

CORPORATE GOVERNANCE

The Board of Halfords Group plc is responsible for the Group's system of corporate governance. The Board is committed to high standards of corporate governance not only in the areas of accountability and risk management but also as a positive contribution to its' business strategy. The Board believes in conducting the Group's affairs in a fair and transparent manner and in maintaining the highest ethical standards in its business dealings.

Statement of compliance with the Combined Code

The Directors consider that the Group has applied the principles and complied with the provisions of Section 1 of the Combined Code 2006 ("the Code") for the financial period to 3 April 2009. This report describes how the Group has complied with the Code.

THE BOARD

Board structure

The Board is currently composed of seven members, consisting of a non-executive chairman and three non-executive Directors and three executive Directors. During the year the Company has operated, on occasions, without a specific Chief Executive Officer or Chairman. Following the resignation of Ian Mcleod on 29 February 2008 Nick Wharton and Paul McClenaghan were appointed acting joint Managing Directors until 22 August 2008 when David Wild took over as the Company's new Chief Executive Officer. On 22 August 2008 the Company's Chairman, Richard Pym, resigned and Nigel Wilson, the Company's Senior Independent Director, was appointed acting Chairman until 28 May 2009 when Dennis Millard was appointed Chairman.

Directors and their interests

The following Directors held office during the financial period ended 3 April 2009:

	Designation	Appointment/ Reappointment date
Richard Pym	Chairman	Resigned 22 August 2008
David Wild	Chief Executive Officer	Appointed 4 August 2008
Nick Wharton	Finance Director	3 February 2007
Paul McClenaghan	Commercial Director	31 March 2007
Nigel Wilson	Senior independent Director	23 July 2008
Keith Harris	Non-executive Director	23 July 2008
Bill Ronald	Non-executive Director	8 June 2007

Details of the Directors' service contracts, emoluments, the interests of the Directors and their immediate families in the share capital of the Company and options to subscribe for shares in the Company are shown in the Directors' remuneration report on pages 47 to 53. The Directors have wide experience and expertise and their biographical details are given on pages 36 and 37.

Dennis Millard was considered on appointment to meet the independence criteria as set out in paragraph A.3.1 of the Code and the three other non-executive Directors are considered by the Board to be independent in character and judgement and within the definition of the Code. 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. At the same time in accordance with the Combined Code, separate individuals have been appointed to the positions of Chairman, Acting Chairman and Chief Executive respectively as described above and job descriptions delineating a clear division of responsibilities between the two has been compiled and issued. Nigel Wilson remains the Company's Senior Independent Director.

The Chairman and the non-executive Directors contribute external expertise and experience in areas of importance to the Group such as marketing, customer and consumer focus, corporate finance, general finance and corporate governance. They also contribute independent challenge and rigour to the Board's deliberations and assist in the development of the Company's strategy, scrutiny of the performance of management in meeting, agree goals and targets and satisfy themselves of the integrity of the Company's internal controls and risk management systems. The Board believes that all of the Directors devote sufficient time and attention as is necessary in order to perform their duties.

CORPORATE GOVERNANCE CONTINUED

Operation 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, monitor risk and ensure that good corporate governance is practised and that the Group meets its other responsibilities to its shareholders, customers, employees 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. The Board meets on a regular basis. During the financial period to 3 April 2009, the Board met formally ten times. Details of the number of Board and Committee meetings and the attendance at those meetings are set out on page 43. 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, strategic issues and risk are made regularly.

The Chairman is primarily responsible for the workings of the Board and is not involved in day-to-day operational issues. He sets the agendas in consultation with the executive Directors and Company Secretary. Board papers are circulated in advance of each meeting. The Chairman periodically holds meetings with the non-executive Directors without the executive Directors present.

Save for matters reserved for decision by the Board, the executive Directors are 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.

Whilst Chairman Richard Pym was a non-executive Director of Old Mutual plc and Chairman of Brighthouse Group Ltd. The Board was satisfied that these appointments did not conflict with his ability to carry out his duties and responsibilities effectively for the Group.

Nigel Wilson was the Senior Independent Director throughout the period under review and acted as Chairman from 22 August 2008 until the appointment of Dennis Millard on 28 May 2009. The Senior Independent Director is available to meet shareholders upon request if they have concerns that contact through the normal channels of the Chairman or the executive Directors has failed to resolve, or for which such contact is inappropriate.

