

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

If you are in any doubt about the contents of this document or the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 immediately.

If you have sold or otherwise transferred all of your Ordinary Shares you should send this document and the accompanying Form of Proxy as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. However such documents should not be distributed, forwarded or transmitted into any jurisdiction in which to do so would constitute a breach of the relevant laws of such jurisdiction. If you have sold or otherwise transferred only part of your holding, you should retain these documents.

UBS Limited is acting as financial adviser to Dunelm Group plc in connection with the Waiver Resolutions described in this document and no-one else and will not be responsible to anyone other than Dunelm Group plc (whether or not a recipient of this document) for providing the protections afforded to clients of UBS nor for providing advice in relation to the proposals described in this document or any other matter referred to in this document. Persons other than Dunelm Group plc are recommended to seek their own financial and other professional advice.

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# **DUNELM GROUP PLC**

(Incorporated and registered in England and Wales with No. 4708277)

## **Notice of Annual General Meeting including Authority to Make Market Purchases of its Ordinary Shares and certain other matters**

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**This document should be read as a whole. Your attention is drawn to the letter from the Chairman of Dunelm set out in Part 1 of this document which contains the recommendation by the Directors (excluding W L Adderley for the purposes of the Waiver Resolutions) to Shareholders to vote in favour of the Resolutions to be proposed at the Annual General Meeting, notice of which is set out in Part 4 of this document. Shareholders should read the whole of this document and not rely just on the summarised information set out in the Chairman's letter.**

Notice of the Annual General Meeting of Dunelm Group plc to be held at Dunelm Group Distribution Centre, Birmingham Road, Stoke-on-Trent, ST4 4DG at 10.30 am on 16 November 2010 is set out at the end of this document. The Form of Proxy for use at the Annual General Meeting accompanies this document and, to be valid, should be completed and returned in accordance with the instructions set out thereon as soon as possible but in any event so as to reach Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6ZX, not later than 10.30 am on 14 November 2010. Shareholders who hold their Ordinary Shares in CREST may appoint a proxy by completing and transmitting a CREST Proxy Instruction to Equiniti so that it is received no later than 10.30 am on 14 November 2010. Completion and return of the Form of Proxy or the transmission of a CREST Proxy Instruction will not preclude Shareholders from attending and voting in person at the Annual General Meeting, should they so wish.

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Your attention is drawn to the Definitions in Part 3 which apply throughout this document and the Form of Proxy unless the context requires otherwise.

# **PART 1 LETTER FROM THE CHAIRMAN DUNELM GROUP PLC**

**(Incorporated and registered in England and Wales with No. 4708277)**

*Directors:*

W L Adderley (Chief Executive)  
G I Cooper (Non-Executive Chairman)  
S Emeny (Independent Non-Executive Director)  
M J Sears (Senior Independent Non-Executive Director)  
D A Stead (Finance Director)  
N B E Wharton (Independent Non-Executive Director)

Registered office:  
Fosse Way  
Syston  
Leicester  
Leicestershire  
LE7 1NF

8 October 2010

To Shareholders of the Company

Dear Shareholder

## **1. Introduction**

The purpose of this letter is to provide you with an explanation of the Resolutions to be proposed at the Annual General Meeting of the Company which will be held at Dunelm Group Distribution Centre, Birmingham Road, Stoke-on-Trent, ST4 4DG at 10.30 am on 16 November 2010 and to seek your approval of them. The notice of Annual General Meeting is set out at pages 15 to 16 of this document.

The Directors believe that the Resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and Shareholders as a whole and accordingly they recommend that you vote in favour of each of the Resolutions at the Annual General Meeting, save that W L Adderley makes no recommendation with regard to the Waiver Resolutions (being Resolutions 10 and 11) as, in accordance with the provisions of the Takeover Code, W L Adderley is considered to be interested in the outcome of the Waiver Resolutions.

All of the Resolutions to be proposed at the Annual General Meeting are explained in further detail below.

## **2. Ordinary business**

The ordinary business of the Annual General Meeting comprises Resolutions 1 to 6 inclusive.

### **Resolution 1: Report and accounts**

The Directors are required to lay the Directors' Report, the audited annual accounts of the Company and the independent Auditor's Report before Shareholders at the Annual General Meeting. Accordingly, Resolution 1 presents the accounts for the year ended 3 July 2010 and, although not a statutory requirement, proposes the accounts for adoption. A copy of the Annual Report accompanies this document.

### **Resolution 2: Final dividend**

Shareholder approval is required for the payment of a final dividend as recommended by the Board. Subject to Shareholder approval this dividend will be paid on 10 December 2010 to Shareholders on the register of members of the Company at the close of business on 26 November 2010.

### **Resolutions 3 and 4: Re-election of Directors**

Under Article 55(a)(ii) of the Company's Articles of Association, at each annual general meeting a director shall retire from office if it is the third annual general meeting following the annual general meeting at which he was elected or last re-elected. Accordingly Simon Emeny will retire at the forthcoming Annual General Meeting. Will Adderley will also retire at the forthcoming Annual General Meeting so as to ensure that at least one third of the Directors has retired.

Both of the retiring Directors will offer themselves for re-election at the Annual General Meeting.

Biographies of each of these Directors are contained on page 15 of the Annual Report.

The Board believes, following the completion of the annual performance evaluation and appraisal exercise, that the performance of the Directors seeking re-election continues to be effective and that these Directors demonstrate commitment to their roles.

### **Resolution 5: Approval of remuneration report**

Under section 420 of the CA 2006 the Directors must prepare an annual report detailing the remuneration of the Directors and the Company's remuneration policy. Section 439 requires that an ordinary resolution be put to Shareholders each year for their approval of that report. The vote is advisory, however, and the Directors' entitlement to remuneration is not conditional on the Resolution being passed. The remuneration report is on pages 23 to 26 of the Annual Report.

### **Resolution 6: Appointment and remuneration of the auditors**

The Company's auditors must offer themselves for reappointment at each general meeting at which accounts are presented. On the advice of the Company's audit committee, the Board proposes that KPMG Audit Plc be reappointed as auditors of the Company. Resolution 6 also gives authority to the Directors to agree the auditors' remuneration.

### 3. Special business

The special business to be considered at the Annual General Meeting comprises Resolutions 7 to 13 inclusive.

#### Resolution 7: Authority to allot shares

This Resolution gives the Directors authority to allot unissued share capital with a nominal value of up to £669,826, which, as at 30 September 2010, being the latest practicable date prior to the publication of this document, represented approximately one third of the Company's issued Ordinary Share capital of £2,009,478.

This authority will expire at the conclusion of the next annual general meeting of the Company after the passing of this Resolution or, if earlier, on 31 December 2011 unless it is previously renewed, varied or revoked.

The Company held 99,628 Ordinary Shares in treasury as at 30 September 2010, being the latest practicable date prior to the publication of this document.

The Directors have no present intention to issue any unissued Ordinary Shares in the Company other than in respect of the exercise of Share Options by employees under the Employee Share Schemes.

#### Resolution 8: Authority to issue shares on a non pre-emptive basis

This Resolution gives the Directors authority to allot equity securities of the Company (including any Ordinary Shares held which the Company has purchased and elected to hold as treasury shares) for cash other than on a pre-emptive basis as provided by the CA 2006. Other than in connection with a rights or other pre-emptive issue, the authority contained in this Resolution will be limited to issues of Ordinary Shares representing an aggregate nominal value of £100,474, which in turn represents approximately 5% of the issued Ordinary Shares of the Company as at 30 September 2010, being the latest practicable date prior to the publication of this document.

