

## CORPORATE SOCIAL RESPONSIBILITY

Halfords is committed to managing its business in a socially responsible manner. Our corporate social responsibility ("CSR") programme is designed to address the important CSR issues that we face, to facilitate appropriate management behaviour and be aligned with the Group's business strategy. Our aim is to continually improve our management of the social, environmental and economic issues within our control or influence throughout the business and our supply network.

We believe management of our CSR is not only the right thing to do, it also makes good business sense, and we see it as a core business consideration as it gives us strategic, commercial and reputational benefits. We aim to achieve standards of responsible care across a number of key areas, including: customers, trading, health & safety, the environment, employee welfare and the community.

Our customers are more likely to enter our stores because they trust our advice and our offer. They are more likely to buy from us because they trust us to provide products of the highest quality, that are safe and easy to use and that have been sourced in an ethical manner ensuring that no community associated with such sourcing has been abused or destroyed, and that the effect of our products on the environment has been minimised as far as possible. Prospective and current employees are more likely to join and stay with us if they feel valued, are treated fairly and equally, and feel that their contributions are recognised and rewarded and that they are helped to realise their potential.

The Group has reviewed its ongoing CSR policy to ensure it meets the needs of the markets and communities in which it operates and that the associated Key Performance Indicators ("KPIs") accurately reflect the Group's success or otherwise in implementing this policy.

For the period to 3 April 2009 the Group has followed an "ACTING RESPONSIBLY" policy that:

- Puts our Customers first:
  - Delivering a consistently high level of customers service;
  - Delivering high quality, safe products that, whilst minimising their environmental impact, provide effective solutions for our Customers;
  - Delivering consistent accessibility to stores, services and products irrespective of gender, race or disability; and
  - Delivering to stores, products that enhance our customers' lifestyles.
- Develops close relationships with our suppliers:
  - Ensuring responsible labour, environmental and social practices are followed by all partners in our supply chain;
  - Ensuring regular updating of the Group's Code of Ethics to meet best practice behavioural standards; and
  - Ensuring our supply chain transportation solutions minimises their environmental impact.

- Provides a working environment in our stores, head office and distribution centres:
  - That is rewarding in its own right;
  - That offers personal and career development;
  - That rates the Group as an employer of choice in the communities in which we operate; and
  - That is conducive to recruitment and retention of high quality staff.
- Provides a working and retail environment that is safe:
  - By ensuring that all our products met exacting quality and safety standards;
  - By continually reviewing Health & Safety standards; and
  - By performing regular Health & Safety audits across our store network
- Creates a working culture throughout the Group that continually assess the Group's impact on the environment by:
  - Minimising our use of natural resources;
  - Reducing waste; and
  - Reducing emissions of greenhouse gases and CO<sub>2</sub> emissions.
- Enables the Group to play apart in the communities it operates through:
  - Partnering charities, both local and national;
  - Sponsorship; and
  - Encouragement of outdoor leisure activities.

The policy commitments are translated into actions and KPIs are used to assess success against our internal targets. Paul McClenaghan, Commercial Director, takes the lead in ensuring that the policy supports the strategic objectives of the business. The Halfords executive monitors performance with regard to these objectives and targets via an internal report. It is, however, the Board's responsibility to ensure that the Group operates in a responsible manner, and the Board reviews the policy and our performance against that policy annually.

### PUTTING OUR CUSTOMERS FIRST

#### Overview

We market high quality products that meet or exceed the requirements of appropriate legislation, international conventions and codes of practice. Where external guidance does not exist, we apply our own exacting standards. With a complex product range of over 10,000 items, we talk with our customers every day to ensure that our range meets their requirements and that they understand how to use our products safely. Recently we have identified that Halfords has a large number of regular customers who see their key drivers of satisfaction being choice of products and brands, store environments and ease of shopping, knowledgeable staff with a will-do attitude and competitive, value-for-money pricing.

## CUSTOMERS



In 2008 we monitored customer satisfaction via exit interviews at a representative sample of our stores. These metrics along with other lines of enquiry help us understand which aspects of our offer are working well and which areas would benefit from addressing. Our Customers scored us a respectable average of 79 out of 120, indicating their strong commitment to the Halfords offer. The key drivers of customer satisfaction included range, ease of shopping, helpful and knowledgeable store colleagues, and value-for-money competitive pricing.

The quality of our products is fundamental to the continued growth and success of the Halfords brand. Our aim is to ensure that our product offer exceeds customer expectations in terms of safety, performance and value for money. Through fresh insights and innovation driven by our customer focus groups we also seek to offer customers new products that are stylish, imaginative and which provide effective solutions.

Our products are manufactured to consistently high standards, meeting our own internal standards and complying with or exceeding local regulatory standards. We also aim to develop a programme to manage materials used in own-brand products, and to influence, where possible, the same for proprietary products. We identify and monitor products containing ingredients, which whilst not illegal, are designated as chemicals of concern by non-governmental organisations and work with suppliers to develop or substitute these with lower risk alternatives.

Halfords strives to achieve rapid introduction of new and improved products by adopting a disciplined and customer focused approach to product development. We recognise the importance of keeping abreast of new concepts and technologies within our chosen product ranges and we are keen to work with suppliers who continually bring forward innovative and exciting new concepts.

### Service

We are committed to putting our customers first. Our store managers are accountable for delivering consistently high service in our stores, giving our customers complete peace of mind. All store colleagues are required to follow procedures in the Group's Store Operations Manual which details in full: how to offer service and support across all product categories; how we expect our customers to be treated; management of stock; and management of the store. In certain areas, where legislation introduces behavioural standards to our colleagues we offer training programmes via our local intranet and these are monitored to ensure that all colleagues regularly update themselves with the required knowledge.

