

## HALFORDS GROUP PLC

### PRELIMINARY RESULTS ANNOUNCEMENT

Halfords Group plc, the UK's leading auto, leisure and cycling products retailer, announces its Preliminary Results for the 52 weeks ended 31 March 2006.

#### Financial Highlights

- Revenue £681.7m up 8.5%, (2005: £628.4m)
- Like-for-like sales up 6.1%
- Operating profit £89.1m (2005: £89.3m)
- Pre-tax profit £77.0m up 3.6% (2005: £74.3m)
- Basic earnings per share 23.6p (2005: 23.7p)
- Net debt, excluding finance leases, down £8.4m to £160.7m
- The Board is recommending a final dividend of 8.75p, making a total of 12.75p per ordinary share, up 6.3%

#### Business Highlights

- Strong growth in cycles and in-car technology products
- 408 stores with 18 new store openings, including 3 relocations
- Mezzanines now in half of the superstores including 100 stores in the supermezzanine format
- The Republic of Ireland store opening plan accelerated and a 3-store trial planned for Central Europe in Spring 2007
- Share buy-back returning up to £50m to shareholders over the next two years, while maintaining a strong financial position to allow continued investment.

#### Commenting on the results, Ian McLeod, Chief Executive, said:

“Halfords has continued to grow sales and cash margin in a challenging trading environment. During the year we have strengthened Halfords market-leading positions in needs-driven car maintenance products and cycling while becoming the destination store for in-car technology. The significant year-on-year growth of in-car technology has generated a change in the sales mix, which has resulted in a 260 basis points dilution in the gross profit percentage. During the nine-week period since the year-end the level of gross profit percentage dilution has reduced significantly, a trend we expect to see continue. During the same period sales have grown by 10.5%, like-for-like sales are up 7.3% and underlying like-for-like sales are encouraging at 3.2%, excluding Easter. The combination of these factors therefore provide us with confidence in our future trading prospects.”

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**Halfords Group plc**

Halfords is the UK's leading auto, leisure and cycling products retailer, with 408 stores and 10,000 employees.

The Group sells 11,000 different product lines ranging from car parts and cycles through to the latest in-car technology, alloy wheels, child seats, roof boxes and the latest outdoor leisure and camping equipment. Halfords' own brands include *Ripspeed*, for car enhancement, and *Bikehut*, for cycles and cycling accessories, including the *Apollo* and *Carrera* brands. Stores offer a "We'll fit it" service for car parts, child seats, satellite navigation and in-car entertainment systems and a "We'll repair it" service for cycles.

In addition to the corporate website, [www.halfordscompany.com](http://www.halfordscompany.com), Halfords operates an online retail website, which can be found at [www.halfords.com](http://www.halfords.com).

Halfords was established in 1892, floated on the London Stock Exchange in June 2004 and is a FTSE 250 company.

**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 which 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 Review

### Introduction

At Halfords we have been acutely aware of the changes in retail dynamics over the past year as consumers become more selective, particularly when it comes to high-ticket discretionary expenditure. Although Halfords is not immune to such economic changes, the historic resilience of the business has again been demonstrated in the financial year to 31 March 2006, which is our 18<sup>th</sup> year of consecutive sales growth.

Revenue for the year to 31 March 2006 was £681.7m (2005: £628.4m), which was 8.5% ahead of the prior year and 6.1% ahead on a like-for-like basis. Pre-tax profit was up 3.6% at £77.0m (2005: £74.3m).

During the year we have continued to benefit from the competitive advantage of our strong market position in each of the key categories in which we operate. In Cycling, we provide one in three bikes sold in the UK; we are the market leader in car parts supply and enjoy similar status among consumers searching for in-car technology solutions.

This position provides us with unique defensive characteristics given our scale through 408 stores within the UK and Republic of Ireland. Our range, where we are store of first choice in each category, and the needs-driven nature of our core offer, also provides us with some protection from economic cycles and changes in consumer behaviour.

Our sales performance has been particularly pleasing, given the fact that the prior year had the benefit of two Easter periods, whereas the year to 31 March 2006 included no Easter trading opportunity. Although not as dependent on Easter as other retailers, sales during the Easter period are of sufficient weight within a financial year as to be material.

In addition, a key contribution to our sales growth has been our success of in-car technology. These products provide us with strong cash margin per unit given their retail price position, albeit the below average gross margin percentage has precipitated a dilution in this performance metric. However, given consumers' acceptance of in-car technology as a growth segment of their discretionary spend, we have ensured that Halfords is well placed to respond to this demand and have successfully grown sales in this category. Further growth is anticipated in the future, but is unlikely to be at the rate of increase experienced in the latter part of the period.

Over the last two years we have continued to focus our strategy on four key areas:

- Investing in the store portfolio
- Leveraging the Halfords brand
- Improving the supply chain
- Marketing the Halfords proposition

### Investing in the store portfolio

Halfords traded from 408 stores throughout the UK and Republic of Ireland at the end of the 2006 financial year, opening 18 new stores during the period. We expect to open a further 20

stores in the UK and Republic of Ireland during the current year and we still see the potential for up to 150 more stores, in these markets, across our different formats.

