

Corporate Governance Report



The Board is *committed* to ensuring that *high standards* of governance, values and behaviours are consistently applied throughout the Group.”

Dennis Millard
Chairman



50/50

The Halfords Board represented equally by female and male members

Fast Fact*

Halfords is a
Top 100
Apprenticeship Employer

Chairman's Introduction

My primary role is to lead the Board and ensure that it works effectively and collaboratively to create sustainable, long-term shareholder value.

Good corporate governance is a key element of our business success. The Board is therefore committed to ensuring that high standards of governance, values and behaviours are consistently applied throughout the Group. These elements are critical to business integrity and maintaining the trust of all stakeholders in Halfords.

As reported last year, Jill McDonald was appointed as Chief Executive Officer on 11 May 2015. In October 2015 the Board welcomed the new Chief Financial Officer, Jonny Mason, following the resignation of Andrew Findlay. Jonny joined the Company from Scandi Standard AB, a Scandinavian company, where he was CFO. Prior to that he was CFO at Odeon and UCI Cinemas and Finance Director of Sainsbury's Supermarkets. He brings to the Board a broad range of financial experience across consumer facing and retail businesses.

The following Corporate Governance Report contains a summary of the Company's governance arrangements and the regulatory assurances required under the UK Corporate Governance Code 2014.

I would encourage you to attend this year's AGM where you can meet me and my Board colleagues.

Dennis Millard
Chairman
1 June 2016

Statement of Compliance with UK Corporate Governance Code

Responsibility for good governance lies with the Board. The Board is accountable to shareholders and is committed to the highest standards of corporate governance as set out in the UK Corporate Governance Code 2014 (the "Code"). The Code can be found on the Financial Reporting Council's website at www.frc.org.uk. The Board considers that throughout the period ended 1 April 2016, the Company has complied, without exception, with the provisions of the Code.

This report outlines how the Board has applied the main principles of good governance set out in the Code during the period under review.

*Fast Fact figures relate to 4th April 2015 - 1st April 2016

Board Composition and Succession

As at the date of this report, the Board of Directors was made up of six members, comprising the Non-Executive Chairman, two Executive Directors and three Non-Executive Directors. The composition of the Board is as set out on page 38 and the biographies of individual Directors, including any other business commitments, are available on page 36 and also at www.halfordscompany.com/investors/governance/the-board.

Each of the Non-Executive Directors (excluding the Chairman) is considered independent of management and free of any relationship that could materially interfere with the exercise of their independent judgement. The Chairman was considered independent upon his appointment. The Board considers that each Non-Executive Director brings their own senior level of experience, gained within their field.

Succession planning for the Board is on-going and the recent appointments of Jill McDonald and Jonny Mason are noted. Succession planning is also viewed at executive management level on an on-going basis.

Board Responsibilities

The Board is committed to ensuring that it provides leadership to the business as a whole, having regard to the interests and views of its shareholders and other stakeholders. It is also responsible for setting the Group's strategy, values and standards. Details of the Group's business model and strategy can be found on pages 10 to 20.

The roles of Chairman and Chief Executive Officer are separate and clearly defined, with the division of responsibilities set out in writing and agreed by the Board. The definitions of the roles are available at: www.halfordscompany.com/investors/governance/division-of-responsibilities-between-the-chairman-and-chief-executive-officer.

The Directors together act in the best interests of the Company via the Board and its Committees, devoting sufficient time and consideration as necessary to fulfil their duties. Each Director brings different skills, experience and knowledge to the Company, with the Non-Executive Directors additionally bringing independent thought and judgement. This combination seeks to ensure that no individual or group unduly restricts or controls decision-making.