Stores are fully supported by a dedicated Customer Service team based at our head office in Redditch where our customers are able to contact us by phone, email, letter or fax. This year, we have consolidated our web and store contact centres giving our customers and stores the opportunity to contact us through one single phone number and email address. This piece of work has enabled us to offer increased support to our store colleagues and be more flexible to our customers needs.

All calls, letter, emails and faxes received by our Customer Service team are treated in the order in which they arrive and each customer's query is logged and allocated to an adviser who will personally see the query through to the end. We aim to respond to all queries within five days unless more significant investigation is required, with most telephone queries being resolved the same day. We also use collated feedback data to focus our training and development programmes and further improve the service we provide.

### Products and the environment

In developing our products, packaging, procedures and services we continue to make assessments of environmental impacts at appropriate stages, e.g. design, procurement, supply, sale, use and disposal as our business is strongly influenced by consumer choice. We promote good practice in the provision of environmental communication to customers and colleagues.

From July 2007 all UK Retailers are obligated under the Waste Electrical and Electronic Equipment ("WEEE") Regulations to provide recycling facilities for their customers free of charge. Halfords has joined the UK WEEE Distributor Take-back Scheme ("DTS") believing that this was a responsible decision for the environment; making it easier for our customers to recycle, aiming to increase the overall amounts of waste electrical items recycled, and ensuring a secure route for reuse of materials. Our stores in Ireland have also implemented the WEEE regulations which became law last year.

Additionally, customers returning any old car batteries to our stores are now offered a £2 voucher to be spent in the store and in 2008 customers returned over 88,000 batteries. This promotes recycling and assures the correct disposal of hazardous waste as well as allowing proper recycling of a battery's component parts. Further customer awareness of this recycling route is planned for, in respect of the Hazardous Waste — Special Waste Regulations.

## CORPORATE SOCIAL RESPONSIBILITY CONTINUED

We also offer customers a £20 money-back replacement service for alternators and starter-motors and 1,512 such products were returned in the year. These are then returned to our distribution centre for refurbishment.

### Accessibility

Halfords treats its responsibilities under the Disability Discrimination Act ("DDA") very seriously, in respect of both our customers and colleagues. We have taken various actions in order to help us to fulfil our responsibilities, including training our store colleagues in disability awareness, responding to some of the physical obstacles in our stores and other access issues, and auditing our website for ease of navigation. We have 460 stores in the UK and Ireland in three different formats. Of these, 239 have mezzanine floors and accessibility to these floors is dependent on the age of the stores and whether it has been possible to install lifts. In total, 62% of these stores have lifts. In March 2008 we conducted an intranet-based survey of all of our stores to ensure they were DDA access compliant. The result of which was to improve access solutions across approximately 200 of our stores, from this, in June 2009 we will be conducting an audit of one of our top stores to ensure we can make our stores "disabled customer" friendly. The learnings from this will be cascaded down to our other stores via our Area Manager network.

Halfords is a member of the Employers' Forum on Disability, which is a not-for-profit employers' organisation, with over 400 members; these members employ approximately 20% of the national workforce. The forum brings its members together to share best practice on disability. It provides events at both a regional and national level where members meet, share best practice and keep up to date with disability issues. Additionally, members benefit from a dedicated information line to help them understand and manage both the legislation and the best practice approach to disability.

In 2008 and 2009 we had conversations with a number of disabled customers, and invited them to our stores, asking their advice on how best to ensure we maintain our commitments to them under the Disability Discrimination Act. In February 2009 we launched Mobility Scooters into our top 70 stores.

### Lifestyle

At a time when the issues surrounding health and obesity have become increasingly important, Halfords, as the largest retailer of cycling products, actively encourages people to participate in this outdoor activity. We currently stock 178 (2008: 160) different bikes, of which more than 71 (2008: 60) are aimed at children between three and eight years of age. We design these bikes with the customer in mind and our children's bikes are specifically designed for the measurements and stature of a child as the relative dimensions of the bike are very different from those of an adult. In the year to 3 April 2009 we sold over a million bikes for the second year running, approximately 1 out of 3 of all bikes sold in the UK.

Through our Business Services department we continue to market "Cycle 2 Work" schemes, arrangements that allow employers to offer to their employees the use of a bike for work. The scheme offers significant savings, making use of the Government backed initiative to increase more sustainable means of transport to work. We currently manage 1,251 schemes (2008: 869) on behalf of employers, allowing their employees the opportunity to embrace a keep-fit lifestyle.

Four years ago we introduced our Halfords branded range of camping and outdoor equipment and later we complemented these, with the launch of the premium brand *URBAN Escape* range and selected *Gelert* tents and camping accessories. In 2009 we increased the product range by 8% including expanding our tent pack offering and introducing festival tents. We aim to grow this leisure area of our business through product innovation and development, and in 2009 also added a broader range of *Gelert* tents and camping accessories available online.

## DEVELOPING RELATIONS WITH OUR SUPPLIERS

### Overview

We place great importance on the selection of our suppliers and, where appropriate, will visit manufacturing sources to verify that effective quality procedures are in place and that supply chain costs are minimised. We are always striving for improvement and we believe it is important that our suppliers are responsive to feedback from our customers and store colleagues. Halfords recognises that the development of close supplier partnerships is essential for the ongoing provision of an innovative and value-for-money product offer.

### Suppliers

Halfords Asia has a Sourcing Code of Conduct ("the Code"), which can be viewed on the Company's website ([halfordscompany.com](http://halfordscompany.com)). This is sent to potential new suppliers within the Far East, as part of the Supplier Questionnaire, before orders are placed with the supplier. Compliance with the Code is independently audited. The response to the questionnaire is reviewed and, if the supplier does not provide an acceptable alternative assessment report, an audit by an independent Auditor such as Bureau Veritas is arranged at the supplier's expense.

