

Corporate Governance

■ ■ CORPORATE GOVERNANCE

The Board is responsible for the Group's system of corporate governance. The Board is committed to high standards of corporate governance and its policy is to manage the affairs of the Company in accordance with the principles of good governance and the provisions set out in Section 1 of the Combined Code on Corporate Governance, issued by the Financial Reporting Council in July 2003 (the "Combined Code"). The following statement describes how the Company has applied the main and supporting principles set out in the Combined Code.

■ ■ STATEMENT OF COMPLIANCE WITH THE COMBINED CODE

The directors consider that the Company has applied the principles and complied with the provisions of Section 1 of the Combined Code for the year ended 30 March 2007, with the exception of provision B.2.1, as the Chairman sits on the Remuneration Committee.

■ ■ THE DIRECTORS

The following persons were directors of the Company during the year ended 30 March 2007:

Richard Pym (Chairman)
 Ian McLeod (Chief Executive)
 Nick Carter (Finance Director to 2 February 2007)
 Nick Wharton (Finance Director from 3 February 2007)
 Nigel Wilson (Senior Independent Director and non-executive director)
 Keith Harris (non-executive director)
 Bill Ronald (non-executive director)

Paul McClenaghan was appointed Director of Trading from 31 March 2007.

■ ■ BOARD STRUCTURE

The Board is currently composed of seven members, consisting of three executive directors, a non-executive chairman and three non-executive directors. The three non-executive directors are considered by the Board to be independent. Accordingly, no individual or group of individuals dominates the Board's decision-making and the requirement of the Combined Code that at least half of the Board (excluding the chairman) should comprise independent non-executive directors is satisfied.

Biographical details of the directors are given on pages 22 and 23. The directors have wide experience and expertise and the Board believes that all of the directors devote sufficient time and attention as is necessary in order to perform their duties.

■ ■ ROLE AND WORKINGS OF THE BOARD

The Board's role is to determine the long-term direction and strategy of the Group, create value for shareholders, monitor the achievement of business objectives and ensure that good corporate governance is practised and that the Group meets its other responsibilities to its shareholders, customers and other stakeholders. The Board is also responsible for ensuring that appropriate processes are in place in respect of succession planning for appointments to the Board and to senior management positions.

The Board has a formal schedule of reserved powers, which it retains for Board decision-making on a range of key issues, including the formulation of strategy, financial reporting and

controls, corporate governance matters, and treasury and risk management. A procedure has been adopted for directors to obtain independent professional advice where appropriate, at the cost of the Company, and all directors have unrestricted access to the Company Secretary, who is an employee of the Company. In relation to non-reserved matters, the Board is assisted by a number of committees with delegated authority. The make-up and role of each of these committees is described below.

The Board meets on a regular basis. During the financial year ended 30 March 2007, the Board met formally ten times. The Board is supplied in a timely manner with information appropriate to enable it to discharge its duties. Appropriate management reports and financial information are provided to the Board on a monthly basis and in advance of each Board meeting. These normally include monthly management reports, accounts, reports on current trading and papers on matters in respect of which the Board makes decisions or is invited to give its approval. Specific presentations on business and strategic issues are made regularly. Minutes of committee meetings are circulated to all Board members, unless a conflict of interest arises.

The Chairman is primarily responsible for the workings of the Board and is not involved in day-to-day operational issues. Save for matters reserved for decision by the Board, the Chief Executive, with the support of the Finance and Trading Directors, is responsible for the running of the Group's business, carrying out the agreed strategy adopted by the Board and implementing specific Board decisions relating to the operation of the Group.

Nigel Wilson was the Senior Independent Director throughout the period under review. The Senior Independent Director is available to meet shareholders upon request if they have concerns which contact through the normal channels of the Chairman or the executive directors has failed to resolve, or for which such contact is inappropriate.