The Directors have no present intention to issue any unissued Ordinary Shares in the Company other than in respect of the exercise of Share Options by employees under the Employee Share Schemes.

#### Resolution 9: Authority to Make Market Purchases of Ordinary Shares

This Resolution, which is conditional on the passing of Resolution 10, seeks authority for the Company to buy back its own Ordinary Shares in the market as permitted by the CA 2006. The authority, if granted, limits the number of Ordinary Shares that could be purchased to a maximum of 5,000,000 Ordinary Shares, representing approximately 2.5% of the Company's issued Ordinary Share capital as at 30 September 2010, and sets the minimum and maximum prices that can be paid. The Company may either retain any of its own Ordinary Shares which it has purchased as treasury shares with a possible re-issue at a future date, or cancel them. Since the Company started a buy back programme of its Ordinary Shares in 2007, it has not cancelled any of the Ordinary Shares that it has bought into treasury. The Company intends to hold any Ordinary Shares that it purchases pursuant to the authority conferred by this Resolution as treasury shares for re-issue to employees exercising Share Options under the Employee Share Schemes, because the Board believes that this gives the Company the ability to cost-effectively fulfill Share Option entitlements, and provides the Company with additional flexibility in the management of its capital base. The Company does not intend to re-issue for sale or cancel any Ordinary Shares that it purchases pursuant to the Authority to Make Market Purchases.

During the period from November 2007 to September 2008 the Company bought 1,322,000 Ordinary Shares into treasury, and during the period from March 2008 to March 2010 1,222,372 Ordinary Shares have been transferred out of treasury to those employees of the Company who have exercised Share Options under the terms of the Employee Share Schemes. During the financial year under review the Company did not utilise the authority to make market purchases conferred at the 2009 annual general meeting. The Company intends on an annual basis to grant Share Options to executive Directors and senior employees pursuant to the LTIP and to employees pursuant to the Dunelm SAYE Scheme.

The total number of options over Ordinary Shares outstanding as at 30 September 2010 was 2,029,648 representing approximately 1.01% of the issued Ordinary Share capital of the Company as at 30 September 2010. If the authority to buy back shares were utilised in full, the total number of options to subscribe for Ordinary Shares outstanding as at 30 September 2010 would, assuming no further Ordinary Shares are issued, represent approximately 1.04% of the issued capital of the Company.

A purchase of Ordinary Shares by the Company pursuant to the Authority to Make Market Purchases could increase the percentage of voting rights held by W L Adderley. In certain circumstances (described below) such an increase could trigger an obligation on W L Adderley to make a mandatory offer for the whole of the issued share capital of the Company pursuant to the Takeover Code. Independent Shareholders will be asked, under Resolution 10, to approve the waiver by the Panel of the mandatory offer provisions such that the purchases of Ordinary Shares by the Company pursuant to the Authority to Make Market Purchases will not trigger a requirement for W L Adderley to make a mandatory offer for the entire issued share capital of the Company. Further details of this waiver are set out below.

#### Resolutions 10 and 11: The Waiver Resolutions

The Waiver Resolutions, each of which will be proposed as an ordinary resolution to be taken by poll, seek Independent Shareholders' approval of a waiver of the obligation that could arise on W L Adderley to make a general offer for the entire issued share capital of the Company as a result of:

- (i) purchases by the Company of Ordinary Shares pursuant to the Authority to Make Market Purchases; and/or
- (ii) the grant to W L Adderley of Share Options under the LTIP in 2010 and 2011 in accordance with the Company's normal practice with a value in respect of each grant equivalent to up to 120% of his basic salary at the date of grant, and the subsequent exercise of those Share Options. Share Options granted to W L Adderley under the LTIP in 2010 and 2011 will not in any event be over, in either year, more than 0.2% of the then existing number of shares in issue.

Under Rule 9 of the Takeover Code, when (i) any person acquires, whether by a series of transactions over a period of time or not, an interest in shares which, taken together with shares in which he and persons acting in concert with him are interested, carry 30% or more of the voting rights of a company subject to the Takeover Code, or (ii) any person who, together with persons acting in concert with him, is interested in shares which in aggregate carry not less than 30% of the voting rights of a company, but does not hold shares carrying more than 50% of such voting rights and such person, or any person acting in concert with him, acquires an interest in any other shares which

increases the percentage of the shares carrying voting rights in which he is interested, then in either case, that person is normally required to make a general offer in cash for all the remaining equity share capital of the company at the highest price paid by him, or any persons acting in concert with him, for shares in the company within the twelve months prior to announcement of the offer.

The Company has applied to the Panel for a waiver of Rule 9 of the Takeover Code in order to permit:

- (i) the Authority to Make Market Purchases proposed under Resolution 9 to be exercised by the Board (if such authority is approved by Shareholders); and
- (ii) the grant in 2010 and 2011 to (and subsequent vesting and exercise by) W L Adderley of Share Options under the LTIP with a market value at the date of grant of up to 120% of his basic salary in respect of each grant (provided that Share Options granted to W L Adderley under the LTIP in 2010 and 2011 will not in any event be over, in either year, more than 0.2% of the then existing number of shares in issue);

without triggering an obligation on the part of W L Adderley to make a general offer to Shareholders. The Panel has agreed, subject to Independent Shareholders' approval on a poll, to waive the requirement for W L Adderley to make a general offer to all Shareholders where such an obligation would arise as a result of purchases by the Company of up to 5,000,000 Ordinary Shares and/or the grant (and subsequent vesting and exercise) of Share Options to W L Adderley referred to in (ii) above.

W L Adderley is currently interested in an aggregate of 69,953,809 Ordinary Shares, representing 34.8% of the issued share capital of the Company. If the Company were to repurchase from persons other than W L Adderley all the Ordinary Shares for which it is seeking authority, and W L Adderley were to receive and exercise the maximum number of options to which he might be entitled, W L Adderley's interest in shares would (assuming no other allotments of Ordinary Shares) increase to 36.0% of the issued share capital of the Company by virtue of such actions.

It should be noted that, as disclosed in an announcement by the Company on 14 December 2009, the Panel has previously consented to W L Adderley receiving Ordinary Shares as a result of the vesting and exercise of options under the Company's SAYE Scheme and LTIP in the ordinary course. Therefore the exercise of any Share Options which are held as at the date of this document (as detailed in Part 2 of this document) will not trigger an obligation on the part of W L Adderley to make a general offer to Shareholders.

As W L Adderley is interested in the outcome of Resolutions 10 and 11 he will be precluded from voting on these Resolutions. In addition, since the time of the flotation of the Company, W L Adderley and his parents, Jean and Bill Adderley, have been considered to be acting in concert for the purposes of Rule 9 of the Takeover Code and subsequently Nadine Adderley, The Leicester Foundation and the Paddocks Trust (a private trust relating to the Adderley family) have also become members of the Concert Party. The Concert Party holds and/or is deemed to be interested in 118,163,809 Ordinary Shares representing 59% of the issued share capital of the Company as at 30 September 2010, being the latest practicable date prior to the publication of this document. Accordingly none of these Shareholders are considered to be independent in relation to Resolutions 10 and 11 and they are precluded from voting on these Resolutions.

