

The Board 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 business prosperity. 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 on Corporate Governance for the financial period to 28 March 2008. This report describes how the Group has complied with the Code.

**THE BOARD**

**Board structure**

The Board is currently composed of six members, consisting of a non-executive Chairman, three non-executive Directors and two executive Directors. Up to 29 February 2008 the Board had three executive Directors, on which date the Company's Chief Executive Ian McLeod resigned and the remaining executive Directors Nick Wharton and Paul McClenaghan were appointed acting joint Managing Directors.

The three non-executive Directors are considered by the Board to be independent in character and judgement and within the definition of the Combined 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. Richard Pym and following the resignation of Ian McLeod, Chief Executive Officer, the remaining executive Directors Nick Wharton and Paul

McClenaghan were appointed acting joint Managing Directors. Nigel Wilson has been appointed the 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 the Board believes that all of the Directors devote sufficient time and attention as is necessary in order to perform their duties.

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 52 to 59. The Directors have wide experience and expertise and their biographical details are given on pages 40 and 41.

**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 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 ended 28 March 2008, the Board met formally ten times. Details of the number of Board and Committee

**Directors and their interests**

The following Directors held office during the financial period ended 28 March 2008:

	<b>Designation</b>	<b>Appointment/ Reappointment date</b>
Richard Pym	Chairman	8 June 2007
Ian McLeod	Chief Executive	Resigned 29 February 2008
Nick Wharton	Finance Director	3 February 2007
Paul McClenaghan	Director of Trading	31 March 2007
Nigel Wilson	Senior Independent Director	8 June 2007
Keith Harris	Non-executive Director	8 June 2007
Bill Ronald	Non-executive Director	8 June 2007



meetings and the attendance at those meetings are set out below. 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.

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.

The Chairman, Richard Pym is currently a non-executive Director of Old Mutual plc and Chairman of Brighthouse Group Ltd. The Board is satisfied that these appointments do not conflict with the Chairman's ability to carry out his duties and responsibilities effectively for 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 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. Ian McLeod served as a non-executive Director of Fulham Football Club during the period, retaining fees of £25,000 per annum (2007: £25,000).

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 28 March 2008. In addition to the meetings detailed below, additional Board or Board Committee meetings were held during the year for the consideration of specific business.

	Group Board	Audit	Nomination	Remuneration
Number of meetings held	10	3	5	3
Richard Pym	10	3*	5	3
Ian McLeod <sup>(1)</sup>	9	1*	2	—
Nick Wharton	10	3*	—	1*
Paul McClenaghan	9	—	—	—
Nigel Wilson	10	3	5	3
Keith Harris	9	2	5	3
Bill Ronald	10	3	5	3

<sup>(1)</sup> Ian McLeod resigned from the Board on 29 February 2008 and had attended all Board and committee meetings up to that date.

\* Indicates attendance by invitation.

### **Directors' interests in contracts**

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 52 to 59), with the Company or any of its subsidiary undertakings.

### **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 Annual General Meeting ("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. Paul McClenaghan, Director of Trading was appointed to the Board on 31 March 2007 and was subsequently reappointed at the AGM on 25 July 2007.

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, Nigel Wilson and Keith Harris will retire and offer themselves for re-election at this year's AGM.

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 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 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 an effective Committee structure to assist in the discharge of its responsibilities. The terms of reference of these 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 Auditors 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 28 March 2008, 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 Auditors.

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 and annual accounts 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 accounts 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 year the Committee:

- Considered the external auditors' report for the period ended 30 March 2007 and 30 September 2007.
- 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.
- Recommended for approval the Group's risk management and internal control policies.
- Approved the external auditors' audit strategy for the period ended 28 March 2008.

#### **Nomination Committee**

For the financial period to 28 March 2008 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 Combined Code states that the test of independence is not appropriate in relation to the Chairman after his appointment.

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. 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 year, the committee:

- Discussed the resignation of the Company's CEO and approved the search process for a new CEO.
- Discussed the long-term succession planning of the Board.
- Reviewed the size, structure and composition of the Board.
- Reviewed, amended and approved its own Terms of Reference.
- Approved Directors for reappointment 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](http://halfordscompany.com).

#### **Remuneration Committee**

For the financial period to 28 March 2008, 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.

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 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 52 to 59.

#### **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, 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 (*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 23 July 2008 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 page 100.

#### **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 28 March 2008, and up to the date of approving the Annual Report and Accounts.

Deloitte & Touche LLP, as independent adviser, is 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 Finance, Business Systems, Supply Chain and Logistics, Store Assurance and Internal Audit functions.

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 Directors' report on pages 25 to 27.

By order of the Board

**Alex Henderson**  
**Company Secretary**

**4 June 2008**