Geoff Cooper

Chairman
David Stead

Finance Director
## Financial highlights

<table>
<thead>
<tr>
<th></th>
<th>FY11 H1</th>
<th>FY10 H1</th>
<th>Year on year change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>£275.7m</td>
<td>£254.2m</td>
<td>+8.5%</td>
</tr>
<tr>
<td>LFL Sales (decline) / growth</td>
<td>-1.2%</td>
<td>+15.4%*</td>
<td></td>
</tr>
<tr>
<td>Gross margin</td>
<td>49.1%</td>
<td>48.0%</td>
<td>+110bps</td>
</tr>
<tr>
<td>Operating profit</td>
<td>£48.4m</td>
<td>£45.9m</td>
<td>+5.4%</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>£48.5m</td>
<td>£46.2m</td>
<td>+5.0%</td>
</tr>
<tr>
<td>EPS (fully diluted)</td>
<td>17.1p</td>
<td>15.9p</td>
<td>+7.5%</td>
</tr>
<tr>
<td>Dividend</td>
<td>3.5p</td>
<td>3.0p</td>
<td>+16.7%</td>
</tr>
</tbody>
</table>

* Underlying LFL in FY10 H1 (adjusted for calendar effect) was 13.4%
Like-for-like sales trend

NB all figures are based on sales excluding VAT; FY10 Q2 and Q3 figures reflect underlying performance (i.e. adjusted for calendar effect)
Gross Margin Drivers

- Improved clearance
- Cost price inflation
- Selling price management
## Operating Costs

**Increases in cost base driven by business growth**

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating costs FY10 H1</td>
<td>76.2</td>
<td></td>
</tr>
<tr>
<td>Increases due to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• LFL stores*</td>
<td>0.9</td>
<td>Includes web development</td>
</tr>
<tr>
<td>• Non LFL stores**</td>
<td>8.4</td>
<td>Average selling space up by 350k sq ft</td>
</tr>
<tr>
<td>• Other</td>
<td>1.6</td>
<td>Includes warehouse expansion and onerous lease charge</td>
</tr>
<tr>
<td>Operating costs FY11 H1</td>
<td>87.1</td>
<td></td>
</tr>
</tbody>
</table>

* 83 superstores, 10 high streets, Dunelm Direct  
** 17 superstores (openings since July 2009)
### Profit after Tax

<table>
<thead>
<tr>
<th>(£m)</th>
<th>FY11 H1</th>
<th>FY10 H1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Profit</td>
<td>48.4</td>
<td>45.9</td>
</tr>
<tr>
<td>Financial Items</td>
<td>0.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Profit Before Tax</td>
<td>48.5</td>
<td>46.2</td>
</tr>
<tr>
<td>Tax</td>
<td>(13.7)</td>
<td>(13.8)</td>
</tr>
<tr>
<td><strong>Profit After Tax</strong></td>
<td><strong>34.8</strong></td>
<td><strong>32.4</strong></td>
</tr>
<tr>
<td><strong>EPS (fully diluted)</strong></td>
<td><strong>17.1p</strong></td>
<td><strong>15.9p</strong></td>
</tr>
<tr>
<td>Dividend</td>
<td>3.5p</td>
<td>3.0p</td>
</tr>
</tbody>
</table>
## Operating cash generation

<table>
<thead>
<tr>
<th>(£m)</th>
<th>FY11 H1</th>
<th>FY10 H1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Profit</td>
<td>48.4</td>
<td>45.9</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>6.7</td>
<td>5.4</td>
</tr>
<tr>
<td>Other non-cash movements</td>
<td>0.5</td>
<td>0.6</td>
</tr>
<tr>
<td>Working capital movement</td>
<td>7.9</td>
<td>8.8</td>
</tr>
<tr>
<td>Net interest</td>
<td>0.3</td>
<td>0.2</td>
</tr>
<tr>
<td>Tax paid</td>
<td>(11.7)</td>
<td>(8.4)</td>
</tr>
<tr>
<td><strong>Net cash from operations</strong></td>
<td>52.1</td>
<td>52.5</td>
</tr>
</tbody>
</table>

| Cash conversion                     | 108%    | 114%    |
## Working capital movement