**Following exercise of the Authority to Make Market Purchases (either in whole or in part) and the proposed grant (and subsequent vesting and exercise) of Share Options to W L Adderley, W L Adderley will continue to be interested in shares which carry more than 30% but will not hold more than 50% of the Company's voting share capital, and any further increase in the number of shares in which he is interested (other than a further exercise of the Authority to Make Market Purchases) will be subject to the provisions of Rule 9 of the Takeover Code.**

#### **W L Adderley and his intentions**

As you will be aware, W L Adderley is currently the Chief Executive Officer of the Company. It was announced on 16 September 2010 that W L Adderley had decided to relinquish his role as Chief Executive from February 2011 when he will assume the new role of Executive Deputy Chairman, a full-time board position. In his new role, W L Adderley will focus on specific aspects of the Group where he has unique expertise and experience under the direction of the newly appointed Chief Executive. N Wharton, currently a Non-Executive Director of the Company, will assume the role of Chief Executive Designate with effect from 1 December 2010 and will take over as Chief Executive after the announcement of the Group's interim results in February 2011.

Apart from these changes W L Adderley is not presently proposing any changes to the Board nor changes to the employment rights of employees of the Company or any re-deployment of the fixed assets of the Company and his intention, following any increase in his shareholding as a result of any repurchase of Ordinary Shares, is that the business of the Company should continue to be run in substantially the same manner as at present. W L Adderley is not intending to purchase any additional Ordinary Shares during the period covered by the Authority to Make Market Purchases.

Pursuant to the Relationship Agreement, each of J Adderley, W Adderley and W L Adderley accepted certain restrictions relating, inter alia, to their relationship with the Group and their voting rights for so long as, individually or together, they are entitled to exercise, or to control the exercise of, 30% or more of the rights to vote at general meetings of the Company or they are able to control the appointment of directors who are able to exercise a majority of votes at board meetings of the Company.

W L Adderley joined the business in 1992. He has worked in and is familiar with all major areas of the business and took over the running of the Group as Chief Executive Officer from his father in 1996.

#### **Resolution 10: Waiver of mandatory offer provisions set out in Rule 9 of the Takeover Code – Purchase of Own Shares**

Under Rule 37 of the Takeover Code, when a company purchases its own voting shares, any resulting increase in the percentage of shares carrying voting rights in which a person or group of persons acting in concert is interested will be treated as an acquisition for the purpose of Rule 9 (although a shareholder who is neither a director nor acting in concert with a director will not normally incur an obligation to make a Rule 9 offer).

W L Adderley is currently beneficially interested in an aggregate of 69,953,809 Ordinary Shares representing 34.8% of the issued share capital of the Company (and would be beneficially interested in an aggregate of 70,535,057 Ordinary Shares representing 35.1% of the issued share capital of the Company if all Share Options in which he is interested at the date of this document vest and are exercised). If the Company were to repurchase from persons other than W L Adderley or Nadine Adderley, Ordinary Shares for which it is seeking authority,

W L Adderley's percentage interest in the Ordinary Share capital of the Company would (assuming no other allotments of Ordinary Shares) increase to 35.7% of the issued share capital of the Company (or 35.9% taking into account the Share Options referred to above) by virtue of such repurchase. Accordingly, an increase in the percentage of the Ordinary Shares carrying voting rights in which W L Adderley is interested, as a result of any exercise by the Company of the Authority to Make Market Purchases, would ordinarily have the effect of triggering Rule 9 of the Takeover Code and result in W L Adderley being under an obligation to make a general offer to all Shareholders.

The interests of the Concert Party are set out in Part 2 of this document.

The purpose of this Resolution is to seek the approval of Independent Shareholders to a waiver of the obligation that might otherwise arise under Rule 9 of the Takeover Code on the exercise of the Authority to Make Market Purchases (Resolution 9).

#### **Resolution 11: Waiver of mandatory offer provisions set out in Rule 9 of the Takeover Code – Grant and Exercise of Share Options**

##### **Grant and exercise of share options**

W L Adderley is currently beneficially interested in an aggregate of 69,953,809 Ordinary Shares representing 34.8% of the issued share capital of the Company (and would be beneficially interested in an aggregate of 70,535,057 Ordinary Shares representing 35.1% of the issued share capital of the Company if all Share Options in which he is interested at the date of this document vest and are exercised). The grant (and subsequent vesting and exercise) of further Share Options to W L Adderley would (assuming no other allotments of Ordinary Shares) further increase his interest in the issued share capital of the Company. If the maximum number of shares were repurchased, as described above, all Share Options in which W L Adderley is currently interested vested and were exercised, and Share Options over up to a further 0.2% of the issued share capital at the time of grant were issued, vest and were exercised, W L Adderley would have an interest representing 36% of the issued share capital of the Company (assuming that the Authority to Make Market Purchases is utilised in full). The increase in W L Adderley's interest in the issued share capital of the Company described above would ordinarily have the effect of triggering Rule 9 of the Takeover Code and result in W L Adderley being under an obligation to make a general offer to all Shareholders.

The purpose of this Resolution is to seek the approval of Independent Shareholders to a waiver of the obligation that might otherwise arise under Rule 9 of the Takeover Code.

#### **Resolution 12: Notice period for general meetings**

This Resolution relates to the EU Shareholder Rights Directive which increases the notice period for general meetings of traded companies to 21 days unless certain conditions are met. One of the conditions is that a shareholder resolution, such as Resolution 12, reducing the notice period to 14 clear days is passed on an annual basis. The shorter notice period would not be used as a matter of routine for such meetings, but only where the flexibility is merited by the business of the meeting and is thought to be to the advantage of Shareholders as a whole.

#### **Resolution 13: LTIP award to N Wharton**

The Board has recently announced that N Wharton will be appointed as Chief Executive Designate of Dunelm from 1 December 2010 and Chief Executive from February 2011. The main elements of Mr Wharton's remuneration package, which will apply from the commencement of his employment as a full time Executive Director, are described in the Annual Report. His remuneration will follow the Company's established policy. He will receive a basic salary of £400,000 per annum plus benefits including a car allowance, medical and life assurance and a pension contribution equivalent to 10% of salary per annum. He will participate in the annual bonus and will be granted a conditional award under the LTIP scheme enabling him to acquire at nil cost shares with a market value at date of grant of 120% of his basic salary, both of which will be adjusted pro rata to length of employment during the financial year 2010-11. On joining, N Wharton will receive a one-off cash payment of £150,000 in lieu of his annual bonus foregone.

Subject to Shareholder approval, on commencing employment as a full time Executive Director, N Wharton will also be granted a one-off nil-cost conditional award ('Award') pursuant to the LTIP, which will give him the right to acquire Ordinary Shares in the Company worth £1,000,000, determined at the date of the Award in accordance with Rule 3.5.1 of the LTIP rules, subject only to his continuing to be employed for five years from the date of the Award. The Remuneration Committee believes that this is an important incentive to ensure alignment of his interests with shareholders. To reinforce this alignment, N Wharton will be required to build a shareholding of at least two times basic salary over time.

The Rules of the LTIP provide that the value of Awards over Ordinary Shares that can be made to any Participant in any Plan Year shall not exceed 120% of his base salary. Mr Wharton's salary will be £400,000 per annum and the proposed Award (which will consist of the maximum pro rata entitlement under the LTIP and the addition £1,000,000) would therefore breach this limit. However, the proposed Award would not cause the Company to breach the rules relating to the overall number of Ordinary Shares subject to options either in the LTIP or other share schemes as set out in the Association of British Insurers' Guidelines.

The proposed Award will be subject to an employment condition requiring Mr Wharton to remain employed by the Company for five years from the date of the Award. In the event that Mr Wharton gives notice to terminate his employment, the Award will lapse pursuant to Rule 8.1.5.2.

