal commercial and financial risks to achieving the Group's objectives. The main areas of potential risk and uncertainty in the balance of the financial year are described in the Strategic Report on page 30 of the Annual Report and Accounts. These include:

- Economic risk
- Business strategy risks
- Competitive risks
- Compliance
- Changing customer preferences
- Reliance on foreign manufacturers
- 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 2016

# HALFORDS GROUP PLC

## Condensed consolidated income statement

For the 26 weeks to 30 September 2016

| | Notes | **26 weeks to 30 September 2016 Unaudited £m** | 26 weeks to 2 October 2015 Unaudited £m | 52 weeks to 1 April 2016 £m |
|---|---|---|---|---|
| **Revenue** | 6 | **567.3** | 533.5 | 1,021.5 |
| Cost of sales | | **(283.9)** | (254.3) | (478.4) |
| **Gross profit** | | **283.4** | 279.2 | 543.1 |
| Operating expenses | | **(241.6)** | (231.3) | (458.6) |
| Operating profit before non-recurring items | | **41.8** | 47.9 | 84.5 |
| Non-recurring operating expenditure | 7 | **(1.5)** | - | (1.7) |
| **Results from operating activities** | | **40.3** | 47.9 | 82.8 |
| Finance costs | 8 | **(1.5)** | (1.5) | (3.1) |
| Finance income | 8 | **0.5** | - | 0.1 |
| **Net finance costs** | | **(1.0)** | (1.5) | (3.0) |
| Profit before tax and non-recurring items | | **40.8** | 46.4 | 81.5 |
| Non-recurring operating expenditure | 7 | **(1.5)** | - | (1.7) |
| Non-recurring finance cost | 7 | **(0.2)** | - | - |
| **Profit before tax** | | **39.1** | 46.4 | 79.8 |
| Tax on recurring items | 9 | **(8.3)** | (9.0) | (16.6) |
| Tax on non-recurring items | 7 | **0.3** | - | 0.3 |
| **Profit for the period attributable to equity shareholders** | | **31.1** | 37.4 | 63.5 |

| | | | | |
|---|---|---|---|---|
| **Earnings per share** | | | | |
| Basic earnings per share | 12 | 15.9p | 19.2p | 32.5p |
| Diluted earnings per share | 12 | 15.9p | 19.1p | 32.4p |
| Basic earnings per share before non-recurring items | 12 | 16.6p | 19.2p | 33.2p |
| Diluted earnings per share before non-recurring items | 12 | 16.6p | 19.1p | 33.0p |

A final dividend of 11.34 pence per share for the 52 weeks to 1 April 2016 (2015: 11.00 pence per share) was paid on 28 August 2016. The directors have approved an interim dividend of 5.83 pence per share in respect of the 26 weeks to 30 September 2016 (2015: 5.66 pence per share).

# HALFORDS GROUP PLC

## Condensed consolidated statement of comprehensive income

For the 26 weeks to 30 September 2016

| | **26 weeks to 30 September 2016 Unaudited £m** | 26 weeks to 2 October 2015 Unaudited £m | 52 weeks to 1 April 2016 £m |
|---|---|---|---|
| **Profit for the period** | **31.1** | 37.4 | 63.5 |
| **Other comprehensive income** | | | |
| Cash flow hedges: | | | |
| Fair value changes in the period | **10.4** | (0.9) | 4.7 |
| Transfers to inventory | **(8.9)** | 0.1 | (2.9) |
| Transfers to net profit: | | | |
| Cost of sales | **-** | (0.7) | (0.6) |
| Tax on other comprehensive income | **(1.6)** | 0.6 | 0.4 |
| **Other comprehensive income for the period, net of tax** | **(0.1)** | (0.9) | 1.6 |
| **Total comprehensive income for the period attributable to equity shareholders** | **31.0** | 36.5 | 65.1 |