THE BOARD

Key matters reserved for Board approval

Group strategy and risk management

- Approval of the Group's Strategy and Business Plan
- Approval of changes to capital structure
- Approval of acquisitions or disposals
- Approval of any decisions to cease to operate all or any material part of the Group's business.
- Approval of extension of activities into new businesses or geographical areas

Financial and internal controls

- Oversight of risk management and internal control framework
- Approval of budgets
- Approval of financial statements and results announcements
- Approval of shareholder communications, circulars and Notices of Meetings
- Approval of the Auditor's remuneration and terms of engagement

- Recommendation and declaration of dividends
- Approval of major capital expenditure projects
- Approval of material contracts,

Board membership and committees

- Appointment of Directors
- Approval of the fees of the Non-Executive Directors
- Setting of Board Committees' Terms of Reference

Corporate governance

- Undertaking formal performance reviews of the Board, Committees and individual Directors
- Determining the independence of Directors
- Receiving reports on Group policies, such as health and safety, risk management strategy, the environment and charitable and political donations

 Read more about the remit of each Committee on page 44

 See Committee Terms of Reference at www.halfordscompany.com/investors/governance/our-committees



'How We Do Business' is the internal name of the formal delegated authorities document approved by the Board. It describes how day-to-day decisions are delegated to the Executive Directors, the Senior Management Team and others within the business. Each potential activity is set out by reference from whom approval must be sought and the process and documentation required to evidence that approval. Where an activity is not expressly described within How We Do Business, approval must be sought from the Senior Management Team, who will apply the principles of How We Do Business to the decision. The implementation of the document is constantly monitored, with updates proposed to the Board to reflect changing practices or structures. Briefing sessions were held for all relevant Support Centre and Operating colleagues upon launch and are refreshed whenever the document is updated.

Corporate Governance Report continued

Board Responsibilities

The key responsibilities of Board members are set out below:

Role	Main Responsibilities
Chairman of the Board	<ul style="list-style-type: none"> Leadership of the Board including its operation and governance Builds an effective and complementary Board Sets the agenda, style and tone of Board discussions Facilitates and encourages active engagement in meetings, promoting effective relationships and open communication Ensures effective communications with shareholders and other stakeholders Acts as an adviser to the CEO
Group Chief Executive	<ul style="list-style-type: none"> Develops the Group objectives and strategy for Board approval Creates and recommends to the Board an annual budget and three year financial plan Delivers the annual budget and plan and other objectives and executes the agreed Group strategy Identifies and executes new business opportunities and potential acquisitions or disposals Manages the Group's risk in line with the Board approved risk profile
Senior Independent Director	<ul style="list-style-type: none"> Supports the Chairman in his role Holds meetings with the other Non-Executive Directors without the Chairman at least once a year to appraise the Chairman's performance Acts as an intermediary for the other Directors or as a sounding board for the Chairman if required Available to other Directors and shareholders with concerns that cannot be addressed through the normal channels
Non-Executive Directors, including the Chairman	<ul style="list-style-type: none"> Evaluate and appraise the performance of Executive Directors and Senior Management against agreed targets Participate in the development of the strategy of the Group Monitor the financial information, risk management and controls processes of the Group to make sure that they are sufficiently robust Meet regularly with senior management Periodically visit Retail stores, Autocentres and distribution centres Meet together regularly without the Executive Directors present Formulate Executive Director remuneration and succession planning
Company Secretary	<ul style="list-style-type: none"> Works closely with the Chairman, Group Chief Executive Officer and Board Committee Chairmen in setting the rolling calendar of agenda items for the meetings of the Board and its Committees Ensures accurate, timely and appropriate information flows within the Board, the Committees and between the Directors and senior management Provides advice on Board matters, legal and regulatory issues, corporate governance, Listing Rules compliance for example against the Listing Rules, and best practice

A formal schedule of matters reserved for the Board is in place and regularly reviewed.

 This is available at: www.halfordscompany.com/investors/governance/matters-reserved-for-the-board

To discharge these responsibilities effectively, the Board has additionally implemented a system of delegated authorities, which is described on page 41. This enables the effective day-to-day operation of the business and ensures that significant matters are brought to the attention of management and the Board as appropriate. It is through this system that the Board is able to provide oversight and direction to the Executive Directors, the Senior Management Team and the wider business.

Matters Reserved for the Board include: Authority; Strategy and Management; Structure and Capital; Investor Relations; Audit, Financial Reporting and Controls; Nominations to the Board; Executive Remuneration and Significant Contracts.