The Rules of the LTIP permit the vesting of an award at any time after three years after the date of grant. In view of the large size of the Award, it is the Board's view that the additional two years' employment is required and it is intended to treat this extended employment period as the Performance Target under the LTIP pursuant to which N Wharton's Award is made.

It is not proposed to make the Award subject to any other performance criteria, as is permitted pursuant to the LTIP rules. Pursuant to the LTIP rules, it is possible (at the sole discretion of the Company) for the Company to provide Mr Wharton with a cash equivalent to his shares at the time of exercise of the Award.

It should be noted that, although there are subsisting awards pursuant to the LTIP, there is no employee benefit trust in place and therefore the consent of trustees to this waiver (in accordance with Rule 13.1) is not required.

#### **4. Action to be taken**

You will find set out at the end of this document a notice convening the Annual General Meeting of the Company to be held at Dunelm Group Distribution Centre, Birmingham, Road, Stoke-on-Trent, ST4 4DG at 10.30 am on 16 November 2010, at which the Resolutions referred to above will be proposed.

A Form of Proxy for use at the Annual General Meeting is enclosed. You are requested to complete the Form of Proxy accompanying this document in accordance with the instructions printed thereon, whether or not you intend to be present at the Annual General Meeting, and return it to the Company's registrar, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6ZX as soon as possible and in any event so that it is received not later than 10.30 am on 14 November 2010.

Shareholders who hold their Ordinary Shares in CREST may appoint a proxy by completing and transmitting a CREST Proxy Instruction to Equiniti so that it is received not later than 10.30 am on 14 November 2010.

Completion and return of the Form of Proxy or the transmission of a CREST Proxy Instruction will not preclude Shareholders from attending and voting in person at the Annual General Meeting, should they so wish.

#### **5. Additional information**

Your attention is drawn to the Annual Report and to Part 2 of this document which contain certain additional information in respect of the Company and the Directors' interests. Shareholders are advised to read the whole of this document and the Annual Report and not rely solely on the summary information set out in this letter.

#### **6. Recommendations**

The Board believes the proposals described above regarding the Resolutions to be proposed at the Annual General Meeting to be in the best interests of the Company and Shareholders as a whole, save that W L Adderley makes no recommendation with regard to the Waiver Resolutions (being Resolutions 10 and 11) as, in accordance with the provisions of the Takeover Code, W L Adderley is considered to be interested in the outcome of the Waiver Resolutions. Accordingly the Board, excluding W L Adderley for the purposes of Resolutions 10 and 11, recommends that Shareholders vote in favour of such Resolutions at the Annual General Meeting, as the Directors intend to do in respect of their own beneficial holdings of Ordinary Shares, which amount to 35.2% of the issued Ordinary Shares, save that W L Adderley will not vote in respect of his holdings of Ordinary Shares, which amount to 34.8% of the issued Ordinary Shares, on either of the Waiver Resolutions, in which he is considered to be interested.

The Independent Directors, who have been so advised by UBS, consider the waiver of the obligation that could arise on W L Adderley to make an offer under Rule 9 of the Takeover Code in relation to the Authority to Make Market Purchases and the grant (and subsequent vesting and exercise) of Share Options to be in the best interests of the Independent Shareholders as a whole. In providing its advice to the Independent Directors, UBS has taken account of the Independent Directors' commercial assessments. Accordingly, the Independent Directors unanimously recommend that Independent Shareholders vote in favour of the Waiver Resolutions to be proposed at the Annual General Meeting, as the Independent Directors intend to do in respect of their own beneficial holdings of Ordinary Shares, which amount to approximately 0.4% of the issued Ordinary Shares.

Yours sincerely

**Geoff Cooper**  
Chairman

## PART 2 ADDITIONAL INFORMATION

### 1. Responsibility

1.1 The Directors take responsibility for the information contained in this document other than:

- (i) the recommendation and associated opinion attributed to the Independent Directors set out in section 6 of the Chairman's Letter; and
- (ii) the statement in section 3 of the Chairman's Letter that W L Adderley (save as stated in that section) has no present intention of changing the Board or the employment rights of employees.

To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that this is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

1.2 W L Adderley takes responsibility for the statement in section 3 of the Chairman's Letter that states, inter alia, he has no present intention of changing the Board or the employment rights of employees (save as stated in that section). To the best of the knowledge and belief of W L Adderley (who has taken all reasonable care to ensure that this is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

1.3 The Independent Directors take responsibility for the recommendation and associated opinion attributed to them in section 6 of the Chairman's Letter. To the best of the knowledge and belief of the Independent Directors (who have taken all reasonable care to ensure that this is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

### 2. The Company

2.1 The Company was incorporated and registered in England on 23 March 2003 with registered number 4708277. The registered office of the Company and the business address of all of the Directors is Fosse Way, Syston, Leicester, LE7 1NF.

2.2 As at 30 September 2010 (being the latest practicable date prior to the publication of this document) the issued share capital of the Company was 201,047,434 Ordinary Shares, carrying one vote each and the Company held 99,628 Ordinary Shares in treasury (representing 0.5% of the issued Ordinary Shares). The Company is not permitted to exercise voting rights in respect of the Ordinary Shares held in treasury. Therefore, the total number of voting rights in the Company on 30 September 2010 was 200,947,806.

### 3. Business of the Company

The Directors intend to continue conducting the business of the Company and its subsidiaries in a similar manner as it is currently conducted and there are currently no plans to introduce any major changes to the business of the Company and its subsidiaries or the terms of engagement of any employees of the Company and its subsidiaries.

### 4. Directors' and other interests

4.1 The names of the Directors and the positions they hold are set out on page 3 of this document.

4.2 As at the close of business on 30 September 2010 (being the latest practicable date prior to the publication of this document) the interests of each Director and persons connected with them (all of which are beneficial unless otherwise stated) in the Ordinary Share capital of the Company as notified to the Company in accordance with Rule 3.1.2R of the Disclosure and Transparency Rules and shares under option were as follows:

	Number of Ordinary Shares	% of the issued Ordinary Share capital
W L Adderley*	69,953,809	34.8
D Stead	466,546	0.23
G Cooper	181,611	0.09
M Sears	100,000	0.05
S Emeny	24,000	0.01
N Wharton	12,500	0.01

\* 2,093,806 Ordinary Shares are registered in the name of Nadine Adderley, W L Adderley's wife.

In addition W L Adderley is deemed to hold a legal interest in 91,800 Ordinary Shares held by The Leicester Foundation and 48,200 Ordinary Shares held by the Paddocks Trust. W L Adderley and Nadine Adderley are the trustees, but not beneficiaries, of The Leicester Foundation and the Paddocks Trust.

Under the Long-Term Incentive Plan:

	Number of options	Earliest Vesting Date
W L Adderley	190,130	Sept 2010
	259,459	Sept 2011
	123,949	Sept 2012
D Stead	127,792	Sept 2010
	178,378	Sept 2011
	85,215	Sept 2012

Under the Dunelm SAYE Scheme:

	Number of options	Earliest Vesting Date
W L Adderley	7,710	January 2012
D Stead	7,710	January 2012

If the Company were to repurchase from persons other than W L Adderley all the Ordinary Shares for which it is seeking authority, and W L Adderley were to receive and exercise the maximum number of Share Options to which he might be entitled, as set out in this document, W L Adderley's interest in shares would (assuming no other allotments of Ordinary Shares) increase to 36.0% of the issued share capital of the Company by virtue of such actions.