## HALFORDS GROUP PLC

## Condensed consolidated statement of financial position

For the 26 weeks to 30 September 2016

| | Notes | **As at 30 September 2016 Unaudited** | As at 2 October 2015 Unaudited | As at 1 April 2016 |
|---|---|---|---|---|
| **Assets** | | **£m** | £m | £m |
| **Non-current assets** | | | | |
| Intangible assets | | **391.8** | 358.1 | 362.9 |
| Property, plant and equipment | | **101.6** | 107.5 | 107.3 |
| Deferred tax assets | | **-** | 2.6 | - |
| **Total non-current assets** | 13 | **493.4** | 468.2 | 470.2 |
| | | | | |
| **Current assets** | | | | |
| Inventories | | **176.6** | 159.0 | 157.9 |
| Trade and other receivables | | **66.4** | 61.5 | 60.7 |
| Derivative financial instruments | | **8.4** | 1.4 | 4.2 |
| Cash and cash equivalents | 14 | **20.3** | 23.2 | 11.9 |
| **Total current assets** | | **271.7** | 245.1 | 234.7 |
| **Total assets** | | **765.1** | 713.3 | 704.9 |
| | | | | |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Borrowings | 14 | **(23.5)** | (27.6) | (23.4) |
| Derivative financial instruments | | **(0.1)** | (0.6) | - |
| Trade and other payables | | **(202.5)** | (183.6) | (182.5) |
| Current tax liabilities | | **(9.0)** | (8.8) | (7.5) |
| Provisions | | **(9.5)** | (9.4) | (9.5) |
| **Total current liabilities** | | **(244.6)** | (230.0) | (222.9) |
| **Net current assets** | | **27.1** | 15.1 | 11.8 |
| | | | | |
| **Non-current liabilities** | | | | |
| Borrowings | 14 | **(61.6)** | (58.0) | (36.4) |
| Accruals and deferred income – lease incentives | | **(32.2)** | (30.8) | (32.3) |
| Deferred tax liability | | **(3.8)** | - | - |
| Provisions | | **(7.5)** | (8.0) | (7.9) |
| **Total non-current liabilities** | | **(105.1)** | (96.8) | (76.6) |
| **Total liabilities** | | **(349.7)** | (326.8) | (299.5) |
| **Net assets** | | **415.4** | 386.5 | 405.4 |
| | | | | |
| **Shareholders' equity** | | | | |
| Share capital | 15 | **2.0** | 2.0 | 2.0 |
| Share premium account | 15 | **151.0** | 151.0 | 151.0 |
| Investment in own shares | | **(10.7)** | (11.0) | (10.9) |
| Other reserves | | **3.1** | 0.7 | 3.2 |
| Retained earnings | | **270.0** | 243.8 | 260.1 |
| **Total equity attributable to equity holders of the Company** | | **415.4** | 386.5 | 405.4 |

## Condensed consolidated statement of changes in equity (continued)

For the 26 weeks to 30 September 2016

**For the period ended 30 September 2016 (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 1 April 2016** | **2.0** | **151.0** | **(10.9)** | **0.3** | **2.9** | **260.1** | **405.4** |
| **Total comprehensive income for the period** | | | | | | | |
| Profit for the period | - | - | - | - | - | 31.1 | **31.1** |
| **Other comprehensive income** | | | | | | | |
| Cash flow hedges: | | | | | | | |
| Fair value changes in the period | - | - | - | - | 10.4 | - | **10.4** |
| Transfers to inventory | - | - | - | - | (8.9) | - | **(8.9)** |
| Transfers to net profit: | | | | | | | |
| Cost of sales | - | - | - | - | - | - | **-** |
| Income tax on other comprehensive income | - | - | - | - | (1.6) | - | **(1.6)** |
| **Total other comprehensive income for the period net of tax** | - | - | - | - | (0.1) | - | **(0.1)** |
| **Total comprehensive income for the period** | **-** | **-** | **-** | **-** | **(0.1)** | **31.1** | **31.0** |
| **Transactions with owners** | | | | | | | |
| Share options exercised | - | - | 0.2 | - | - | - | **0.2** |
| Share-based payment transactions | - | - | - | - | - | 1.1 | **1.1** |
| Income tax on share-based payment transactions | - | - | - | - | - | - | **-** |
| Dividends to equity holders | - | - | - | - | - | (22.3) | **(22.3)** |
| **Total transactions with owners** | - | - | 0.2 | - | - | (21.2) | **(21.0)** |
| **Balance at 30 September 2016** | **2.0** | **151.0** | **(10.7)** | **0.3** | **2.8** | **270.0** | **415.4** |

The notes on pages 22 to 30 are an integral part of these consolidated financial statements.