The Company is supportive of executive directors who wish to take one non-executive directorship with a company outside the Group, as exposure to such duties can broaden experience and knowledge, which will be to the benefit of the Company. Executive directors may retain any fees they receive. Ian McLeod is currently a non-executive director of Fulham Football Club. Fees retained in the year were £25,000 (2006: £25,000).

■ ■ APPOINTMENT OF DIRECTORS

The Board will appoint any new directors having first considered recommendations made to it by the Nomination Committee. Following such appointment, the director will be proposed for reappointment at the next Annual General Meeting of the Company. Under the Company's Articles of Association there is also a process of retirement by rotation, which ensures that approximately one-third of all directors are required to retire and seek re-election at each Annual General Meeting and that no director serves for more than three years without being proposed for re-election at an Annual General Meeting. Ian McLeod and Bill Ronald will retire and offer themselves for re-election at this year's Annual General Meeting. Having been appointed as directors by the Board since the last Annual General Meeting, Nick Wharton and Paul McClenaghan will offer themselves for reappointment at this year's Annual General Meeting.

Non-executive directors are appointed for specified terms (normally three years), subject to reappointment under the

Company's Articles of Association and subject to the Companies Act provisions relating to the removal of a director. The Chairman will confirm to shareholders when proposing an appointment or reappointment that, following formal performance evaluation, the individual's performance continues to be effective and they demonstrate commitment to the role.

The Board has formally adopted an induction programme for new directors, which will be tailored to each new director who joins the Board and includes briefings regarding the activities of the Group and visits to stores. Documentation and training on their duties as directors are also available to all directors. In addition, directors are also informed regularly on relevant material changes to laws and regulations affecting the Group's business. All directors have access to the advice and services of the Company Secretary, who is also responsible for advising the Board on all governance matters.

■ ■ BOARD COMMITTEES

The Board has established Nomination, Remuneration and Audit Committees, with formally delegated duties and responsibilities and written terms of reference. These terms of reference can be accessed on the Company's website, www.halfordscompany.com. The Company Secretary acts as secretary to all three Committees. Only the members of each Committee are entitled to attend its meetings, although other directors, professional advisers and members of the senior management team attend when invited to do so. The Audit Committee will invite the external auditor to certain of its meetings. In the cases of the Nomination and Remuneration Committees, no member is present when business pertinent to them is under discussion. A Treasury Committee, composed of senior members of the finance and treasury teams and chaired by the Finance Director, has been established to manage the day-to-day treasury needs of the Group. When the need arises, separate ad hoc committees may be set up by the Board to consider specific issues.

AUDIT COMMITTEE

For the year ended 30 March 2007, the Audit Committee comprised Nigel Wilson, Keith Harris and Bill Ronald, all of whom are independent non-executive directors. The Committee chairman is Nigel Wilson, who, being also Chief Financial Officer of United Business Media plc, is considered by the Board to have recent and relevant financial experience. Each of the other independent non-executive directors on the Committee has, through their other business activities, significant experience in financial matters.

The Audit Committee meets at least three times a year, according to the requirements of the Company's financial calendar. The meetings of the Audit Committee also provide the opportunity for the independent non-executive directors to meet without the executive directors present and also the opportunity to raise any issues of concern with the Company's external auditor.

In addition to ensuring the integrity of the Group's half-year and full-year financial statements before publication, the Audit Committee has responsibility for monitoring a number of other areas of activity, including:

- the effectiveness of the Group's internal controls and the Group's risk management policies and systems
- the integrity, performance and independence of the Group's relationship with the external auditor

- reviewing the nature and extent of non-audit services by the external auditor, with particular scrutiny as to whether the provision of such services may affect the objectivity and independence of the external auditor
- the Committee requires any proposal for expenditure of over £25,000 as non-audit services to be referred to it for scrutiny and approval
- making recommendations to the Board on the appointment of auditors and the audit fee
- keeping under review the scope and results of the audit and its cost effectiveness

At the end of the year the Audit Committee required the external auditor to confirm the safeguards it has in place to ensure that its objectivity and independence is not impaired with respect to its provision of non-audit services to the Company.