4.3 As at the close of business on 30 September 2010 (being the latest practicable date prior to the publication of this document) the interests (all of which are beneficial unless otherwise stated) of each member of the Concert Party in the Ordinary Share capital of the Company as notified to the Company were as follows:

	Number of Ordinary Shares	% of the issued Ordinary Share capital
W L Adderley <sup>1,2</sup>	67,860,000	33.77
N Adderley <sup>2</sup>	2,093,806	1.04
W Adderley	39,400,000	19.60
J Adderley	8,670,000	4.30
The Leicester Foundation	91,800	0.05
The Paddocks Trust	48,200	0.02
<b>Total</b>	<b>118,163,809</b>	<b>58.80</b>

Notes:

1. W L Adderley's interests are set out in detail in paragraph 4.2 above.
2. Of W L Adderley's total shareholding of 69,953,809 Ordinary Shares, 2,093,806 Ordinary Shares are registered in the name of N Adderley, W L Adderley's wife (as also shown in the table).

During the period of twelve months immediately prior to the publication of this document the members of the Concert Party have dealt in Ordinary Shares as follows:

- 4.3.1 on 24 September 2009, a conditional award was made to W L Adderley over 123,949 Ordinary Shares under the LTIP (referred to in paragraph 4.2 above);
- 4.3.2 on 7 October 2009 W Adderley sold 15,600,000 Ordinary Shares by way of a placing at a price of 310 pence per Ordinary Share;
- 4.3.3 on 14 December 2009 W L Adderley received 20,000,000 Ordinary Shares by way of gift from W Adderley;
- 4.3.4 on 2 March 2010 W L Adderley transferred 140,000 Ordinary Shares to The Leicester Foundation for nil consideration;
- 4.3.5 on 23 March 2010 W L Adderley exercised nil cost options over 93,809 Ordinary Shares pursuant to the LTIP;
- 4.3.6 on 23 March 2010 W L Adderley transferred 93,809 Ordinary Shares by way of gift to Nadine Adderley;
- 4.3.7 on 14 July 2010 W L Adderley transferred 2,000,000 Ordinary Shares by way of gift to Nadine Adderley; and
- 4.3.8 on 14 July 2010 The Leicester Foundation transferred 48,200 Ordinary Shares to the Paddocks Trust at a price of 385.9 pence per Ordinary Share.

If the Company were to repurchase from persons other than members of the Concert Party, all of the Ordinary Shares for which it is seeking authority, the Concert Party's aggregate percentage interest in the Ordinary Share capital of the Company would (assuming no other allotments of Ordinary Shares) increase to 60.30% of the issued share capital of the Company (or 60.42% taking into account the Share Options referred to above in relation to W L Adderley) by virtue of such repurchase.

4.4 Save as disclosed above and in paragraph 4.5 below, no Director has any interest in the Ordinary Share capital of the Company or any of its subsidiaries nor does any person connected with the Directors (within the meaning of section 252 of the CA 2006) have any such interests, whether beneficial or non-beneficial.

4.5 As at 30 September 2010 (being the latest practicable date prior to the publication of this document) the total number of voting rights attributable to the issued Ordinary Share capital of the Company was 200,947,806 and (other than the Directors) the following persons had notified the Company in accordance with Rule 5 of the Disclosure and Transparency Rules that they held, directly or indirectly, three% or more of the voting rights attributable to the issued share capital of the Company:

	Number of Ordinary Shares	% of the issued Ordinary Share capital
W Adderley	39,400,000	19.60
J Adderley	8,670,000	4.30
Standard Life Investments Ltd	8,457,936	4.20

Note: W Adderley is married to J Adderley and they are the parents of W L Adderley.

- 4.6 As at the close of business on 30 September 2010 (being the latest practicable date prior to the publication of this document), there were 2,029,725 Share Options outstanding over the Company's Ordinary Shares representing 1.01% of the Ordinary Shares in issue.
- 4.7 Save for W L Adderley, N Adderley, W Adderley and J Adderley, the Company is not aware of any person who exercises, or could exercise, directly or indirectly, jointly or severally, control over the Company. The Directors are satisfied that the undertakings given by W L Adderley, W Adderley and J Adderley in the relationship agreement entered into by them with the Company on 2 October 2006 are adequate to ensure that any control such Shareholders may have over the Company will not be abused.

## 5. Concert parties and related parties

Since the time of the flotation of the Company, W L Adderley and his parents, Jean and Bill Adderley, have been considered to be acting in concert for the purposes of Rule 9 of the Takeover Code and subsequently Nadine Adderley and The Leicester Foundation and the Paddocks Trust have also become members of the Concert Party. The Concert Party holds and/or is deemed to be interested in 118,163,809 Ordinary Shares representing 59% of the issued share capital of the Company as at 30 September 2010, being the latest practicable date prior to the publication of this document.

Shareholders should note that the Concert Party controls in excess of 50% of the Ordinary Shares in issue in the Company. Accordingly, the Concert Party, for so long as the members of the Concert Party continue to be treated as acting in concert, may be able to increase its aggregate interests in shares in the Company without incurring any further obligation under Rule 9 of the City Code to make a general offer to all shareholders of the Company to acquire their Ordinary Shares provided that individual members of the Concert Party do not increase their percentage interests in Ordinary Shares such that:

- (a) a member has an interest in shares carrying 30% or more of the voting rights of the Company when previously the percentage was below 30%; or
- (b) a member's interest that is 30% or more but less than 50% of the voting rights of the Company, increases;

without the consent of the Takeover Panel.

Save as set out above the Directors confirm that they are unaware of any agreements, arrangements or understandings between any of the Directors or Shareholders of the Company acting in concert with any of the Directors.

It is not the Directors' intention to sell any of their shareholdings back to the Company pursuant to the Authority to Make Market Purchases. The Directors also believe that there are no related parties from whom Ordinary Shares are proposed to be purchased and in the event that any Shareholders of the Company come within the definition of related party set out in the UKLA Listing Rules, the Directors confirm that there is no prior understanding, arrangement or agreement between the Company and any related party.

## 6. Middle market quotations

The middle market quotations for the Ordinary Shares of the Company, as derived from the London Stock Exchange Daily Official List, on the first Business Day of each of the six months immediately preceding the date of this document and on 30 September 2010 (being the latest practicable date prior to the publication of this document) were:

Date	Price per Ordinary Share (p)
30 September 2010	391.7
1 September 2010	396.8
2 August 2010	405.1
1 July 2010	333.6
1 June 2010	368.7
4 May 2010	379.8
1 April 2010 – ex. dividend	371

## 7. General

- 7.1 UBS has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and references to it in this document in the form and context in which they appear.
- 7.2 Save as set out in this document, no agreement, arrangement or understanding (including any compensation arrangement), exists between the Directors, recent directors, Shareholders or recent shareholders of the Company having any connection with or dependence upon the proposals set out in this document.
- 7.3 Save as disclosed in paragraph 4 of this Part 2 of this document;
- (a) neither W L Adderley nor any person acting in concert with him has any interest in, right to subscribe in respect of or short position in relation to any relevant securities;
  - (b) neither W L Adderley nor any person acting in concert with him has dealt in relevant securities during the period of twelve months ended on 30 September 2010 (being the latest practicable date prior to the publication of this document);

- (c) there are no relevant securities which W L Adderley or any person acting in concert with him has borrowed or lent (excluding any borrowed relevant securities which have either been on lent or sold);
- (d) none of:
  - (i) the Directors or any of their close relatives or related trusts;
  - (ii) any associated company of the Company; and/or
  - (iii) any pension fund or employee benefit trust of the Company or of any associated company of the Company
 has as at 30 September 2010 (being the latest practicable date prior to the publication of this document) any interest in, right to subscribe in respect of or short position in relation to any relevant securities; and
- (e) there are no relevant securities which the Company or any person acting in concert with the Directors has borrowed or lent (excluding any borrowed relevant securities which have either been on lent or sold).

