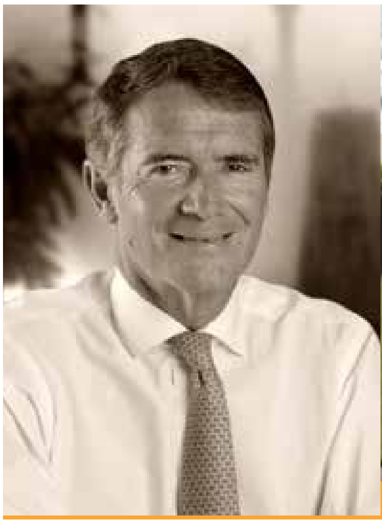
Chairman's Statement

Dennis Millard
Chairman



This has been another difficult year for the UK consumer and Halfords was also faced with its own particular challenges. Our customers continued to have their discretionary incomes squeezed and high fuel prices and insurance costs once again resulted in a decrease in miles driven by our automotive customers. Whilst reluctant to blame the weather, the wet summer and record cold winter were certainly not conducive to the pursuit of outdoor activities by our cycling and camping customers! Nevertheless, the spirit of the nation was uplifted by the joy and the resounding success of the Olympics and Paralympics. All of these macro factors had, in their own way, an effect on the performance of Halfords and provided us with both challenges and opportunities.

Group revenues increased by 1.0% with a decline in Retail sales of 0.9% offset by 13.5% growth in Autocentres. In Retail, the Car Maintenance category grew strongly, Cycling was down marginally, Car Enhancement declined at a much lower rate than in prior years and Travel Solutions, which includes our camping products, also declined. The growth in sales for Autocentres was due to our investments which have increased market share, boosted tyre sales and added 23 new centres. Group gross margin was unchanged at 54.8% with a marginal rise in Retail and a decrease in Autocentres, due primarily to product mix. Total underlying operating costs rose by 6.2% due to investment in colleague headcount, recruitment and training, increased occupation costs, a rise in marketing spend and investment in new Autocentres. Interest costs also rose. As a result, underlying profit before tax decreased by 21.9% to £72.0m and basic EPS by 17.8% to 27.7p per share. Free cash flow of £71.8m was generated and net debt was down £28.6m to £110.6m with net debt to EBITDA at 1.1 times.

In July 2012, the Board felt that a change at the top of the organisation was necessary and David Wild, who had been Group Chief Executive since August 2008, left the Company. I was asked by the Board to step up as Interim Executive Chairman until a new Group Chief Executive was in place. In October 2012, Matt Davies joined Halfords as CEO and I resumed my non-executive role in November 2012. We are delighted with Matt's appointment. It follows his considerable success at Pets at Home where he had been CEO for some eight years. We were particularly taken by the exceptional colleague engagement and customer service levels he had achieved at Pets at Home. These were two areas that had worryingly slipped in Halfords and the extent became more evident to me during my executive tenure; it was therefore critical that this be urgently addressed.

Following his appointment, Matt was tasked with reviewing the current strategy and plans for the business and the organisational capability. This has now been completed and the outcome – set out below – is fully supported by the Board who, along with Matt's executive team, were an integral part of the review process.

Firstly, the three pillars of the existing strategy were considered to be sound but were redefined to the following to inject more passion and a clearer purpose:

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

Secondly, it was considered that the plans in place for the Autocentres business to increase its network by 20 to 30 centres per annum and invest in capability were also sound, and that the returns that would be generated and the opportunities to continue to take market share were attractive.