At least once a year the Audit Committee meets with the external auditor without any executive directors present.

NOMINATION COMMITTEE

For the year ended 30 March 2007 the Nomination Committee comprised Richard Pym (Chairman), Keith Harris, Bill Ronald, Nigel Wilson and Ian McLeod. Keith Harris, Nigel Wilson and Bill Ronald are independent non-executive directors.

The Nomination Committee is required to meet at least twice each year. During the period under review it met to consider succession planning for the Board and senior management generally, and to propose the appointment of the new executive directors.

The responsibilities of the Nomination Committee include:

- nominating candidates (both executive and non-executive) for appointment to the Board, to fill vacancies or appoint additional persons to the Board
- monitoring the size, structure, balance and composition of the Board
- evaluating the balance of skills, knowledge and experience of the Board's members
- making recommendations in respect of the membership of the Nomination, Audit and Remuneration Committees
- making recommendations in respect of the reappointment (or not) of non-executive directors and of the continuance in service (or not) of executive directors.

In discharging its duties, the Nomination Committee considers the challenges and opportunities facing the Group and the skills and expertise required for the future. In relation to any new appointments, the Committee evaluates the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment.

REMUNERATION COMMITTEE

For the year ended 30 March 2007, the Remuneration Committee comprised Keith Harris (Chairman), Richard Pym, Nigel Wilson and Bill Ronald. Keith Harris, Nigel Wilson and Bill Ronald are all independent non-executive directors. The Board has agreed that Richard Pym will remain a member of the Remuneration Committee, contrary to provision B.2.1 of the Combined Code, in anticipation of the 2006 Combined Code which is effective in the year ending 29 March 2008 and which allows company chairmen to sit on remuneration committees.

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The Remuneration Committee is required to meet at least twice each year.

The Remuneration Committee's responsibilities include:

- making recommendations to the Board on the Company's framework of executive remuneration and its cost
- reviewing and determining on behalf of the Board, the remuneration and incentive packages of the Company's executive directors and certain senior executives of the Group to ensure that they are fairly rewarded for their individual contributions to the Group's overall performance
- determining the basis on which the employment of the Company's executive directors and certain senior executives of the Group is terminated
- operating and administering the Company's share option schemes and employee benefit trust.

The Board's remuneration policy is described in detail in the Directors' Remuneration Report on pages 30 to 35.

■ ■ EVALUATION OF THE BOARD AND ITS COMMITTEES

The Board has established a formal process for the annual evaluation of the performance of the Board, its principal committees and individual directors. Questionnaires are drawn up, which provide the framework for the evaluation process. Each member of the Board or appropriate Committee submits replies to the questionnaires, which are then collated. Following a review of these responses by the Board or by the appropriate Committee any appropriate action will be taken to ensure that the performance of the Board as a whole, its principal committees and individual directors is such that each can perform at the optimum level for the benefit of the Company. The Senior Independent Director and the other independent non-executive directors conduct the annual performance evaluation of the Chairman.

■ ■ ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The number of meetings of the Board and of each of the Audit, Remuneration and Nomination Committees held during the year ended 30 March 2007, together with a record of each member's attendance, is set out below. Any director not able to attend a meeting is supplied with all papers in advance of the meeting for their review and comment.

	Number of meetings attended			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
Richard Pym	10	n/a	2	4
Ian McLeod	10	n/a	n/a	4
Nick Carter (resigned 02.03.07)	8	n/a	n/a	n/a
Nick Wharton (appointed 03.02.07)	2	n/a	n/a	n/a
Nigel Wilson	10	3	2	4
Bill Ronald	10	3	2	3
Keith Harris	9	3	2	3
Total meetings in year	10	3	2	4

Note: n/a denotes that a director was not a member of the relevant Committee.

