

Corporate Governance

The Board of Halfords Group plc is responsible for determining the long-term direction and strategy of the Group in a framework of sound and robust 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 2 April 2010. This report describes how the Group has complied with the Code.

Board Structure, Directors and their interests

The Board is currently composed of seven members, consisting of a non-executive chairman, three non-executive Directors and three executive Directors. Dennis Millard was appointed Chairman on 28 May 2009, following an executive search process. Nigel Wilson as the Company's Senior Independent Director held the position of acting Chairman from 22 August 2008 until 28 May 2009.

Dennis Millard was considered on appointment to meet the independence criteria as set out in paragraph A.3.1 of the Code and continued with his existing commitments (as disclosed on page 61).

The 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 and Chief Executive respectively as described above and job descriptions delineating a clear division of responsibilities between the two have been compiled and issued.

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 agreed goals and targets and satisfying 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.

The following Directors held office during the financial period to 2 April 2010:

	Designation	Appointment/Reappointment date
Dennis Millard	Chairman	Appointed 28 May 2009
David Wild	Chief Executive Officer	29 July 2009
Nick Wharton	Finance Director	29 July 2009
Paul McClenaghan	Commercial Director	29 July 2009
Nigel Wilson	Senior Independent Director	23 July 2008
Keith Harris	Non-executive Director	23 July 2008
Bill Ronald	Non-executive Director	29 July 2009

Non-executive Directors are appointed for specified terms (normally three years) and their 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 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 operational sites. Documentation and training on their duties as Directors are also available to all Directors. All Directors are 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.

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. No Directors have been appointed since the last AGM. The articles also require that every Director must retire and seek re-election at least every three years. Following the publication of the revised Combined Code on 28 May 2010, the Board has agreed that all Directors will stand for re-election at the AGM on 27 July 2010.

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 71 to 80. The Directors have wide experience and expertise and their biographical details are given on pages 60 and 61.

In response to the requirements of the Companies Act 2006 introduced in October 2008, each Director has notified the Company of any situation in which he or she has, or can have a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company (a situational conflict). These interests were considered and approved by the Board in accordance with the Company's Articles of Association and each Director was informed of the authorisation and the terms on which it was given. All Directors are aware of the need to consult with the Company Secretary regarding any further possible situational conflict that may arise so that prior consideration can be given by the Board to whether or not such conflict will be approved.

Operation of the Board

The Board has a formal schedule of matters reserved for the Board, which it has reviewed during the year and considered fit for purpose. The Board's primary 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 key senior management positions and to establish and monitor the Group's policies and performance in the area of corporate social responsibility.

Meetings

The Board had nine scheduled meetings this year and others as required. During 2009 three additional Board meetings were held to consider the acquisition of Nationwide Autocentres. Whilst the Board has specific responsibility for those matters reserved for its consideration, in certain areas, specific responsibility is delegated to committees of the Board within defined terms of reference.

During the year the Board committees, Audit, Nomination and Remuneration, scheduled two, three and five meetings respectively. Individual Director attendance is shown below.

	Group Board	Audit	Nomination	Remuneration	
Dennis Millard	12	1*	2 ⁽¹⁾		6
David Wild	12	2*	3		4*
Nick Wharton	12	2*			
Paul McClenaghan	11				
Nigel Wilson	11	2	2		6
Keith Harris	10	1	2 ⁽¹⁾		6
Bill Ronald	11	1	3		5

* Indicates attendance by invitation.

⁽¹⁾ Dennis Millard and Keith Harris attended all the Audit and Nomination Committee meetings they were entitled to attend.

To enable the Board to function effectively and assist Directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of Board meetings, this consists of a comprehensive set of papers, including regular business progress reports and discussion documents regarding specific matters. In addition, individual Directors meet with senior management and are encouraged to make periodic site visits. Senior managers are regularly invited to Board meetings and make business presentations. The Chairman, supported by the Company Secretary, maintains a rolling twelve-month agenda for Board meetings to ensure all relevant matters are planned in to the cycle of meetings and considered at the appropriate time.

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 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. Nick Wharton, the Company's Finance Director, was appointed as a non-executive director to the Board of Dunelm Group plc, on 14 August 2009, where he also chairs the Audit Committee.

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.

Within this evaluation process, the Senior Independent Director discusses with the Chairman feedback on his annual performance, whilst the Chairman discusses the non-executive Directors' performance evaluation with the individual non-executive Directors.

Following a review of these responses by the Board or by the appropriate Committee, appropriate action is 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.