# Condensed consolidated statement of changes in equity (continued)

For the 26 weeks to 30 September 2016

**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) | - | **(0.9)** |
| **Total comprehensive income for the period** | - | - | - | - | (0.9) | 37.4 | **36.5** |
| **Transactions with owners** | | | | | | | |
| 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 30 September 2016

| | Notes | **26 weeks to 30 September 2016 Unaudited £m** | 26 weeks to 2 October 2015 Unaudited £m | 52 weeks to 1 April 2016 £m |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Profit after tax for the period before non-recurring items | | **32.5** | 37.4 | 64.9 |
| Non-recurring items | | **(1.4)** | - | (1.4) |
| Profit after tax for the period | | **31.1** | 37.4 | 63.5 |
| Depreciation - property, plant and equipment | | **10.9** | 11.7 | 23.8 |
| Amortisation - intangible assets | | **4.4** | 2.7 | 6.3 |
| Net finance costs | | **1.3** | 1.5 | 3.0 |
| Loss on disposal of property, plant and equipment | | **0.4** | 0.1 | 0.4 |
| Equity settled share based payment transactions | | **1.1** | 1.1 | 3.0 |
| Fair value (gain)/loss on derivative financial instruments | | **(2.5)** | 0.3 | (0.4) |
| Corporation tax expense | | **8.0** | 9.0 | 16.3 |
| Increase in inventories | | **(18.7)** | (9.7) | (8.6) |
| Increase in trade and other receivables | | **(5.7)** | (5.7) | (4.9) |
| Increase in trade and other payables | | **17.1** | 0.7 | 2.3 |
| Decrease in provisions | | **(0.4)** | (1.4) | (1.4) |
| Finance income received | | **0.1** | - | 0.1 |
| Finance costs paid | | **(0.8)** | (0.7) | (2.3) |
| Corporation tax paid | | **(7.6)** | (9.9) | (17.2) |
| **Net cash from operating activities** | | **38.7** | 37.1 | 83.9 |
| **Cash flows from investing activities** | | | | |
| Acquisition of subsidiary, net of cash acquired | | **(18.0)** | - | - |
| Purchase of intangible assets | | **(9.7)** | (4.0) | (12.5) |
| Purchase of property, plant and equipment | | **(5.8)** | (13.5) | (26.0) |
| **Net cash used in investing activities** | | **(33.5)** | (17.5) | (38.5) |
| **Cash flows from financing activities** | | | | |
| Net proceeds from issue of ordinary shares | | **0.7** | 2.6 | 2.7 |
| Proceeds from loans, net of transaction costs | | **163.0** | 110.0 | 219.0 |
| Repayment of borrowings | | **(138.0)** | (114.0) | (245.0) |
| Payment of finance lease liabilities | | **(0.3)** | (0.7) | (0.6) |
| Dividends paid to shareholders | 11 | **(22.3)** | (21.4) | (32.4) |
| **Net cash used in financing activities** | | **3.1** | (23.5) | (56.3) |
| Net increase / (decrease) in cash and bank overdrafts | 14 | **8.3** | (3.9) | (10.9) |
| Cash and cash equivalents at the beginning of the period | 14 | **(10.8)** | 0.1 | 0.1 |
| **Cash and cash equivalents at the end of the period** | 14 | **(2.5)** | (3.8) | (10.8) |

For the 26 weeks to 30 September 2016

**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 10 November 2016.

**2. Statement of compliance**

These condensed consolidated interim financial statements for the 26 weeks to 30 September 2016 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 2016 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 1 April 2016 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 majority of 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 30 to 33 of our Annual Report and Accounts for the 52 weeks to 1 April 2016, which are available on our website *www.halfordscompany.com*. Since the report was published, however, the UK has voted to leave the European Union ("Brexit"), which presents significant uncertainties to the Group as a result of the impact on the wider UK economy. The main areas in which Brexit is likely to impact the Group are as follows:

1. Impact on exchange rates – the value of Sterling has fallen by approximately 15% since the end of FY16 as a result of Brexit. The Group buys a significant proportion of its goods in US Dollars, and as such is exposed to significant fluctuations in exchange rates. This risk is managed by forward buying currency, but a prolonged devaluation of Sterling will lead to higher input costs.

2. The vote for Brexit could lead to a slowdown or recession in the UK economy, and consequent loss of consumer confidence, impacting trading conditions for the Group.

**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 2016 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 52 week period ended 1 April 2016 and the 26 weeks ended 02 October 2015.

**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, Tredz and Wheelies 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.