<table>
<thead>
<tr>
<th>(£m)</th>
<th>FY11 H1</th>
<th>FY10 H1</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory increase</td>
<td>(6.1)</td>
<td>(3.5)</td>
<td>Reduction in LFL stores</td>
</tr>
<tr>
<td>Receivables increase</td>
<td>(2.4)</td>
<td>(0.6)</td>
<td>Various items</td>
</tr>
<tr>
<td>Payables increase</td>
<td>16.5</td>
<td>12.9</td>
<td>Payables cycle; deferred lease incentives</td>
</tr>
<tr>
<td>Overall reduction</td>
<td>7.9</td>
<td>8.8</td>
<td></td>
</tr>
</tbody>
</table>
## Capital investment

<table>
<thead>
<tr>
<th>(£m)</th>
<th>FY11 H1</th>
<th>FY10 H1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Major transactions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freehold acquisitions</td>
<td>7.7</td>
<td>-</td>
</tr>
<tr>
<td>New Head Office</td>
<td>1.7</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>9.4</td>
<td>-</td>
</tr>
<tr>
<td><strong>On-going investments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New store fit-outs</td>
<td>8.6</td>
<td>5.7</td>
</tr>
<tr>
<td>Refits and other store investments</td>
<td>3.2</td>
<td>2.8</td>
</tr>
<tr>
<td>IT investment</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Other</td>
<td>1.4</td>
<td>0.6</td>
</tr>
<tr>
<td></td>
<td><strong>13.7</strong></td>
<td><strong>9.6</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>23.1</strong></td>
<td><strong>9.6</strong></td>
</tr>
</tbody>
</table>

- 2 freehold units acquired
- 7 new stores fitted out in FY11 H1, 6 in comparable period
- 3 major refits completed in FY11 H1, 4 in comparable period
## Net cash generation

<table>
<thead>
<tr>
<th>(£m)</th>
<th>FY11 H1</th>
<th>FY10 H1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash from operations</td>
<td>52.1</td>
<td>52.5</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>(23.1)</td>
<td>(9.6)</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(10.1)</td>
<td>(8.0)</td>
</tr>
<tr>
<td>Other</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Change in net cash</strong></td>
<td><strong>19.0</strong></td>
<td><strong>35.0</strong></td>
</tr>
<tr>
<td><strong>Period end net cash</strong></td>
<td><strong>34.3</strong></td>
<td><strong>59.2</strong></td>
</tr>
<tr>
<td><strong>Daily average net cleared funds</strong></td>
<td><strong>29.1</strong></td>
<td><strong>40.1</strong></td>
</tr>
</tbody>
</table>
Guidance

- **Sales and gross margin**
  - LFL comparatives Q3, Q4
  - Cost inflation

- **Operating costs**
  - New space
  - Depreciation
  - New Head Office

- **Tax**
  - Rate reduction

- **Capex**
  - New store fit outs
  - Refits
  - New Head Office
  - Freeholds
  - Other
Will Adderley

Deputy Chairman
H1 - Summary

• Solid financial performance

• Continuing portfolio growth

• Strong balance sheet

• New Chief Executive
Deputy Chairman role

• Stores

• Competitors

• Supplier relationships

• Internal consultant – support Nick and David

• Culture and staff
Cotton price inflation

- Major increases in cotton prices
- Security of supply
- Protection for the future
- Flexible trading policies
Nick Wharton

Chief Executive
Dunelm growth strategy

- Further develop specialist position
- Store portfolio
- Grow multi-channel
- Develop and exploit infrastructure
**Specialist position**

### Core ranges
- Extensive range of homewares
- Great authority - depth and choice
- Strong availability
- Own brand

**c.80% of sales**

### Special buys
- Frequently changing ("Miss it Miss out")
- Powerful displays
- Core homewares and related products
- "Treasure-hunt" feel

