8 November 2018

Halfords Group plc
Interim Results: Financial Year 2019
New strategy embedding; full-year outlook unchanged

Halfords Group plc, the UK's leading provider of motoring and cycling products and services, today announces its interim results for the 26 weeks to 28 September 2018 ("the period"). All numbers shown are before non-recurring items, unless otherwise stated.

Group Financial Summary

	H1 FY19 £m	H1 FY18 £m	change	Like-for-Like Revenue ("LFL")*
Revenue	599.9	588.7	+1.9%	+2.5%
Retail	*519.8*	*511.0*	*+1.7%*	*+2.3%*
Autocentres	*80.1*	*77.7*	*+3.1%*	*+3.3%*
Gross Margin	49.4%	48.6%	+80 bps	
Retail	*46.6%*	*45.7%*	*+90 bps*	
Autocentres	*67.5%*	*67.7%*	*-20 bps*	
Underlying EBITDA*	49.8	54.9	-9.3%	
Underlying Profit Before Tax*	30.5	36.8	-17.1%	
Underlying Basic Earnings Per Share*	12.4p	14.8p	-16.2%	
Profit Before Tax after non-recurring items	28.2	36.6	-23.0%	
Basic Earnings Per Share after non-recurring items	11.4p	14.7p	-22.4%	
Interim Dividend Per Share	6.18p	6.00p	+3.0%	

** Alternative performance measures are defined in the glossary on page 13*

Financial highlights
- Total Group Revenue +1.9% and +2.5% LFL, reflecting good sales of e-bikes, dash cams and motoring services
- Gross margin improved
- Underlying Profit Before Tax broadly in line with our expectations, reflecting planned operating cost growth, primarily driven by phasing, one-off items and investments
- Free Cash Flow of £34.2m, up 10% on H1 last year
- Net debt at £77.2m representing 0.7 times Underlying EBITDA
- Interim dividend per share of 6.18p, up 3.0%

New strategy launched
Early progress against our new strategy *to inspire and support a lifetime of motoring and cycling* by:

Inspiring our customers through a differentiated, super specialist shopping experience
- Initial optimisation of space implemented in all Retail stores, further enhancing our specialisms in motoring and cycling
- Redefining and differentiating our own label ranges; new own brand bulb ranges the first category launched
- Strengthening of cycling specialist credentials via agreement with Brompton to sell their products across the Group

Supporting our customers through an integrated, unique and more convenient services offer
- On-demand retail motoring services trial launched in garages
- Strengthened customer offer through launch of financial services trial in Retail and Autocentres
- Raising awareness of our services proposition through nationwide sponsorship of ITV Weather

Enabling a lifetime of motoring and cycling
- 152,000 Retail customers signed up for cross-Group MOT promotion, 70% of whom are new to Autocentres

Full-year outlook reconfirmed
We continue to anticipate FY19 Group profit before tax broadly unchanged on FY18, with H2 performance reflecting a shift in our sales mix towards less discretionary categories, greater FX benefit of circa £3m and lower Retail operating cost

growth (circa 3% in H2 vs 8% in H1). This guidance is subject to our trading performance over the peak Christmas period and also assumes average Winter weather. We expect the short term conditions for discretionary spend to remain challenging.

Graham Stapleton, Chief Executive Officer, commented:
"Despite the challenging UK consumer environment, we delivered a robust sales and cash flow performance in the first half, with costs and profit broadly in line with our expectations. We are making good early progress as we implement our new strategy, and we are encouraged by the initial signs. We are moving to a more customer centric approach, leveraging our expertise to provide a more differentiated shopping experience and an integrated and more convenient services offer."

Enquiries

Investors & Analysts (Halfords)
Loraine Woodhouse, Chief Financial Officer
Adam Phillips, Group Strategy & Investor Relations Director **+44 (0) 7703 890142**

Media (Tulchan Communications) **+44 (0) 207 353 4200**
Jonathan Sibun
Will Smith

Financial Guidance reference

For ease of navigation, the following lists the references to financial guidance contained in this statement:

Results Presentation

A presentation for analysts and investors will be held today starting at 9.00am at Investec, 30 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 22 January 2019 we will report on trading for the 15 weeks to 11 January 2019, which includes the peak Christmas trading period.

Notes to Editors

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

Halfords is the UK's leading provider of motoring and cycling products and services. Customers shop at 453 Halfords stores, 25 Performance Cycling stores (trading as Cycle Republic, Tredz, Boardman and Giant) and 316 garages (trading as Halfords Autocentres). Customers can also shop at halfords.com, cyclerepublic.com and tredz.co.uk for pick-up at their local store or direct home delivery, as well as booking garage services online at halfordsautocentres.com.

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.

Chief Executive's Statement

Summary of Group Results

Group sales of £599.9m were up 1.9% in total and +2.5% on a LFL basis, with Group gross profit up 3.5% and a gross margin of 49.4% (H1 FY18: 48.6%). Total operating costs rose as we had expected by 6.6%, the majority of which related to one-off / phasing impacts or planned investments.

Earnings before non-recurring items, finance costs, depreciation and amortisation ("Underlying EBITDA") were down 9.3% to £49.8m. Underlying Profit Before Tax was broadly in line with our expectations at £30.5m and down 17.1%, reflecting the planned increase in operating costs. Underlying earnings per share were 12.4p, down 16.2%.

Cash generation remained strong with Free Cash Flow of £34.2m, up £3.1m on H1 last year. Net debt of £77.2m at the end of the period was £7.6m lower than the prior year end. Net debt to Underlying EBITDA at the period end was 0.7:1 on a rolling 12 month basis.

The Board has approved an interim ordinary dividend of 6.18 pence per share, an increase of 3.0% (FY18 interim ordinary dividend: 6.00 pence, FY18 full-year ordinary dividend: 18.03 pence). This will be paid on 18 January 2019 to shareholders on the register at the close of business on 14 December 2018.

Operational Review

In Retail, sales were £519.8m, up 1.7% on the previous year and +2.3% on an LFL basis. Motoring LFL sales grew by 3.3% in the first half. Good growth in sales of tools, metal storage, dash cams, car cleaning products and motoring services more than offset the continued market decline in Sat Navs and in-car audio products.

Cycling sales increased by 1.0% on a LFL basis. A challenging start to the year, with poor weather in April and an early Easter, was offset by a better performance in the peak summer period of mid July to mid August. Electric bikes were the standout performer and PAC (parts, accessories and clothing) sales continued to grow.

After two years of FX-driven decline, the Retail gross margin stabilised in the period. The increase of 90 bps in H1 reflected a number of factors including the mix impact of faster motoring sales growth and improved stock loss. There was also a small FX benefit towards the end of the period, reflecting a slightly improved US dollar buying rate. This benefit accelerates in the second half.

Retail operating costs increased by 8.0% to £211.4m, broadly in line with our expectations. This cost increase comprised of the following: 1) inflationary impacts, 2) additional costs from the weaker cycling market, 3) one-off/timing/reclassification impacts and 4) planned investments. Over half of the cost increase comprised of the latter two elements and we expect these to largely fall away in the second half, resulting in lower cost growth for the remainder of the year.

During the period we opened two Cycle Republic stores, a Boardman Performance Centre, one Autocentre and rolled out two more mobile vans, extending our Halfords Mobile Expert trial to three cities. We closed four Halfords Retail stores, a Tredz concession store and one Autocentre.

Service-related Retail sales, which consist of the revenue generated from paid in-store fitting and repair services plus the associated product attached to the transaction, continued to grow faster than total sales. Group online sales were up 10.9% in the period, reflecting increased traffic and improved conversion through the mobile channel in particular. The importance of our store network and service overlay continued to be highlighted by the strength of click & collect, with around 85% of Halfords Retail online orders picked up in store.