### *Supermezzanine*

Of the 18 new stores opened, nine were in our Supermezzanine format, which allows us to trade from an additional floor level, offering up to 40% extra sales space within our stores. At 31 March 2006 we had a total of 100 Supermezzanine stores trading, through a combination of new store development and conversion of stores within the existing Halfords estate. The development programme will continue next year, with a combination of new store and conversion activity.

By adding the Supermezzanine level we increase the range of products we offer, improve category segmentation and are able to merchandise the products more clearly, creating an even more customer-friendly shopping environment. This opportunity has been particularly important in more effectively marketing our sub-brands of *Ripspeed* and *Bikehut*. By trading on two floors we can also give greater exposure and presence to our Travel, Touring and Active Leisure ranges.

During the year, we also introduced two further store format programmes:

- Neighbourhood stores
- A low cost space rebalance programme for existing stores

### *Development of neighbourhood stores*

The Halfords portfolio polarises between our 32 high street “Metro” stores of approximately 2,000 sq ft and our mainstream superstore format ranging from 8,000 sq ft to 12,000 sq ft located primarily on out of town retail parks.

However, we have identified a further opportunity to meet the needs of consumers located within smaller catchments, such as market towns or urban infill areas, and have developed a new Neighbourhood format in these locations of between 3,000 sq ft and 5,000 sq feet in size. These stores carry the full Halfords offer but with a smaller range breadth; where products are not available immediately, they can be sourced by customers through the Halfords website or the nearest larger store.

### *Space rebalancing programme*

Using the lessons learned from the Supermezzanine programme, we have carried out a major review of the effective use of space by improving product display and adjacency within our stores. This is particularly relevant where a Supermezzanine conversion would either be impractical due to physical constraints or return on capital would be compromised due to prohibitive store development costs.

As a result, we have developed a new store layout, which improves the display of our *Ripspeed* and *Bikehut* sub brands, projects Car Enhancement to better reflect its increasing prominence, and provides more space and better visibility for new categories such as Active Leisure.

We are encouraged by the initial results of the space rebalancing trials, which will now be rolled out to a further 20 stores during this year.

### *International*

At the start of the financial year, Halfords had three stores trading in the Republic of Ireland, around the Dublin area, which performed ahead of expectations, indicating that the Halfords brand has been well received within this market. At 31 March 2006 the Company had a total of eight stores trading in the Republic of Ireland and we have subsequently secured sites in a further nine locations.

We now estimate that there is the potential for up to 20 stores in the Republic of Ireland and will continue to seek further site opportunities this year.

Our success in the Republic of Ireland has provided further confidence in the ability of the Halfords offer to trade successfully overseas. Extensive market and operational feasibility reviews support Halfords increasing its international presence and, in order that any expansion risk is limited, our intention is to pilot three stores within the Czech Republic during the Spring of 2007.

## **Leveraging the Halfords brand**

### *Car Maintenance*

With more than a quarter of the Company's sales, Car Maintenance continues to represent an integral element of the Halfords offer and has demonstrated its resilience to changes to the economic environment. With unrivalled accessibility to more than three million car parts, industry-leading availability and a substantial range in our stores across the country, we remain the largest car parts retailer in the UK and store of first choice for the consumer.

Approximately 33 million cars represent the UK car parc and our range covers almost all parts for this population and, given the inevitability that car parts will fail, the search for replacement parts becomes a needs-driven, rather than discretionary, purchase. The needs-driven nature of the market provides steady business throughout the year and provides Halfords with a resilient and significant sales base as the economic climate changes. Our market strength and breadth of offer has enabled us to continue to grow parts sales during the year despite the consumer downturn and the mild weather conditions at the start of 2006.

### *Car Enhancement*

Halfords cemented its position as the market leader for in-car technology and car enhancement products during the year.

In-car audio, which includes the CD audio aftermarket, continues to be the most significant consumer segment within car enhancement and grew further last year. CD audio is fitted as standard to most vehicles now, but the aftermarket also remains strong. The average car on the road is about seven years old and approximately half of the car parc do not yet have a CD player fitted.

Our car enhancement ranges are marketed through our *Ripspeed* sub-brand, which has built strong credibility with its target market of young car enthusiasts. This has been achieved through a combination of a strong in-store presence, particularly in Supermezzanine stores, external advertising in specialist press and *Ripspeed* sponsorship support for car enhancement national events.

In-car electronics has been an exception to the broader consumer trend of discretionary spend reduction. Falling retail prices over the last 18 months have made such products much more affordable. For instance, satellite navigation devices now retail at approximately one-third of the average price of two years ago, thus bridging the gap between desirability and affordability. Similar price deflation has occurred for entertainment systems such as in-car DVD players. This has broadened the market appeal for such items, where sales grew substantially particularly during the Christmas period.

We have enjoyed significant sales success in this category this year. Though actual cash profitability per unit is strong, the percentage margin is below the company average, which impacted our percentage margin, particularly in the second half of the year.

Finally, our collaboration with Autobacs of Japan has provided an opportunity to bring certain products to market faster than would otherwise have been possible. A range of Japanese car accessories was piloted early in the year and, following their sales success, have been extended into all Halfords superstores.

### *Leisure*

The Leisure category represents a third of the Company's total sales and during the year we continued to grow sales and profitability, predominantly driven by our success in cycling, where we now sell one in three bikes in the UK.