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 30 September 2016 Total Unaudited £m** | 26 weeks to 2 October 2015 Total Unaudited £m |
|---|---|---|---|---|
| **Revenue** | **489.1** | **78.2** | **567.3** | 533.5 |
| Segment result before non-recurring items | **41.8** | **0.9** | **42.7** | 48.5 |
| Non-recurring items | **(1.5)** | **-** | **(1.5)** | - |
| **Segment result** | **40.3** | **0.9** | **41.2** | 48.5 |
| Unallocated expenses [1] | | | **(0.9)** | (0.6) |
| **Operating profit** | | | **40.3** | 47.9 |
| Net financing expense | | | **(1.2)** | (1.5) |
| **Profit before tax** | | | **39.1** | 46.4 |
| Tax | | | **(8.0)** | (9.0) |
| **Profit after tax** | | | **31.1** | 37.4 |

[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 £0.9m in respect of assets acquired through business combinations (2015: £0.6m).

| **Income statement** | Retail £m | Car Servicing £m | 52 weeks to 1 April 2016 Total £m |
|---|---|---|---|
| **Revenue** | 868.5 | 153.0 | 1,021.5 |
| Segment result before non-recurring items | 81.8 | 3.8 | 85.6 |
| Non-recurring items | (1.2) | (0.5) | (1.7) |
| **Segment result** | 80.6 | 3.3 | 83.9 |
| Unallocated expenses[1] | | | (1.1) |
| **Operating profit** | | | 82.8 |
| Net financing expense | | | (3.0) |
| **Profit before tax** | | | 79.8 |
| Taxation | | | (16.3) |
| **Profit after tax** | | | 63.5 |

[1] Unallocated expenses have been disclosed to reflect the format of the internal management reports reviewed by the Chief Operating Decision maker and include an amortisation charge of £1.1m in respect of assets acquired through business combinations (2015: £1.9m).

| Other segment items: | **Retail Unaudited £m** | **Car Servicing Unaudited £m** | **26 weeks to 30 September 2016 Total Unaudited £m** | 26 weeks to 2 October 2015 Total Unaudited £m |
|---|---|---|---|---|
| Capital expenditure | **13.7** | **1.6** | **15.3** | 19.5 |
| Depreciation expense | **8.4** | **2.5** | **10.9** | 11.7 |
| Amortisation expense | **3.5** | **-** | **3.5** | 2.1 |

| Other segment items: | Retail £m | Car Servicing £m | 52 weeks to 1 April 2016 Total £m |
|---|---|---|---|
| Capital expenditure | 32.1 | 8.2 | 40.3 |
| Depreciation expense | 19.1 | 4.7 | 23.8 |
| Amortisation expense | 5.2 | - | 5.2 |

There have been no significant transactions between segments in the 26 weeks ended 30 September 2016 (2015: £nil).

## 7. Non-recurring items

| | **26 weeks to 30 September 2016 Unaudited £m** | 26 weeks to 2 October 2015 Unaudited £m | 52 weeks to 1 April 2016 £m |
|---|---|---|---|
| **Non-recurring operating expenses:** | | | |
| Acquisition related fees (a) | **1.2** | - | - |
| Operating lease obligation (b) | **0.3** | - | - |
| Organisational Restructure Costs (c) | **-** | - | 1.7 |
| **Non-recurring operating expense** | **1.5** | **-** | 1.7 |
| Acquisition related interest charge (d) | **0.2** | - | - |
| **Non-recurring items before tax** | **1.7** | **-** | 1.7 |
| Tax on non-recurring items | **(0.3)** | - | (0.3) |
| **Non-recurring expense after tax** | **1.4** | **-** | 1.4 |

(a) Acquisition costs relate to the costs associated with purchase of the share capital of Tredz Limited and Wheelies Direct Limited during the period.
(b) The operating lease obligation relates to rectification work required to make good an area of land upon which one of the Group's retail sites is located.
(c) In the prior year organisational restructuring was undertaken across Autocentres and Retail, to better align resource to the requirements of the business. This resulted in a non-recurring redundancy expense of £1.7m.
(d) The acquisition related interest charge reflects the unwinding of the discounting applied to the contingent consideration due on the acquisition of Tredz Limited.