Total Autocentres revenues were up 3.1% and +3.3% on a LFL basis, reflecting growth in sales of tyres, air conditioning services, MOTs and servicing. The implementation of the Autocentres transformation programme, following the review of the operating model last year, is well underway and delivering tangible benefits. Progress to date includes:

- implementation of a new garage management system, enabling enhanced technician scheduling and improved parts ordering;

- new process flows for certain activities, delivered via training to all technicians and monitored on an ongoing basis; and
- new productivity and utilisation reporting and KPIs, with incentives aligned.

The impact of the transformation programme on the operating model, along with good revenue growth, contributed to the increase in Autocentres EBIT, which improved by 53.3% to £2.3m.

Our New Strategy

On 27th September 2018 we published and presented details of our new strategy. Please refer to our Capital Markets Day presentation and announcement, available on www.halfordscompany.com. A short summary is set out below.

Halfords' aim is *to inspire and support a lifetime of motoring and cycling*. We will do this through the following strategic priorities:

1. ***Inspiring*** our customers through a differentiated, super specialist shopping experience. We will become a business more focused on what it is really known for – its core motoring and cycling offer. We will have more products and services that have features and benefits only available at Halfords. We will also have a more engaging online presence, along with a complementary and inspiring store environment and in-store tablet, screen and mobile experience.

2. ***Supporting*** our customers through an integrated, unique and more convenient services offer. We will have a broader range of services, more easily accessed from one single website. We will grow our physical estate to around 1,000 convenient service locations via a choice of mobile, stores and garages. We will be a market leader in electric bike and car servicing.

3. Enabling a ***lifetime*** of motoring and cycling. We will have a more focussed and targeted approach to loyalty at a Group level, facilitating greater cross shop. We will accelerate the development of our CRM program, increase investment in customer data management, and fully leverage our single customer view.

We will support this strategy with an accelerated programme of investment to help drive sustainable growth into the future. Capital expenditure will increase from the prevailing guidance of c. £40m per year to between £40m and £60m per year over the medium term, with significant investment in our stores, garages, and digital platforms.

Alongside this we have commenced a wide-reaching cost and capital efficiencies programme, which will enable us to fund the increase in capital expenditure from cash released from within the business over the life of the plan. Despite incremental investment in operating expenditure as we implement our long-term strategy, we continue to anticipate FY20 Profit Before Tax to be broadly flat on FY19, with mid-single-digit percentage annual growth anticipated thereafter as the plans take effect.

Our existing debt target and capital allocation priorities remain unchanged, other than a new commitment to preserve the ordinary dividend. We also added a new financial target to increase Free Cash Flow.

Early progress on our new strategy

We are already making good progress against the new strategy. Some of the early results are set out below:

Inspiring our customers through a differentiated, super specialist shopping experience

- Initial optimisation of space implemented in all Retail stores, further enhancing our specialisms in motoring and cycling
- Redefining and differentiating our own label ranges; new own brand bulb ranges the first category launched
- Strengthening of cycling specialist credentials via agreement with Brompton to sell their products across the Group

Supporting our customers through an integrated, unique and more convenient services offer

- On-demand retail motoring services trial launched in garages
- Strengthened customer offer through launch of financial services trial in Retail and Autocentres
- Raising awareness of our services proposition through nationwide sponsorship of ITV Weather

- 152,000 Retail customers signed up for cross-Group MOT promotion, 70% of whom are new to Autocentres

Summary and outlook

In a challenging retail environment our first half sales performance was robust, with growth across all areas of our business. Underlying Profit Before Tax for the first half was broadly in line with our expectations. The year-on-year decrease reflected the operating cost growth in the first half, of which more than half related to one-off/timing or planned investments that are not anticipated to recur in the second half. In Autocentres, we continued to make good progress in transforming the operational model, resulting in strong profit growth for the first half, with the business on track to deliver a second consecutive year of full year profit growth.

Cash generation continued to be strong in the first half. Free Cash Flow, one of our new medium term financial targets, was up 10% for the period compared to last year.

Our full year outlook is reconfirmed and we continue to anticipate FY19 Underlying Profit Before Tax to be broadly unchanged from FY18. Accordingly we anticipate profit to increase in the second half. Due to the hedging of our US dollar requirements we already have certainty over c. £3m of year-on-year FX benefit in H2. In addition, we anticipate lower operating cost growth, principally reflecting the non-repeat nature of one-off/timing/reclassification impacts seen in the first half.

This full year guidance is subject to trading over the peak Christmas period and also assumes average Winter weather. Whilst we remain confident in the long-term growth prospects for the cycling market, we expect the short term conditions to remain challenging given that cycling is a discretionary category and not immune to consumer uncertainty. However, the mix of our sales moves more towards non-discretionary categories in the second half, and these areas performed well in H1.

During the period we developed our new strategy, culminating in the communication of this to our colleagues and also externally at our capital markets day in September. There is good early progress as we start implementing a more customer centric approach, leveraging our expertise to provide a more differentiated shopping experience and an integrated and more convenient services offer.

Loraine Woodhouse joined the Group as Chief Financial Officer on 1 November 2018 and I look forward to working with her going forwards.

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

Graham Stapleton
Chief Executive Officer, November 2018

Halfords Group plc’s LEI code is 54930086FKBWWJIOB179

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

Reportable Segments

Halfords Group operates through two reportable business segments:

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

All references to Retail represent the consolidation of the Halfords ("Halfords Retail") and Cycle Republic businesses, Boardman Bikes Limited and Boardman International Limited (together, "Boardman Bikes"), and Performance Cycling Limited (together, "Tredz and Wheelies") trading entities. All references to Group represent the consolidation of the Retail and Autocentres segments.

The "H1 FY19" accounting period represents trading for the 26 weeks to 28 September 2018 ("the period"). The comparative period "H1 FY18" represents trading for the 26 weeks to 29 September 2017 ("the prior period").

Group Financial Results

	H1 FY19 £m	H1 FY18 £m	Change
Group Revenue	599.9	588.7	+1.9%
Group Gross Profit	296.3	286.3	+3.5%
Underlying EBIT*	32.0	38.3	-16.4%
Underlying EBITDA*	49.8	54.9	-9.3%
Net Finance Costs before non-recurring items	(1.5)	(1.5)	
Underlying Profit Before Tax*	**30.5**	**36.8**	**-17.1%**
Profit Before Tax, after non-recurring items	28.2	36.6	-23.0%
Underlying Basic Earnings per Share*	12.4p	14.8p	-16.2%

** Alternative performance measures are defined in the glossary on page 13*

Group revenue in H1 FY19, at £599.9m, was up 1.9% and comprised Retail revenue of £519.8m and Autocentres revenue of £80.1m. This compared to H1 FY18 Group revenue of £588.7m, which comprised Retail revenue of £511.0m and Autocentres revenue of £77.7m. Group gross profit at £296.3m (H1 FY18: £286.3m) represented 49.4% of Group revenue (H1 FY18: 48.6%), reflecting an increase in the Retail gross margin of 90 basis points ("bps") to 46.6% and a small decrease in the Autocentres gross margin of 20 bps to 67.5%.

Total operating costs before non-recurring items increased to £264.3m (H1 FY18: £248.0m) of which Retail comprised £211.4m (H1 FY18: £195.8m), Autocentres £51.8m (H1 FY18: £51.1m) and unallocated costs £1.1m (H1 FY18: £1.1m). 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 Underlying EBITDA decreased 9.3% to £49.8m (H1 FY18: £54.9m), whilst net finance costs were flat at £1.5m (H1 FY18: £1.5m).

Underlying Profit Before Tax for the year was down 17.1% at £30.5m (H1 FY18: £36.8m). Net non-recurring items of £2.3m in the period (H1 FY18: £0.2m) comprised of £2.1m for a Group-wide strategic review and a related £0.2m cost for organisational restructuring. Prior year costs related to £0.5m cost from the review of the operational model of Autocentres and a £0.3m credit from the release of the remaining portion of interest charge due on the contingent consideration for Tredz. After non-recurring items, Group Profit Before Tax was £28.2m (H1 FY18: £36.6m).