Dennis Millard who was appointed as Chairman of the Board on 28 May 2009 also holds the position of Chairman of Smiths News plc. He is also a non-executive Director of Debenhams plc, Xchanging plc and of Premier Farnell plc. Prior to this appointment, Nigel Wilson in his capacity as Acting Chairman consulted some of the Group's top twenty shareholders and discussed Dennis Millard's prospective appointment and his existing commitments. The Board also considered these commitments and were satisfied that they would not conflict with Dennis's ability to carry out his duties and responsibilities effectively for the Group.

The Group is supportive of executive Directors who wish to take on 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 Group. Executive Directors may retain any fees they receive. The Group's executive Directors do not currently hold any non-executive Directorships.

As well as helping the Chairman to set agendas, the Company Secretary is responsible for ensuring that proper information is made available to the Board and to individual Directors, for liaising between senior management and non-executive Directors as necessary, for advising the Board on governance best practice and for facilitating induction and Director training as required. 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.

Where a Director has a concern over any unresolved business he is entitled to require the Company Secretary to minute that concern. Should that Director later resign over this issue, the Chairman will bring it to the attention of the Board.

The Group purchases Directors' and officers' liability and indemnity insurance to cover its Directors and officers against the costs of defending themselves in civil proceedings taken against them in that capacity and in respect of damages resulting from the unsuccessful defence of any proceedings.

Meetings

The following table sets out the number of meetings of the Board and its Committees and individual attendances thereat during the financial period to 3 April 2009. In addition to the meetings detailed below, additional Board or Board Committee meetings were held during the year for the consideration of specific business. The Board considers that all Directors have enough time to devote to the business of Halfords Group plc.

	Group Board	Audit	Nomination ⁽¹⁾	Remuneration
Number of meetings held	10	3	7	5
Richard Pym ⁽²⁾	4	1*	4	3
David Wild ⁽³⁾	6	—	3	1*
Nick Wharton	10	3*	—	1*
Paul McClenaghan	9	—	—	—
Nigel Wilson	10	3	6	4
Keith Harris	10	3	5	5
Bill Ronald	10	3	6	5

⁽¹⁾ Certain of the Nomination Committee meetings dealt with the search for either a new Chief Executive Officer or a new Chairman, and all Directors attended all the meetings they were entitled to attend.

⁽²⁾ Richard Pym resigned from the Board on 22 August 2008 and had attended all Board and committee meetings up to that date.

⁽³⁾ David Wild was appointed to the Board on 4 August 2008 and attended all Board and committee meetings from that date.

* Indicates attendance by invitation.

Directors' interests in contracts

The Companies Act 2006 ("the Act") provides that a director must avoid situations where he can have a direct or indirect interest that conflicts or might conflict with the interests of the Company. The Directors of Halfords Group plc underwent a training programme to allow them a better understanding of their obligations under the Act and completed a questionnaire issued by the Company Secretary to ascertain whether there were or might have been an actual or potential conflict of interest. At 10 June 2009 no Director had a material interest at any time during the year in any contract of significance, other than a service contract (see Directors' remuneration report on pages 47 to 53), with the Company or any of its subsidiary undertakings.

The Company's Articles of Association, adopted in Annual General Meeting ("AGM") on 23 July 2008, contains provisions that allow the Directors of Halfords Group plc to authorise a conflict or potential conflicts of interest. In the period to 3 April 2009, the Board did not need to make use of such provisions.

Remuneration

The Directors' Remuneration report sets out the status of the Company's compliance with the requirements of the Combined Code with regard to remuneration matters and includes a statement on the Company's policy on Directors and senior managers' remuneration, benefits, share scheme entitlements and pension arrangements. A resolution to approve the Directors' Remuneration report will be proposed at the forthcoming AGM.

Appointment of Directors

The Company's Articles of Association require Directors appointed by the Board during the year to retire and offer themselves for reappointment at the first AGM following their appointment. David Wild and Dennis Millard were appointed on 4 August 2008 and 28 May 2009 respectively and as required by the Company's Articles will offer themselves for re-election at the AGM on 29 July 2009.

Under article 76 of the Company's Articles of Association there is also

a process of retirement by rotation, which ensures that approximately one-third of all Directors (rounded down) are required to retire and seek re-election at each AGM and that no Director serves for more than three years without being proposed for re-election at an AGM. Accordingly Bill Ronald, Paul McClenaghan and Nick Wharton will retire and offer themselves for re-election at this year's AGM.

Non-executive Directors are appointed for specified terms (normally three years) and these Terms and Conditions of Appointment are available on the Group's website, *halfordscompany.com*. They are 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 confirms 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 the period to 3 April 2009 the Directors attended two training days. The first concerning the Companies Act 2006 and Directors' Conflicts of Interests and the second concerning Directors' responsibilities in certain commercial situations. All Directors are also members of the Deloitte Academy, a training resource that provides support and guidance to Boards, individual directors and company secretaries. 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.