Board Meetings and Attendance

Board Member	Board Scheduled: 12	Audit Committee Scheduled: 3	Remuneration Committee Scheduled: 8	Nomination Committee Scheduled: 3
Executive Directors				
Jill McDonald	10 / 10	n/a	n/a	3 / 3
Jonny Mason	5 / 5	n/a	n/a	n/a
Matt Davies	1 / 1	n/a	n/a	0 / 0
Andrew Findlay	7 / 7	n/a	n/a	n/a
Non-Executive Directors				
Dennis Millard	12 / 12	n/a	8 / 8	3 / 3
David Adams	12 / 12	3 / 3	8 / 8	3 / 3
Claudia Arney	12 / 12	3 / 3	8 / 8	3 / 3
Helen Jones	11 / 12	3 / 3	7 / 8	3 / 3

● Number of meetings attended by the individual

● Number of meetings available to the individual

The table above shows the attendance of Directors at the meetings of the Board and of the Audit, Nomination and Remuneration Committees during the year ended 1 April 2016. Where a Director did not attend meetings owing to prior commitments or other unavoidable circumstances, they provided input to the Chairman so that their views were known. There was one Board meeting during the period where a CEO was not in post.

Other members of the Senior Management Team and advisors attended Board meetings by invitation as appropriate throughout the year. The Board also held a two-day Strategy meeting during the period.

At each Board meeting, the Chief Executive Officer delivers a high level update on business, the Board considers specific reports, reviews business and financial performance, key initiatives, risks and governance. In addition, throughout the year the Senior Management Team and other colleagues deliver presentations to the Board on proposed initiatives and progress on projects.

Board Committees

The Board's principal Committees are the Audit Committee, the Nomination Committee and the Remuneration Committee. In December 2015, the Board established a Corporate Social Responsibility ("CSR") Committee, comprising of directors and senior management and chaired by a Non-Executive Director. Each Committee has its terms of reference approved and regularly reviewed by the Board. The terms of reference for the Committees are available on www.halfordscompany.com/investors/governance. On the following pages each Committee Chairman reports how the Committee he/she chairs discharged its responsibilities in FY16 and the material matters that were considered.

Following each meeting of a Committee, the Committee Chairman reports to the Board. Whilst not entitled to attend, other Directors, professional advisers and members of senior management attend when invited to do so. The Auditor attends Audit Committee meetings by invitation. No person is present at Nomination Committee or Remuneration Committee during discussions pertinent to them. The Company Secretary acts as the secretary to each Committee.

A Disclosure Committee, made up of a minimum of two Directors, approves the final wording of market announcements prior to release. There were five Disclosure Committees during the period.

The day-to-day investment decisions of the Group are approved by an Investment Committee, chaired by the CFO. Similarly the treasury needs of the Group are managed by the Treasury Committee, chaired by the CFO, the other members are senior members of the finance and treasury teams.

The Board may establish other ad hoc committees of the Board to consider specific issues from time to time. No such committees were formed during the year.



Corporate Governance Report continued

Halfords Board

The Board is the principal decision-making forum for the Group, setting the strategic direction and ensuring that the Group manages risk effectively. The Board is accountable to shareholders for financial and operational performance.

See page 41 for examples of Matters Reserved for the Board. A complete list is available on the company's website www.halfordscompany.com



Nomination Committee

Key Objectives:

To ensure that the Board has the skills, knowledge and experience to be effective in discharging its responsibilities and to have oversight of all governance matters

Main Responsibilities

Making appropriate recommendations to maintain the balance of skills and experience of the Board by considering:

- the size, structure and composition of the Board;
- senior management succession plans; and
- retirements and appointments of additional and replacement Directors.

 More information on **Diversity in the Group** can be found on pages 46 and 51

 Read more within the **Nomination Committee Report** on page 48



Chair:

Dennis Millard

Members:

David Adams
Claudia Arney
Helen Jones
Jill McDonald

Audit Committee

Key Objectives:

To provide effective governance over the Group's financial reporting processes including the internal audit function and external Auditor and to maintain oversight of the Group's systems of internal control and risk management activities

Main Responsibilities

The Audit Committee's responsibilities include:

- making recommendations to the Board on the appointment/removal of the external Auditor, the terms of engagement and fees;
- reviewing and monitoring the integrity of the Company's financial statements, including its annual and interim reports and preliminary results announcements and any other formal announcement relating to its financial performance, and then recommending the same to the Board;
- assisting the Board in achieving its obligations under the Code in areas of risk management and internal control; and
- focusing particularly on compliance with legal requirements, accounting standards and the Listing Rules.