During the year, we successfully re-launched both our Apollo cycle brand and our Carrera premium brand. Apollo is now the best selling cycle brand in the UK and Carrera the best selling premium brand. We also received a gold award for the Carrera Kraken model from "What Mountain Bike" magazine. These cycle ranges are a good example of our ability to successfully source directly from the Far East. Cost prices have improved but so has the quality and specification of individual cycle models as we have had direct influence, through our sourcing team, on the final specification to be included. This allows us to provide quality bikes, which deliver both competitive retail prices and improved buying margins.

The further roll out of the supermezzanine format has helped drive awareness of the *Bikehut* sub-brand. *Bikehut* sub-shops are now in place in 339 superstores across the country. Each includes a bike workshop, which adds credibility to the *Bikehut* sub-brand as a specialist cycle retailer. As our share of the market increases the gap between Halfords and the competition grows further, illustrated by the fact that for the whole of 2005 more consumers purchased a bike from Halfords than from all the independent cycle retailers added together.

In October 2005 we introduced our Bike Care Maintenance Plan, encouraging customers to maintain their bikes regularly and cost-effectively by allowing Halfords to carry out the work. The enthusiasm and skill of our colleagues in this area has driven strong sales growth in our bike maintenance and servicing business. A bike repair training programme was conducted

across all stores, supported by the Bicycle Association, to ensure the necessary skills were available in stores to provide this service consistently.

The introduction of the *Bikehut* sub-brand into premium cycle accessories has also been well received by consumers who are looking for high quality accessories at competitive prices. It is the fastest growing brand within our accessories range and to date has exceeded our internal expectations. The *Bikehut* accessory sub-brand has subsequently won a gold award from “Cycling Plus” magazine in its first year of national availability. We plan to continue this success with the introduction of new ranges for 2006, which will include helmets, mudguards, luggage and clothing.

The new *Carrera* cycles have also proved popular with customers participating in the government-sponsored “Cycle2work” scheme. This scheme allows employers the opportunity to offer interest free loans to their employees to buy a bike and they are able to claim tax relief against the price of the purchase. This is designed as an incentive to motivate the public to take more exercise and is growing in popularity as an employment initiative. Given our scale and national store coverage Halfords is the largest provider of this facility.

The performance of Leisure was adversely affected by a disappointing year-on-year performance within Travel Solutions. Roof carrying equipment such as roof boxes, which are high-ticket items, were more susceptible to discretionary spend decisions. We have made changes to our range and price structures for the current financial year, which gives us confidence that we can improve performance for the forthcoming season.

The performance this year of our camping range was not as strong as anticipated given the success in the previous year, after it had been rolled out to all stores. For the forthcoming season, considerable effort has taken place to ensure that our sourcing, range, pricing and marketing drive stimulates stronger consumer awareness and purchasing of our offer.

#### *Financial services*

Towards the end of the financial year, Halfords launched a range of financial services, primarily targeting the motorist. Consumers now have the opportunity to purchase breakdown insurance, car insurance, bike insurance, travel insurance and even pet insurance through a range of products marketed under the Halfords brand. We have also introduced personal car leasing to complement the financial services offer.

#### *halfords.com*

Prior to the Christmas period, the Halfords website was re-launched, to broaden the opportunity for greater levels of product purchase, ease of navigation and facilitate greater levels of conversion. Sales have increased by 250% since the re-launch, making *halfords.com* our highest turnover ‘store’ and the second most visited sports and leisure website in the UK. Site visits have grown to 150,000 visitors per week. Sales conversion is also ahead and we are targeting further improvement this year.

#### **Improving the supply chain**

Our stated strategy has been to increase the level of product delivered from outside the UK and sourced directly by Halfords without the cost of third party agents. The objective has

been to improve cost prices, which can then be utilised to improve profitability, improve quality or improve retail prices to increase competitiveness.

Two years ago, our penetration of foreign direct sourcing was 7% of purchases and our target was to grow this penetration to 20% in the medium term. At the end of this financial year, penetration has improved significantly and we are therefore confident of achieving our target ahead of schedule, and seeing further cost price benefits flow accordingly.

We have achieved most success within Cycling, but we have also increased foreign direct sourcing within Car Maintenance, Car Enhancement and Active Leisure. Initially, we believed that electronics would be an unlikely addition, but our growth in expertise in this area has enabled us to develop an entry price point CD audio, combined car DVD and CD player and satellite navigation under our sub-brands of *Sendai*, *Ripspeed* and *Navsure* respectively. These will be on sale during summer 2006.

The growth in direct sourcing has been underpinned by changes in the in-bound supply chain process and infrastructure. These changes have included using additional Far East ports to access greater capacity. As well as allowing consolidation of stock from multiple suppliers it also improves container fill levels and stock flow into the UK. A renewed partnership with Maersk Logistics and greater use of their trading systems has improved management of the flow of containerised stock, particularly during peak trading periods. We will take advantage of further systems developments from Maersk through greater integration with Halfords SAP supply chain management tools. This year represented the first full year of operation of the new warehouse management system within three sites, without any service issues occurring.