We recognise that this Code must be developed to reflect practical experience and changing circumstances. We continue to develop and share best practice with our suppliers, other retailers, non-government organisations and Government.

Halfords will only trade with those companies who fully comply with our policy or those taking verifiable steps towards complying with the policy. In the event of any failure to comply, we reserve the right to end the business relationship and cancel outstanding orders. We do, however, recognise that withdrawal of our business in the event of non-compliance may cause severe hardship to those employed. We aim, therefore, to work with our suppliers, to achieve compliance and will carefully review progress made before considering severing the relationship.

Following the independent audit of the Code any supplier that receives a score of D or lower is required to issue a corrective action plan. The corrective action plan is reviewed by Halfords Asia Quality Department, and if approved, a date is set for follow-up with the supplier. Depending on the type of non-compliance this follow-up may include a specific factory visit, or be included at the next planned visit. The timescales will, again, depend on the nature of the non-compliance.

In 2007/08 we conducted 34 audits, representing 25% of our Far East Suppliers by number and 77% by purchase value. In 2008/09, we conducted a further 92 audits and accepted 44 alternative reports, from approved bureaus, representing some 91% by purchase value. Out of the resulting 136 reports, there were no critical failures although 35 corrective action plans were formulated due to minor shortcomings, of which 10 were outstanding at 3 April 2009.

Over the last two years, which is the period of audit validity, the Company has completed 165 audits, being 96.6% (target 95%) of our Far East Suppliers. The Company's target will remain at 95% for 2009/10.

The Code of Conduct assessment results and progress on any corrective action plans are issued in a monthly report and reviewed between Halfords Asia and UK Head Office senior management.

**Ethical trading**

The Code states our policy on legislation, child labour, conditions of employment, wages and benefits, health and safety and the environmental.

We undertake all reasonable and practical steps, including factory, warehouse and tied accommodation inspections and audits, to ensure that our standards are being implemented throughout the businesses of our suppliers and that local legislation and regulations are complied with. We will assess any instances of non-compliance on a case-by-case basis and will then tailor remedial action appropriately. We will only trade with those who fully comply with this policy or those who are taking verifiable steps towards compliance.

We oppose the exploitation of children and young people. In addition to national employment laws, we insist that our suppliers do not employ, in a full-time capacity, any children that are under the age of 14 years, or alternatively are below the age for completion of compulsory schooling.

We oppose the exploitation of workers and we will not tolerate forced labour, or labour which involves physical, verbal or psychological harassment, or intimidation of any kind. We will not permit the exploitation of, or discrimination against, any vulnerable group. Workers must have the right to form and join organisations to facilitate freedom of association and collective bargaining and all workers must have written employment details, which must pay due regard to their welfare. We support fair and reasonable rewards for workers. Wages should reflect local norms and should meet or exceed any legal minimum wage levels. Wages must be paid in cash, by cheque or bank transfers. Workers must receive full written details of their pay. While local and cultural differences will be observed, workers must not be expected to work in excess of 60 hours per week on a regular basis, including overtime. Any overtime must be voluntary. Workers must be entitled to at least one day off in seven. Individual workers have the right to choose not to take their days off should they so wish.

We require that appropriate health and safety training, including training in fire safety, be provided for all people in all working areas. All activities must be carried out under conditions that have proper and adequate regard for the health and safety of those involved. Management arrangements must be in place to detect, avoid and respond to potential threats to health and safety.

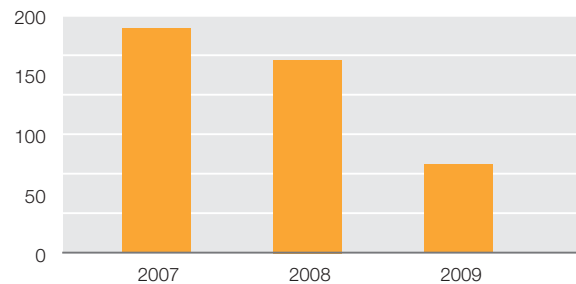
We promote our own business objectives with those in our supply chain to minimise the environmental impact of our operations and also encourage the consideration of social issues in business.

**Supply chain transportation**

Many of the products delivered into our national distribution centres ("NDCs") are imported in containers via sea deliveries for onward road transportation, although some are delivered via air freight. We have worked hard during this year to further reduce the number of containers transferred from ports via road and in 2008/09 2,582 containers, 67% (2007/08: 40.7%) of all containers delivered were moved by rail to a hub in the Midlands for onward transportation to our NDCs.

**Air Freight Movements**

tonnes



We continue to monitor the air freighting of our products from suppliers, and only do so in cases of extreme urgency. In 2009, through further improvements in supply planning and forecasting volumes we reduced the weight of products shipped in this way from 67,641 kg in 2008 to 29,045 kg in 2009, a reduction of 57%.

## CORPORATE SOCIAL RESPONSIBILITY CONTINUED

### EMPLOYEE WELFARE

#### Overview

Our growth in stores and turnover would not have been possible without the unfailing support and commitment of our 10,000 colleagues employed across stores, distribution centres and our office operations in the UK, Asia and Central Europe. Thus we recognise that our colleagues are our single most valuable asset and we are committed to a fair but robust approach to equal opportunities in all areas of our business, with people gaining promotion on merit. We have high expectations of all colleagues and everyone is required to perform and deliver value. This creates an environment that is both challenging and rewarding, enabling colleagues to develop quickly and pursue new opportunities.

We are committed to being seen as an employer of choice within the communities in which we operate, and as well as providing training and development to colleagues, in 2008 we were finalists in the National Council for Work Experience Awards for Best Work Experience Provider. We also offer a range of benefits and incentive schemes.