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The key actions taken to further enhance Board performance during the year and the principal observations from the recently completed Board evaluation are summarised below:

2009 Performance Review

Observation	Action
Board Composition	
Continually review the balance of the Board to ensure that the Board has the right composition and mix of knowledge and skills to maximise performance.	A new Chairman was appointed in May 2009. The Board composition and skill sets were kept under continual review during this appointment process. Subsequent Board Evaluation confirmed that the structure, size and composition was appropriate but would be subject to ongoing consideration to ensure the Board continued to possess skills that complemented the Company's strategy and allowed for orderly succession.
Succession Planning	
(i) Increase Board visibility and input to succession planning for executive roles and key senior management positions to ensure they adequately reflect the challenges and opportunities facing the Company and identify future skills and expertise required by the Group.	The Board received an annual update from the CEO on development of executive roles and senior management positions, identifying areas of additional succession planning and capability requirements. The CEO, assisted by the Chairman, conducts formal reviews of the development needs of senior executives.
(ii) Increase the exposure of the non-executive Directors to key senior managers.	A mentoring programme is to be introduced, with each non-executive Director assigned a number of key executives below Board level.
Governance	
Ensure Board knowledge on key governance topics remains contemporary and relevant.	Seminars on Directors' Conflicts of Interest and on M&A class transactions were held in 2009 and the Remuneration Committee Chairman meet with shareholders and investors to discuss current trends in executive remuneration.

2010 Performance Review

The key findings of the above performance evaluation process, which will be the subject of focus in the forthcoming financial year, are as follows:

- To align the Company with the recommendations made by the Financial Reporting Council as a result of its review of the Combined Code, the Board felt that the process for identifying, reviewing and monitoring risk could be made more dynamic and the Board's "risk appetite" should be defined.
- Given the Company's strategic objective of leveraging the Halfords brand within its multi-channel offer, it was felt that the Board would benefit from greater exposure to trends within this fast-moving environment.

Board Committees

The Board has established an effective Committee structure to assist in the discharge of its responsibilities. The terms of reference of the 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.

Remuneration Committee

For the financial period to 2 April 2010, the Remuneration Committee comprised Keith Harris (Chairman), Nigel Wilson, Bill Ronald and, following his appointment as Chairman on 28 May 2009, Dennis Millard. 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 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 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 71 to 80. 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.

Nomination Committee

The Nomination Committee comprised Dennis Millard, Keith Harris, Bill Ronald, Nigel Wilson and David Wild. As acting Chairman, Nigel Wilson chaired the committee until 28 May 2009 when Dennis Millard was appointed Chairman of the Committee. 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. Senior members of management and advisors are invited to attend meetings as appropriate.

The Committee has responsibility for considering the size, structure and composition of the Board of the Company, for reviewing senior management succession plans, 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 Chairman, the committee used the services of the executive recruitment agency Egon Zehnder.

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.

Audit Committee

For the financial period to 2 April 2010, 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, as Chief Financial Officer of Legal & General 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. Senior members of management and advisors are invited to attend meetings as appropriate.

The Audit Committee meets 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 Statement 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, and the rollout to our autocentre colleagues.

Relationships with shareholders

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.

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The Board recognises the importance of establishing and maintaining good relationships with all of the Company's shareholders. During the period under review the Chief Executive, Finance Director, Chairman and Remuneration Committee Chairman have met with analysts and institutional shareholders to keep them informed of significant developments and report to the Board accordingly on the views of these stakeholders. 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. Independent 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 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 Tuesday 27 July 2010 at The Alveston Manor Hotel, Stratford-upon-Avon. 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 at the meeting.

The Company's financial calendar is set out on page 136.

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 2 April 2010, and up to the date of approving the Annual Report and Financial Statements.

The internal audit function provides internal audit reports to the Board, via the Audit Committee. Whilst directed by Nick Wharton, the Company's Finance Director, it is independent in action and reporting, and has a direct line of communication to the Audit Committee

Chairman. The 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 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 senior executives 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, Multi-channel, Logistics, and Supply Chain functions. During the financial period to 2 April 2010 and up to the date of this report the Group considered the Company's Risk Register and its alignment with the Company's key strategic objectives.

Linked to the Group's Strategy and through its normal business operations, the Company is exposed to a number of commercial, financial risks and other uncertainties which could impact on the results of the Company, as described in the Finance Directors' Report on pages 52 to 57. This is not an exhaustive list and there may be other risks that have not been considered or that the Board considers are immaterial in nature.

By order of the Board

Alex Henderson
Company Secretary
10 June 2010