

# DIRECTORS' REMUNERATION REPORT

This report, prepared by the Remuneration Committee (“the Committee”) on behalf of the Board, has been prepared pursuant to Schedule 7A of the Companies Act 1985. Part 3 of Schedule 7A requires designated parts of the Remuneration Report to be subject to audit. In preparing this report, consideration has been given to the Listing Rules issued by the Financial Services Authority and to the Combined Code on Corporate Governance 2006.

The report has been approved both by the Remuneration Committee and by the Board, and a resolution to approve the report will be proposed at the Annual General Meeting (“AGM”) of the Company on 23 July 2008.

## PART A — UNAUDITED INFORMATION

### Remuneration Committee

#### Membership

The Committee comprised the following non-executive Directors during the financial period to 28 March 2008:

Keith Harris (Committee Chairman)  
Nigel Wilson  
Bill Ronald  
Richard Pym

#### Meetings

During the financial period to 28 March 2008 the Committee met on three occasions. All members attended all meetings. The Executive Directors are invited to attend the Committee’s meetings, when appropriate, but are not present when their own remuneration is discussed.

#### Role

The Board has delegated to the Remuneration Committee responsibility for reviewing and recommending the pay and benefits and contractual arrangements of the Chairman, Executive Directors and the Company Secretary and for overseeing the Group’s share schemes.

The Committee recommends and monitors the structure and levels of remuneration for senior managers throughout the Group and ensures that contractual terms on termination, and any payments made, are fair to the individual and the Company, ensuring that failure is not rewarded and that the departing manager’s duty to mitigate loss is fully recognised.

It is committed to principles of accountability and transparency to ensure that remuneration arrangements demonstrate a clear link between reward and performance. In its work, the Committee considers fully the principles and provisions of the Combined Code on Corporate Governance and its terms of

reference are available on the Group’s website, [halfordscompany.com](http://halfordscompany.com).

### Responsibilities

- To review and recommend the remuneration policy of executive Directors and senior managers.
- Within this policy, agreeing individual remuneration packages for the Chairman, executive Directors and senior managers, including the Company Secretary.
- Reviewing and recommending the terms and conditions to be included in service agreements for executive Directors.
- Reviewing and recommending any employee share-based incentive schemes.
- Reviewing and recommending changes to the rules of employee share-based incentive schemes.
- Reviewing and recommending appropriate performance conditions and targets for the variable element of remuneration packages.

### Advisers

During the year the Hay Group have continued to provide advice to the Committee on matters relating to remuneration, including market comparison data and best practice. During the year the Committee has also received advice from the Miles Partnership in connection with the recruitment of a new Chief Executive Officer. Neither of these companies has any other connection with the Group.

The Committee consults with the Chief Executive and, since his resignation, with the acting joint Managing Directors, as appropriate, and is also supported by the Director of Human Resources.

### Activities

During the year the Committee:

- Reviewed and recommended the annual bonuses for the Chief Executive, executive Directors and senior managers in respect of 2008.
- Approved proposals and targets to the variable discretionary bonus schemes that affect the Chief Executive, other executive Directors and senior managers in respect of 2009.
- Reviewed the performance conditions of the 2005 and 2006 Long-Term Incentive Plans (“LTIP”).
- Granted awards under the LTIP 2007 to a maximum of 12, previously 10, senior managers. Paul McClenaghan was granted an award equivalent of 200% of his salary as a consequence of his appointment as a Director on 31 March 2007.
- Conducted an internal effectiveness review, which concluded that there were no items of concern needing to be considered by the committee.
- Reviewed the remuneration policy for executive Directors and senior managers, including the Company Secretary.