### EMPLOYEE STUDIES

#### THE CASE:

In order to facilitate communication through all levels of the business and to facilitate interaction between suppliers and colleagues Halfords has, over the years, developed an internet forum: "HalfordsVoice". HalfordsVoice gives all colleagues an opportunity to interact, share and develop ideas, help each other with challenges or concerns, or to obtain support directly from suppliers, all in a private, secure environment, run voluntarily by colleagues, independent of all other Company systems. A typical initiative has been the development of HalWiki, an online Halfords Encyclopedia which is invaluable to colleagues when researching information about the Company, its products and its services."

#### Reward

Our range of bonus schemes include, within stores, a sales adviser quarterly bonus scheme and store specialist, manager and deputy manager annual bonus schemes. We also operate office and management annual bonus schemes and there is also a bonus scheme in the distribution centres. Bonus payments are dependent on an achievement of a variety of Group, team and individual measures.

All colleagues are eligible to join, after a qualifying employment period, the Group's pension scheme where contributions are made jointly from both employer and colleague. During the year the Company changed its pension arrangements to prepare for the Government's introduction of Personal Accounts. The Halfords Pension Plan moved from a money purchase scheme to a contract based plan, where each member has their own individual pension policy which they monitor independently. The pension scheme currently has approximately 1,100 members in the UK and Republic of Ireland.

The Group actively encourages its colleagues to own its shares and more closely align an element of employee reward to business value enhancement. The Halfords Sharesave scheme has operated each year since 2004, open to all colleagues with three months' service or more. Colleagues are granted a share option and invited to save between £5 and £250 per month for three years. These savings can then be used to purchase shares at a price of up to 20% discount to the market value at the date of the grant.

Two schemes have matured since our IPO in 2004 with over 1,500 colleagues sharing in Halfords' success. Since 2004 the average colleague had saved £75 per month.

There are currently three Sharesave schemes running, started in 2006, 2007 and 2008. All colleagues are invited to participate in the schemes. In 2008 over 800 colleagues in the UK, Republic of Ireland and Hong Kong chose to participate. Since 2004 over 2,000 Halfords colleagues have participated in one of these annual schemes.

We also operate a Company Share Option Scheme ("CSOS"). This scheme was first launched in 2004 to all colleagues with at least three years' service in recognition of their hard work and dedication leading up to the Company's flotation. These colleagues had the opportunity to exercise their options in June 2007. A typical colleague, with 750 share options, made an average tax-free gain of £1,000. Unfortunately, the awards made in 2005 vested in the second quarter of 2008 when the general retail market was suffering one of its worst downturns in recent history and no gains were made.

However, we continue to believe that these Awards are key to retaining and motivating staff and following the Awards granted in 2006 and 2007, in 2008 we granted Awards to over 700 (2007: 640) colleagues at store manager level and at managerial grades in the UK head office, Republic of Ireland, Hong Kong and Czech Republic.

We also mirror to our own colleagues the cycle to work schemes that we provide to other employers (see page 26). The scheme offers significant savings, making use of the Government backed initiative to increase more sustainable means of transport to work. This means that by sacrificing a proportion of their salary our colleagues can save income tax and national insurance that would otherwise have been payable. Colleagues can also make use of their 15% discount to make it an outstanding scheme. This scheme was first made available in 2004 and has been relaunched annually. Each year we see approximately 300 colleagues acquire bikes through the scheme at overall discounts that can exceed 50%. In the year to 3 April 2009 this number exceeded 500.

### Development

In order to promote career development, the Group provides all colleagues with access to relevant training and development schemes. With a complex product range of over 10,000 items alongside portfolio reformatting, colleague training and development is seen as crucial to the success of our business. Sales advisers at Halfords need to be experts in many product fields and be able to meet a wide variety of customers' needs. Specialists need to be able provide their 'specialist' services and also demonstrate an ability to sell other products.

Training is key to encouraging our store teams to embrace new initiatives that are critical in delivering our targets. The Halfords point of difference is excellent product knowledge, fitting capability and enthusiasm of our teams to serve and assist the customer. A good example of this is the Institute of Motor Industry certification, for all those who successfully complete training to fit electronic products, for our customers, into their cars and we continue to provide Cytech NVQ Level 2 qualifications for all our *Boardman* cycle specialists.

In addition, a career pathway has been created. This development programme is designed to develop our people and to maximise their opportunities, examples of which are:

- A Deputy Manager Development programme, enabling us to source and develop store-based deputy managers, thus providing opportunity and incentive for our Sales Advisory teams;
- A Store Manager Development programme to create opportunities for deputy managers to further progress their careers;
- A Senior Store Manager Development programme to create a pipeline of future potential Field Managers;
- In our offices, Management Development programmes provide a balance between pragmatic business skills and core people skills for junior and senior managers;
- Graduate Development Programme, on which trainees follow a structured development programme, which gives them:
  - an all-round appreciation of the business, taking in experience both in stores and head office;
  - an in-depth focus in the areas of buying, supply and marketing; and
  - a variety of off-job supporting workshops and seminars.

These programmes are part of Halfords' continued ambition to develop its own senior managers of the future and are supported by active talent and performance management processes.

Through our talent management process, the senior management teams in Head Office have undergone an extensive, objective review of the performance and capability of their teams. This has resulted in some explicit succession planning, an identification of development needs, and will lead to personal development plans in the coming year. This process will feed participants into the Management Development programmes.

There is a performance management process, whereby performance objectives for the year are agreed and reviewed between line manager and colleague. To support this process we run a series of workshops aimed at ensuring that both line managers and colleagues are fully equipped with all of the skills required to make the process effective.

### Employer of choice

As well as offering competitive benefits and personal and career development we aim to treat all our colleagues as equal. To this end we are committed to recruit, train, promote and retain skilled and motivated people irrespective of gender, age, marital status, disability, sexual orientation, race, religion, or ethnic or national origin. In line with this commitment we also promote a culture of openness and responsibility within our business. The Group has in place specific disciplinary and grievance procedures, and welcomes the reporting of genuine and serious grievances or alleged breaches of policy. In accordance with the Fraud & Whistle-blowing Policy, no colleague will suffer as a consequence of notifying such alleged breaches. In the period to 3 April 2009 the Company dealt with 12 incidents, all of which were resolved satisfactorily, whilst at all times maintaining the confidentiality of the complainant.

