

## Directors' Remuneration Report

The following report outlines the Company's policy on the remuneration of executive directors and gives details of the remuneration packages of executive directors and of the fees paid to non-executive directors for the year ended 30 March 2007. The Report has been prepared in accordance with the requirements of Schedule 7A to the Companies Act 1985. Part 3 of Schedule 7A requires designated parts of the Remuneration Report to be audited, whilst other parts are not. In preparing this report, consideration has been given to the Listing Rules of the UK Listing Authority and to the Combined Code and the report has been approved by both the Remuneration Committee and by the Board. A resolution to approve the report will be proposed at the Annual General Meeting of the Company.

Part A of the report, which is not subject to audit, sets out the Company's remuneration policy. Part B, which has been audited, provides details of the remuneration, pensions and share incentives of the directors for the 52 weeks to 30 March 2007.

### ■ ■ PART A — UNAUDITED INFORMATION

#### ■ ■ REMUNERATION COMMITTEE

The Remuneration Committee, which met twice during the year, comprises Keith Harris (Chairman), Richard Pym, Bill Ronald and Nigel Wilson. The Committee's terms of reference, which set out the responsibilities of the Committee, are available from the Company's website, [www.halfordscompany.com](http://www.halfordscompany.com).

During the year, the Committee received external independent advice from the Hay Group and Watson Wyatt on remuneration matters. Neither company has any other connection with the Group.

#### ■ ■ REMUNERATION POLICY

The remuneration policy of the Committee and of the Board is to provide remuneration packages for the executive directors and other senior executives in the Group which are appropriate to the size and nature of the Group's business and which will attract and retain high calibre executives. It is the Company's policy that a substantial proportion of the executive directors' remuneration should be performance related in order to encourage and reward superior business performance and shareholder returns and that remuneration should be linked to both individual and Company performance. Accordingly, executive directors may earn up to an additional 80% (100% in the case of the Chief Executive) of their basic salaries as a performance bonus and have benefited from participation in the Company's share option scheme as set out below. No further awards will be made under the share option scheme to the executive directors but they were able to participate in the 2005 Performance Share Plan (The Long-Term Incentive Plan ("LTIP")). The executive directors are also able to participate in an all-employee save-as-you-earn scheme (the "Halfords Sharesave Scheme"), referred to on page 31.

It is the policy of the Committee and the Board to maintain the above approach to remuneration packages for executive directors and other senior executives of the Group for the current financial year and future financial years, subject to review in the light of any changes in relevant legislation, regulations or market practice. No significant changes to the remuneration arrangements for executive directors are currently anticipated. However, the Committee will continue to review base salaries and performance targets to ensure that they align with the remuneration policy of the Committee and the Board and with the Company's strategic objectives. The individual salary, bonus and benefit levels of the executive directors are, and will continue to be, reviewed annually by the Committee.

It is the Company's policy to employ executive directors under contracts with an indefinite term, subject to termination by notice given by either party of 12 months. Any compensation payable by the Company would be subject to the normal legal principles of mitigation of loss. No compensation would be payable if the service contracts were to be terminated by notice from the executive director or for lawful termination by the Company. There are no provisions for payment of pre-determined compensation under the service contracts.

Details of individual directors' remuneration and share options are set out on pages 33 and 35 of this report. The main components of the remuneration package for executive directors are:

#### BASIC SALARY

The Company's policy is that basic salaries for executive directors should take into account the individual's role and responsibilities, performance and experience. For an executive director who is experienced and fully effective in his role, basic salary is targeted at the retail market median for comparable roles.

#### ANNUAL BONUS

Executive directors are eligible to receive an annual performance bonus up to a maximum of 80% (100% in the case of the Chief Executive) of their annual basic salary at the time the bonus scheme is announced. The amount of bonus is based on the achievement of profit and earnings per share targets, specified and agreed at the beginning of the year. Bonus payments do not form part of the directors' pensionable earnings. The performance targets for bonus entitlements are intended by the Remuneration Committee to create incentives to perform at the highest levels.

#### SHARE OPTION SCHEMES

In May 2004 the Company adopted the Halfords Company Share Option Scheme and the Halfords Sharesave Scheme, under which employees are eligible for the grant of options to acquire ordinary shares in the Company.

### **HALFORDS COMPANY SHARE OPTION SCHEME**

Options are granted at an exercise price not less than market value at the date of grant and may normally only be exercised if performance conditions set at the time of grant have been achieved. These performance conditions require EPS ("earnings per share") for the financial year last preceding the third anniversary of the grant date to equal or exceed the percentage growth in RPI (retail price index) plus an additional percentage determined as appropriate at the time of the grant. These additional percentages were 6%, 5% and 3.5% for options granted in 2004/05, 2005/06 and 2006/07 respectively.