 Read more within the **Audit Committee Report** on page 54



Chair:

David Adams

Members:

Claudia Arney
Helen Jones

Remuneration Committee

Key Objectives:

To ensure that a Board policy exists for the remuneration of the CEO, the Chairman, other Executive Directors and members of the executive management.

Main Responsibilities

The Remunerations Committee's responsibilities include:

- recommending to the Board the total individual remuneration package of Executive Directors and members of the executive management;
- recommending the design of the company share incentive plans to the Board, approving any awards to Executive Directors and other executive managers under those plans and defining any performance conditions attached to those awards;
- determining the Chairman's fee, following a proposal from the CEO; and
- maintaining an active dialogue with institutional investors and shareholder representatives

 Read more within the **Remuneration Committee Report** on page 58



Chair:

Claudia Arney

Members:

David Adams
Dennis Millard
Helen Jones

 The Nomination, Audit and Remuneration Committees' full Terms of Reference are available on the Company's website or on request from the Company Secretary

Concerns

The Chairman seeks to resolve any concerns raised by the Board, whether raised in a Board meeting or in another forum. Where raised and unresolved in a Board meeting, the unresolved business can be recorded on behalf of a Director in the minutes of the relevant meeting. A resigning Non-Executive Director would also be able to raise any concerns in a written letter to the Chairman, who would bring such concerns to the attention of the Board. No such concerns have been raised throughout the period.

Effectiveness

Independence

The Board considers David Adams, Claudia Arney and Helen Jones to be independent in character and judgement in accordance with the requirements of the Code. The Chairman, Dennis Millard, was

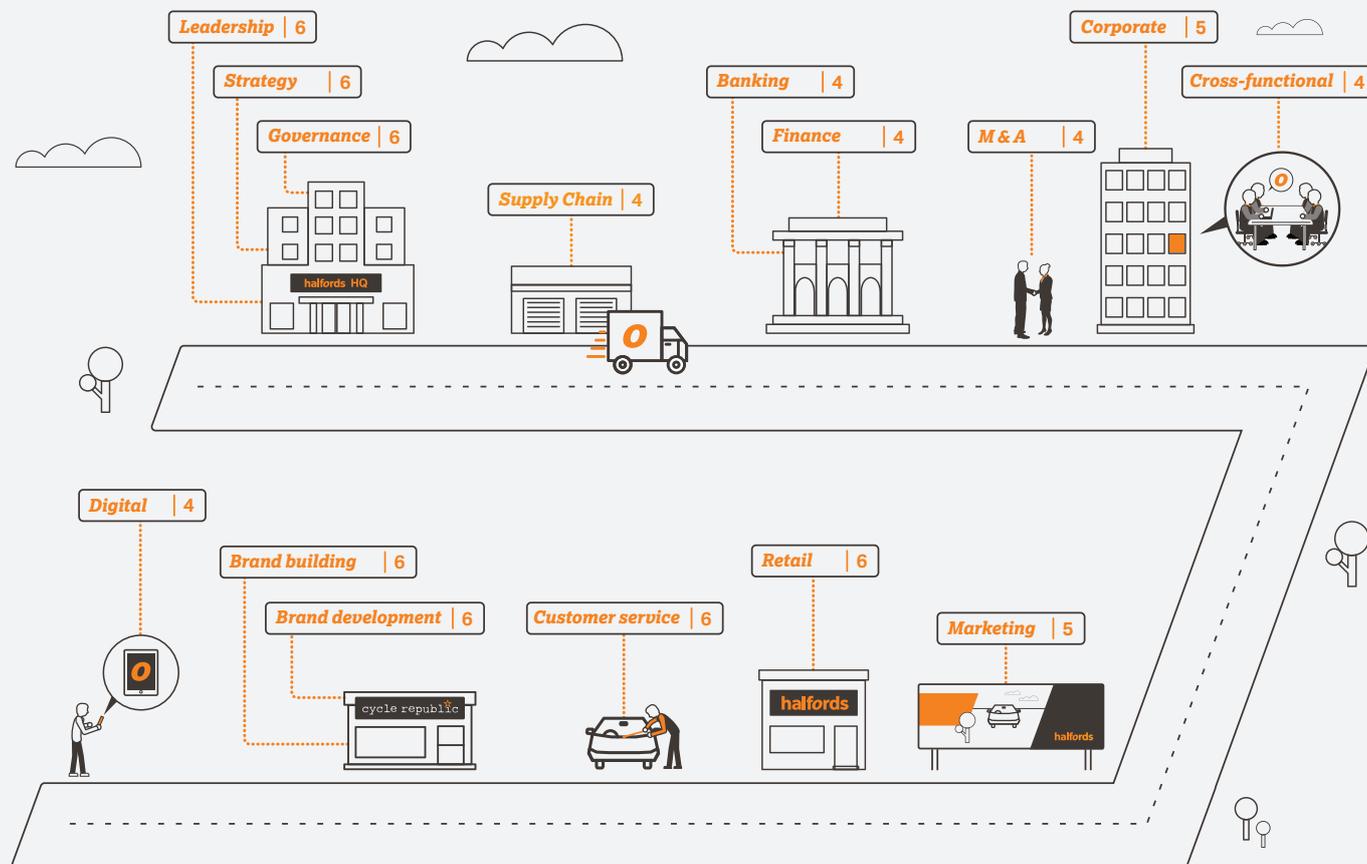
considered independent on his appointment. In compliance with the requirements of the Code for at least half of the Board, excluding the Chairman, to be independent, the Company confirms that 60% of its Board are independent.