In this paragraph 7.3 reference to:

- (1) 'relevant securities' means Ordinary Shares and securities carrying conversion or subscription rights into Ordinary Shares;
- (2) 'derivatives' include any financial product, whose value in whole or in part is determined directly or indirectly by reference to the price of an underlying security;
- (3) 'short position' means a short position, whether conditional or absolute and whether in the money or otherwise, and includes any short position under a derivative, any agreement to sell or any delivery obligation or right to require another person to purchase or take delivery;
- (4) 'associated company' means in relation to any company, that company's parent subsidiaries and fellow subsidiaries, and their associated companies, and companies of which such companies are associated companies. For these purposes, ownership or control of 20% or more of the equity share capital of a company is regarded as the test of associated company status;
- (5) 'control' means an interest, or aggregate interests, in shares carrying in aggregate 30% or more of the voting rights of a company, irrespective of whether such interest or interests give de facto control; and
- (6) 'dealing' or 'dealt' includes the following:
  - (i) the acquisition or disposal of securities, of the right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to securities, or of general control of securities;
  - (ii) the taking, granting, acquisition, disposal, entering into, closing out, termination, exercise (by either party) or variation of an option (including a traded option contract) in respect of any securities;
  - (iii) subscribing or agreeing to subscribe for securities;
  - (iv) the exercise or conversion, whether in respect of new or existing securities, of any securities carrying conversion or subscription rights;
  - (v) the acquisition of, disposal of, entering into, closing out, exercise (by either party) of any rights under, or variation of, a derivative referenced, directly or indirectly, to securities;
  - (vi) the entering into, terminating or varying the terms of any agreement to purchase or sell securities; and
  - (vii) any other action resulting, or which may result, in an increase or decrease in the number of securities in which a person is interested or in respect of which he has a short position.

For the purposes of this paragraph 7.3 a person is treated as 'interested' in securities if he has long economic exposure, whether absolute or conditional, to changes in the price of those securities (and a person who only has a short position in securities is not treated as interested in those securities). In particular, a person is treated as 'interested' in securities if:

- (i) he owns them;
- (ii) he has the right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to them or has general control of them;
- (iii) by virtue of any agreement to purchase, option or derivative, he:
  - (a) has the right or option to acquire them or call for their delivery; or
  - (b) is under an obligation to take delivery of them;
 whether the right, option or obligation is conditional or absolute and whether it is in the money or otherwise; or
- (v) he is party to any derivative:

- (a) whose value is determined by reference to their price; and
  - (b) which results, or may result, in his having a long position in them.
- 7.4 The Directors are not aware of any agreement or arrangement or understanding by which the beneficial ownership of any Ordinary Shares acquired by the Company pursuant to the Authority to Make Market Purchases will be transferred to any other person. Such Ordinary Shares will, in accordance with the CA 2006, either be held in treasury up to the amounts permitted to be held in treasury by the CA 2006 or be cancelled and the issued share capital of the Company reduced by the nominal amount of those Ordinary Shares so purchased.

**8. Documents available for inspection**

Copies of the following documents may be inspected at the offices of HBJ Gateley Wareing LLP at Fleet Place House, 2 Fleet Place, Holborn Viaduct, London, EC4M 7RF during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this document up to and including the date of the Annual General Meeting and at the Annual General Meeting for at least 15 minutes before and during the Annual General Meeting:

- (a) the Articles and Memorandum of Association of the Company;
- (b) the audited consolidated accounts of the Company for the financial year ended 3 July 2010; and
- (c) the consent letter from UBS referred to in paragraph 7.1 above.

## **PART 3 DEFINITIONS**

The following definitions apply throughout this document, unless the context otherwise requires:

<b>'Annual General Meeting'</b>	the annual general meeting of the Company to be held at Dunelm Group Distribution Centre, Birmingham Road, Stoke-on-Trent, ST4 4DG on 16 November 2010 at 10.30 am, notice of which is set out in Part 4 of this document
<b>'Annual Report'</b>	the annual report and accounts of the Company for the year ended 3 July 2010 a copy of which accompanies this document
<b>'Articles' or 'Articles of Association'</b>	the articles of association of the Company
<b>'Authority to Make Market Purchases'</b>	the authority for the Company to make market purchases of Ordinary Shares to be proposed to Shareholders in the terms of Resolution 9 set out in the notice of Annual General Meeting set out in Part 4 of this document
<b>'Board' or 'Directors'</b>	the board of directors of the Company
<b>'Business Day'</b>	any date on which banks are generally open in England and Wales for the transaction of normal banking business other than a Saturday, Sunday or public holiday
<b>'CA 2006'</b>	the Companies Act 2006, as amended
<b>'Company' or 'Dunelm'</b>	Dunelm Group plc
<b>'Concert Party'</b>	W L Adderley, W Adderley, J Adderley, N Adderley, The Leicester Foundation and the Paddocks Trust
<b>'CREST'</b>	the system for the paperless settlement of trades in securities operated by Euroclear in accordance with the CREST Regulations
<b>'CREST Manual'</b>	the current version of the CREST Manual which at the date of this document is available on <a href="http://www.euroclear.co.uk/CREST">www.euroclear.co.uk/CREST</a>
<b>'CREST Regulations'</b>	the Uncertificated Securities Regulations 2001 (SI 2001/3755) (as amended)
<b>'Disclosure and Transparency Rules'</b>	the disclosure and transparency rules made by the FSA in exercise of its functions as competent authority pursuant to Part VI of FSMA
<b>'Dunelm SAYE Scheme'</b>	the Dunelm Group Savings Related Share Option Plan
<b>'Employee Share Schemes'</b>	the LTIP, the Dunelm SAYE Scheme and the Dunelm Group Company Share Option Plan
<b>'Equiniti'</b>	a trading name of Equiniti Limited
<b>'Euroclear'</b>	Euroclear UK & Ireland Limited, the operator of CREST
<b>'Form of Proxy'</b>	the form enclosed with this document for use by Shareholders in connection with the Annual General Meeting
<b>'FSA'</b>	the Financial Services Authority
<b>'FSMA'</b>	the Financial Services and Markets Act 2000
<b>'Group'</b>	the Company and its subsidiary undertakings

