Chief Executive's Statement

We are pleased with the sales performance this year, with growth across all areas of our business and market share gains in both Motoring and Cycling.

It is now 18 months since we launched the *Moving Up A Gear* strategy, aimed at modernising the business and consolidating our position as a specialist, service-led retailer in order to drive sustainable long-term growth. In this report we set out the strong progress in the year, alongside good sales performance and continued market share gains.

Strategic Progress

Our goal is to be customers' first choice for their life on the move and we will achieve this by being committed to Making Customers' Journeys Better. Our Group strategy has five key pillars:

Putting Customers in the Driving Seat — investing in customer data and insight capabilities to maximise the lifetime customer value

Service in Our DNA — embedding the focus on customer service

Building on Our Uniqueness — exclusive products, relevant innovation and unique partnerships

Better Shopping Experience — a seamless customer experience, online as well as in store

Fit for the Future Infrastructure — moving from fixing the basics to improving efficiency and fulfilment

On pages 16 and 17 we have set out a more detailed explanation of the Group strategy, our progress on each of these pillars during FY17 and the key areas of focus for FY18.

Market Update

A full review and update of the markets in which we operate is set out on pages 10 and 11.

Alternative Performance Measures

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures (APMs).

* These APMs are defined within the Key Performance Indicators table on page 18.
** Free Cash Flow is defined on page 40.

Jill McDonald
Chief Executive

> The underlying business performance is strong and we remain confident in the long-term prospects for the Group.

Summary of Group Results

Revenue of £1,095.0m was up 7.2%, with like-for-like ("LFL")* growth of 2.7%. Gross margin of 51.0% was 220 basis points lower than the prior year, predominantly due to the impact of the movement in foreign currency exchange rates. Total operating costs before non-recurring items rose by 5.0% reflecting planned investments for the *Moving Up A Gear* strategy and the first-time inclusion of the operating expenditure in respect of the acquired Tredz and Wheelies businesses.

The increase in cost of goods associated with the depreciation in Sterling had an adverse impact of circa £14m (pre-mitigation) which more than accounted for the decline in profit for the year. Underlying EBITDA* was down 5.1% to £108.7m. Underlying EBIT* was £77.1m, which compares with £84.5m in the prior year. Underlying Profit Before Tax* was £75.4m and Underlying Basic Earnings Per Share* was 30.3p, down 7.5% and 8.7% respectively. Profit after tax for the year was £56.4m (FY16: £63.5m).

Cash generation remained strong, with Free Cash Flow** of £37.7m. Net Debt* at the end of the year was up £38.0m at £85.9m, with a Net Debt to Underlying EBITDA ratio* of 0.8:1 versus 0.4:1 in the prior year. The increase is consistent with our previously stated intention to move towards a debt target of 1.0x and reflects our acquisition of Tredz and Wheelies in May 2016 for an initial cash consideration of £18.0m, the £4.1m investment made in Tyres on the Drive Limited ("TOTD") in January 2017 (with a further circa £4m to follow in FY18) and the circa £20m special dividend paid in February 2017.

The Board has recommended a final ordinary dividend of 11.68 pence per share (FY16: 11.34 pence) which, if approved, would take the full-year ordinary dividend to 17.51 pence per share, an increase of 3.0% on the prior year. Including the special dividend of 10 pence per share paid in February 2017, the full-year dividend per share was 27.51 pence, an increase of 61.8% on the prior year. If approved, the final dividend will be paid on 25 August 2017 to shareholders on the register at the close of business on 4 August 2017.

Retail Operational Review

Halfords Retail achieved a strong year of sales performance, with revenue up 8.0% to £938.4m. LFL growth of 3.1% reflected Motoring LFL of 2.0% and Cycling LFL of 5.1%. Our service-related sales grew by 11.1% as we continued to consolidate our specialist, service-led retail proposition. The LFL sales growth is principally attributable to our growing service and services proposition, new products and ranges, better trained and engaged colleagues and investments made to modernise the business as part of the *Moving Up A Gear* strategy.