Retail

	H1 FY19 £m	H1 FY18 £m	Change
Revenue	519.8	511.0	+1.7%
Gross Profit	242.2	233.7	+3.6%
Gross Margin	46.6%	45.7%	+90 bps
Operating Costs	(211.4)	(195.8)	+8.0%
Underlying EBIT*	**30.8**	**37.9**	**-18.7%**
Non-recurring items	(2.3)	(0.5)	
EBIT after non-recurring items	28.5	37.4	-23.8%
Underlying EBITDA*	**44.6**	**50.9**	**-12.4%**

** Alternative performance measures are defined in the glossary on page 13*

Revenue for the Retail business of £519.8m reflected, on a constant-currency basis, a like-for-like sales increase of 2.3%. Non LFL revenue in the period included sales from Cycle Republic stores open for less than 12 months.

Motoring LFL sales grew by 3.3% in the first half. Good growth in sales of tools, metal storage, dash cams, car cleaning products and motoring services more than offset the continued market decline in Sat Navs and in-car audio products. Sales of car security products grew strongly; this is a category in which we have increased the range and allocated more space as part of the recent space optimisation programme.

Cycling sales increased by 1.0% on a LFL basis. A challenging start to the year, with poor weather in April and an early Easter, was offset by a better performance in the peak summer period of mid July to mid August. Electric bikes were the standout performer, though still a small amount of total cycling sales, and PAC sales continued to grow.

Like-for-like revenues and total sales revenue mix for the Retail business are split by category below:

	H1 FY19 LFL (%)	H1 FY19 Total sales mix (%)	H1 FY18 Total sales mix (%)
Motoring	**+3.3%**	**58.8**	**58.3**
Car Maintenance	+4.5%	26.8	26.3
Car Enhancement	+1.1%	18.0	18.2
Travel Solutions	+4.0%	14.0	13.8
Cycling	**+1.0%**	**41.2**	**41.7**
Total	**+2.3%**	**100.0**	**100.0**

Gross profit for the Retail business at £242.2m (H1 FY18: £233.7m) represented 46.6% of sales, 90bps up on the prior year (H1 FY18: 45.7%). This increase comprised a number of factors including a mix benefit from faster motoring and services sales, lower stock loss, a reclassification of Tredz carriage costs from cost of sales to operating costs, and a small benefit from an improved average buying rate in respect of goods imported in US dollars. This FX benefit will improve in the second half to c. £3m of year-on-year additional gross profit, reflecting the improved buying rates already locked in through hedging. The table below shows the exchange rate reflected in cost of sales:

	FY18 full year $	H1 FY19 $	H2 FY19 (estimate*) $
Average USD:GBP rate reflected in cost of sales	$1.29	$1.31	$1.32
Year-on-year movement in rate	(0.18)	0.01	0.04

** The estimated rate for H2 is based on having hedged circa 90% of requirements as at end of October 2018.*

Operating Costs before non-recurring items were £211.4m (H1 FY18: £195.8m). The breakdown is set out below:

	H1 FY19 £m	H1 FY18 £m	Change
Store Colleagues	60.5	58.7	+3.1%
Store Occupancy	72.7	71.4	+1.8%
Warehouse & Distribution	28.9	25.3	+14.2%
Support Costs	49.3	40.4	+22.0%
Total Operating Costs before non-recurring items	**211.4**	**195.8**	**+8.0%**

The 8.0% increase in operating costs breaks down into the following categories of cost driver:

- Circa 2% of inflationary impact from payroll, rates and utilities, as well as increased depreciation and amortisation charges.
- Circa 1% of increased costs from the weak start to the cycling season including additional external storage and associated transport, and additional marketing costs.
- Circa 3% (circa £6m) of one-off / timing / reclassification impacts, including share option charges, reclassification of Tredz carriage costs, phasing of marketing costs between H1 and H2, and the annualisation of next day fulfilment (launched Sept 2017), which impacted on Warehouse & Distribution cost growth in H1.
- Circa 2% of investments, including the operating costs of new Cycle Republic stores, enhancement and utilisation of single customer view database, and additional heads in IT and digital.

Looking ahead to the second half, we anticipate a continuation of the inflationary impacts and some increased costs associated with the weaker cycling market, albeit we have some planned mitigations. At this stage we expect the one-off / timing / reclassification impacts to fall away almost entirely in H2, and we anticipate a lower impact from cost investments as we reduce or re-phase activity. Accordingly, we anticipate operating cost growth to be lower in the second half than it was in the first half.

Autocentres

	H1 FY19 £m	H1 FY18 £m	Change
Revenue	80.1	77.7	+3.1%
Gross Profit	54.1	52.6	+2.9%
Gross Margin	67.5%	67.7%	-20bps
Operating Costs	(51.8)	(51.1)	+1.4%
Underlying EBIT*	**2.3**	**1.5**	**+53.3%**
Underlying EBITDA*	**5.2**	**4.0**	**+30.0%**

** Alternative performance measures are defined in the glossary on page 13*

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

Autocentres generated total revenues of £80.1m (H1 FY18: £77.7m), an increase of 3.1% on the prior period with a LFL increase of 3.3%. The increase in revenues from the existing centres reflected growth in tyres, air conditioning services, MOT and servicing sales.

Gross profit at £54.1m (H1 FY18: £52.6m) represented a gross margin of 67.5%; a decrease of 20 bps on the prior period. The slight decrease in gross profit margin was the result of the mix effect of faster tyre sales growth.

Autocentres' EBITDA of £5.2m (H1 FY18: £4.0m), was 30.0% higher than H1 FY18, and EBIT was £0.8m higher than H1 FY18 at £2.3m (H1 FY18: £1.5m).

Portfolio Management

The Retail store portfolio at 28 September 2018 comprised 478 stores (end of H1 FY18: 481; end of FY18: 480). The following table outlines the changes in the Retail store portfolio over the 26 week period:

	Number
Relocations	-
Leases re-negotiated	11
Rightsized	-
Openings	3
Closed	5

One Autocentre was opened and one was closed in the period, making the total number of Autocentre locations 316 as at 28 September 2018 (end of H1 FY18: 315; end of FY18: 316).

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.

Future changes to our property portfolio as a result of the new strategy are outlined in the Capital Markets Day announcement dated 27 September 2018.

Net Non-Recurring items

The following table outlines the components of the non-recurring items recognised in the period:

	H1 FY19 £m	**H1 FY18 £m**
Organisational restructure	0.2	-
Group-wide strategic review	2.1	-
Operational review of Autocentres	-	0.5
Net non-recurring operating costs	**2.3**	**0.5**
Acquisition related interest credit	-	(0.3)
Net non-recurring items	**2.3**	**0.2**

Non-recurring items in H1 FY19 related to the strategic review of the business including related organisational restructure costs. In H1 FY18 they related to the review of the operating model of the Autocentres business, and there was also a £0.3m credit from the release of the remaining portion of interest charge due on the contingent consideration for Tredz, which was paid in May 2017.

Finance Expense

The net finance expense (before non-recurring items) for the year was unchanged year-on-year at £1.5m (H1 FY18: £1.5m).

Taxation

The taxation charge on profit for the financial period was £5.7m (H1 FY18: £7.4m). The effective tax rate of 20.2% (H1 FY18: 20.3%) differs from the UK corporation tax rate (19%) principally due to non-deductible depreciation charged on capital expenditure, overseas tax rates and the impact of share options accounting.

The full year FY19 effective tax rate is expected to be c.20%.

Earnings Per Share ("EPS")

Underlying Basic EPS was 12.4 pence and after non-recurring items 11.4 pence (H1 FY18: 14.8 pence, 14.7 pence after non-recurring items), a 16.2% and 22.4% decrease on the prior period. Basic weighted-average shares in issue during the period were 197.2m (H1 FY18: 197.1m).