<b>'Independent Directors'</b>	the directors of the Company other than W L Adderley, who are deemed not to be interested in the Waiver Resolutions
<b>'Independent Shareholders'</b>	Shareholders other than W L Adderley and members of the Concert Party
<b>'Listing Rules'</b>	the listing rules made by the FSA in exercise of its functions as competent authority pursuant to Part VI of FSMA
<b>'London Stock Exchange'</b>	London Stock Exchange plc or its successor
<b>'LTIP'</b>	the Dunelm Group Long-Term Incentive Plan
<b>'Official List'</b>	the official list maintained by the UK Listing Authority for the purposes of Part VI of FSMA
<b>'Ordinary Shares'</b>	Ordinary Shares of 1 pence each in the capital of the Company
<b>'Panel'</b>	the Panel on Takeovers and Mergers
<b>'Registrars' or 'Equiniti'</b>	the registrars of the Company
<b>'Relationship Agreement'</b>	the relationship agreement dated 2 October 2006 and entered into between J Adderley (1), W Adderley (2), W L Adderley (3) and the Company (4)
<b>'Resolutions'</b>	the resolutions set out in the notice of Annual General Meeting at Part 4 of this document
<b>'Shareholder(s)' or 'Ordinary Shareholder(s)'</b>	(a) holder(s) of Ordinary Shares
<b>'Share Options'</b>	options to subscribe for and awards over Ordinary Shares under the Employee Share Schemes
<b>'subsidiary undertaking'</b>	shall, unless otherwise stated, be construed in accordance with the CA 2006 (but for these purposes ignoring paragraph 19(1)(b) of Part 1 of Schedule 6A to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008)
<b>'Takeover Code'</b>	the City Code on Takeovers and Mergers
<b>'UBS'</b>	UBS Limited
<b>'UK Listing Authority' or 'UKLA'</b>	the FSA acting in its capacity as the competent authority for listing under Part VI of FSMA and in the exercise of its functions in respect of admission to the Official List
<b>'United Kingdom' or 'UK'</b>	the United Kingdom of Great Britain and Northern Ireland
<b>'Waiver Resolutions'</b>	Resolutions 10 and 11 in the form set out in the notice of Annual General Meeting at the end of this document approving a waiver of the mandatory offer provisions set out in Rule 9 and Rule 37 of the Takeover Code

All times referred to are London times unless otherwise stated.

All references to issued Ordinary Shares excludes shares held in treasury unless otherwise stated.

## **PART 4 NOTICE OF ANNUAL GENERAL MEETING DUNELM GROUP PLC (the 'Company')**

(Incorporated and registered in England and Wales with No. 4708277)

### **NOTICE OF ANNUAL GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that the 2010 Annual General Meeting of the Company will be held at Dunelm Group Distribution Centre, Birmingham Road, Stoke-on-Trent, ST4 4DG at 10.30 am on 16 November 2010 for the purpose of considering and, if thought fit, passing the following resolutions, which, in the case of resolutions 8,9 and 12 will be proposed as special resolutions and, in the case of the other resolutions, will be proposed as ordinary resolutions. Resolutions 10 and 11 will be voted on only by the Independent Shareholders of the Company and will be taken by poll. As W L Adderley is interested in the outcome of resolutions 10 and 11 he and all other members of the Concert Party of which he is a member, will be precluded from voting on that resolution.

#### **Ordinary business**

1. That the Company's annual accounts for the financial year ended 3 July 2010 together with the Directors' Report and the Auditors' Report on those accounts be received and adopted.
2. To declare a final dividend on the Ordinary Shares of 1p each in the capital of the Company ('Ordinary Shares') of 5p per share in respect of the year ended 3 July 2010.
3. That Simon Emeny, who is retiring in accordance with the Articles of Association of the Company, and being eligible, is offering himself for re-election, be reappointed as a Non-Executive Director of the Company.
4. That Will Adderley, who is retiring in accordance with the Articles of Association of the Company, and being eligible, is offering himself for re-election, be reappointed as an Executive Director of the Company.
5. That the Directors' Remuneration Report for the year ended 3 July 2010 be approved.
6. That KPMG Audit Plc be reappointed as auditors to the Company and that the Directors be authorised to determine the auditors' remuneration.

#### **Special business**

7. That in accordance with section 551 of the Companies Act 2006, the Directors be authorised to allot Ordinary Shares in the Company or grant rights to subscribe for Ordinary Shares or to convert any securities into Ordinary Shares in the Company up to a maximum nominal amount of £669,826 to such persons and on such terms as the Directors may determine provided that:
  - (a) this authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution, or, if earlier on 31 December 2011 unless previously renewed, varied or revoked although the Directors may exercise this authority after this date in respect of an offer or agreement made while this authority was in force; and
  - (b) all previous unutilised authorities under section 551 of the Companies Act 2006 shall cease to have effect (save to the extent that the same are exercisable pursuant to section 551(7) of the Companies Act 2006 by reason of any offer or agreement made prior to the date of this resolution which would or might require relevant securities to be allotted on or after that date).
8. That subject to the passing of resolution 7 above, and in accordance with section 570 of the Companies Act 2006, the Directors be given power to allot equity securities for cash or by way of a sale of treasury shares pursuant to the previous resolution as if section 561(1) of the Companies Act 2006 does not apply to the allotment provided that:
  - (a) the powers under this resolution shall be limited to the allotment of equity securities:
    - (i) where securities have been offered to holders of Ordinary Shares in proportion (as nearly as may be) to their existing holdings of Ordinary Shares subject to any exclusions or other arrangements that the Directors consider necessary or expedient to deal with fractional entitlements and legal or practical problems under the law of, or the requirements of any recognised regulatory body or stock exchange in any territory; and
    - (ii) having a nominal amount not exceeding in aggregate £100,474;
  - (b) this authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or, if earlier, on 31 December 2011 although the Directors may exercise this authority after this date in respect of an offer or agreement made while this authority was in force;
  - (c) all previous unutilised authorities under section 570 of the Companies Act 2006 shall cease to have effect (save to the extent that the same are exercisable pursuant to section 570(4) of the Companies Act 2006 by reason of any offer or agreement made prior to the date of this resolution which would or might require equity securities to be allotted on or after that date).
9. THAT conditional on resolution 10 below, the Company be generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 to make market purchases (within the meaning of section 693 of the Companies Act 2006) of Ordinary Shares provided that:
  - (a) the maximum aggregate number of Ordinary Shares authorised to be purchased is 5,000,000 (being approximately 2.5% of the issued Ordinary Share capital at 30 September 2010 being the latest practicable date prior to the date of this notice of Annual General Meeting (excluding treasury shares));

(b) the maximum price (not including expenses) which may be paid for each Ordinary Share is an amount equal to the higher of (i) 105% of the average of the middle market quotations for an Ordinary Share, as derived from the London Stock Exchange Daily Official List, for the five business days immediately before the day on which the purchase is made; and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out (being the price stipulated by Article 5(1) of the Buy-Back and Stabilisation Regulation 2003); and

(c) the minimum price (not including expenses) which may be paid for each Ordinary Share is 1p per share.

This authority shall, unless previously varied, revoked or renewed, expire at the conclusion of the next annual general meeting of the Company or, if earlier, on 31 December 2011, except in relation to a purchase of Ordinary Shares the contract for which was concluded before such time and which will or may be executed wholly or partly after such time.

10. THAT approval is granted for the waiver by the Panel on Takeovers and Mergers of any obligation that could arise, pursuant to Rule 9 of the City Code on Takeovers and Mergers, for W L Adderley to make a general offer for all the ordinary issued share capital of the Company, following any increase in the percentage of shares of the Company carrying voting rights in which W L Adderley is interested resulting from the exercise by the Company of the authority to purchase its own Ordinary Shares granted to the Company pursuant to resolution 9 above provided that such approval shall expire at the conclusion of the next annual general meeting of the Company or on 31 December 2011, whichever is earlier.
11. THAT approval is granted for the waiver by the Panel on Takeovers and Mergers of any obligation that could arise, pursuant to Rule 9 of the City Code on Takeovers and Mergers, for W L Adderley to make a general offer for all the ordinary issued share capital of the Company, following any increase in the percentage of shares of the Company carrying voting rights in which W L Adderley is interested resulting from the grant and subsequent vesting and exercise of Share Options to W L Adderley in 2010 and 2011 each equivalent to 120% of basic salary at date of grant (provided that Share Options granted to W L Adderley under the LTIP in 2010 and 2011 will not in any event be over, in either year, more than 0.2% of the then existing number of Ordinary Shares in issue) provided that such approval shall expire at the conclusion of the next annual general meeting of the Company or on 31 December 2011, whichever is earlier.
12. That a general meeting of the Company other than the annual general meeting may be called on not less than 14 clear days' notice.
13. That Rule 3.1 of the Rules of the Dunelm Group 2006 Long-Term Incentive Plan ('Plan') be waived in respect of the proposed nil cost conditional awards to N Wharton pursuant to the Plan over Ordinary Shares with an aggregate Market Value of up to £1,280,000 (being 70% of N Wharton's basic salary plus an additional £1,000,000) as at the date of the awards (which is proposed to be the commencement of his employment as a full time Executive Director of the Company).