The outsourced store delivery fleet and operations were put out to tender during 2006 and the contract was awarded to DHL/Exel during the third quarter. Benefits were seen immediately, with stock flow to stores during peak trading periods improving year-on-year. The delivery fleet was also equipped with satellite tracking and central route scheduling software has also been implemented to further improve service levels to stores.

These changes and new partnerships provide a platform for continuous improvement in the logistics operations over the coming years.

#### *Business systems*

Completion of the installation of retail systems from SAP and warehouse systems from Manhattan Associates at the start of the financial year were well managed and had no adverse service or cost impact on the business. The scale of the changes implemented has been significant as all central finance, human resource, merchandising, planning and supply chain systems were replaced and new ways of working adopted. Despite these changes, year-on-year in store availability improved and the successful support delivered during key trading periods on the new systems means we are confident of more benefits in the future.

The next stage of the business systems strategy is a two-year programme to replace the hardware (including till systems) and software within stores at an investment of £8.5m. In preparation for this next phase of development we have trained over 800 colleagues on store stock file accuracy processes, the benefits of which we expect to flow into next year.

## **Marketing the Halfords proposition**

Halfords continues to push forward with its service programme under the “We’ll fit it” marketing umbrella. We actively market this service through press and TV advertising. We completed more than one million fitting jobs during the year, ranging from wiper blades to parking sensors and audio units, with the support of trained in-store colleagues.

As well as increasing our advertising spend year on year, we also changed the emphasis of featured product to reflect the changes in consumer interest which have been identified. In addition, different communication channels were targeted to ensure the greatest return on our external marketing investment. Bikes and in-car technology featured heavily within our TV advertising, with all categories featured in black and white press throughout the year, or colour press inserts to coincide with key trading periods. Specialist press was also utilised to support promotional offers or drive new product awareness in areas such as Car Maintenance and Cycling.

### *“We’ll fit it”*

As well as the regular fitting services we provide, it is essential that we continually update the skill set of colleagues to service demand as we develop new categories. A key differentiator when buying in-car electronics at Halfords, for example, is our ability to fit products on site. *iPod* connectivity and parking sensors are sold as a fitted package given their complexity, making such strong offers difficult for competitors to copy with any degree of scale.

The “Drive away with it working” and “Free setup and demo” marketing messages also proved to be effective in securing both interest and consumer purchase of satellite navigation systems.

The knowledge base within stores is critical and we therefore continue to emphasise development training for deputy managers to support succession planning and product-based training for retail colleagues. Last year we trained approximately 500 colleagues as hardwire electronics fitters and more than 2,000 colleagues on satellite navigation product knowledge and we adopted a manufacturer-run training programme for child seat fitters that has included a further 1,600 colleagues across the country.

With pressure on costs it is important that our in-store resource is scheduled efficiently. Retail productivity has therefore improved as we continue to pursue our policy of driving increased flexibility within store teams using more appropriate contracts and continuing to match colleague rotas to our customer needs. This year we have identified store and product group specific rotas that have resulted in appropriate cost savings. This has been achieved through a combination of improved data provision from our new SAP Business Warehouse and an external work-study analysis. We expect to reap further benefits from this approach in the year ahead.

## **Outlook**

This has clearly been a tough year for retailers in general; an environment which is likely to continue into the current year. Our results continue to demonstrate a level of resilience to such conditions. During the year we have continued to use our competitive advantage of range, scale and service in order to improve the consumer offer.

Our product portfolio includes needs-driven purchases of core car maintenance products, where our range and scale provide us with strong defensive characteristics in this sector and our “We’ll fit it” service programmes provide us with genuine competitive advantage.

The success of our supply chain initiatives, our store development plans, as well as our product and service changes, provides reassurance that our strategy is working.

We have a trading approach which proactively seeks out new opportunities and seizes the initiative wherever possible. A clear example of this has been our ability to develop the in-car technology business to the point where we are clear market leaders.

During the forthcoming financial year we expect to further push our market advantage in key categories as well as redressing any shortfalls experienced in 2006. We have developed new range and pricing strategies within our leisure categories and will continue to drive momentum in core categories to press home our competitive advantage.

Our gross profit percentage dilution has been a direct result of the changing sales mix in the business following the success of in-car technology. Whilst we expect further growth in this category in the forthcoming year, we do not expect it to have a similar significant impact on our overall sales mix.

Our strategy remains focused and our ability to remain relatively resilient in the light of economic change remains evident. This gives us confidence that we can continue to deliver further positive results for our shareholders as we continue to drive the Halfords business forward in the forthcoming year.

## **Finance Director’s Report**

### **International Financial Reporting Standards**

The consolidated financial statements of Halfords Group plc are now prepared in accordance with International Financial Reporting Standards (“IFRS”) and International Financial Reporting Interpretation Committee (“IFRIC”) interpretations, that are endorsed by the European Union and with those parts of the Companies Act 1985 applicable to those companies reporting under IFRS. The Group had previously reported under UK GAAP.

The date of transition to IFRS was 3 April 2004, which is the beginning of the comparative period for the year ended 31 March 2006. The Group has applied IFRS 1 “First time adoption of International Financial Reporting Standards” and has elected to use the following exemptions:

- IFRS 3 “Business combinations” has not been applied retrospectively to business combinations that occurred before 3 April 2004.
- Share based payment exemption. The Group has applied IFRS 2 “Share-based payment” from 3 April 2004 to those options that were issued after 7 November 2002 but had not vested by 2 April 2005.