The independent Non-Executive Directors bring a wide range of experience and expertise to the Group's affairs and carry significant weight in the Board's decisions. The independent Non-Executive Directors are encouraged to challenge management and help develop proposals on strategy.

Skills and Experience of the Board

Delivering the journey

The below graphic illustrates the number of Directors on the Board who have the relevant skills and experience.

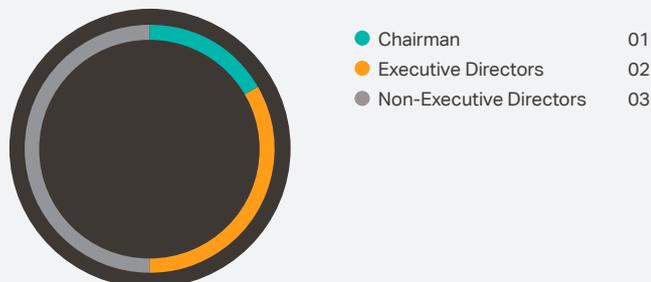


* Individual Directors may fall into one or more categories.

Represents the Board at the close of the period.

Corporate Governance Report continued

Balance of Non-Executive Directors: Executive Directors



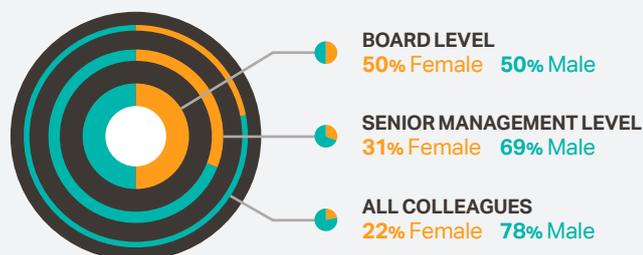
Male:Female
3:3

Length of tenure
0-3 years: 3
3-7 years: 3

Diversity

The Board has a Diversity Policy and in applying this to the Board also considers that it is the background and experience brought to the Board by each individual that best secures and demonstrates its diversity and commitment to its Diversity Policy. The principle that candidates are considered "on merit and against objective criteria, and with due regard for the benefits of diversity on the Board, including gender" is established in the Terms of Reference of the Nomination Committee.