Dividend ("DPS")

The Board has approved an interim dividend of 6.18 pence per share (H1 FY18: 6.00 pence), an increase of 3.0% on the prior period. This will be paid on 18 January 2019 to shareholders on the register at the close of business on 14 December 2018.

We continue to target coverage of around 2 times over the long term. Cover will be lower in the medium term as we invest for sustainable long term growth.

Capital Expenditure

Capital investment in the period totalled £16.5m (H1 FY18: £16.8m) comprising £14.3m in Retail and £2.2m in Autocentres.

Within Retail, £5.6m (H1 FY18: £5.3m) was invested in stores, including store relocations and refreshes, and the opening of two Cycle Republic stores. Additional investments in Retail infrastructure included a £5.1m investment in IT systems, including development of the new till hardware and software upgrade. The balance of £3.6m was invested in the Boardman Performance Centre, warehousing and logistics upgrades, alongside Tredz & Wheelies infrastructure improvements.

The £2.2m (H1 FY18: £2.4m) capital expenditure in Autocentres principally related to the replacement of garage equipment and fixtures and fittings.

On a cash basis, total capital expenditure in the period was £13.9m (H1 FY18: £14.8m).

We anticipate Group capital expenditure of c.£30m in FY19 and a Group depreciation and amortisation charge of c.£33m (prior to the c.£2m in respect of amortisation of intangible assets arising upon consolidation).

Inventories

Group inventory held as at the period end was £205.0m (H1 FY18: £206.0m). Retail inventory decreased to £203.5m (H1 FY18: £204.3m) and includes £6.6m (H1 FY18: £7.1m) held by Tredz and Wheelies.

Autocentres' inventory was £1.5m (H1 FY18: £1.7m). 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

Adjusted Operating Cash Flow during the period was £58.5m (H1 FY18: £57.7m). After acquisitions, taxation, capital expenditure and net finance costs, free cashflow of £34.2m (H1 FY18: £31.1m) was generated in the period. Group net debt was £77.2m (H1 FY18: £84.8m), with the Underlying EBITDA ratio at 0.7:1.

Brexit

As we have previously explained, 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. We have previously set out the main areas in which we considered Brexit was likely to impact the Group. We reaffirm and update our assessment of these below:

1) ***Impact on exchange rates***. The Group buys a significant proportion of its goods in US dollars; between $250m and $300m a year. The weaker pound since the Brexit vote has increased our cost of sales by a cumulative circa £40m by the end of FY18 compared to FY16. By the end of FY18 over half of the gross headwind had been mitigated through supplier negotiations, operational efficiencies and pricing. At current exchange rates we do not anticipate any further

FX headwind. At our preliminary results in May 2018 we explained that we anticipated the remainder of FX mitigation to arise from an improved pound/US dollar exchange rate. We maintain this guidance, albeit we note that there is no certainty over the timing of that recovery. We also note that a further weakening in the value of the pound, for example in a "no deal Brexit" scenario could further increase our cost of sales.

2) ***Consumer confidence and spending***. 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. Halfords has strong positions in fragmented Motoring and Cycling markets, and a service-led offer that differentiates us from our competitors, physical and online. However, the Cycling category, particularly, is discretionary and is not immune to a slowdown in consumer spending. Set against this, much of our Motoring sales are in needs-based categories that are more resilient to macro-economic cycles.

3) ***Changes to import tariffs***. In the technical papers published by the UK Government in preparation for a "no deal" Brexit scenario, import tariffs with non-EU countries are expected to remain unchanged. Only a very small proportion of the Group's purchases are from EU countries; the vast majority of imports are from non-EU countries.

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 40 of the 2018 Annual Report and Accounts. These include:

- Economic risks; including market risks
- Business strategy risks
- Competitive risks
- Compliance
- Supply chain disruption
- Product and service quality
- Information technology systems and infrastructure
- Dependence on key management personnel

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

Loraine Woodhouse
Chief Financial Officer, November 2018

Halfords Group plc's LEI code is 54930086FKBWWJIOB179

Glossary of Alternative Performance Measures

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures ("APMs"), previously termed as 'Non GAAP measures'. APMs should be considered in addition to IFRS measurements, of which some are shown on Page 1. The Directors believe that these APMs assist in providing useful information on the underlying performance of the Group, enhance the comparability of information between reporting periods, and are used internally by the Directors to measure the Group's performance.

The key APMs that the Group focuses on are as follows:

1. Like-for-like ("LFL") sales represent revenues from stores, centres and websites that have been trading for at least a year (but excluding prior year sales of stores and centres closed during the year) at constant foreign exchange rates.
2. Underlying EBIT is results from operating activities before non-recurring items. Underlying EBITDA further removes Depreciation and Amortisation.
3. Underlying Profit Before Tax is Profit before income tax and non-recurring items as shown in the Group Income Statement.
4. Underlying Earnings Per Share is Profit after income tax before non-recurring items as shown in the Group Income Statement, divided by the number of shares in issue.
5. Net Debt is current and non-current borrowings less cash and cash equivalents, both in-hand and at bank, as shown in the Consolidated Statement of Financial Position.
6. Net Debt to Underlying EBITDA ratio is represented by the ratio of Net Debt to Underlying EBITDA (both of which are defined above).
7. Adjusted Operating Cash Flow is defined as EBITDA plus share-based payment transactions and loss on disposal of property, plant and equipment, less working capital movements and movements in provisions, as reconciled below:

	H1 FY19 **£m**	**H1 FY18** **£m**
Underlying EBITDA	49.8	54.9
Non-recurring operating expenses	(2.3)	(0.5)
EBITDA	**47.5**	**54.4**
Share-based payment transactions	1.0	(0.4)
Loss on disposal of property, plant & equipment	2.2	0.1
Working capital movements	7.2	3.6
Provisions movement & other	0.6	-
Adjusted Operating Cash Flow	**58.5**	**57.7**

8. Free Cash Flow is defined as Adjusted Operating Cash Flow (as defined above) less capital expenditure, net finance costs, taxation, exchange movements and arrangement fees on loans; as reconciled below:

	H1 FY19 **£m**	**H1 FY18** **£m**
Adjusted Operating Cash Flow	58.5	57.7
Capital expenditure	(13.9)	(14.8)
Net finance costs	(1.3)	(0.8)
Taxation	(6.3)	(7.9)
Exchange movements	(2.3)	(2.3)
Arrangement fees on loans	(0.5)	(0.8)
Free Cash Flow	**34.2**	**31.1**

Halfords Group plc

Condensed consolidated income statement

For the 26 weeks to 28 September 2018

	Notes	**26 weeks to 28 September 2018 Unaudited £m**	26 weeks to 29 September 2017 Unaudited £m	52 weeks to 30 March 2018 £m
Revenue	7	**599.9**	588.7	1,135.1
Cost of sales		**(303.6)**	(302.4)	(564.9)
Gross profit		**296.3**	286.3	570.2
Operating expenses		**(264.3)**	(248.0)	(495.6)
Operating profit before non-recurring items		**32.0**	38.3	74.6
Non-recurring operating expenditure	9	**(2.3)**	(0.5)	(4.8)
Results from operating activities		**29.7**	37.8	69.8
Finance costs	10	**(1.6)**	(1.3)	(2.8)
Finance income	10	**0.1**	0.1	0.1
Net finance costs		**(1.5)**	(1.2)	(2.7)
Profit before tax and non-recurring items		**30.5**	36.8	71.6
Non-recurring operating expenditure	9	**(2.3)**	(0.5)	(4.8)
Non-recurring finance cost	9	**-**	0.3	0.3
Profit before tax		**28.2**	36.6	67.1
Tax on recurring items	11	**(6.1)**	(7.4)	(13.2)
Tax on non-recurring items	9	**0.4**	-	0.8
Profit for the period attributable to equity shareholders		**22.5**	29.2	54.7
Earnings per share				
Basic earnings per share	14	11.4p	14.7p	27.8p
Diluted earnings per share	14	11.3p	14.6p	27.5p
Basic underlying earnings per share	14	12.4p	14.8p	29.6p
Diluted underlying earnings per share	14	12.2p	14.7p	29.4p

A final dividend of 12.03 pence per share for the 52 weeks to 30 March 2018 (2017: 11.68 pence per share) was paid on 31 August 2018. The directors have approved an interim dividend of 6.18 pence per share in respect of the 26 weeks to 28 September 2018 (2017: 6.00 pence per share).