- Comparative information has not been restated for IAS 32 “Financial Instruments: disclosure and presentation” and IAS 39 “Financial Instruments: recognition and measurement” for the first year of transition.

The introduction of IFRS has no impact upon either the operational capability of the business or its cash flow.

### **Operating result**

Group sales increased by 8.5% to £681.7m (2005: £628.4m), with like-for-like sales growth increasing by 6.1%. Gross profit increased by 3.1% to £346.7m (2005: £336.4m). A 260 basis points dilution in gross profit percentage has resulted from the strength in the in-car technology category. Good cost control and operations management has resulted in total operating expenses as a percentage of sales falling to 37.8% from 39.3% in the prior year. Operating profit at £89.1m compares to £89.3m last year. Finance costs decreased by £2.9m to £12.5m (2005: £15.4m). Profit before tax was £77.0m, compared with £74.3m in the prior year, an increase of 3.6%.

### **Operating leases**

All the Group’s stores are held under operating leases, the majority of which are on standard lease terms, typically with a 15-year term at inception. The Group has a total commitment under non-cancellable operating leases of £795.3m (2005: £783.7m).

### **Landlord contributions**

Halfords has established an attractive out of town store portfolio, which the property team actively manage to maximise valuation creation through generating cash, making profits, and reducing the ongoing rental charge. During the year contributions were received from landlords as a result of either relocations or downsize through the return of former service centre space, occupied by the Automobile Association (“AA”). The potential for further contributions from these activities is ongoing. Contributions from these activities totalling £6.9m (2005: £2.5m) were received from landlords during the year in relation to 15 locations (2005: 6 locations).

### **Taxation**

The taxation charge on profit for the financial year was £23.4m (2005: £23.2m) resulting in a full year effective tax rate of 30.4% (2005: 31.2%) applied to profit before tax.

The underlying tax charge remains at 31.9%, principally due to the non-deductibility of depreciation charged on capital expenditure in respect of mezzanine floors and other store infrastructure. The lower than expected tax rate in this financial period is due to the progression of the agreement of prior year tax computations.

### **Earnings per share**

Basic earnings per share were 23.6p (2005: 23.7p). The weighted number of shares in issue during the year was 227.1m (2005: 215.6m) and it should be noted that in the comparative year the figure was impacted by the London Stock Market flotation during that year.

## **Capital expenditure**

Capital investment in the period totalled £27.8m, compared with £27.7m in the prior year. This included spend of £11.1m on new store and relocation investment and £10.7m on the store conversion programme. Other capital expenditure included the investment in head office IT systems, which is now largely complete. Depreciation and amortisation has increased during the year by £3.0m to £21.5m (2005: £18.5m) reflecting the ongoing investment in the store portfolio and infrastructure.

## **Working capital**

During the year, the Company experienced a working capital outflow of £11.5m compared to a £3.6m inflow in the prior year. Inventories increased by 17.5% to £127.2m (2005: £108.3m) reflecting underlying increases in stock to support sales growth and specifically into the faster growing technology areas. During the fourth quarter of the financial year the business built stock ahead of Easter trading, which fell in April, notably in the areas of cycles and in-car technology.

## **Cash flow, net debt and capital structure**

The Group continues to demonstrate that it is a strong driver of cash and during the year generated an operating cash inflow of £100.9m (2005: £117.0m).

Total net debt at 31 March 2006 was £173.7m (2005: £182.4m) and underlying net debt (total net debt excluding finance leases) was £160.7m (2005: £169.1m), a reduction of £8.4m on the prior year.

In the short to medium term the Group considers that a level of net debt at £180m generates an optimal level of gearing.

## **Dividend and share buy-back**

The Board is recommending a final dividend of 8.75p per share in addition to the 4.0p per share interim dividend already paid, bringing the total dividend for the year to 12.75p per share.

Subject to shareholder approval at the Annual General Meeting on 2 August 2006, the final dividend will be paid on 14 August 2006 to shareholders on the register at the close of business on 16 June 2006. Shares will be quoted ex dividend from 14 June 2006.

The Board is today announcing its intention, over the next two years, to buy-back up to £50m of its own shares. This programme recognises the highly cash generative nature of our business and management's commitment to improving total shareholder returns.

With our strong cash generative business model we are able to undertake the buy-back whilst maintaining sufficient flexibility to invest in our store opening and re-fit programme and other opportunities as they might arise. In addition to further improving the Group's capital efficiency, this share buy-back enables shareholders to have greater participation in the strong cash flows generated by our business.

## Consolidated Income Statement

For the period		<b>52 weeks to 31 March 2006</b>	52 weeks to
	Notes	<b>£m</b>	1 April 2005
			£m
<b>Revenue</b>		<b>681.7</b>	628.4
Cost of sales		<b>(335.0)</b>	(292.0)
<b>Gross profit</b>		<b>346.7</b>	336.4
Operating expenses		<b>(257.6)</b>	(247.1)
<b>Operating profit</b>	2	<b>89.1</b>	89.3
Finance costs	3	<b>(12.5)</b>	(15.4)
Finance income	3	<b>0.4</b>	0.4
<b>Profit before tax</b>		<b>77.0</b>	74.3
Taxation	4	<b>(23.4)</b>	(23.2)
<b>Profit attributable to equity shareholders</b>		<b>53.6</b>	51.1
<b>Earnings per share</b>			
Basic	6	<b>23.6p</b>	23.7p

All results relate to continuing operations of the Group.