In accordance with our core values, we believe that every colleague should be treated with the same respect and dignity and we are committed to providing a working environment that is free from bullying and harassment. We will not tolerate bullying or harassment in the workplace either as a management style or between work colleagues, and will take disciplinary action against any colleague who is proven to have bullied or harassed others.

## HEALTH AND SAFETY

### Overview

Halfords is committed to high standards of occupational health & safety to minimise the risk of injuries and ill health to employees, contractors, visitors and others who come into contact with the business. The Group believes that effective occupational health & safety management is fundamental to a successful business and we constantly review our procedures and risk management standards to identify opportunities for further improvement.

### Product quality and safety

We have always treated safety and quality as absolute priorities in the products we sell.

## CORPORATE SOCIAL RESPONSIBILITY CONTINUED

Halfords operates a rigorous product introduction procedure to ensure that all products are safe, legal, fit for purpose and meet the requirements of our exacting technical specifications. We take into account all appropriate British, European and International standards and ensure compliance with all relevant legislation and codes of practice. Our product testing methodologies vary by product type and are primarily driven by the requirement to ensure safety. For example, our roof bars and cycle carriers are subjected to rigorous testing on automotive test tracks, cycle clothing is assessed to ensure that materials give the desired performance (colour fastness, breathability, waterproofness, etc.) and hand tools are analysed to verify materials are sufficiently robust.

Our *Apollo* children's bikes are designed to the new European Standard for bikes (Comité Européen de Normalisation, "CEN") and are subject to very rigorous fatigue testing, particularly the frame, cranks, and pedals. These tests aim to replicate the use that a customer puts a cycle through.

A key element of the new standards is safety, and all bikes are designed or sourced with this in mind. To ensure safe use we demand a minimum content requirement for the owners manual, which ensures that it is as comprehensive a document for the customer as possible.

Most of our products are subjected to user trials in real life situations, so that we can verify that instructions are correct and easy to understand and most importantly, that the products actually work.

Halfords is committed to not only supplying safe products, but also to ensuring that they are used safely. As one of the UK's leading retailers of child seats, we have invested in the training of more than 2,000 store colleagues in the demonstration and free fitting of child seats and have recently received accreditation from RoSPA for our in-house training programme. We also run roadshows at stores across the UK, working with road safety officers to give free advice and fitting services to parents and guardians, and we also promote our own national child seat safety week at all superstores to raise awareness of the issue.

We continuously review concerns reported by our customers and where improvements are identified, we endeavour to instigate speedy product enhancements.

### Targeted risk reduction initiatives

Our philosophy is to enable confident proportionate occupational health & safety management and embed a positive safety culture throughout the organisation. We actively pursue targeted risk reduction measures and our rigorous self-auditing programme informs this process.

We are encouraged by the successes from our risk-focused agenda throughout the year:

#### Safer site transport

- We have applied a number of additional site transport safety controls and enhancements to the head office and distribution centres; and
- We have maintained momentum on managing the risk from large goods vehicle reversing in public areas at our stores.

#### Safer storage and handling at height

- We have applied more rigorous and unambiguous routines on high-level racking storage;
- We have run a major awareness campaign on safe storage and access at high-level internal flat roofs; and
- We have in partnership with our facilities maintenance company enhanced the procedure for vetting and auditing contractors' safe operating procedures.

#### Improved fire safety

- Recognising that our newer stores benefit from the high fire protection standards agreed with our Lead Authority partners we have implemented a programme to enhance the fire safety provision in our older stores.

#### Safer water systems

- We have completed an extensive programme to revise the hot and cold water systems in our stores to design out legionella risks.

#### Safer manual handling

- We have assessed and upgraded selected store loading areas or provided mechanical handling equipment to reduce the risks from receiving and handling roll cages on external surfaces.

#### Safety management enhancements

We have continued to concentrate on producing occupational safety documentation for distribution and retail operational colleagues that is tailored for their effective use. Our first priority is for safety procedures to be suitable for the user rather than compliance with textbook requirements. We have a training plan to develop the ability and confidence of key accountability holders to use these tools effectively.

During the year we accepted that a difficult retailing environment would place differing demands on our colleagues and managers and recognised the need to reinforce health and safety messages:

- We have enhanced and delivered occupational safety and risk assessment workshops to a greater number of store managers, distribution team leaders and store safety coordinators; and
- We have delivered ground-breaking occupational safety leadership workshops to the Company senior management team.

We have continued to build on and benefit from our lead authority partnerships. We have liaised closely with our occupational safety lead authority partners at Stoke-on-Trent City Council on our risk reduction strategy, which has assisted us in setting appropriate targets and timescales. Working within our unique tripartite lead authority partnership with Stoke-on-Trent City Council Building Advisory Services and Staffordshire Fire and Rescue Service has enabled us to consistently and effectively improve fire safety management.

We monitor our safety performance on a range of indicators including our reportable accident statistics and accident rates arising from our "focus hazards". Our overall annual injury incident rate remains below the industry benchmark at 340 per 100,000 employees (2008: 410). This represents an improvement of 17%.

## IN THE ENVIRONMENT

### Overview

Our stores, offices, and fleet of delivery vehicles have direct impacts on the environment. We also know that there are indirect impacts caused by the production and use of our products.

Our commitment is to understand and to continually improve the performance and management of our environmental impact throughout the Halfords supply chain.

Good environmental performance demonstrates high standards of corporate responsibility and generates cost saving opportunities. We believe that every individual has an important role to perform in ensuring that environmental standards are properly applied. The Group has in place emergency procedures to minimise the environmental impact of potential incidents.