The notes on pages 20 to 31 are an integral part of these condensed consolidated interim financial statements.

Halfords Group plc

Condensed consolidated statement of comprehensive income

For the 26 weeks to 28 September 2018

	26 weeks to 28 September 2018 Unaudited £m	26 weeks to 29 September 2017 Unaudited £m	52 weeks to 30 March 2018 £m
Profit for the period	**22.5**	29.2	54.7
Other comprehensive income			
Cash flow hedges:			
Fair value changes in the period	**8.8**	(7.6)	(11.0)
Transfers to inventory	**-**	(1.0)	-
Transfers to net profit:			
Cost of sales	**-**	2.3	1.3
Tax on other comprehensive income	**-**	(1.4)	0.2
Other comprehensive income for the period, net of tax	**8.8**	(7.7)	(9.5)
Total comprehensive income for the period attributable to equity shareholders	**31.3**	21.5	45.2

The notes on pages 20 to 31 are an integral part of these condensed consolidated interim financial statements.

Halfords Group plc

Condensed consolidated statement of financial position

As at 28 September 2018

	Notes	**As at 28 September 2018 Unaudited £m**	As at 29 September 2017 Unaudited £m	As at 30 March 2018 £m
Assets				
Non-current assets				
Intangible assets	15	**391.7**	394.5	393.9
Property, plant and equipment	15	**99.9**	102.5	101.3
Investments	16	**8.1**	8.1	8.1
Total non-current assets		**499.7**	505.1	503.3
Current assets				
Inventories		**205.0**	206.0	195.5
Trade and other receivables		**58.4**	57.2	56.0
Derivative financial instruments		**4.8**	1.0	0.3
Cash and cash equivalents	17	**18.5**	11.4	27.0
Total current assets		**286.7**	275.6	278.8
Total assets		**786.4**	780.7	782.1
Liabilities				
Current liabilities				
Borrowings	17	**(17.3)**	(14.8)	(20.8)
Derivative financial instruments		**(0.3)**	(5.9)	(5.4)
Trade and other payables		**(209.4)**	(214.2)	(187.0)
Current tax liabilities		**(3.1)**	(8.9)	(3.3)
Provisions		**(13.5)**	(12.2)	(11.9)
Total current liabilities		**(243.6)**	(256.0)	(228.4)
Net current assets		**43.1**	19.6	50.4
Non-current liabilities				
Borrowings	17	**(78.4)**	(81.4)	(94.0)
Trade and other payables		**(31.3)**	(31.3)	(31.2)
Deferred tax liability		**(3.3)**	(1.5)	(2.7)
Provisions		**(4.3)**	(4.8)	(3.9)
Total non-current liabilities		**(117.3)**	(119.0)	(131.8)
Total liabilities		**(360.9)**	(375.0)	(360.2)
Net assets		**425.5**	405.7	421.9
Shareholders' equity				
Share capital	18	**2.0**	2.0	2.0
Share premium account	18	**151.0**	151.0	151.0
Investment in own shares		**(9.1)**	(9.4)	(9.4)
Other reserves		**3.9**	(7.1)	(2.9)
Retained earnings		**277.7**	269.2	281.2
Total equity attributable to equity holders of the Company		**425.5**	405.7	421.9

The notes on pages 20 to 31 are an integral part of these condensed consolidated interim financial statements.

Halfords Group plc

Condensed consolidated statement of changes in equity

For the 26 weeks to 28 September 2018

For the period ended 28 September 2018 (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 30 March 2018	**2.0**	**151.0**	**(9.4)**	**0.3**	**(3.2)**	**281.2**	**421.9**
Adjustment on initial application of IFRS 15 (see note 4)	-	-	-	-	-	(3.3)	**(3.3)**
Adjusted balance at 30 March 2018	**2.0**	**151.0**	**(9.4)**	**0.3**	**(3.2)**	**277.9**	**418.6**
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	22.5	**22.5**
Other comprehensive income							
Cash flow hedges:							
Fair value changes in the period	-	-	-	-	8.8	-	**8.8**
Total other comprehensive income for the period net of tax	-	-	-	-	8.8	-	**8.8**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	8.8	22.5	**31.3**
Hedging gains and losses and costs of hedging transferred to the cost of inventory	**-**	**-**	**-**	**-**	(2.0)	-	**(2.0)**
Transactions with owners							
Share options exercised	-	-	0.3	-	-	-	**0.3**
Share-based payment transactions	-	-	-	-	-	1.0	**1.0**
Dividends to equity holders	-	-	-	-	-	(23.7)	**(23.7)**
Total transactions with owners	-	-	0.3	-	-	(22.7)	**(22.4)**
Balance at 28 September 2018	**2.0**	**151.0**	**(9.1)**	**0.3**	**3.6**	**277.7**	**425.5**

The notes on pages 20 to 31 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated statement of changes in equity (continued)

For the 26 weeks to 28 September 2018

For the period ended 29 September 2017 (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 2017	**2.0**	**151.0**	**(9.5)**	**0.3**	**0.3**	**263.4**	**407.5**
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	29.2	**29.2**
Other comprehensive income							
Cash flow hedges:							
Fair value changes in the period	-	-	-	-	(7.6)	-	**(7.6)**
Transfers to inventory	-	-	-	-	(1.0)	-	**(1.0)**
Transfers to net profit:							
Cost of sales	-	-	-	-	2.3	-	**2.3**
Income tax on other comprehensive income	-	-	-	-	(1.4)	-	**(1.4)**
Total other comprehensive income for the period net of tax	-	-	-	-	(7.7)	-	**(7.7)**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	(7.7)	29.2	**21.5**
Transactions with owners							
Share options exercised	-	-	0.1	-	-	-	**0.1**
Share-based payment transactions	-	-	-	-	-	(0.4)	**(0.4)**
Dividends to equity holders	-	-	-	-	-	(23.0)	**(23.0)**
Total transactions with owners	-	-	0.1	-	-	(23.4)	**(23.3)**
Balance at 29 September 2017	**2.0**	**151.0**	**(9.4)**	**0.3**	**(7.4)**	**269.2**	**405.7**

The notes on pages 20 to 31 are an integral part of these condensed consolidated interim financial statements.