## Consolidated Balance Sheet

	31 March 2006 £m	1 April 2005 £m
<b>Assets</b>		
<b>Non-current assets</b>		
Goodwill	253.1	253.1
Intangible assets	5.7	6.2
Property, plant and equipment	104.1	97.8
	<b>362.9</b>	<b>357.1</b>
<b>Current assets</b>		
Inventories	127.2	108.3
Trade and other receivables	29.4	23.6
Derivative financial instruments	1.2	-
Cash and cash equivalents	1.5	1.1
	<b>159.3</b>	<b>133.0</b>
<b>Total assets</b>	<b>522.2</b>	<b>490.1</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Borrowings	(63.5)	(52.2)
Trade and other payables	(101.9)	(99.3)
Current tax liabilities	(13.1)	(13.3)
Provisions	(1.2)	(1.6)
	<b>(179.7)</b>	<b>(166.4)</b>
<b>Net current liabilities</b>	<b>(20.4)</b>	<b>(33.4)</b>
<b>Non-current liabilities</b>		
Borrowings	(111.7)	(131.3)
Derivative financial instruments	(2.1)	-
Deferred tax liabilities	(3.5)	(5.1)
Accruals and deferred income	(22.7)	(11.6)
	<b>(140.0)</b>	<b>(148.0)</b>
<b>Total liabilities</b>	<b>(319.7)</b>	<b>(314.4)</b>
<b>Net assets</b>	<b>202.5</b>	<b>175.7</b>
<b>Shareholders' equity</b>		
Share capital	2.3	2.3
Share premium account	133.2	132.9
Hedging reserve	(0.8)	-
Retained earnings	67.8	40.5
<b>Total equity</b>	<b>202.5</b>	<b>175.7</b>

## Consolidated Statement of Changes in Shareholders' Equity

	Share capita l £m	Share premium £m	Hedging reserve £m	Retaine d earnin g s £m	Total equity £m
<b>Balance at 2 April 2004</b>	-	0.1	-	(7.3)	<b>(7.2)</b>
Profit for the period	-	-	-	51.1	<b>51.1</b>
Shares issued	2.3	134.6	-	-	<b>136.9</b>
Bonus issue in respect of ordinary shares	-	(1.8)	-	-	<b>(1.8)</b>
Movement arising from the issue of share options	-	-	-	4.2	<b>4.2</b>
Employee share options	-	-	-	1.0	<b>1.0</b>
Dividends	-	-	-	(8.5)	<b>(8.5)</b>
<b>Balance at 1 April 2005</b>	<b>2.3</b>	<b>132.9</b>	<b>-</b>	<b>40.5</b>	<b>175.7</b>
<b>Balance at 1 April 2005 as previously reported</b>	<b>2.3</b>	<b>132.9</b>	<b>-</b>	<b>40.5</b>	<b>175.7</b>
Application of IAS 39 - Fair value at opening balance sheet	-	-	(2.9)	-	<b>(2.9)</b>
<b>Balance at 1 April 2005 restated</b>	<b>2.3</b>	<b>132.9</b>	<b>(2.9)</b>	<b>40.5</b>	<b>172.8</b>
Profit for the period	-	-	-	53.6	<b>53.6</b>
Shares issued	-	0.3	-	-	<b>0.3</b>
Cash flow hedges:					
Fair value gains in the period	-	-	3.2	-	<b>3.2</b>
Transfers to inventory	-	-	(0.8)	-	<b>(0.8)</b>
Transfers to net profit	-	-	(0.3)	-	<b>(0.3)</b>
Employee share options	-	-	-	1.3	<b>1.3</b>
Deferred tax on employee share options	-	-	-	0.4	<b>0.4</b>
Dividends	-	-	-	(28.0)	<b>(28.0)</b>
<b>Balance at 31 March 2006</b>	<b>2.3</b>	<b>133.2</b>	<b>(0.8)</b>	<b>67.8</b>	<b>202.5</b>

## Consolidated Cash Flow Statement

For the period		<b>52 weeks to 31 March 2006</b>	52 weeks to 1 April 2005
	Notes	<b>£m</b>	£m
<b>Cash flows from operating activities</b>			
Cash generated from operations	7	<b>100.9</b>	117.0
Finance income received		<b>0.4</b>	0.4
Finance costs paid		<b>(11.0)</b>	(12.5)
Cost of forward foreign exchange contracts		<b>(0.9)</b>	-
Taxation paid		<b>(24.8)</b>	(20.1)
<b>Net cash from operating activities</b>		<b>64.6</b>	84.8
<b>Cash flows from investing activities</b>			
Purchase of intangible assets		<b>(1.4)</b>	(4.3)
Purchase of property, plant and equipment		<b>(26.1)</b>	(23.3)
<b>Net cash used in investing activities</b>		<b>(27.5)</b>	(27.6)
<b>Cash flows from financing activities</b>			
Net proceeds from issue of ordinary share capital		<b>0.3</b>	135.1
Repayment of borrowings	9	<b>(12.0)</b>	(217.6)
Finance lease principal payments	9	<b>(0.3)</b>	(0.2)
Dividends paid to shareholders		<b>(28.0)</b>	(8.5)
<b>Net cash used in financing activities</b>		<b>(40.0)</b>	(91.2)
Net decrease in cash and bank overdrafts	8	<b>(2.9)</b>	(34.0)
Cash and bank overdrafts at beginning of period		<b>(15.5)</b>	18.5
<b>Cash and bank overdrafts at the end of the period</b>	8	<b>(18.4)</b>	(15.5)