No fixed quota is applied to decisions regarding recruitment, rather the Nomination Committee considers capability and capacity to commit the necessary time to the role in its recommendations to the Board. The intention is the appointment of the most suitably qualified candidate to complement and balance the current skills, knowledge and experience on the Board, seeking to appoint those who will be best able to help lead the Company in its long-term strategy. At Halfords 50% of the Board is female. The chart below demonstrate the gender split at Board level, within senior management and across the workforce as a whole.



The Board is well placed by the mixture of skills, experience and knowledge of its Directors to act in the best interests of the Company and its shareholders.

Appointments to the Board

As reported last year, Jill McDonald was appointed as Chief Executive Officer on 11 May 2015. On 1 October 2015, Andrew Findlay, Group Chief Financial Officer resigned after four and a half years on the Board. As reported in the Nomination Committee's report, a thorough search was conducted to identify suitable candidates, both internally and externally to succeed him in this role. Upon the recommendation of the Nomination Committee, Jonny Mason joined the Board on

12 October 2015 as Chief Financial Officer. Jonny was formerly CFO of Scandi Standard AB, a Scandinavian company, and was previously CFO of Odeon and UCI Cinemas and Finance Director of Sainsburys Supermarkets. Jonny brings a broad range of financial experience across consumer facing and retail businesses. Succession planning is not, however, confined to the Board itself and the Board pays a close interest in identifying and cultivating leaders of the future from within the business. On 18 January 2016, Tim O'Gorman was appointed as Company Secretary following the resignation of Justin Richards on 31 December 2015.

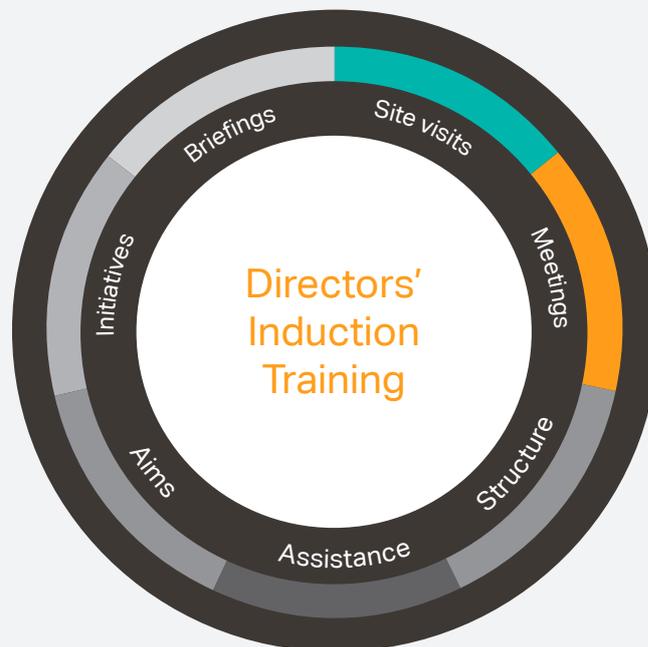
Directors' Induction

All new Directors receive a personalised induction programme, tailored to their individual requirements, to include briefings on the activities of the Group and visits to operational sites. They also meet all of the Company's other Directors and Senior Executives. This facilitates their understanding of the Group and the key drivers of the business' performance. Both Jill McDonald and Jonny Mason undertook a full induction programme prepared by the Chairman, with the assistance of the Company Secretary. Upon joining they were both provided with background materials covering the operational and organisational structure of the business, as well as the strategic aims and key initiatives of the Company.

Training and Development

All current Directors have various opportunities for on-going development and support via:

- a programme of Support Centre, distribution centre, Retail store and Autocentre visits;
- reviews with the Chairman to identify any training and development needs;
- advice on governance, relevant legislative changes affecting the business or their duties as Directors from the Company Secretary;
- access to independent professional advice at the Company's expense; and
- membership of the Deloitte Academy, a training and guidance resource for boards and directors.



Evaluation

The Code recommends that an evaluation of the effectiveness of the Board and its Committees is conducted annually and that this process is facilitated externally at least every third year. This year the evaluation process was carried out internally, having been externally facilitated last year by Linstock.