CORPORATE GOVERNANCE CONTINUED

Board Committees

The Board has established an effective Committee structure to assist in the discharge of its responsibilities. The terms of reference of these Audit, Nomination and Remuneration Committees comply with the provisions of the Combined Code and are available for inspection on the Company's website, *halfordscompany.com*.

The Company Secretary acts as secretary to the Audit, Nomination and Remuneration 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 financial period to 3 April 2009, 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, having been 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.

The Audit Committee is responsible for making recommendations to the Board on the appointment of the external Auditors and their remuneration, for reviewing the accounting principles, policies and practices adopted in the preparation of the Interim Report and Annual Report and Financial Statements and reviewing the scope and findings of the audit. The Committee assists the Board in achieving its obligations under the Combined Code in areas of risk management and internal control, focusing particularly on compliance with legal requirements, accounting standards and the Listing Rules, and ensures that an effective system of internal financial and non-financial controls is maintained. The ultimate responsibility for reviewing and approving the Annual Report and Financial Statements remains with the Board.

The Committee will keep under review the external Auditors' independence including any non-audit services that are to be provided by the external Auditors. The Auditors are also requested to confirm their independence at least annually. A formal policy has been developed and implemented, which ensures that the nature of the advice to be provided could not impair the objectivity of the external Auditors' opinion on the Group's financial statements. The policy incorporates a fee limit of £25,000, above which a formal tender process must be undertaken and approval of the Committee obtained prior to any proposed appointment.

The Committee has approved a formal whistle-blowing policy whereby staff may, in confidence, disclose issues of concern about possible malpractice or wrongdoings by any of the Group's businesses or any of its employees without fear of reprisal. This includes arrangements to investigate such matters and for appropriate follow-up action.

In addition to ensuring the integrity of the Group's half-year and full-year financial statements before publication, during the financial year to 3 April 2009 the committee:

- Considered the external Auditors report for the period ended 28 March 2008 and 26 September 2008;
- Received regular reports from the internal Auditors and agreed the annual audit plan;
- Conducted an internal review of its own effectiveness;
- Reviewed, amended and approved its own Terms of Reference;
- Reviewed and approved the Company's whistle-blowing policy;
- Reported to the Board on matters it had identified as requiring action or improvement;
- Approved responses to the Financial Reporting Review Panel, in respect of informal enquiries on the Group's Annual Report and Financial Statements for the year ended 29 March 2007;
- Recommend for approval the Group's risk management and internal control policies; and
- Approved the external Auditors' audit strategy and audit fee for the period to 3 April 2009.

Having retained the services of PricewaterhouseCoopers LLP as statutory Auditors since 2003, the committee has progressed a complete review of such services available to the Group. As a result of this process, KPMG LLP will be recommended to the shareholders at the AGM as Auditors for the forthcoming financial year.

Nomination Committee

For the financial period to 3 April 2009 the Nomination Committee comprised Keith Harris, Bill Ronald, Nigel Wilson, Richard Pym prior to his resignation and David Wild following his appointment. Richard Pym chaired the committee up to his resignation and as acting Chairman Nigel Wilson chaired the committee for the rest of the year. Keith Harris, Nigel Wilson and Bill Ronald are considered independent non-executive Directors. The Combined Code states that the test of independence is not appropriate in relation to the Chairman after his appointment and the Board feels it is appropriate, as all non-executive Directors sit on the committee, that the committee should be chaired by the Chairman of the Group. Dennis Millard will chair the committee going forward.

The Committee, which will normally meet not less than twice a year, has responsibility for considering the size, structure and composition of the Board of the Company, retirements and appointments of additional and replacement Directors and making appropriate recommendations so as to maintain an appropriate balance of skills and experience on the Board.

The Nomination Committee has established a process for Board appointments that it considers to be formal, rigorous and transparent and involves the use of external executive recruitment agencies. This process includes a review of the skills, experience and knowledge of the existing Directors, to assess which of the potential shortlisted candidates would most benefit the balance of the Board having regard also to the need for succession planning. During the search for a new Chief Executive Officer and a new Chairman, the committee used the services of the executive recruitment agencies, The Miles Partnership and Egon Zehnder and included on its shortlist candidates who were nationally and internationally available.

In recommending Dennis Millard to be appointed Chairman of the Group, the Nomination Committee assessed the time commitment required by the Chairman. In approving the appointment the Board took this into account and also considered Dennis's other commitments. The Board concluded that he had enough time to fulfil his commitments to the Group and his other commitments would not affect his ability to carry out his duties and responsibilities effectively for the Group.