## Notes to the preliminary results

### 1. Accounting policies

The consolidated financial statements of Halfords Group plc are now prepared in accordance with International Financial Reporting Standards (“IFRS”) and International Financial Reporting Interpretation Committee (“IFRIC”) interpretations, that are endorsed by the European Union and with those parts of the Companies Act 1985 applicable to those companies reporting under IFRS. The Group had previously reported under UK GAAP.

The date of transition to IFRS was 3 April 2004, which is the beginning of the comparative period for the 52 weeks to 31 March 2006. The Group has applied IFRS 1 “First time adoption of International Financial Reporting Standards” and has elected to use the following exemptions:

- IFRS 3 “Business combinations” has not been applied retrospectively to business combinations that occurred before 3 April 2004.
- Share based payment exemption. It has applied IFRS 2 “Share-based payment” from 3 April 2004 to those options that were issued after 7 November 2002 but had not vested by 2 April 2005.
- Comparative information has not been restated for IAS 32 “Financial Instruments: disclosure and presentation” and IAS 39 “Financial Instruments: recognition and measurement” for the first year of transition.

### 2. Operating profit

For the period	<b>52 weeks to 31 March 2006</b>	52 weeks to 1 April 2005
	<b>£m</b>	<b>£m</b>
<b>Operating profit is arrived at after charging/(crediting):</b>		
Operating lease rentals:		
- plant and machinery	<b>0.8</b>	0.9
- property rents	<b>66.3</b>	60.2
- rentals receivable under operating leases	<b>(10.7)</b>	(10.1)
- landlord contributions	<b>(6.9)</b>	(2.5)
Loss on disposal of property, plant and equipment	<b>0.5</b>	0.4
Amortisation of intangible assets	<b>1.9</b>	1.1
Depreciation of		
- owned property, plant and equipment	<b>18.9</b>	16.7
- assets held under finance leases	<b>0.7</b>	0.7
Net foreign exchange gains	<b>(2.0)</b>	(1.9)
Auditors' remuneration:		
- audit fees	<b>0.2</b>	0.2
- non-audit services	<b>0.3</b>	0.3

### 3. Net finance costs

For the period	52 weeks to 31 March 2006 £m	52 weeks to 1 April 2005 £m
<b>Finance costs:</b>		
Bank borrowings	(9.7)	(12.4)
Premium on deep discount bond	-	(1.5)
Amortisation of issue costs on loans and deep discount bonds	(0.7)	(0.8)
Commitment and guarantee fees	(0.3)	(0.4)
Cost of forward foreign exchange contracts	(0.9)	-
Interest payable on finance leases	(0.9)	(0.8)
<b>Finance costs before non-recurring items</b>	<b>(12.5)</b>	<b>(15.9)</b>
Non-recurring amortisation of issue costs on loans and deep discounted bonds <sup>1</sup>	-	(1.7)
Non-recurring swap close out <sup>2</sup>	-	2.2
<b>Finance costs</b>	<b>(12.5)</b>	<b>(15.4)</b>
<b>Finance income:</b> Bank and similar interest	<b>0.4</b>	<b>0.4</b>
<b>Net finance costs</b>	<b>(12.1)</b>	<b>(15.0)</b>

Notes:

1. At IPO, on 8 June 2004, Halfords Group plc redeemed and replaced all of its existing borrowings. As a consequence, a charge of £1.7m was made in respect of accelerated amortisation of the issue costs associated with these borrowings.
2. On repayment of the existing borrowings, the Group hedged its new borrowing facilities during the 52 weeks to 1 April 2005 using new interest rate swaps and received £2.2m of exceptional income on the termination of the existing interest rate swaps.

#### 4. Taxation

For the period	<b>52 weeks to 31 March 2006</b>	52 weeks to 1 April 2005
	<b>£m</b>	£m
<b>Current taxation</b>		
UK corporation tax charge for the period	<b>25.8</b>	23.6
Adjustment in respect of prior periods	<b>(1.2)</b>	(0.3)
	<b>24.6</b>	23.3
<b>Deferred taxation</b>		
Origination and reversal of timing differences	<b>(1.2)</b>	(0.1)
	<b>23.4</b>	23.2

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

For the period	<b>52 weeks to 31 March 2006</b>	52 weeks to 1 April 2005
	<b>£m</b>	£m
Profit before tax	<b>77.0</b>	74.3
UK corporation tax at standard rate of 30.0% (2005: 30%)	<b>23.1</b>	22.3
Factors affecting the charge for the period:		
Depreciation on expenditure not eligible for tax relief	<b>1.1</b>	1.1
Deduction for employee share options	-	(0.4)
Other disallowable expenses	<b>0.4</b>	0.5
Adjustment in respect of prior periods	<b>(1.2)</b>	(0.3)
Total tax charge for the period	<b>23.4</b>	23.2