Details of options granted to executive directors which are outstanding and further details of the share option schemes, including performance conditions, are set out on page 35.

The executive directors participate in the LTIP and no further awards to them under the Company Share Option Scheme will be made.

### **HALFORDS SHARESAVE SCHEME**

Options are granted at an exercise price not less than 80% of market value at the date of grant. Options may not normally be exercised until the option holder has completed his or her savings contract (which will normally be three or five years) from the date of commencement of the savings contract.

### **THE LONG-TERM INCENTIVE PLAN**

Under the LTIP, approved by shareholders at the Annual General Meeting in 2005, conditional rights to receive shares will be awarded to participants. The extent to which such rights vest will depend upon the Group's performance over the three-year period following the award date. The vesting of 50% of the awards will be determined by the Group's relative total shareholder return ("TSR") performance and the vesting of the other 50% by the Group's absolute earnings per share performance against RPI. The Group's TSR performance will be measured against the FTSE 350 general retailers as a comparator group. No retesting will be permitted. In order to ensure that the performance targets for the 2007–2010 scheme remain stretching but achievable, the earnings per share performance spread will be RPI plus 4% compound at entry to RPI plus 11% compound at maximum.

Annual awards under the LTIP are normally 100% of base salary. Paul McClenaghan was appointed to the Board of Halfords Group plc on 31 March 2007. In order to more closely align him with shareholders and with the equity participation of other current Board members, the Remuneration Committee has decided to make a one-off award of 200% of base annual salary under the LTIP. This award will be subject to the same stretching performance conditions as all other awards made under this plan. On the vesting of any of this award Paul McClenaghan will be encouraged to retain shares, so enabling him to achieve the shareholding guidelines more quickly.

The shareholding guidelines require executive directors, in post at the time of the adoption of the LTIP, to retain shares to a value equal to 200% of their basic annual salary. Newly appointed executive directors will be required to acquire and retain shares to a value equal to 100% of their basic annual salary over a five year period following their appointment to the Board.

### **PENSIONS**

The Halfords Pension Plan is a defined contribution scheme, which is open to the executive directors. The Group's contributions during the year are shown in the table on page 34.

### **OTHER BENEFITS**

Executive directors are entitled to be provided with a company car or an equivalent allowance, contribution to a personal pension scheme, permanent health insurance, life assurance cover, membership of a private medical insurance scheme and travelling and other expenses. Executive directors may also join the Halfords Sharesave Scheme.

### **NON-EXECUTIVE DIRECTORS**

The Board as a whole, following a recommendation by the Chief Executive, determines the fees of the non-executive directors.

The Company's practice is to appoint non-executive directors under letters of appointment, rather than under service contracts. Those letters of appointment set out fixed terms of appointment (normally three years).

## Directors' Remuneration Report

### ■ ■ PERFORMANCE GRAPH

Schedule 7A of the Companies Act 1985 requires listed companies to provide, by graph, an analysis of the performance of the Company over time as compared with an appropriate and broad equity market index. The FTSE 350 general retail index has been selected because it is a broad equity market index which includes the Company's shares and the Committee believes that no other index would provide a more appropriate comparator, given the nature of the Group's activities.

The graph below shows the Total Shareholder Return ('TSR') performance of an investment of £100 in Halfords Group plc shares over the period following flotation (June 2004) compared with an equivalent investment in the FTSE 350 general retail index.

### ■ ■ EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Details of the executive directors' service contracts are given below.

|                  | Date of service agreement | Notice period |
|------------------|---------------------------|---------------|
| Ian McLeod       | 29 March 2005             | 12 months     |
| Nick Wharton     | 17 May 2004               | 12 months     |
| Paul McClenaghan | 9 May 2005                | 12 months     |

The Company may terminate any of the above service contracts by giving not less than 12 months' notice. Any compensation payable by the Company for early termination would be subject to the normal legal principles of mitigation of loss. No compensation would be payable if a service contract were to be terminated by notice from an executive director or for lawful early termination by the Company.

### Performance graph

Cumulative TSR  
based to 100



## ■ ■ NON-EXECUTIVE DIRECTORS: LETTERS OF APPOINTMENT

The non-executive directors have letters of appointment for a three year period. For the non-executive directors below, the initial three year period from the date of their appointment expires on 7 June 2007. The Board has reappointed these directors for a further three year period, with effect from 8 June 2007.

|              | Date of appointment | Unexpired term at the date of this report |
|--------------|---------------------|---|
| Richard Pym  | 17 May 2004         | 36 months                                 |
| Keith Harris | 17 May 2004         | 36 months                                 |
| Nigel Wilson | 17 May 2004         | 36 months                                 |
| Bill Ronald  | 17 May 2004         | 36 months                                 |

Each letter of appointment is terminable by either party by giving not less than three months' notice or by the Company on payment of fees in lieu of notice. No compensation would be payable to a non-executive director if his engagement were terminated as a result of him retiring by rotation at an annual general meeting, not being elected or re-elected at an annual general meeting or otherwise ceasing to hold office under the provisions of the Articles of Association of the Company.