Dated: 8 October 2010  
Registered Office: Fosse Way  
Syston  
Leicester  
LE7 1NF

By order of the Board  
D Stead  
Secretary

**Notes:**

1. Voting on the resolutions will be conducted on a show of hands, save for voting on resolutions 10 and 11, which will be conducted by way of a poll.
2. A form of proxy is enclosed for use by Shareholders and, if appropriate, must be deposited with the Company's registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6ZX, not less than 48 hours before the time of the Annual General Meeting. Appointment of a proxy does not preclude a Shareholder from attending the Annual General Meeting and voting in person.
3. A member entitled to attend, speak and vote at the Annual General Meeting may appoint one or more proxies (who need not be a member of the Company) to attend and to speak and to vote on his or her behalf whether by show of hands or on a poll. A member can appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him. To appoint more than one proxy, please contact the Company's registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6ZX. In order to be valid an appointment of proxy (together with any authority under which it is executed or a copy of the authority certified notari ally) must be returned by one of the following methods: or
  - in hard copy form by post, by courier or by hand (during normal business hours) to the Company's registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6ZX; or
  - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below;

and in each case must be received by the Company not less than 48 hours before the time of the Annual General Meeting.

4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting and any adjournment thereof by using the procedures described in the CREST Manual available at [www.euroclear.com/CREST](http://www.euroclear.com/CREST). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
5. In order for a proxy appointment, or instruction, made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ('EUI') specifications and must contain the information required for such instructions, as described in the CREST Manual. The message regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by the latest time(s) for receipt of proxy appointments specified in the notice of Annual General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) of the Uncertificated Securities Regulations 2001. CREST members and where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is therefore the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his or her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
6. The 'vote withheld' option is to enable shareholders to abstain on any particular resolution. This is not a vote in law and will not be counted in the votes 'for' or 'against' any resolution.
7. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communication from the Company in accordance with section 146 of the Companies Act 2006 ('nominated persons'). Nominated persons may have a right under an agreement with the registered shareholder who holds shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.
8. Representatives of Shareholders that are corporations will have to produce evidence of their proper appointment when attending the Annual General Meeting. Please contact our Registrar if you need any further guidance on this.
9. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, in order to be able to attend and vote at the Annual General Meeting or any adjourned meeting (and also for the purpose of calculating how many votes a person may cast), a person must have his/her name entered on the register of members of the Company by 6.00 pm on 14 November 2010 (or 6.00 pm on the date 48 hours before any adjourned meeting). Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend, speak or vote at the Annual General Meeting.
10. The issued share capital of the Company as at 30 September 2010 (being the latest practicable date prior to the publication of this document) was 201,047,434 Ordinary Shares, carrying one vote each. The Company holds 99,628 Ordinary Shares in treasury and is not permitted to exercise voting rights in respect of those shares. Therefore, the total number of voting rights in the Company on 30 September 2010 was 200,947,806.
11. Please note that the Company takes all reasonable precautions to ensure no viruses are present in any electronic communication it sends out but the Company cannot accept responsibility for loss or damage arising from the opening or use of any email or attachments from the Company and recommends that the members subject all messages to virus checking procedures prior to use. Any electronic communication received by the Company, including the lodgment of an electronic proxy form, that is found to contain any virus will not be accepted.

12. Information regarding the Annual General Meeting, including the information required by section 311A of the Companies Act 2006, is available from <http://production.investis.com/dnlm>.
13. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also applies in relation to amended instructions. Any amended proxy appointment received after the relevant cut-off time will be disregarded. Where you have appointed a proxy using the hard copy proxy form and would like to change the instructions using another hard copy proxy form, please contact the Company's registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6ZX. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
14. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6ZX. In the case of a shareholder which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any authority under which the revocation notice is executed or a copy of the authority certified notari ally) must be included with the revocation notice.

The revocation notice must be received by Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6ZX no less than 24 hours before the time of the Annual General Meeting.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified then your proxy appointment will remain valid.

15. Pursuant to section 319A of the Companies Act 2006, the Company must cause to be answered at the Annual General Meeting any question relating to the business being dealt with at the Annual General Meeting which is put by a member attending the meeting, except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the meeting that the question be answered or if to do so would involve the disclosure of confidential information.
16. Shareholders who have general queries about the Annual General Meeting should contact David Stead at [david.stead@dunelm-mill.co.uk](mailto:david.stead@dunelm-mill.co.uk). No other methods of communication will be accepted. You may not use any other electronic address provided either:
  - 16.1 in this notice of Annual General Meeting; or
  - 16.2 any related documents (including the form of proxy);to communicate with the Company for any purposes other than those expressly stated.
17. Copies of the Executive Directors' service agreements with the Company and the Non-Executive Directors' terms of appointment will be available for inspection during normal business hours on each business day at the registered office of the Company from the date of this notice until the date of the Annual General Meeting and also at the place of the Annual General Meeting for 15 minutes prior to and during the Annual General Meeting.
18. As soon as practicable following the Annual General Meeting, the results of the voting at the Annual General Meeting and the numbers of proxy votes cast for and against and the number of votes actively withheld in respect of each of the resolutions will be announced via a Regulatory Information Service and also be available from <http://production.investis.com/dnlm>.
19. Pursuant to Chapter 5 of Part 16 of the Companies Act 2006 (sections 527 to 531), where requested by either:
  - 19.1 a member or members having a right to vote at the Annual General Meeting and holding at least 5% of total voting rights of the Company; or
  - 19.2 at least 100 members having a right to vote at the Annual General Meeting and holding, on average, at least £100 of paid up share capital;the Company must publish on its website a statement setting out any matter that such members propose to raise at the Annual General Meeting relating to the audit of the Company's accounts (including the Auditor's Report and the conduct of the audit) that are to be laid before the Annual General Meeting.
20. Where the Company is required to publish such a statement on its website:
  - 20.1 it may not require the members making the request to pay any expenses incurred by the Company in complying with the request;
  - 20.2 it must forward the statement of the Company's auditors no later than the time the statement is made available on the Company's website; and
  - 20.3 the statement may be dealt with as part of the business of the Annual General Meeting.
21. A member wishing to request publication of such a statement on the Company's website must send the request to the Company using one of the following methods:
  - 21.1 in hard copy form to David Stead, Company Secretary, at the Company's registered office;
  - 21.2 by email to [david.stead@dunelm-mill.co.uk](mailto:david.stead@dunelm-mill.co.uk) and be confirmed in writing to the registered office address; or
  - 21.3 by fax to 0116 264 4490 marked for the attention of David Stead and confirmed in writing to the registered office address.
22. Whichever form of communication is chosen, the request must:
  - 22.1 either set out the statement in full or, if supporting a statement sent by another member, clearly identify the statement which is being supported; and
  - 22.2 be received by the Company at least one week before the Annual General Meeting.