Halfords Group plc

Condensed consolidated statement of cash flows

For the 26 weeks to 28 September 2018

	Notes	**26 weeks to 28 September 2018 Unaudited £m**	26 weeks to 29 September 2017 Unaudited £m	52 weeks to 30 March 2018 £m
Cash flows from operating activities				
Profit after tax for the period before non-recurring items		**24.4**	29.4	58.4
Non-recurring items	9	**(1.9)**	(0.2)	(3.7)
Profit after tax for the period		**22.5**	29.2	54.7
Depreciation and impairment - property, plant and equipment		**11.6**	10.5	24.0
Amortisation - intangible assets		**6.3**	6.1	10.9
Net finance costs		**1.5**	1.2	2.7
Loss on disposal of property, plant and equipment		**2.2**	0.1	4.1
Equity-settled share based payment transactions		**1.0**	(0.4)	0.4
Exchange movement		**(2.3)**	(2.3)	1.9
Income tax expense		**5.7**	7.4	12.4
Increase in inventories		**(7.7)**	(14.9)	(4.4)
(Increase)/decrease in trade and other receivables		**(2.4)**	1.2	2.4
Increase/(decrease) in trade and other payables		**17.3**	17.3	(10.6)
Increase/(decrease) in provisions		**0.3**	(0.2)	(1.4)
Finance income received		**0.1**	0.1	0.1
Finance costs paid		**(1.4)**	(0.9)	(2.0)
Corporation tax paid		**(6.3)**	(7.9)	(16.1)
Net cash from operating activities		**48.4**	46.5	79.1
Cash flows from investing activities				
Acquisition of subsidiary, net of cash acquired		**-**	(5.1)	(5.1)
Purchase of investment		**(0.5)**	(2.0)	(3.5)
Purchase of intangible assets		**(4.0)**	(10.9)	(18.0)
Purchase of property, plant and equipment		**(9.9)**	(3.9)	(19.0)
Net cash used in investing activities		**(14.4)**	(21.9)	(45.6)
Cash flows from financing activities				
Net proceeds from exercise of share options		**0.3**	0.1	0.1
Proceeds from loans, net of transaction costs		**445.7**	196.2	415.2
Repayment of borrowings		**(461.0)**	(198.0)	(404.0)
Payment of finance lease liabilities		**(0.3)**	(0.4)	(0.6)
Dividends paid	13	**(23.7)**	(23.0)	(34.8)
Net cash used in financing activities		**(39.0)**	(25.1)	(24.1)
Net increase / (decrease) in cash and bank overdrafts	17	**(5.0)**	(0.5)	9.4
Cash and cash equivalents at the beginning of the period	17	**7.5**	(1.9)	(1.9)
Cash and cash equivalents at the end of the period	17	**2.5**	(2.4)	7.5

The notes on pages 20 to 31 are an integral part of these condensed consolidated interim financial statements.

Notes to the condensed consolidated interim financial statements

For the 26 weeks to 28 September 2018

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 8 November 2018.

2. Statement of compliance

These condensed consolidated interim financial statements for the 26 weeks to 28 September 2018 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 2018 Annual Report and Accounts, which have been prepared in accordance with IFRSs as adopted by the European Union.

This is the first set of the Group's financial statements where IFRS 15 has been applied. Changes to significant accounting policies are described in Note 4.

The comparative figures for the financial period ended 30 March 2018 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 40 to 44 of our Annual Report and Accounts for the 52 weeks to 30 March 2018, which are available on our website www.halfordscompany.com.

4. Significant accounting policies

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.

Except for the first time adoption of IFRS 15 detailed below, 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 2018 Annual Reports and Accounts, which are published on the Halfords Group website, *www.halfordscompany.com.* The changes to accounting policies outlined below are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 29 March 2019.

Other than IFRS 15, there are no new or amended standards effective in the period which has had a material impact on the interim consolidated financial information.

IFRS 15 'Revenue from contracts with customers'

The Group has initially adopted IFRS 15 'Revenue from contracts with customers' from 31 March 2018. IFRS 15 supersedes IAS 11 'Construction contracts', IAS 18 'Revenue' and related interpretations. The new standard establishes a five-step model to account for revenue, which is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The majority of the Group's sales are for standalone products made direct to customers at standard prices either in-store or online, so the majority of revenue streams are unaffected by the new standard.

The Group has adopted IFRS 15 using the cumulative effect method of adoption, with no restatement of comparatives and brought forward adjustments being made through retained earnings at the date of initial application, 31 March 2018. The key considerations along with the impact of adopting the new standard are shown below.

(a) Principal versus agent considerations

In the vast majority of cases, the Group was considered the principal in sales transactions under IFRS 15 and therefore recognised the full value of the sale within revenue, rather than netting off the costs in revenue, in line with the previous treatment under IAS 18. However, under IFRS 15 certain revenue streams within the Group were reclassified to reflect the nature of the control of the goods before they are transferred to customers and therefore showing revenue net of costs, resulting in decreased revenue and cost of sales of £0.9m in the 26 weeks to 28 September 2018 with £nil impact on profit.

(b) Sales return provision

Under IAS 18 the Group held a sales return provision on the statement of financial position to provide for expected levels of product returns at stock margin. IFRS 15 requires a presentational change where the amount of revenue relating to expected returns is recognised on the statement of financial position within provisions, with a corresponding adjustment to revenue, and the cost value of goods expected to be returned was included within inventories, with a corresponding adjustment to cost of sales. The revenue recognition policy on returns has been updated to illustrate this new classification. The net adjustment is a £1.8m increase to the value of inventories and provisions. Total Group inventory at 28 September 2018 was £205.0m.

(c) Product guarantees

Revenue recognition under IFRS 15 requires identification of separate performance obligations, a change to the previous approach under IAS 18. The main impact on adoption was in respect of the timing of revenue recognition of product guarantees, principally for certain motoring products. Under IFRS 15, the warranty element of a product is considered a separate performance obligation, and so under the new standard a portion of the sale price is allocated to providing a warranty. This is recorded as a liability on the statement of financial position and released to revenue over the period of the warranty. The net adjustment is a £3.3m increase to liabilities, classified within trade and other payables, with the corresponding adjustment through retained earnings. The split between current and non-current trade and other payables is shown in the summary table below.

A summary of the impact on the Group income statement for the 26 weeks to 28 September 2018 is shown below:

For the 26 weeks to 28 September 2018	Adjustment as described above	Balance pre adjustments £m	IFRS 15 adjustments £m	**As reported £m**
Revenue	(a)	600.8	(0.9)	**599.9**
Cost of sales	(a)	(304.5)	0.9	**(303.6)**
Profit for the period attributable to equity shareholders		22.5	-	**22.5**

A summary of the impact on the Group statement of financial position as at 28 September 2018 is shown below:

As at 28 September 2018	Adjustment as described above	Balance pre adjustments £m	IFRS 15 adjustments £m	**As reported £m**
Current assets				
Inventories	(b)	203.2	1.8	**205.0**
Current liabilities				
Trade and other payables	(c)	(208.1)	(1.3)	**(209.4)**
Provisions	(b)	(11.7)	(1.8)	**(13.5)**
Non-current liabilities				
Trade and other payables	(c)	(29.3)	(2.0)	**(31.3)**
Net assets		428.8	(3.3)	**425.5**
Retained earnings	(c)	281.0	(3.3)	**277.7**

New accounting standards not yet adopted

IFRS 16 'Leases' will be effective for the Group from 30 March 2019. Under IFRS 16 the lessee will recognise a right-of-use asset and a lease liability for all leases currently accounted for as operating leases. There are exemptions available for low value assets and assets which are classed as short term (<12 months).

After the initial transitional adjustment the Group will depreciate the right-of-use asset on a straight line basis over the remaining lease term and recognise an interest expense in the income statement representing the unwinding of the lease liability. The Group expects this to have a significant impact on the consolidated income statement and consolidated statement of financial position. There will be no quantitative impact on the cash flow statement but the presentation will change, resulting in higher cash inflows from operating activities and cash outflows from financing activities.

The IFRS 16 implementation project is on track to ensure the Group will be fully compliant. Significant work is being done on collecting and validating the relevant data, agreeing the discount rate methodology, implementation of IT systems and getting relevant accounting policies approved.

The impact of the standard on the Group is currently being considered given the complexities and judgments contained within it. Therefore, it is not yet practicable to provide a full estimate of its effect on the financial statements.

5. Estimates and judgements

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 30 March 2018 and the 26 weeks ended 29 September 2017.

6. Operating segments

The Group has two reportable segments, Retail and Car Servicing, which are the Group's strategic business units. Car Servicing became a reporting segment of the Group as a result of the acquisition of Nationwide Autocentres on 17 February 2010. The strategic business units offer different products and services, and are managed separately because they require different operational, technological and marketing strategies.