**c.20% of sales**

---

**Simply value for money**

### Service
- Specialist knowledge
- Extensive fabric range
- Made to measure
- "Dunelm at Home"
Range authority - ready made curtains

- 186 different designs, over 2,000 SKUs

- Price points from £14.99 to £229.99

- Range supplemented by custom made options

Dunelm Havana Curtains
From £14.99

Heritage Collection Glava Curtains
From £69.99
Leveraging our heritage

- **Unique trading approach**
  - Stores
  - Central teams

- **Developing core departments**
  - Bedding
  - Window treatments

- **Introducing new concepts**
  - Arts and crafts (78 stores)
  - Dorma shop (38 stores)
  - Expanded kitchen offer (32 stores)
Superstore format provides significant growth opportunity

- Opportunity for 150-200 superstores
- Attractive financial payback
- Refits introduce latest customer offer
- Contemporary store portfolio
- Large footprint and strong covenant underpin favourable lease terms

New store economics

<table>
<thead>
<tr>
<th>Cash Investment</th>
<th>£1.9m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discounted Payback</td>
<td>25 months</td>
</tr>
</tbody>
</table>
Store portfolio

Superstores (100 stores)

- 7 stores opened in period (1 relocation)
- Consistent financial returns
- Freehold purchases to secure tenure and avoid restrictions
- Strong pipeline of committed stores
  - 3 in H2
  - 7 in FY11 (inc 2 relocations)

High Street Stores (10 Stores)

- Profitable locations
- Long-term relocation opportunities
Store portfolio

Range of store refit solutions drive value

- Sales improvement through:
  - New range introduction
  - Improved adjacencies
  - Enhanced customer environment
  - Release of surplus stockroom space

- Tailored refit programme ensures appropriate ROIC
  - Major – c.£650k investment
  - Medium – c.£100k investment
  - Small – c.£10k investment

- 10-15 major/medium refits per year going forward
Multi-channel - Dunelm Direct

Significant future growth upside from Dunelm-mill.com

Clear opportunity

- Accesses web only customers
- Higher frequency of visit and spend
- ‘Shop Window’ to Dunelm
- High return on on-line advertising
- Own brand penetration protects margin
Multi-channel - Dunelm Direct

Multi-channel development roadmap evolving

- Worthwhile profit opportunity
  - 60% visitor growth
  - Strong revenue growth
  - ATV significantly higher than stores
  - Participation equivalent to top 5 store

- Development plan
  - Collect in store convenience
  - Fulfilment efficiency
  - Increase on-line SKU count (currently 16,500)
  - Increase customer engagement
  - Search engine / Pay per click optimisation

“I bought these cushions for my kitchen dining table, they are really gorgeous with a fantastic stylish design!” CJ, Edinburgh
Multi-channel – Dunelm At Home

Strategic differentiation through in-home consultation

- Opportunity
  - Deeper customer relationship
  - Specialist proposition
  - Competitive advantage:
    - Vertical integration
    - Ancillary products
  - High customer acceptance & ATV in trial

- Next steps
  - Simplify processes
  - Improve consistency
  - Grow: Store by store
Develop and exploit infrastructure

Infrastructure in place to support greater scale

• Management capability
  - Strengthened structure in place

• Manufacturing capability
  - Source of competitive advantage
  - Increased scale – summer 2010
  - Centralise store based processes

• Head office
  - Transition – late summer 2011
  - Significant workflow upside
Develop and exploit infrastructure

Infrastructure in place to support greater scale

- **Logistics development**
  - Stoke warehouse (special buys)
    - Expanded footprint to 500k sq ft
    - Capacity to support store growth and direct sourcing
  - Nominated carrier DC (ranged lines)

- **IT Infrastructure**
  - Focus on simplifying store operations
Summary

**Strong position in attractive market**
- Category-killing choice across homewares
- Great value proposition
- Established service differentiation

**Clear growth potential**
- Opportunity to expand to 150 – 200 superstores
- Refit opportunity in balance of portfolio
- Growth potential in existing and new categories
- Significant further upside from multi-channel