In addition to the scheduled meetings numbered above, the Board held an additional meeting to review corporate strategy, visited stores to review operational and systems progress and attended the annual store managers conference. The Audit Committee also held additional meetings to review the various trading statements.

■ ■ ACCOUNTABILITY, RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the system of internal control and for reviewing its effectiveness throughout the Group. The assessment of effectiveness has been carried out this year. The system of internal control is designed to manage, rather than eliminate, the risk of failing to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. The Audit Committee, on behalf of the Board, reviews the effectiveness of the Group's systems of internal control and risk management.

The Board considers risk assessment and control to be fundamental to achieving its corporate objectives within an acceptable risk/reward profile and there is an ongoing process for identifying and evaluating the significant risks faced by the Group and the effectiveness of related controls. The key elements of this process are:

- a comprehensive system of monthly reporting from key executives, identifying performance against budget, analysis of variances, major business issues, key performance indicators and regular forecasting
- well-defined policies governing appraisal and approval of capital expenditure and treasury operations
- reviews of key business risks and of management's controls and plans to mitigate these risks
- an annual corporate governance confirmation made to the Board by all directors on the effectiveness of the identification of major risks and of the monitoring of internal controls within their areas of responsibility.

As part of the process for identifying, evaluating and managing the key business risks faced by the Group the Board has established a Risk Management Group to oversee the implementation of the risk management framework, co-ordinate risk management activities throughout the business and to report to the Board and Audit Committee on risk issues. The Risk Management Group is chaired by the Company Secretary and includes senior managers from Finance, Business Systems, Supply Chain/Logistics, Store Assurance and Internal Audit functions.

The external auditor reports directly to the Audit Committee. Deloitte & Touche LLP, as independent adviser, is formally engaged to provide internal audit services, reporting to the Board, via the Audit Committee. These reports evaluate the adequacy and effectiveness of the Company's internal controls and recommend improvements, based on a systematic risk assessment of the business.

■ ■ RELATIONSHIP WITH SHAREHOLDERS

The Board recognises the importance of establishing and maintaining good relationships with all of the Company's shareholders. The Chief Executive, Finance Director and the Chairman meet regularly with analysts and institutional shareholders to keep them informed of significant developments and report to the Board accordingly on the views of the major shareholders. The Senior Independent Director is also available to attend such meetings, if required. Each of the other non-executive directors is also offered the opportunity to attend meetings with major shareholders and would do so if requested by any major shareholder. The Company's investor relations programme includes formal presentations of full year and interim results. Feedback from these meetings is provided to the Board. The Company Secretary is also charged with bringing to the attention of the Board any material matters of concern raised by the Company's shareholders, including private investors.

The Interim Report and the Annual Report and Accounts are the primary means used by the Board for communicating during the year with all of the Company's shareholders. The Board also recognises the importance of the Internet as a means of communicating widely, quickly and cost-effectively and an investor relations website (at www.halfordscompany.com) has been developed to facilitate communications with shareholders. Information available online includes copies of the full and half-year financial statements, press releases and Company news, corporate governance information and statements and the terms of reference for the Audit, Nomination and Remuneration Committees.

The Board is committed to the constructive use of the Annual General Meeting as a forum to meet with shareholders and to hear their views and answer their questions about the Group and its business. The Company will dispatch the notice of the Annual General Meeting, with an explanatory circular describing any items of special business, at least 20 working days before the meeting. The Chairmen of the Remuneration, Nomination and Audit Committees will normally attend the meeting and will answer questions that may be relevant to the work of those Committees. If they are unable to attend they will appoint a deputy to attend in their place. It is the Company's practice to propose separate resolutions on each substantially separate issue at the Annual General Meeting. The Chairman will advise shareholders on the proxy voting details for each resolution after it has been put to the meeting.

The Company's financial calendar is set out on page 70.

By order of the Board

Philip Parker, Company Secretary
6 June 2007