## ■ ■ PART B — AUDITED INFORMATION

The following section provides details of the remuneration, pension and share interests of the directors for the year ended 30 March 2007 and has been audited.

### ■ ■ DIRECTORS' REMUNERATION

The remuneration and taxable benefits provided by the Company for each director for the 52 weeks to 30 March 2007 were as follows:

| Executive directors            | Notes | 52 weeks to 30 March 2007 |                  |                                  | Total<br>£'000 | 2006<br>Total<br>£'000 |
|--------------------------------|-------|---------------------------|------------------|----------------------------------|----------------|------------------------|
|                                |       | Salaries/Fees<br>£'000    | Bonuses<br>£'000 | Benefits <sup>(5)</sup><br>£'000 |                |                        |
| Ian McLeod                     |       | 375                       | 284              | 20                               | 679            | 330                    |
| Nick Carter                    | (2)   | 194                       | —                | 12                               | 206            | 197                    |
| Nick Wharton                   | (3)   | 37                        | 23               | 2                                | 62             | —                      |
|                                |       | <b>606</b>                | <b>307</b>       | <b>34</b>                        | <b>947</b>     | 527                    |
| <b>Non-executive directors</b> | (4)   |                           |                  |                                  |                |                        |
| Richard Pym                    | (6)   | 125                       | —                | —                                | 125            | 60                     |
| Keith Harris                   |       | 45                        | —                | —                                | 45             | 40                     |
| Bill Ronald                    |       | 40                        | —                | —                                | 40             | 35                     |
| Nigel Wilson                   |       | 60                        | —                | —                                | 60             | 40                     |
|                                |       | <b>270</b>                | <b>—</b>         | <b>—</b>                         | <b>270</b>     | 175                    |
| <b>Total</b>                   |       | <b>876</b>                | <b>307</b>       | <b>34</b>                        | <b>1,217</b>   | 702                    |

(1) Share options (see page 35) and pension (see page 34) are excluded from the table above.

(2) Nick Carter resigned as a director on 2 February 2007.

(3) Nick Wharton was appointed as a director on 3 February 2007.

(4) All non-executive directors were appointed on 17 May 2004. The remuneration of the Chairman and the other non-executive directors consists only of annual fees for their services, both as members of the Board and of the Committees on which they serve.

(5) Benefits include all taxable benefits arising from employment by the Company, primarily the provision of a company car.

(6) With respect to Richard Pym's fee of £125,000 pa, £40,000 pa of the total fee is paid direct to his employer, Alliance & Leicester plc.

## Directors' Remuneration Report

continued

### ■ DIRECTORS' PENSIONS

Pension contributions to defined contribution money purchase schemes made by the Group during the 52 weeks to 30 March 2007 in respect of executive directors were as follows:

|              | Notes | 52 Weeks to<br>30 March<br>2007<br>£'000 | 52 Weeks to<br>31 March<br>2006<br>£'000 |
|--------------|-------|--|--|
| Ian McLeod   |       | 56                                       | 47                                       |
| Nick Carter  | (1)   | 30                                       | 28                                       |
| Nick Wharton | (2)   | 10                                       | —  |
|              |       | <b>96</b>                                | <b>75</b>                                |

(1) Nick Carter resigned as a director on 2 February 2007.

(2) Nick Wharton was appointed as a director on 3 February 2007.

### ■ THE LONG-TERM INCENTIVE PLAN ("LTIP")

The following table gives details of the conditional awards of shares made to the executive directors under the LTIP:

|                     | As at<br>31 March<br>2006 | Lapsed<br>in the<br>period | Awarded<br>in the<br>period | As at<br>30 March<br>2007 | Mid-market<br>price on day<br>of Award (£) | Performance<br>Period |
|---------------------|---------------------------|----------------------------|-----------------------------|---------------------------|--|-----------------------|
| <b>Ian McLeod</b>   |                           |                            |                             |                           |  |                       |
| 2005 LTIP           | 100,977                   | —                          | —                           | <b>100,977</b>            | 3.07                                       | 3 yrs to 1 Apr 2008   |
| 2006 LTIP           | —                         | —                          | 124,584                     | <b>124,584</b>            | 3.01                                       | 3 yrs to 1 Apr 2009   |
| Total               | 100,977                   | —                          | 124,584                     | <b>225,561</b>            | 3.04                                       |                       |
| <b>Nick Wharton</b> |                           |                            |                             |                           |  |                       |
| 2005 LTIP           | 47,231*                   | —                          | —                           | <b>47,231</b>             | 3.07                                       | 3 yrs to 1 Apr 2008   |
| 2006 LTIP           | —                         | —                          | 50,000                      | <b>50,000</b>             | 3.01                                       | 3 yrs to 1 Apr 2009   |
| Total               | 47,231                    | —                          | 50,000                      | <b>97,231</b>             | 3.04                                       |                       |

\* At date of appointment.