The operations of the Retail reporting segment comprise the retailing of automotive, leisure and cycling products through retail stores and online platforms. 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 £m	Car Servicing £m	26 weeks to 28 September 2018 Total Unaudited £m
Revenue	**519.8**	**80.1**	**599.9**
Segment result before non-recurring items	**30.8**	**2.3**	**33.1**
Non-recurring items	**(2.3)**	**-**	**(2.3)**
Segment result	**28.5**	**2.3**	**30.8**
Unallocated expenses[1]			**(1.1)**
Operating profit			**29.7**
Net financing expense			**(1.5)**
Profit before tax			**28.2**
Taxation			**(5.7)**
Profit after tax			**22.5**

Income statement	Retail £m	Car Servicing £m	26 weeks to 29 September 2017 Total Unaudited £m
Revenue	511.0	77.7	588.7
Segment result before non-recurring items	37.9	1.5	39.4
Non-recurring items	(0.5)	-	(0.5)
Segment result	37.4	1.5	38.9
Unallocated expenses[1]			(1.1)
Operating profit			37.8
Net financing expense			(1.2)
Profit before tax			36.6
Taxation			(7.4)
Profit after tax			29.2

[1] Unallocated expenses have been disclosed to reflect the format of the internal management reports reviewed by the Chief Operating Decision maker and include an amortisation charge of £1.1m in respect of assets acquired through business combinations (2017: £1.1m).

Income statement	Retail £m	Car Servicing £m	52 weeks to 30 March 2018 Total £m
Revenue	977.2	157.9	1,135.1
Segment result before non-recurring items	72.6	4.1	76.7
Non-recurring items	(4.8)	-	(4.8)
Segment result	67.8	4.1	71.9
Unallocated expenses[1]			(2.1)
Operating profit			69.8
Net financing expense			(2.7)
Profit before tax			67.1
Taxation			(12.4)
Profit after tax			54.7

[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 £2.1m in respect of assets acquired through business combinations (2017: £1.9m).

Other segment items:	**Retail £m**	**Car Servicing £m**	**26 weeks to 28 September 2018 Total Unaudited £m**
Capital expenditure	**14.3**	**2.2**	**16.5**
Depreciation expense	**9.2**	**2.4**	**11.6**
Amortisation expense	**5.8**	**0.5**	**6.3**

Other segment items:	Retail £m	Car Servicing £m	26 weeks to 29 September 2017 Total Unaudited £m
Capital expenditure	14.4	2.4	16.8
Depreciation expense	8.3	2.2	10.5
Amortisation expense	4.7	0.3	5.0

Other segment items:	Retail £m	Car Servicing £m	52 weeks to 30 March 2018 Total £m
Capital expenditure	30.3	7.0	37.3
Depreciation expense	18.1	5.9	24.0
Amortisation expense	8.3	0.5	8.8

There have been no significant transactions between segments in the 26 weeks ended 28 September 2018 (2017: £nil).

7. Revenue

A. Revenue streams and location

The Group's operations and main revenue streams are those described in the last annual financial statements. The Group's revenue is derived from contracts with customers.

The nature and effect of initially applying IFRS 15 on the Group's interim financial statements are disclosed in Note 4.

Revenue split by the Group's operating segments are shown in Note 6.

All revenue is recognised in the United Kingdom and Republic of Ireland.

B. Seasonality of operations

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.

8. Inventories

Following the adoption of IFRS 15, inventories at 28 September 2018 include a right to recover returned goods amounting to £1.8m (see Note 4). These are measured by reference to the former carrying amount of the sold inventories.

9. Non-recurring items

	26 weeks to 28 September 2018 Unaudited £m	26 weeks to 29 September 2017 Unaudited £m	52 weeks to 30 March 2018 £m
Non-recurring operating expenses:			
Organisational restructure (a)	**0.2**	-	4.3
Operational review of Autocentres (b)	**-**	0.5	0.6
Acquisition and investment related fees (c)	**-**	-	0.2
Operating lease obligation (d)	**-**	-	(0.3)
Group-wide strategic review (e)	**2.1**	-	-
Non-recurring operating expense	**2.3**	0.5	4.8
Acquisition related interest credit (f)	**-**	(0.3)	(0.3)
Non-recurring items before tax	**2.3**	0.2	4.5
Tax on non-recurring items (g)	**(0.4)**	-	(0.8)
Non-recurring expense after tax	**1.9**	0.2	3.7

(a) In the period termination costs of £0.2m were incurred as part of the strategic review. In the prior year, organisational restructuring was undertaken across Autocentres and Retail, to better align resource to the requirements of the business.
(b) Autocentres operational review costs in the prior year relate to the review of the operating model of the Autocentres business.
(c) In FY18 further acquisition and investment related fees were incurred relating to the investment in Tyres On The Drive.
(d) The operating lease obligation in FY18 related to a provision release of £0.3m from amounts originally provided for the Group's guarantor obligations arising from historically held lease guarantees.
(e) Costs of £2.1m were incurred in the period in relation to the costs of preparing the new Group strategy, which predominantly relate to external consultant costs.
(f) There was a £0.3m credit in the prior year from the release of the remaining portion of interest charge due on the contingent consideration for Tredz, which was paid in May 2017.
(g) The tax credit in both HY19 and FY18 represents a tax rate of 19.0% applied to non-recurring items.

10. Net Finance Costs

	26 weeks to 28 September 2018 Unaudited £m	26 weeks to 29 September 2017 Unaudited £m	52 weeks to 30 March 2018 £m
Finance costs:			
Bank borrowings	**(0.8)**	(0.6)	(1.3)
Amortisation of issue costs on loans	**(0.2)**	(0.3)	(0.5)
Commitment and guarantee fees	**(0.3)**	(0.3)	(0.5)
Acquisition related interest charges	**-**	0.3	0.3
Interest payable on finance leases	**(0.3)**	(0.4)	(0.8)
Finance costs	**(1.6)**	(1.3)	(2.8)
Finance income:			
Bank and similar interest	**0.1**	0.1	0.1
Income from forward foreign exchange contracts	**-**	-	-
Finance income	**0.1**	0.1	0.1
Net finance costs	**(1.5)**	(1.2)	(2.7)

11. 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 28 September 2018 is 20.2% (2017: 20.3%). The effective tax rate is higher than the UK corporation tax rate principally due to the non-deductibility of depreciation charged on capital expenditure.

12. Financial Instruments and Related Disclosures

Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

28 September 2018	Fair Value – hedging instruments £m	FVOCI – equity instruments £m	Amortised cost £m	Other financial liabilities £m	Total carrying amount £m
Financial assets measured at fair value					
Forward exchange contracts used for hedging	**4.8**	**-**	**-**	**-**	**4.8**
Equity investments	**-**	**8.1**	**-**	**-**	**8.1**
	4.8	**8.1**	**-**	**-**	**12.9**
Financial assets not measured at fair value					
Trade and other receivables*	**-**	**-**	**35.6**	**-**	**35.6**
Cash and cash equivalents	**-**	**-**	**18.5**	**-**	**18.5**
	-	**-**	**54.1**	**-**	**54.1**
Financial liabilities measured at fair value					
Forward exchange contracts used for hedging	**(0.3)**	**-**	**-**	**-**	**(0.3)**
	(0.3)	**-**	**-**	**-**	**(0.3)**
Financial liabilities not measured at fair value					
Borrowings	**-**	**-**	**-**	**(84.5)**	**(84.5)**
Current tax liabilities	**-**	**-**	**-**	**(3.1)**	**(3.1)**
Finance lease liabilities	**-**	**-**	**-**	**(11.2)**	**(11.2)**
Trade and other payables**	**-**	**-**	**-**	**(109.6)**	**(109.6)**
	-	**-**	**-**	**(208.4)**	**(208.4)**

* Prepayments and accrued income of £22.8m are not included as a financial asset.
** Other taxation and social security payables of £14.1m, deferred income of £29.2m, accruals of £41.0m and other payables of £14.2m are not included as a financial liability.