## 8. Net finance costs

| | **26 weeks to 30 September 2016** | 26 weeks to 2 October 2015 | 52 weeks to 1 April 2016 |
|---|---|---|---|
| | **Unaudited** | Unaudited | |
| | **£m** | £m | £m |
| **Finance costs:** | | | |
| Bank borrowings | **(0.4)** | (0.4) | (0.9) |
| Amortisation of issue costs on loans | **(0.3)** | (0.3) | (0.7) |
| Commitment and guarantee fees | **(0.4)** | (0.3) | (0.6) |
| Cost of forward foreign exchange contracts | **-** | (0.1) | (0.1) |
| Interest payable on finance leases | **(0.4)** | (0.4) | (0.8) |
| Other interest payable (non-recurring) | **(0.2)** | - | - |
| **Finance costs** | **(1.7)** | (1.5) | (3.1) |
| **Finance income:** | | | |
| Bank and similar income | **0.1** | - | 0.1 |
| Income from forward foreign exchange contracts | **0.4** | - | - |
| **Finance income** | **0.5** | - | 0.1 |
| **Net finance costs** | **(1.2)** | (1.5) | (3.0) |

## 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 30 September 2016 is 20.5% (2015: 19.5%). The effective tax rate is higher than the UK corporation tax rate principally due to the non-deductibility of depreciation charged on capital expenditure.

## 10. Financial instruments and related disclosures

Other financial assets and other financial liabilities include the fair value of derivative contracts which the Group uses to manage its foreign currency and interest rate risks. All derivatives are categorised as Level 2 under the requirements of IFRS 13, as they are valued using techniques based significantly on observed market data.

## 11. Dividends

During the period the Group paid a final dividend of 11.34 pence per share in respect of the 52 weeks to 1 April 2016 (2015: 11.00 pence per share), which absorbed £22.3m of shareholders' funds (2015: £21.4m).

The directors have approved an interim dividend of 5.83 pence per share for the 26 weeks to 30 September 2016 (2015: 5.66 pence per share), which is expected to be £11.3m (2015: £11.1m) and will be paid on 20 January 2017 to those shareholders on the share register at the close of business on 16 December 2016.

### 12. 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 30 September 2016.

| | **26 weeks to 30 September 2016** | 26 weeks to 2 October 2015 | 52 weeks to 1 April 2016 |
|---|---|---|---|
| | **Unaudited** | Unaudited | |
| | **Number** | Number | Number |
| | | m | m |
| Weighted average number of shares in issue | **199.1** | 199.1 | 199.1 |
| Less: shares held by the Employee Benefit Trust | **(3.8)** | (4.7) | (3.9) |
| Weighted average number of shares for calculating basic earnings per share | **195.3** | 194.4 | 195.2 |
| Weighted average number of dilutive share options | **0.6** | 1.2 | 1.1 |
| Total number of shares for calculating diluted earnings per share | **195.9** | 195.6 | 196.3 |

| | **26 weeks to 30 September 2016** | 26 weeks to 2 October 2015 | 52 weeks to 1 April 2016 |
|---|---|---|---|
| | **Unaudited** | Unaudited | |
| | **£m** | £m | £m |
| Basic earnings attributable to equity shareholders | **31.1** | 37.4 | 63.5 |
| Non-recurring items: | | | |
| Operating expenses | **1.5** | - | 1.7 |
| Finance costs | **0.2** | - | - |
| Tax charge on non-recurring items | **(0.3)** | - | (0.3) |
| Underlying earnings before non-recurring items | **32.5** | 37.4 | 64.9 |
| | | | |
| Basic earnings per share | **15.9p** | 19.2p | 32.5p |
| Diluted earnings per share | **15.9p** | 19.1p | 32.4p |
| Basic earnings per share before non-recurring items | **16.6p** | 19.2p | 33.2p |
| Diluted earnings per share before non-recurring items | **16.6p** | 19.1p | 33.0p |

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.

## 13. Capital expenditure – tangible and intangible assets

| | 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 |

| | **Unaudited** |
|---|---|
| | **£m** |
| Net book value at 1 April 2016 | **470.2** |
| Additions | **37.7** |
| Non-current assets acquired as part of business combination | **1.2** |
| Disposals | **(0.4)** |
| Depreciation, amortisation, impairments and other movements | **(15.3)** |
| **Net book value at 30 September 2016** | **493.4** |

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

| | 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) |

| | At 1 April 2016 | Cash flow | Other non-cash changes | **At 30 September 2016** |
|---|---|---|---|---|
| | | Unaudited | Unaudited | **Unaudited** |
| | £m | £m | £m | **£m** |
| Cash in hand and at bank | (10.8) | 8.3 | - | **(2.5)** |
| Debt due after one year | (25.4) | (25.0) | (0.3) | **(50.7)** |
| Total net debt excluding finance leases | (36.2) | (16.7) | (0.3) | **(53.2)** |
| Finance leases due within one year | (0.7) | 0.3 | (0.3) | **(0.7)** |
| Finance leases due after one year | (11.0) | - | 0.1 | **(10.9)** |
| Total finance leases | (11.7) | 0.3 | (0.2) | **(11.6)** |
| **Total net debt** | (47.9) | (16.4) | (0.5) | **(64.8)** |