Within Motoring, Car Maintenance revenues increased by 3.1% on a LFL basis, driven by good growth in sales of car parts and the fitting and sale of bulbs, blades and batteries ("3Bs"). Metal storage and hand tools performed very strongly, particularly the increasingly popular *Halfords Advanced* range to which we added new products in the year. We were disappointed with the 2.8% decline in Car Enhancement LFL revenue, which was driven by the continued decline in the sat nav market. Partially offsetting this was strong growth in dash cams, in-car connectivity equipment and car cleaning products. Excluding sat navs, Car Enhancement LFL was up 3.7% and sat navs now represent only 3% of Group sales. Travel Solutions LFL revenues increased 7.9%, driven by robust growth in roof bars and boxes, cycle carriers and child seats; all of which benefit from our market-leading positions and friendly, highly-trained fitters.

Cycling sales improved by 5.1% on a LFL basis and 18.2% on a total sales basis. We took a significant step forward in consolidating the Group's market-leading position, growing market share on a like for like basis as well as continuing to grow the Cycle Republic chain, which grew over 20% like-for-like in the year. Tredz and Wheelies also performed strongly in the year, with revenue growing over 20%.

The like-for-like growth in Retail was driven by strong performances across each of the sub-categories of bikes, Parts, Accessories and Clothing ("PACs") and repair. PACs sales returned to growth for the first time in two years due to stronger attachment sales, new products and a more disciplined approach to ranging, using our improving customer insight to introduce a "good, better, best" hierarchy. Bike sales were supported by the relaunch of our mainstream, award winning ranges (Carrera and Apollo) as well as the launch of the new, exclusive Wiggins range, and growing demand for electric bikes. Our credentials in kids' bikes were validated by the public accreditation from Netmums during the year, and Boardman won a host of industry awards including the prestigious "BikeBiz" bike brand of the year.

Tredz/Wheelies performed strongly since acquisition and we were also very pleased with the Cycle Republic performance, now trading from 15 shops and online. We now have a unique balance in our offering, able to serve the lifestyle consumers through our Halfords stores and website, the growing commuter population through Cycle Republic and the enthusiast and elite segments through both Tredz and Boardman Elite.

Service-related sales increased by 11.1%, driven in particular by cycle repair and elements of motoring fitting, such as 3B's and roof boxes. Although currently a small part of the mix, our new "2Bs" (bulbs and batteries) fitting for motorbikes and windscreen chip repair for cars were contributors to growth. Our service capability continues to be a key focus for us, with the Gears training programme providing depth and breadth of experience for colleagues, supporting our ability to establish Halfords as a differentiated, service-led specialist retailer.

Online Retail revenue grew by 30.5% in total and 6.3% LFL. 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. This high proportion of click and collect continues to differentiate us from other retailers, as our online business, instead of cannibalising our bricks and mortar operation, drives footfall into our stores, with over 80% of customers wanting advice or fitting service with their purchase.

We enter the new financial year with good momentum. We have published trading performance for the 15 weeks to the end of April 2017, which includes the 11 weeks to the end of the financial year and the first 4 weeks of the new year. We consider this period to be more representative of performance because it includes Easter in both the current year and the comparatives. Revenue for this 15-week period was up 3.9% on a LFL basis, comprising Motoring +0.9% and Cycling +11.1%.

Chief Executive's Statement

Autocentres

Autocentres revenues were up 2.4% and, on a LFL basis, up 0.6%. Online sales were strong, with web booking revenues up 29.1%. Consistent with our strategic priorities of 'Service in Our DNA' and 'putting customers in the driving seat', it has been a year of long-term investment in colleagues and creating an improved offer to customers.

To benefit colleagues, we have introduced a new technician pay grading system this year, to reward both teamwork and training. We also continued to invest in training and development, with 86 apprentices taken on in the year demonstrating our commitment to developing young talent and helping our colleagues learn long-lasting skills. We now have 4 training centres open to develop our MOT and hybrid testers. During the year our colleague turnover reached the lowest that it has been for almost 3 years, reflecting these investments as well as the operational changes we introduced.