During the year an Environmental Steering Group consisting of senior managers from all operational activities of the business monitored performance in regard to our objectives, targets and indicators and provides advice and guidance, ensuring compliance with relevant environmental legislation.

We aim to create a culture of awareness of the cost and impact of environmental issues across the business, including assessing the environmental impact of capital projects. The Group considers the environmental impact of the products that we sell, taking care to minimise the use of materials that deplete our natural resources, and recognises its responsibility with regard to the use of chemicals in our supply chain. We have developed an energy strategy and this involves evaluating alternative energy sources that we consider to be appropriate to our business needs. We operate a utility reduction programme, the results of which are tracked on a Carbon Trust funded database.

In managing our environmental responsibilities our overall objectives relate to the following key areas:

### Minimising our use of natural resources

We place emphasis on resource use, in order to understand and improve the efficiency of our use of raw materials, energy and water throughout Halfords' operations, as well as our products and our packaging. Our goal is to minimise our potential for causing pollution to air, water and land.

*Water — To reduce our overall usage of water in the business*

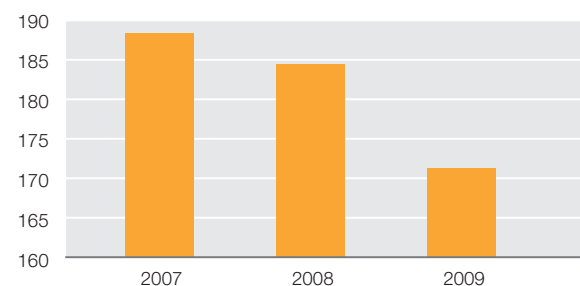
Independent assessments of usage have continued to be carried out in our stores, head office and distribution centres. A water specialist surveyed all of our sites to establish if correct charging is taking place, and also to identify leaks and wastage.

The annual billed consumption of water for our stores in the period to 3 April 2009 was 4% lower than last year which represents a reduction per store of 7% year on year. This excludes stores where water billing is to the landlord direct.

	Water Consumption m <sup>3</sup>	No. of Stores
2007	80,451	426
2008	83,397	450
2009	79,895	463

### Water Consumption per Store

cubic metres



The improvement in water usage comes about following the installation of electronic 'smart' water meters to water infeed pipes. This allows accurate monitoring of water usage patterns throughout the day and identifies water leaks at an early stage.

## CORPORATE SOCIAL RESPONSIBILITY CONTINUED

### Waste management

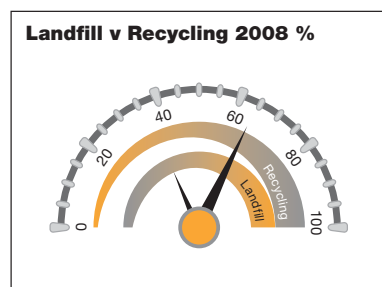
We aim to prevent waste generation in our activities, including product and packaging design, warehousing, distribution and sale and reuse of materials, and to maximise recovery and recycling of waste prior to disposal through our management of waste recycling and reduction in the amount of packaging we use in our products.

*Landfill and recycling — To increase the quantity of cardboard, paper, and plastic waste we recycle in the business and reduce landfill*

### Stores and NDCs

In order to prevent inefficient transportation of waste material the majority of recycling activity is through localised collection from individual stores. Where, however, greater levels of recycling can be achieved cardboard and other materials are backhauled for central recycling at our Redditch distribution centre. This is an addition to recycling 100% of the cardboard produced in both our Redditch-based distribution centres.

As a result of this strategy the volumes of waste material recycled versus that sent to landfill increased from 64.1% to 70.1% during 2009. This follows an increase from 56.4% to 64.1% in 2008.



This represents 6,071 tonnes of waste sent for recycling by our stores (2008: 1,384) and 2,431 tonnes sent by our distribution centres (2008: 580). The Company will continue to make what improvements it can in this area by continually focusing on the small number of stores where recycling is significantly below the Group average and through increased product refurbishment which is subsequently sold from the distribution centres.



In the UK our membership of Valpak and in Ireland of Repak ensures that we meet our responsibility to the environment and to the public of the UK and Ireland by contributing to the national packaging recycling programmes.

## IN THE ENVIRONMENT



### THE CASE:

Working closely with our Quality Engineers and Far East supplier of our core range of car covers, we have developed a Halfords branded range of Advanced car covers. The new vacuum packed zip-bag packaging means better economies of scale and a reduction in the carbon footprint. We are able to use 60% fewer containers when shipping the product from the Far East.

### Offices

The Group continues to use paper recycling and shredding initiatives and from 2008 all desk waste bins have been removed and recycling bins have been introduced for the segregation of aluminium cans, plastics and general waste. This has increased the amount of waste recycled by circa 60%.

During the last 12 months all A4 paper usage has been transferred to recycled paper, including stationery and high production paper. Paper shredded and recycled under our confidential waste scheme saved 151 (2008: 135) trees (independently verified by Shred-it Ltd). The use of highly efficient 'airblade' hand dryers continues to save approximately 1,200 kg per annum of landfill.

*Product packaging — To achieve an overall reduction in the weight of packaging used year-on-year*

We have a proactive Packaging Cost Reduction Project and Halfords complies with the Producer Responsibility Obligations (Packaging Waste) Regulations 1997, which requires UK companies to recover and recycle packaging against specific targets. Halfords meets this obligation through membership of an industry compliance scheme. The Group has been audited by the Environment Agency to ensure full understanding and compliance with the regulations and we passed this audit successfully.