## ■ DIRECTORS' INTERESTS IN SHARE OPTIONS

The following table details share options held by executive directors and not exercised at 30 March 2007:

|                             | Note | As at<br>31 March<br>2006 | Granted<br>in the<br>period | Exercised<br>during the<br>period | Lapsed<br>during the<br>year | As at<br>30 March<br>2007 | Exercise<br>Price<br>(£) | Exercisable<br>from | Exercisable<br>to |
|-----------------------------|------|---------------------------|-----------------------------|-----------------------------------|------------------------------|---------------------------|--------------------------|---------------------|-------------------|
| <b>Ian McLeod</b>           |      |                           |                             |                                   |                              |                           |                          |                     |                   |
| Company Share Option Scheme | (1)  | 192,308                   | —                           | —                                 | —                            | <b>192,308</b>            | 2.60                     | 2 June 2007         | 2 June 2014       |
| Sharesave Scheme            | (2)  | 3,086                     | —                           | —                                 | —                            | <b>3,086</b>              | 3.07                     | 1 Oct 2008          | 1 Mar 2009        |
| Total                       |      | 195,394                   | —                           | —                                 | —                            | <b>195,394</b>            |                          |                     |                   |
| <b>Nick Wharton</b>         |      |                           |                             |                                   |                              |                           |                          |                     |                   |
| Company Share Option Scheme | (1)  | 125,000*                  | —                           | —                                 | —                            | <b>125,000</b>            | 2.60                     | 2 June 2007         | 2 June 2014       |
| Sharesave Scheme            | (2)  | 2,850*                    | —                           | —                                 | —                            | <b>2,850</b>              | 2.65                     | 1 Aug 2007          | 1 Feb 2008        |
| Total                       |      | 127,850                   | —                           | —                                 | —                            | <b>127,850</b>            |                          |                     |                   |

\* At date of appointment.

- (1) Options granted under the Halfords Company Share Option Scheme are subject to the achievement of a three year performance condition. For grants up to 150% of basic salary the options can only be exercised if the increase in the defined EPS over the period is not less than the increase in the Retail Price Index ("RPI") plus 6% per year. In the case of grants in excess of 150% of basic salary, the excess can only be exercised in full if the increase is not less than RPI plus 10% per year. For increases in excess of 6% but less than 10%, a proportion of the option in excess of 150% of salary can be exercised.
- (2) The Halfords Sharesave Scheme is a Save-As-You-Earn scheme and is open to all full-time directors and employees with eligible employment service. Options may be exercised under the scheme at £2.65 per share (2004 scheme) and £3.07 (2005 scheme) if the option holder completes his saving contract for a period of three years and then not more than six months thereafter.
- (3) The share options held by Nick Carter at 31 March 2006 lapsed in full on his resignation from the Board on 2 February 2007.

For details of the grant dates of options see note 20 on pages 60 and 61.

The closing share price on 30 March 2007 was 382.25 pence and the price range during the 52 weeks to 30 March 2007 was 284.2 pence to 395.25 pence.

The following table shows the beneficial interest of the directors and their families in the ordinary shares of the Company.

## ■ DIRECTORS' INTERESTS IN SHARES

|                                | Shareholdings<br>as at<br>30 March<br>2007 | Shareholdings<br>as at<br>31 March<br>2006 |
|--------------------------------|--|--|
| <b>Executive directors</b>     |  |  |
| Ian McLeod                     | <b>804,757</b>                             | 804,757                                    |
| Nick Wharton                   | <b>225,000</b>                             | 475,000                                    |
| <b>Non-executive directors</b> |  |  |
| Richard Pym                    | <b>21,538</b>                              | 11,538                                     |
| Keith Harris                   | <b>3,846</b>                               | 3,846                                      |
| Bill Ronald                    | <b>11,538</b>                              | 11,538                                     |
| Nigel Wilson                   | <b>10,000</b>                              | 10,000                                     |

From 30 March 2007 to 6 June 2007 there were no changes in the above interests. All of the above interests were beneficial at each of the above dates. Ian McLeod and Nick Wharton were, at 30 March 2007 and at 6 June 2007, deemed to be interested as discretionary beneficiaries of the Halfords Employees' Share Trust, in so far as it relates to the share options noted on page 35. 877,498 ordinary shares in the Company were held by the trustees of that Trust on those dates. Save as mentioned above, no director had any interest in any share capital of the Company or of any subsidiary.

Approved by the Board and signed on its behalf by

**Keith Harris, Chairman of the Remuneration Committee**  
6 June 2007