During the financial year to 3 April 2008, the committee:

- Approved the search process for a new Chief Executive Officer.
- Evaluated the skills and experience required by a new Chief Executive Officer.
- Recommended to the Board the appointment of David Wild as Chief Executive Officer.
- Discussed the resignation of the Chairman and approved the search process for a new Chairman.
- Evaluated the skills, experience and time commitment required by a new Chairman.
- Reviewed, amended and approved its own Terms of Reference.
- Approved Directors for reappointment and re-election at the AGM.
- Considered the composition of the Board's committees.
- Conducted an internal review of its own effectiveness.

The terms of appointment for the non-executive Directors are available for inspection on the Company's website halfordscompany.com.

In view of the appointment of Dennis Millard on 28 May 2009 the discussion on Board size, structure, composition and succession has been held over for future consideration.

Remuneration Committee

For the financial period to 3 April 2009, the Remuneration Committee comprised Keith Harris (Chairman), Nigel Wilson, Bill Ronald and prior to his resignation Richard Pym. Keith Harris, Nigel Wilson and Bill Ronald are all independent non-executive Directors.

Executive Directors attend Remuneration Committee meetings at the invitation of the Committee Chairman. The Remuneration Committee will normally meet at least twice a year.

The Remuneration Committee has responsibility for making recommendations to the Board on the Company's policy on remuneration of executive Directors, the Company Secretary and senior managers. It also determines, within agreed terms of reference, specific remuneration packages for each of the Chairman, the executive Directors and the Company Secretary of the Company and such members of senior management as it is delegated to consider. This includes pension rights; any compensation payments; and the implementation of executive incentive schemes. In accordance with the Committee's terms of reference, no Director may participate in discussions relating to their own terms and conditions of service or remuneration.

Further information on the activities of the Remuneration Committee is set out in the Directors' remuneration report on pages 47 to 53.

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 is invited to comment on the performance of the individual, the Board, or the appropriate Committee and submits replies to the questionnaires, which are then collated. Following a review of these responses by the Board or by the appropriate Committee, 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 discusses with the Chairman the responses to the Chairman's effectiveness questionnaire, whilst the Chairman discusses the non-executive Directors' performance evaluation with the individual non-executive Directors.

Relationships with shareholders

The Board recognises the importance of establishing and maintaining good relationships with all of the Company's shareholders. The Chief Executive and Finance Director 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 Chairman and the Senior Independent Director are 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.

CORPORATE GOVERNANCE CONTINUED

The Interim Report and the Annual Report and Financial Statements 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 (*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 AGM as a forum to meet with shareholders and to hear their views and answer their questions about the Group and its business. The AGM of the Group is to be held on 29 July 2009 at The Alveston Manor Hotel, Stratford-upon-Avon. Notice of this meeting together with an explanatory circular describing any items of special business, will be sent out at least 21 days before the date of 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 AGM. 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 the inside back cover.

Internal control and risk management

The Board has overall responsibility for the system of internal control and for reviewing its effectiveness throughout the Group and ensuring that there is a process in accordance with the guidelines laid down by the Turnbull Report to identify, evaluate and manage any significant risks that may affect the achievement of the Group's strategic objectives.

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 Board and the Audit Committee have reviewed the effectiveness of the Group's systems of internal control and risk management in accordance with the Combined Code for the financial period to 3 April 2009, and up to the date of approving the Annual Report and Financial Statements.

Deloitte LLP, as independent advisers, are formally engaged to provide internal audit services, reporting to the Board, via the Audit Committee. Their principal role in fulfilling the Internal Audit function is to review the effectiveness of the controls operating within the business by undertaking an agreed schedule of independent audits each year. The nature and scope of this annual audit programme is determined by the Audit Committee at the beginning of each calendar year and may be revised from time to time according to changing business circumstances and requirements.

The findings of these risk-based audits are reported initially to executive management and any necessary corrective actions are agreed. Summaries of these reports are presented to, and discussed with, the Audit Committee along with details of progress against action plans as appropriate.

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; and
- 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 ongoing 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 Store Operations, Business Systems, Health & Safety, Human Resources, Finance, Store Assurance, Business Services, International, Multichannel, Logistics and Supply Chain functions. The Group is advised by Deloitte LLP, the Group's internal Auditors.

Through its normal business operations, the Company is exposed to a number of principal risks and uncertainties which could impact the on the results of the Company. These, together with their mitigating controls, are described in the Finance Director's report on pages 20 to 23.

By order of the Board

ALEX HENDERSON
COMPANY SECRETARY
10 JUNE 2009