**Greenhouse gases and CO<sub>2</sub> emissions**

Greenhouse gases (“GHGs”) are so called because they contribute towards the greenhouse effect. There are six main GHGs, mainly emitted by burning fossil fuels. CO<sub>2</sub> accounts for some 80% of UK emissions. The contributing role of man-made GHGs to climate change is accepted by most countries. The most significant contributor to GHG production is the combustion of fossil fuels, and like any business that burns fuel, our transport fleet (diesel fuel) and heating (gas) will have direct GHG emissions. Halfords also has indirect GHG emissions incurred in the generation of electricity consumed.

To begin to understand and achieve CO<sub>2</sub> emissions reduction objectives, Halfords has estimated its CO<sub>2</sub> emissions. This is based on DEFRA reporting guidelines for UK business, using conversion factors for energy and fuel usage and these are referred to in the sections below. For future years the turnover conversion factor will also be used to enable the setting of targets and make year-on-year comparisons.

**Fuel and transport fleet efficiency**

In line with European Emissions Directives, Euro 4 emission standards for commercial vehicles were introduced in October 2006. This aims to improve the levels of Carbon Monoxide, Hydrocarbon, Nitrogen Oxide and particulate emissions that cause harm to the environment. All of Halfords’ fleet complies with Euro 3 emissions standard (introduced in October 2003), and new vehicles delivered from September 2006 conform to the new Euro 4 standards.

To more fully understand our impact on GHG emissions, we have converted the transport fleet fuel usage to total CO<sub>2</sub> emissions. In 2009 we drove 9,571,410 kilometres down 80,365 kilometres on last year and we used 2,674,412 litres of diesel. The CO<sub>2</sub> equivalent usage, calculated based on DEFRA reporting guidelines, shows a 23% improvement year on year.

	2009	2008	2007	2006
Kilometres driven	9,571,410	9,651,775	9,491,422	8,725,957
CO <sub>2</sub> equivalent (kg)	7,087,192	9,201,762	9,048,884	8,319,108
CO <sub>2</sub> kg/revenue (£m)	8,829	11,545	12,162	12,216

This improvement has been achieved from a series of activities across the transport operation started in 2008 and these will continue into the forthcoming year. Key initiatives include:

- Continued improvements by operating vehicles with more efficient engines and gearboxes, including leasing of additional tractor units, that have higher fuel efficiency, used for moving trailers at our distribution centres;
- Completing a comprehensive driver training programme carried out with our logistics partner, DHL. This emphasises responsible driving and safe vehicle checking, in addition to fuel efficiency and smooth driving and braking;
- Reductions in the number of empty-running vehicles, by collecting (backhauling) loads from our suppliers following delivery to our stores. This clearly reduces the number of vehicles on the roads, but does not directly contribute to Halfords’ fuel reduction or CO<sub>2</sub> emissions. We currently have ten suppliers where we backhaul regularly, returning to one or more of our distribution centres;

- Evaluation of Euro 4 and Euro 5 tractor units and rigid vehicles;
- Evaluation of tyre pressure checks, adjustments and idling time, to assess their impact on fleet fuel economy and efficiency; and
- Continual evaluation of our fleet requirements with DHL. This will ensure the optimum design of transport to maximise capacity, improve aerodynamics, and will consider increased double-decker options.

All company essential user cars must be diesels. Where colleagues can choose a company car as part of their benefits package, CO<sub>2</sub> emissions for the list of cars they can choose from are published and whether those cars are Euro 4 compliant (greener, more tax efficient). The majority of colleagues who can choose a company car continue to choose diesel.

The Group currently provides approximately 200 colleagues with either a company car or car allowance and it is the Company’s policy to ensure that all vehicles have emissions less than 160g/km. The average emissions per company car is 151g/km (2008: 160g/km). We are aiming for further reductions, through a variety of measures, including driver training, enforcing an engine efficiency ceiling on car choice and greater control of mileages driven.



**Energy**

**(a) To reduce energy use**

We are moving into the second year of a three year bespoke action plan with the Carbon Trust for implementing energy saving measures both in the Redditch

head office and in stores.

The first year of this three-year programme has focused on improving measurement of all utilities so that comparisons can be made between stores, thereby leading to understanding of good and bad practice. In order to achieve this we have installed SMART metering into the majority of our stores. This metering allows us to remotely analyse energy used every half hour in every store. The data is loaded into a central database and provided to suppliers as well as feeding a web-based reporting tool to enable us to monitor and target store energy consumption.

Sub-metering has been installed into head office to enable separate monitoring of facilities in the distribution centre and offices. The data from these meters will feed into the online system to provide information that can be used to understand and reduce energy consumption at head office.

We have completely revised the lighting and heating that we install into new stores. Lighting has moved from inefficient Hi bay lighting and halogen spotlights to modern efficient T5 tubes with electronic ballast linked to dimming systems and occupancy sensors. This has been seen on a sample of stores to produce a 15% reduction in energy used per m<sup>2</sup>. We are using ECA approved HVAC and Heat Pump systems in order to heat these stores with the highest efficiency.

## CORPORATE SOCIAL RESPONSIBILITY CONTINUED

Actions planned for the remainder of the programme include:

- Benchmark and implement online energy management and a 'Monitor & Target' system;
- Develop and implement an energy conscious design guide for store development;
- Engage and empower facilities contractors to participate in the above plan;
- Provide training for store managers;
- Development and dissemination of Energy Use guides for store managers; and
- Develop plans to incorporate renewable energy sources in stores.

### (b) To reduce CO<sub>2</sub> emissions

For our stores, we are setting a challenging reduction target of 15% to 20% over three years (5% to 7% per year) against the baseline year of 2007. Individual store targets will be set once the scope for savings has been identified and an action plan and a method of monitoring performance agreed store by store. This target represents a potential 7,000 tonnes of CO<sub>2</sub> savings.