This year's evaluation required each Director to respond to a questionnaire devised by the Company Secretary and agreed with the Chairman. The process considered the Board's composition, strengths and weaknesses, its range and balance of skills, experience, independence and knowledge of the Company, its diversity including gender diversity, how the Board works together as a unit, risk management, succession planning and any training issues.

Following this review, the Chairman has considered the results of the performance evaluation and has taken steps to address any weaknesses. The Board will continue to take proactive steps to address recommended improvements.

The two most significant actions to be taken as a result of the assessment are set out below:

- additional time with the other Non-Executive Directors and the Chairman; and
- additional Company specific training.

Re-election

In compliance with the Code and the Company's Articles of Association, all Directors on the Board as at 6 June 2016, will seek re-election at the Company's AGM. Jonny Mason will seek election for the first time.

Directors and their Other Interests

Each Director is required to notify the Company of any situation in which he or she has, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company (a situational conflict). None was notified during the period.

All Directors are aware of the need to consult with the Company Secretary should any possible situational conflict arise, so that prior consideration can be given by the Board as to whether or not such conflict will be approved.

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 58 to 72.

Internal Control and Risk Management

Overall responsibility for the system of internal control and reviewing its effectiveness rests with the Board. This involves ensuring that there is a process to identify, evaluate and manage any significant risks that may affect the achievement of the Group's strategic objectives.

The Board has conducted an annual review of the effectiveness of the systems of internal control during the year, under the auspices of the Audit Committee. The Audit Committee provides the Board with an independent assessment of the Group's financial position, accounting affairs and control systems. In addition, the Board receives regular reports on how specific risks that are assessed as material to the Group are being managed. For further information on the Company's compliance with the Code provisions relating to the Audit Committee and Auditor please refer to pages 54 to 57.

The risk management and internal control system 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's policy on internal control is implemented by management through a clearly defined operating structure with lines of responsibility and delegated authority.

An on-going process for identifying, evaluating and managing the significant risks faced by the Group and assessing the effectiveness of related controls has been established by the Board to ensure an acceptable risk/reward profile across the Group. The process has been in place throughout the period ended 1 April 2016, and up to the date of approving the Annual Report and Financial Statements.

Our process for identifying, evaluating and managing the significant risks faced by the Group and assessing the effectiveness of related controls routinely identifies areas for improvement, but the Board has neither identified nor been advised of any failings or weaknesses that it has determined to be material or significant.

The Board considered its appetite for risk in relation to the top 8 risks, determining that the risks and mitigating actions were appropriate to the level of risk that was both acceptable to, and incumbent within, a listed business. More information on the Company's key risks and uncertainties is shown on pages 30 to 33.

Relations with Shareholders

The Board is committed to effective communications between the Company and its shareholders and, accordingly, has a strong Investor Relations programme that seeks to actively engage with shareholders.

This programme includes formal presentations of full year and interim results. These presentations, along with the Annual Report and Accounts, are the primary means of communication during the year with all of the Company's shareholders. Additionally, the Chairman, the Chief Executive Officer and the Chief Financial Officer have met with analysts and institutional shareholders during the period to keep them informed of significant developments and help maintain a balanced understanding of their issues and concerns. Their views and feedback, as well as market perceptions gathered, are regularly communicated to the Board via a monthly report by the Investor Relations Officer. The Company Secretary also brings to the attention of the Board any material matters of concern raised by the Company's shareholders, including private investors.

The primary method of communication with shareholders is by electronic means, helping to make the Company more environmentally friendly. Information available on the Company's website includes current and historic copies of the Annual Report and Accounts, full and half-year financial statements, market announcements, corporate governance information, the Terms of Reference for the Audit, Nomination and Remuneration Committees and the Matters Reserved for the Board.

The Annual General Meeting gives all shareholders the opportunity to communicate directly with the Board and their participation is welcomed. The Chairmen of the Remuneration, Nomination and Audit Committees will be present at the AGM and will be in a position to answer questions relevant to the work of those Committees. It is the Company's practice to propose separate resolutions on each substantial issue at the AGM. The Chairman will advise shareholders on the proxy voting details at the meeting.

By order of the Board

Tim O'Gorman
Company Secretary
1 June 2016