To benefit customers, we have introduced Sunday and Bank Holiday opening and are also committed to training one technician in every centre in electric and hybrid car maintenance by April next year. We are well underway on this journey. In addition, 16 centres were refreshed during the year and these refreshes included customer service pods, TV screens, Wi-Fi, coffee and large viewing windows. They resonated well with customers, enhancing the shopping experience.

These operational changes were made for long-term benefit, but have been disruptive in the short-term and despite many positive developments we were dissatisfied with the financial results for the year. Accordingly, we are taking a number of actions including a review of the operating model. We see a presence in the car servicing and repair market as important for the Group in order to have a comprehensive suite of services for the "second life of the car". We also see a good growth opportunity; we currently only have around a 1.5% share of a highly fragmented circa £9bn market. We will report our conclusions in due course.

M&A Activity

During the year we expanded the Group's capabilities in motoring and cycling with two modest, highly complementary investments.

In May 2016 we acquired Tredz and Wheelies for an initial £18.0m, with a further circa £5m to be paid in the first half of FY18. Tredz is a UK-wide online retailer of premium bikes and PACs and Wheelies is the UK's largest provider of bicycle replacement for insurance companies. This acquisition extends our presence in the online market for premium bikes, parts, accessories and clothing, and together with our rollout of Cycle Republic means we now address all major segments of the cycling market.

In January 2017 we entered into an operating agreement, accompanied by the acquisition of a minority stake, with TyresOnTheDrive.com ("TOTD"), a UK mobile tyre fitting business, to develop opportunities to leverage each other's capability and expertise. We see a number of sales and cost synergies as well as the opportunity for Halfords to trial an innovative mobile delivery proposition for motoring services, which fits squarely with our focus on improving our service and convenience credentials.

We continue to investigate similar opportunities to expand our capabilities and strengthen our positions in our core markets.

Financial Targets and Capital Allocation Priorities

We continue to apply our four key financial targets:

- Grow sales faster than the markets in which we operate;
- Hold group EBITDA margin broadly flat over the next few years (excluding the impact of FX);
- Grow the ordinary dividend every year with a dividend coverage of 2 times on average over time (excluding the impact of FX); and
- Net debt target of 1x Underlying EBITDA with a range of up to 1.5x.

In the Chief Financial Officer's review we explain these targets in more detail and appraise our performance against them.

During the year we made progress towards our debt target, moving from 0.4x to 0.8x through consistent application of our clear capital allocation priorities. Central to our capital allocation policy is to maintain a strong and prudent balance sheet, and we will use our debt target as a guide for that. Our priorities for use of cash will continue to 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 and Outlook

We are pleased with the sales performance in the last financial year, with growth across all areas of our business and market share gains in both Motoring and Cycling. Our focus on, and investment in, services was reflected in the significant growth of service-related sales. We are also pleased with the momentum building as we implement our *Moving Up A Gear* strategy. There is demonstrable progress across each of the five pillars of the plan and plenty more to come. Whilst the currency movements have impacted on reported earnings, the underlying business performance was strong.

Our priorities for the financial year we are now in will include further improving and utilising our customer data, consolidating our service and services credentials, continuing to invest in our colleagues, further investment in our online platforms and rolling out our successful new store refresh concept.

We enter a challenging period from a macroeconomic perspective, with uncertainty over consumer spending and Sterling depreciation bringing input cost headwinds. However, we approach this on the front foot and from a position of strength as we have leading positions in fragmented markets and offer a customer driven, service-led proposition that differentiates us from competitors, both physical and online.

Our FX headwind mitigation plans are well developed and gaining traction. We are seeing the benefits of good strategic progress on performance and have not so far observed any noticeable adverse impact of a change in consumer sentiment on our trading. Taking these factors into account we anticipate FY18 profit to be in line with current market expectations.

I would like to thank all colleagues for their fantastic contribution, support and commitment to Halfords. Our customer-centric, service-led strategy has real traction and I have every confidence in the team to drive the *Moving Up A Gear* strategy to the next level so that we continue to deliver further progress across the Group.

Jill McDonald
Chief Executive
24 May 2017

Read more on **Our Strategy** on pages 16 and 17