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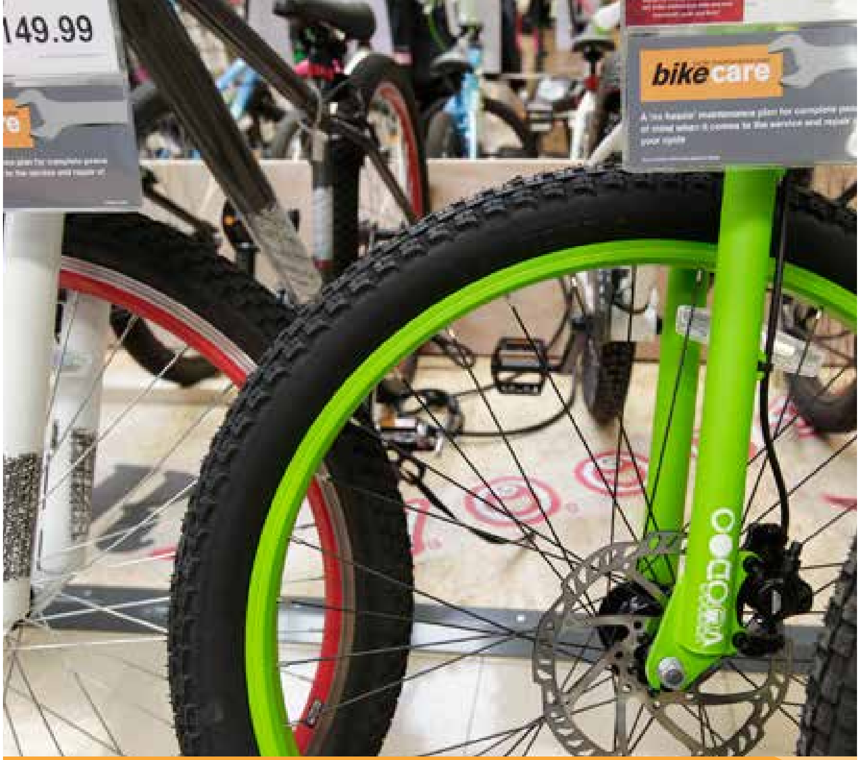

Driving attachment sales and return customers with bike care plans

For the Retail business, the review underscored the need to invest in our colleagues to enable them to best serve customers and to invest in our store, operations and IT infrastructures. The most pressing need was to address the root causes of our less than optimum service offer and ethic. Crucially, the key to success was to put in place plans to deliver top line growth that, in turn, would restore profitability and produce attractive and sustainable returns for our shareholders. These plans, which have been named ***Getting Into Gear 2016***, are fully laid out in the Annual Report and will be implemented over the next three years. They are summarised as follows:

- **Service Revolution:** introducing a marked step change in the quality of our service offer by investing in training, staffing and in-store capability.
- **The H Factor:** reasserting our authority across our key categories to excite our customers.
- **Stores Fit to Shop:** investing in our store estate to raise standards and improve our customer experience.
- **21st Century Infrastructure:** investing in systems and infrastructure.
- **Click with the Digital Future:** creating a contemporary and competitive service-led digital offer.

The specific initiatives underpinning these plans are now in place and the key milestones, or KPIs, by which we will measure our progress are set out in this report. Crucially, both our annual and long-term incentive plans will be similarly aligned. Over the three year period it is envisaged that some £100m of Retail Capital Expenditure will be necessary, *c.*£40m more than prior run rates. In addition, revenue investment of £7m–£14m will be made in FY14 primarily in our colleague capability; however, this will be dependent upon performance and revenue generation. This will have the inevitable consequence on earnings and cash flows in the next three years but will set up the business for an attractive and sustainable future in the years ahead.

We have carefully considered the financial implications of the new strategy and concluded that, given the need to maintain a robust balance sheet and our desire to rebuild our dividend cover to a more sustainable level, our dividend should be rebased. The Board has thus recommended a final dividend of 9.1 pence per share, a reduction of 35.0% on the prior year, resulting in a full-year dividend of 17.1 pence, down 22.3%. The intention would be to reset the full year dividend for the next three years to around 14 pence per share which would enable us to remain within our gearing target of net debt to EBITDA of 1.5 times and, over the period, converge towards a more sustainable dividend cover of 2 times.

On behalf of the Board, I would like to thank all of our 12,000 colleagues for their patience and commitment during a difficult year. Also, I thank them for the enthusiastic manner in which they have embraced the new direction and for their dedication to raising service levels for our customers. The new executive team under Matt is taking shape well and they are up for the challenges and opportunities ahead. Lastly, I would like to thank my Board colleagues for their dedication, counsel and support in what has been a very eventful year. Paul McClenaghan, who left the Board last month, did so with our best wishes.

In conclusion, the new financial year has started in a positive vein and encouraging progress is already being made on some of our key initiatives. Most notably, however, is the sense of purpose, excitement and engagement that is evident throughout the organisation – this bodes well for the years ahead.

Dennis Millard
Chairman
23 May 2013