Non-cash changes comprise finance costs in relation to the amortisation of capitalised debt issue costs of £0.3m, new finance lease liabilities of £0.3m and changes in classification between amounts due within and after one year. Cash and cash equivalents at the period end consist of £14.9m of liquid assets, £5.4m of cash held in Trust and £22.8m of bank overdrafts.

## 15. Share capital

| | 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 |

| | **Number of shares m** | **Share capital £m** | **Share premium account £m** |
|---|---|---|---|
| **As at 1 April 2016 and 30 September 2016** | **199.1** | **2.0** | **151.0** |

During the 26 weeks to 30 September 2016, there were no movements in company share capital. During the 26 weeks to 2 October 2015 there were 53,410 new shares authorised but were yet to be issued. The shares held in treasury are used to meet options under the Company's share options schemes.

## 16. 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 30 September 2016 amounted to £2.5m.

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.

## 17. Seasonality

In general, the Group's results are not seasonal with revenue in the first half broadly similar to that of the second, however sales of certain products tend to fluctuate by season.  For example, sales of children's cycles peak in the Christmas season and sales of adult cycles tend to peak in the summer.

## 18. Related party transactions

There were no (2015: nil) related party transactions during the 26 weeks to 30 September 2016.

## 19. Acquisition of subsidiary

On 23rd May 2016 the Group acquired 100% of the issued share capital of Tredz Limited and Wheelies Direct Limited for initial cash consideration of £19.2m (excluding transaction costs). The acquired businesses comprise an online retailer of premium bikes and cycling parts, accessories and clothing, which trades UK-wide under the brand Tredz, and the UK's largest provider of bicycle replacement for insurance companies which trades under the brand Wheelies. The transaction has been accounted for using the acquisition method of accounting.

**Contingent consideration**

In addition to the initial consideration, a liability of £5.5m, discounted to the acquisition date, has been recognised in respect of contingent consideration due to the previous shareholders. The contingent consideration is dependent upon the performance of Tredz for the year ended 28 Feb 2017. The range of possible payments under the contingent consideration arrangement is £nil to £12.5m.

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

| | Book value £m | Fair value adjustment £m | Final fair value £m |
|---|---|---|---|
| **Tredz and Wheelies net assets at the acquisition date** | | | |
| Intangible assets and goodwill | 0.8 | (0.8) | - |
| Tangible Assets | 1.3 | (0.1) | 1.2 |
| Inventories | 5.7 | (0.1) | 5.6 |
| Trade and other receivables | 1.8 | - | 1.8 |
| Cash | 1.2 | - | 1.2 |
| Trade and other payables | (6.1) | - | (6.1) |
| Borrowings | (0.3) | - | (0.3) |
| Current tax liabilities | (0.2) | - | (0.2) |
| Deferred Tax Liability | (0.2) | - | (0.2) |
| **Total** | **4.0** | **(1.0)** | **3.0** |

**Goodwill**

Goodwill was recognised as a result of the acquisition as follows:

| | £m |
|---|---|
| Total consideration | 23.9 |
| Less fair value of identifiable assets | (3.0) |
| **Goodwill and intangible assets** | **20.9** |
| | |
| **Intangible Assets:** | |
| Supplier Relationships | 7.8 |
| Tredz and Wheelies Brand Names | 5.6 |
| Computer Software | 0.5 |
| | |
| Deferred tax liability | (2.5) |
| **Goodwill** | **9.5** |

None of the goodwill acquired is expected to be deductible for income tax purposes. The goodwill relates to the assembled workforce of Tredz and Wheelies and future expansion and growth opportunities.

The Tredz and Wheelies businesses contributed £16.5m revenue and a profit of £1.4m to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition of the Tredz and Wheelies businesses had been completed on the first day of the financial year, Group revenues for the period would have been £6.7m higher and Group profit before tax of the parent would have been £0.5m higher (before amortisation of intangible assets arising on consolidation).

**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**

**10 November 2016**

## 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 30 September 2016 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 30 September 2016 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*

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

10 November 2016