29 September 2017	Fair Value – hedging instruments £m	FVOCI – equity instruments £m	Amortised cost £m	Other financial liabilities £m	Total carrying amount £m
Financial assets measured at fair value					
Forward exchange contracts used for hedging	1.0	-	-	-	1.0
Equity investments	-	8.1	-	-	8.1
	1.0	8.1	-	-	9.1
Financial assets not measured at fair value					
Trade and other receivables*	-	-	32.9	-	32.9
Cash and cash equivalents	-	-	11.4	-	11.4
	-	-	44.3	-	44.3
Financial liabilities measured at fair value					
Forward exchange contracts used for hedging	(5.9)	-	-	-	(5.9)
	(5.9)	-	-	-	(5.9)
Financial liabilities not measured at fair value					
Borrowings	-	-	-	(84.6)	(84.6)
Current tax liabilities	-	-	-	(8.9)	(8.9)
Finance lease liabilities	-	-	-	(11.6)	(11.6)
Trade and other payables**	-	-	-	(106.4)	(106.4)
	-	-	-	(211.5)	(211.5)

* Prepayments and accrued income of £24.3m are not included as a financial asset.
** Other taxation and social security payables of £20.3m, deferred income of £31.3m, accruals of £41.4m and other payables of £14.8m are not included as a financial liability.

Measurement of fair values

The fair values of each class of financial assets and liabilities is the carrying amount, based on the following assumptions:

Trade receivables, trade payables and finance lease obligations, short-term deposits and borrowings	The fair value approximates to the carrying amount because of the short maturity of these instruments, using an interest rate of 7.1% for long-term finance lease obligations.
Long-term borrowings	The fair value of bank loans and other loans approximates to the carrying value reported in the statement of financial position as the majority are floating rate where payments are reset to market rates at intervals of less than one year.
Forward currency contracts	The fair value is determined using the market forward rates at the reporting date and the outright contract rate.

Financial instruments carried at fair value are required to be measured by reference to the following levels:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments carried at fair value have been measured by a Level 2 valuation method, except for the equity investments, as shown in Note 16, which is valued at Level 3. There have been no changes to classifications in the current or prior period.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The Group does not have any individually significant customers and so no significant concentration of credit risk. The majority of the Group's sales are paid in cash at point of sale which further limits the Group's exposure. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Board of Directors has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment terms and conditions are offered. The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of one month for customers. All trade receivables are based in the United Kingdom.

The Group has taken into account the historic credit losses incurred on trade receivables and adjusted it for forward looking estimates. The movement in the allowance for impairment in respect of trade receivables during the period was £0.1m.

13. Dividends

During the period the Group paid a final dividend of 12.03 pence per share in respect of the 52 weeks to 30 March 2018 (2017: 11.68 pence per share), which absorbed £23.7m of shareholders' funds (2017: £23.0m).

The directors have approved an interim dividend of 6.18 pence per share for the 26 weeks to 28 September 2018 (2017: 6.00 pence per share), which is expected to be £12.2m (2017: £11.8m) and will be paid on 18 January 2019 to those shareholders on the share register at the close of business on 14 December 2018.

14. 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 28 September 2018.

	26 weeks to 28 September 2018 Unaudited Number m	26 weeks to 29 September 2017 Unaudited Number m	52 weeks to 30 March 2018 Number M
Weighted average number of shares in issue	**199.1**	199.1	199.1
Less: shares held by the Employee Benefit Trust	**(1.9)**	(2.0)	(2.1)
Weighted average number of shares for calculating basic earnings per share	**197.2**	197.1	197.0
Weighted average number of dilutive share options	**2.1**	1.7	1.6
Total number of shares for calculating diluted earnings per share	**199.3**	198.8	198.6

	26 weeks to 28 September 2018 Unaudited £m	26 weeks to 29 September 2017 Unaudited £m	52 weeks to 30 March 2018 £m
Basic earnings attributable to equity shareholders	**22.5**	29.2	54.7
Non-recurring items:			
Operating expenses	**2.3**	0.5	4.8
Finance costs	**-**	(0.3)	(0.3)
Tax charge on non-recurring items	**(0.4)**	-	(0.8)
Underlying earnings before non-recurring items	**24.4**	29.4	58.4
Basic earnings per share	**11.4p**	14.7p	27.8p
Diluted earnings per share	**11.3p**	14.6p	27.5p
Basic underlying earnings per share	**12.4p**	14.8p	29.6p
Diluted underlying earnings per share	**12.2p**	14.7p	29.4p

The alternative measure of earnings per share is provided because it reflects the Group's underlying performance by excluding the effect of non-recurring items.

15. Capital Expenditure – Tangible and Intangible Assets

	Unaudited
	£m
Net book value at 31 March 2017	496.9
Additions	16.8
Disposals	(1.4)
Depreciation, amortisation and impairment	(15.3)
Net book value at 29 September 2017	497.0

	Unaudited
	£m
Net book value at 30 March 2018	**495.2**
Additions	**16.5**
Disposals	**(11.1)**
Depreciation, amortisation and impairment	**(9.0)**
Net book value at 28 September 2018	**491.6**

16. Investments

	Unaudited
	£m
Investments at 30 March 2018 and 28 September 2018	**8.1**

The Group holds a minority stake in an automotive business, Tyres On The Drive.

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

	At 30 March 2018	Cash flow	Other non-cash changes	At 28 September 2018
		Unaudited	Unaudited	Unaudited
	£m	£m	£m	£m
Cash in hand and at bank	7.5	(5.0)	-	2.5
Debt due after one year	(83.7)	15.3	(0.1)	(68.5)
Total net debt excluding finance leases	(76.2)	10.3	(0.1)	(66.0)
Finance leases due within one year	(1.3)	0.3	(0.3)	(1.3)
Finance leases due after one year	(10.3)	-	0.4	(9.9)
Total finance leases	(11.6)	0.3	0.1	(11.2)
Total net debt	(87.8)	10.6	-	(77.2)

Non-cash changes comprise finance costs in relation to the amortisation of capitalised debt issue costs of £0.1m, and movements in finance leases of £0.1m. Cash and cash equivalents at the period end consist of £12.4m of liquid assets, £6.1m of cash held in Trust and £16.0m of bank overdrafts.

	At 31 March 2017 Unaudited £m	Cash flow Unaudited £m	Other non-cash changes Unaudited £m	**At 29 September 2017 Unaudited £m**
Cash in hand and at bank	(1.9)	(0.5)	-	**(2.4)**
Debt due after one year	(72.0)	1.8	(0.3)	**(70.5)**
Total net debt excluding finance leases	(73.9)	1.3	(0.3)	**(72.9)**
Finance leases due within one year	(1.4)	0.4	(0.1)	**(1.1)**
Finance leases due after one year	(10.6)	-	(0.2)	**(10.8)**
Total finance leases	(12.0)	0.4	(0.3)	**(11.9)**
Total net debt	(85.9)	1.7	(0.6)	**(84.8)**

18. Share Capital

	Number of shares m	Share capital £m	Share premium account £m
As at 31 March 2017 and 29 September 2017	199.1	2.0	151.0

	Number of shares m	Share capital £m	Share premium account £m
As at 30 March 2018 and 28 September 2018	199.1	2.0	151.0

During the 26 weeks to 28 September 2018 and 29 September 2017, there were no movements in company share capital. The shares held in treasury are used to meet options under the Company's share options schemes.

19. 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 28 September 2018 amounted to £3.7m.

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.

20. Related Party Transactions

There were no (2017: nil) related party transactions during the 26 weeks to 28 September 2018.

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

Graham Stapleton, Chief Executive Officer

8 November 2018

Independent review report to Halfords Group plc

For the 26 weeks to 28 September 2018

Conclusion
We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 28 September 2018 which comprises 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.

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 six months ended 28 September 2018 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

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. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) 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.

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 International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 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.

The purpose of our review work and to whom we owe our responsibilities
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 DTR of 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.

Michael Froom
for and on behalf of KPMG LLP
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

8 November 2018