Independent auditor's report to the members of Halfords Group plc only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Halfords Group plc ("the Group") for the 52 week period ended 1 April 2016 set out on pages 79 to 118. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 1 April 2016 and of the Group's profit for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows (unchanged from FY15):

Valuation of Inventory within the Retail division: £156.5million (FY 2015: £147.8 million)

Refer to pages 54 to 57 (Audit Committee Report), page 88 (accounting policy) and page 101 (financial disclosures).

- **The risk** – Inventories are carried at the lower of cost and net realisable value with the result that the directors apply judgement in determining the appropriate provisions for obsolete stock based upon a detailed analysis of stock levels and discontinued inventory, the future usage of stock, net realisable value below cost based upon product strategy and stock loss at stores. There is a risk that the Group's assessment of the level of these provisions is insufficient or inaccurate.
- **Our response** – Our procedures in this area included testing the design and effectiveness of controls across the division, including those identifying slow moving or discontinued products. We also considered sales subsequent to year-end to see whether the sale proceeds were sufficient to cover the net realisable value of inventories at year-end. In particular we focus on those inventory lines which are slow moving, have been replaced or are approaching the end of life.

We used our own specialists to critically challenge the arithmetic model that underpins the obsolescent stock provision and compared the assumptions applied to available market data and met with management to understand both the current purchasing strategy and the key drivers for demand such as the sales plans for the coming financial year, new product launches and the level of expected discounting, as well as considering any product ranges that are forecast to be phased out or replaced against the Group's purchasing plans. We also analysed stock holding and movement data to identify product lines with indicators of low stock turn or stock ageing with reference to the above, and assessed the historical accuracy of inventory provisioning, with reference to the level of inventory write-offs during the year.

We also considered the adequacy of the Group's disclosures in respect of inventory.

Carrying amount of Goodwill associated with the Nationwide Autocentres acquisition: £69.7 million (FY 2015: £69.7 million)

Refer to pages 54 to 57 (Audit Committee Report), page 90 (accounting policy) and page 99 (financial disclosures).

- **The risk** – Following the acquisition of Nationwide Autocentres in 2010, the Group holds significant goodwill in this business. The business operates in a competitive market, and commercial factors, such as loss of a significant customer, changes to market share or changes to the frequency with which customers replace their cars, may lead to a risk that the business does not meet the growth projections necessary to support the carrying value of the goodwill. Due to the inherent uncertainty involved in forecasting these cash flows, this is one of the key judgemental areas that our audit is concentrated on.
- **Our response** – We determined the key sensitivities within the impairment and associated budgeting model, which we considered to be the discount rate and the growth rate. Our procedures included challenging certain assumptions used through discussion with the directors and comparison to recently available market data, and also assessing the Group's performance against budget in the current and prior periods to evaluate the historical accuracy of overall forecasts. We have also performed our own sensitivity analysis including, among others, applying the actual last two year average EBITDA growth to the impairment analysis, which still indicates that no impairment is required.

We considered the adequacy of the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £4.0 million (FY15: £4.0 million), determined with reference to a benchmark of Group profit before tax, of which it represents 5.0% (FY15: 5.0%).

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.2 million (FY15: £0.2 million) in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality set out above and covered 100% of total Group revenue, Group profit before taxation, and total Group assets.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the directors' Viability Statement on page 39, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the 3 years to March 2019; or
- the disclosures in the accounting policies of the financial statements concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Audit Committee report, as set out on pages 54 to 57 does not appropriately address matters communicated by us to the Audit and Risk Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 39 in relation to going concern and longer term viability; and
- the part of the Corporate Governance Statement on pages 40 to 47 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 73, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Peter Meehan (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

1 June 2016