#### 5. Dividends

For the period	<b>52 weeks to 31 March 2006</b>	52 weeks to 1 April 2005
	<b>£m</b>	£m
<b>Equity – Ordinary</b>		
Final for the 52 weeks to 1 April 2005 - paid 8.3p (2005: £nil)	<b>18.9</b>	-
Interim – paid 4.0p (2005: 3.7p)	<b>9.1</b>	8.5
	<b>28.0</b>	8.5

In addition, the Directors are proposing a final dividend in respect of the financial year ended 31 March 2006 of 8.75p, which will absorb an estimated £19.9m of shareholders' funds. The dividend will be paid on 14 August 2006 to shareholders who are on the Register of Members on 16 June 2006.

## 6. Earnings per share

Basic earnings per share are 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 an Employee Benefit Trust and has been adjusted for the issue of shares during the year.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the 52 weeks to 31 March 2006.

For the period	<b>52 weeks to 31 March 2006</b>	52 weeks to 1 April 2005
	<b>m</b>	m
Weighted average number of shares in issue	<b>228.0</b>	216.5
Less: shares held by Employee Benefit Trust	<b>(0.9)</b>	(0.9)
Weighted average number of shares for calculating basic earnings per share	<b>227.1</b>	215.6
Weighted average number of dilutive shares	<b>0.2</b>	0.1
Total number of shares for calculating diluted earnings per share	<b>227.3</b>	215.7

For the period	<b>52 weeks to 31 March 2006</b>	52 weeks to 1 April 2005
	<b>£m</b>	£m
Earnings attributable to equity shareholders	<b>53.6</b>	51.1

Earnings per share is calculated as follows:

For the period	<b>52 weeks to 31 March 2006</b>	52 weeks to 1 April 2005
Basic earnings per ordinary share	<b>23.6p</b>	23.7p
Diluted earnings per ordinary share	<b>23.6p</b>	23.7p

## 7. Cash generated from operations

For the period	<b>52 weeks to 31 March 2006</b>	52 weeks to 1 April 2005
	<b>£m</b>	£m
Operating profit	<b>89.1</b>	89.3
Depreciation – property, plant and equipment	<b>19.6</b>	17.4
Amortisation – intangible assets	<b>1.9</b>	1.1
Loss on sale of property, plant and equipment	<b>0.5</b>	0.4
Non cash charge for employee share schemes	<b>-</b>	4.2
Share option scheme charges	<b>1.3</b>	1.0
Increase in inventories	<b>(18.9)</b>	(3.8)
Increase in debtors	<b>(5.8)</b>	(0.1)
Increase in creditors	<b>13.2</b>	7.5
	<b>100.9</b>	117.0

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

	At 1 April 2005	Cash flow	Other non cash changes	At 31 March 2006
	£m	£m	£m	£m
Cash in hand and at bank	1.1	0.4	-	<b>1.5</b>
Bank overdraft	(16.6)	(3.3)	-	<b>(19.9)</b>
	(15.5)	(2.9)	-	<b>(18.4)</b>
Debt due within one year	(35.3)	12.0	(20.0)	<b>(43.3)</b>
Debt due after one year	(118.3)	-	19.3	<b>(99.0)</b>
Total net debt excluding finance leases	(169.1)	9.1	(0.7)	<b>(160.7)</b>
Finance leases due within one year	(0.3)	0.3	(0.3)	<b>(0.3)</b>
Finance lease due after one year	(13.0)	-	0.3	<b>(12.7)</b>
Total finance leases	(13.3)	0.3	-	<b>(13.0)</b>
<b>Total net debt</b>	<b>(182.4)</b>	<b>9.4</b>	<b>(0.7)</b>	<b>(173.7)</b>

Non-cash changes relate to finance costs of £0.7m in relation to the amortisation of capitalised debt issue costs.

## 9. Movement in borrowings

52 weeks to  
31 March 2006  
£m

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<b>Debt due within 1 year:</b>	
Unsecured bank loans	12.0
Finance lease principal payments	0.3
<b>Cash outflow</b>	<b>12.3</b>

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The total debt cash outflow consists of £12.0m net repayment of borrowings and £0.3m repayment of finance lease obligations, offset by an increase in overdrafts of £3.3m.

## 10. Other information

These results for the 52 weeks to 31 March 2006 together with the corresponding amounts for the 52 weeks to 1 April 2005 are extracts from the Group Annual Report and Accounts and do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 (as amended).

The Group Annual Report and Accounts for the 52 weeks to 31 March 2006, on which the auditors have issued a report that does not contain a statement under section 237(2) or (3) of the Companies Act 1985, will be posted to shareholders by 23 June 2006 and will be delivered to the Registrar of Companies in due course. Copies will be available from The Company Secretary, Halfords Group plc, Icknield Street Drive, Washford West, Redditch, Worcestershire, B98 0DE.

The Annual General Meeting will be held at the Holiday Inn Hotel, Bridgefoot, Stratford upon Avon, Warwickshire CV37 6YR at 12.30 pm on Wednesday, 2 August 2006.