**Strong Financial Model**
- Highly profitable, scalable model: FY10 operating margin 15.3%
- Excellent capital return on new stores
- Excellent cash generation: all growth internally funded
- Contemporary store portfolio and support infrastructure

**Strong foundation for continued growth**
INTERIM RESULTS

Simply value for money

Dunelm mill

INTERIM RESULTS

26 weeks to 01 January 2011
Appendices
Supply chain

Overseas Manufacturers

UK DISTRIBUTORS

NOMINATED CARRIER

DUNELM DC (STOKE)

Regular Ranges

Special Buys

Store

80%

Daily

20%

Twice Weekly

Manufacturers

Overseas

DUNELM DC

Daily

Regular Ranges

Special Buys

Store

Overseas

DUNELM DC

Twice Weekly

Overseas

Manufacturers
### Simply value for money

<table>
<thead>
<tr>
<th>Competitor</th>
<th>Dunelm</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="Hotel 400 Thread Count Pillowcase" /></td>
<td><img src="image" alt="Hotel 400 Thread Count Pillowcase" /></td>
</tr>
<tr>
<td>Hotel 400 Thread Count Pillowcase £12.00</td>
<td>Hotel 400 Thread Count Pillowcase £7.99</td>
</tr>
<tr>
<td><img src="image" alt="50/50 Polycotton Pillowcase Pair" /></td>
<td><img src="image" alt="Dunelm 50/50 Polycotton Pillowcase Pair" /></td>
</tr>
<tr>
<td>50/50 Polycotton Pillowcase Pair £6.00</td>
<td>Dunelm 50/50 Polycotton Pillowcase Pair £4.99</td>
</tr>
<tr>
<td><img src="image" alt="Value Pillowcase Pair (Non Iron)" /></td>
<td><img src="image" alt="Value Pillowcase Pair (Non Iron)" /></td>
</tr>
<tr>
<td>Value Pillowcase Pair (Non Iron) £4.00</td>
<td>Value Pillowcase Pair (Non Iron) £2.49</td>
</tr>
</tbody>
</table>
Bill Adderley
- Founded Dunelm in 1979
- Managing Director, then Chairman, then NED
- Retired from the Board in 2008

Will Adderley
- Chief Executive from 1996
- Executive Deputy Chairman from February 2011

Nick Wharton
- NED of Dunelm since 2009
- Chief Executive from February 2011
- Previously Finance Director of Halfords Group plc

David Stead
- Finance Director since 2003
- Previous financial and commercial experience with KPMG and Boots Group

Adderley family shareholding 59%
Board structure

Chairman
Geoff Cooper

Chief Executive
Nick Wharton

Deputy Chairman
Will Adderley

SID
Marion Sears

NED
Simon Emeny

Finance Director
David Stead

Executive Team Members
(Buying, Store Operations, Property etc)

EXECUTIVE COMMITTEE
## Summary balance sheet

<table>
<thead>
<tr>
<th>(£m)</th>
<th>1st January 2011</th>
<th>2nd January 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total non-current assets</td>
<td>124.0</td>
<td>99.1</td>
</tr>
<tr>
<td>Inventories</td>
<td>68.7</td>
<td>61.4</td>
</tr>
<tr>
<td>Receivables</td>
<td>12.8</td>
<td>11.3</td>
</tr>
<tr>
<td>Cash</td>
<td>34.3</td>
<td>59.2</td>
</tr>
<tr>
<td>Total assets</td>
<td>239.8</td>
<td>231.0</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>(101.7)</td>
<td>(92.9)</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>(0.1)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td><strong>138.0</strong></td>
<td><strong>138.1</strong></td>
</tr>
<tr>
<td>Share capital</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Share premium/other reserves</td>
<td>43.5</td>
<td>0.3</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>92.5</td>
<td>135.8</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td><strong>138.0</strong></td>
<td><strong>138.1</strong></td>
</tr>
</tbody>
</table>