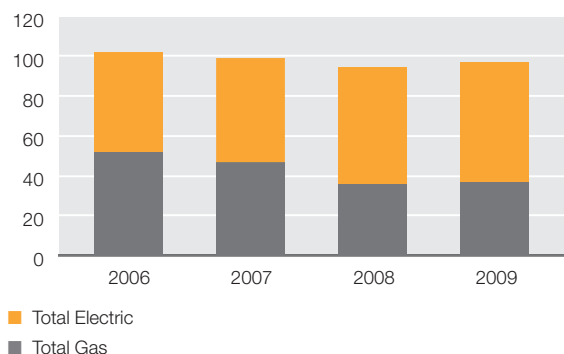
Actions in progress, working in partnership with ENER-G, to deliver this reduction include:

- Developing specific action plans for our 50 highest carbon footprint stores;
- Implementing energy management systems and voltage reduction plans; and
- Installing improved photo-cell and tamperproof timers for store signage.

This year our total energy consumption has increased by 1.3%, which when factored alongside the increase in floor area of 3% translates to a decrease of 1.4% per square metre. Carbon equivalent of energy used remains similar to last year, even though the number of stores in the UK and the Republic of Ireland has risen from 447 to 460. Individual store targets will be set for 2010 once store colleagues have been trained to monitor their progress.

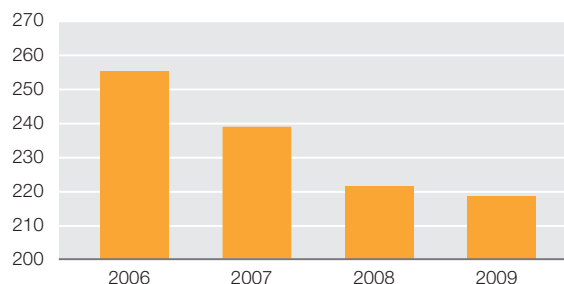
The following graph represents the energy used by our stores and by our head office and distribution centre.

### Total Energy Usage



### Energy Usage per Store

kWh — thousands per store



## IN THE COMMUNITY

### Overview

Our policy on charitable giving is to concentrate on one main charity. However, we are also committed to supporting the communities we serve and individual stores also support local initiatives.

### Charity partnerships

In 2007, the business partnered its first ever "Charity Of The Year", the Meningitis Trust. The charity partnership was so successful that Halfords continued to support the Meningitis Trust for a further 12 months. After two years with the charity, Halfords raised over £140,000. Colleagues reached the fund-raising target with stores selling special pin badges and holding events and individual colleagues undertaking all sorts of challenges ranging from taking part in cycling events and running marathons to charity auctions, car washes and raffle prize draws. The money raised has helped to raise the profile of the Meningitis Trust and highlighted the causes and symptoms of the disease to both colleagues and customers.

In 2009, Halfords has decided to partner a new "Charity Of The Year" — Macmillan Cancer — and will work closely with the charity to raise money and awareness through the sales of pin badges, events and much more.

## IN THE COMMUNITY



In 2008 store colleagues in Londonderry organised events providing fun for all the family, including bouncy castles, face painting and cartoon characters to keep the kids entertained, and retail therapy demonstrations and competitions with prizes donated by suppliers. Support from local emergency services promoted National Child Seat Safety week and helped raise over £1,600 for the Meningitis Trust.

This year, 40 Irish store colleagues teamed up to relay from store to store, riding the length and breadth of Ireland. The cyclists spanned 16 counties, travelled 1,054 kilometres and united 18 stores in a bid to raise funds for the Meningitis Trust. Setting a real challenge for Halfords colleagues, the charity cycle ride proved successful and raised much needed funds for a very worthwhile cause.

We also supported the high profile "Help For Heroes" charity to raise money for wounded servicemen and women returning from Afghanistan and Iraq by becoming the title sponsor of the Halfords Help For Heroes Bike Ride. The ride took place at the end of May 2008, covering all the key First and Second World War battle sites in France before returning to London where thousands of bike riders joined the sponsored team of 300 to ride to the Cenotaph.

### Sponsorship

In 2008, an Olympic year, we made history by signing the first ever commercial sponsorship deal with British Cycling. Building on the great success of last year's partnership, Halfords will again be sponsoring a professional bike team run by British Cycling. The 'Halfords *Bikehut*' team takes on a new focus with National Champion Rob Hayles and Olympic Champion Ed Clancy leading the male-based 2009 road squad. The road team will ride a full domestic season of Premier Calendar and National Criterium Series events sporting a new team kit, along with the Tour of Britain and the Tour of Ireland.

For 2009 the squad also extends to include a cross-country mountain bike team, which sees last year's road team member, Sharon Laws, return to her mountain bike roots and joined by riders such as David Fletcher and Ian Bibby.

The full team will continue to ride *Boardman* bikes, from the exclusive *Bikehut* at Halfords range. The road team will take the 2009 *Boardman* Road PRO, and the 2009 *Boardman* Road Team, both from the carbon range. The mountain bike team meanwhile are riding *Boardman* MTB PRO LTD, based on the award-winning MTB PRO.

Team Halfords *Bikehut* had a great year last year with three National Championship titles, a World Championship title and Nicole Cooke's Olympic Gold.

For the first year Halfords are also sponsoring the 'Premier calendar' of road race events, again cementing Halfords' credibility in the enthusiast cycling market.

Halfords plans to build on this success of last year and the team is a key part in its continued commitment to developing cycling as a sport in partnership with British Cycling.

### Industry forums

Halfords values opportunities to work closely with trade associations, research institutes, standards authorities, universities and government organisations to improve performance standards and safety. Representatives from the quality department are members of British and International standards technical committees associated with automotive accessories and cycles.

### In the future

Halfords will continue to work towards improving our management of the social, environmental and economic issues that are within our control. It makes good business sense that we ensure the right and proper interaction between our Company, our stores and our products, and our customers, their communities and their environment.