Dunelm Group plc

Interim Report and Accounts 2015

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CHAIRMAN'S STATEMENT

Dunelm has delivered another good performance in the first half of the year, growing sales by 14.0% and profit before tax by 10.7%.

Growth strategy

Since he resumed the role of Chief Executive in September, Will Adderley has set about creating a fresh, entrepreneurial and ambitious culture of sales-led growth throughout the business, the early results of which can be seen in the first half performance. Will's return to the role and this change of culture and strategic emphasis mark the start of a new chapter of growth for Dunelm and more detail on this, including a clear medium-term growth objective agreed by the Board, is set out in the Chief Executive's Review.

Capital policy

The Board has reviewed its policy on capital structure and dividends. The original policy was established at the time of IPO and in the Board's opinion no longer reflects the scale of the business and its consistent track record of cash generation over many years.

Accordingly, the Board has determined that, henceforward, the Group will operate with a modest amount of leverage such that net debt, measured as daily average liquid funds over the most recent six month period, should fall within the range 0.25x - 0.75x last twelve months EBITDA.

Furthermore, the Board intends that ordinary dividend cover should in future be between 2.0x and 2.5x on a full year basis. We currently anticipate holding cover towards the middle of this range.

Reflecting these policies, we will pay an interim dividend of 5.5p per share (a 10% increase year on year); and we propose, subject to shareholder approval, making a special distribution of 70p per share in March via a B/C share scheme. Further details of these arrangements are provided in the Finance Director's Review.

Board succession

Since my last report to shareholders, David Stead, who has served Dunelm outstandingly well as Finance Director since 2003, has indicated that he intends to retire later this year. The process of finding his successor is under way. Matt Davies recently resigned as a Non-Executive Director, in order to concentrate fully on his new role as UK Chief Executive of Tesco. Again, a replacement is being sought and we will update on both processes in due course.

Conclusion

The Board is wholly confident in Dunelm's potential to generate further significant growth in sales and profits under Will's experienced, capable and ambitious leadership, and I therefore believe that the future for the Group is very bright indeed.

Geoff Cooper
Chairman

11 February 2015

CHIEF EXECUTIVES REVIEW

Introduction – a new chapter of growth

One of the reasons I was excited to take on the role of Chief Executive again in September was because of the extent of the further growth potential that I saw in the business. Nothing has changed in the last few months to make me doubt that potential.

Reflecting my confidence in our growth prospects, I am setting an objective within the business for us to grow sales by 50% in the medium term. I believe that half of this growth can come from a combination of improving sales densities in LFL stores and rolling out new stores, with the balance being delivered by growth in the home delivery channel, including increased penetration of the furniture market.

This focus on growth does not represent any fundamental change from our long-established business strategy, but it does mean some refinement. Traditionally, we have talked about (i) developing our proposition (ii) rolling out new stores (iii) growing our multi-channel business and (iv) developing and exploiting our infrastructure.

There are indeed many opportunities to develop our proposition, and as a consequence I intend to give renewed focus to achieving growth in our like-for-like (LFL) superstore chain – sales growth in LFL stores will be a key strategy heading and a key strategic performance measure going forward.

As far as multi-channel is concerned, my goal is for us to grow sales and profit through the home delivery channel. We have made good progress in recent years in attracting on-line shoppers, and I now wish to ensure that we make an acceptable return from delivering products directly to customers.

I discuss my perspective on each of the elements of our growth strategy below.

Growth opportunity 1 - LFL stores sales growth

I believe strongly that we have a huge opportunity to drive growth in in-store sales. Many commentators suggest that we may expect some help from a more buoyant homewares market in the short and possibly the medium term, but I am determined that we should not rely on that – if it happens, it is a bonus. Instead we need to focus on becoming even better retailers. For example, we can move our product ranges along more rapidly, taking a few more chances with new ranges and new designs – it is important that we maintain our edge in product selection in order to offer our customers real variety. We have started to see some interesting range developments hitting stores already – for example, extended choice of Dorma-branded designs across multiple product categories (not just bed-linen), and additional designs aimed at children.

I think that the layout of our shops and the way we present merchandise can become even more appealing for our customers. I don't want to take us back to the 'bazaar' feel which many of our shops had a decade ago, but I do want customers to feel some of the 'treasure-hunt' excitement which we used to possess, as well as the inspiration which we can offer through really strong merchandising and display techniques.

Value has always been a critical part of Dunelm's appeal and that remains the case. Whilst I am certain that our products represent just as good value as ever, we need to communicate that value more powerfully to customers. We have launched a small number of 'knock-out' deals in recent months to stimulate awareness of the value we offer and we will continue to do this, as well as strengthening our in-store communication to reinforce our "simply value for money" message.

CHIEF EXECUTIVES REVIEW (CONTINUED)

We have made great strides in customer service over recent years, including rolling out the significant added-value service of in-home consultations for custom-made curtains (Dunelm At Home). I am really pleased with the progress achieved, but this is a good example of the sort of activity where I want us to challenge ourselves to make a further step change. This should become another element of making Dunelm the most exciting homewares retailer in the UK.

One of the features of Dunelm stores over the years has been the sheer volume of product on display. We pride ourselves on maintaining high availability, and receive great support from our suppliers to achieve this. In recent years we have achieved efficiencies by trimming stock levels, but one of my objectives over recent months has been to drive additional stock into stores in order to safeguard availability and increase the visual impact of displays.

In my opinion Dunelm has a fantastic set of store managers and store teams, who can achieve even more if we support and motivate them in the right way. I am personally committed to spending time in stores, to listening to feedback from customers, managers and colleagues, and to acting on that feedback. For example, in the last few months we have streamlined and simplified communications sent to stores, we have increased the focus on healthy competition between stores, and we have launched a variety of programmes to help colleagues develop themselves and their careers within our business.

Growth opportunity 2 - National coverage from rolling out new stores

We continue to be confident that the UK can support a chain of around 200 superstores. Expanding from our current footprint of 142 superstores clearly offers a significant opportunity to grow sales and profit, provided we retain our discipline with regard to the location, quality and cost of new sites. The rate at which we achieve our goal of 200 superstores will depend on the availability of sites which are appropriately located and configured, and which meet our expectations in terms of occupancy cost. In recent years we have been able to find and open approximately 12 new superstores per year, and have gradually been adding to our coverage of southern catchments. Going forward, we continue to see opportunities for new sites in all areas of the country, with the greatest potential being in the south.

In the first half of the financial year we opened six new superstores, including one relocation of a high street store. We anticipate six further openings in the second half. Beyond that, our new store pipeline is strong and we have already committed to five more locations due to open next financial year.

We remain pleased with the performance of our new stores. The average expected payback period on all new stores opened in the last 36 months is calculated as 26 months.

Growth opportunity 3 – Growing sales and profit in the home delivery channel

Across all sectors of retail in the UK, there is an increasing propensity for customers to shop on-line, mainly for delivery to their home or other convenient location, and most independent forecasts suggest that on-line shopping growth will continue to outstrip in-store growth by a considerable margin. Dunelm therefore has a significant growth opportunity here, through a combination of improved product offer, more focused trading of our website, and a more customer-friendly set of delivery options. We also believe that furniture items, because of their physical size, lend themselves particularly to home delivery and we anticipate that furniture can be a significant contributor to our home delivery growth over the coming years.

We have had a long-running project to upgrade our web platform and we now plan to go live with the new software by April. This will allow us to make continuous improvements to functionality going forward, for example by creating better linkages to our fulfilment operation so that in due course we will be able to offer customers a wider range of options for home delivery convenience.

CHIEF EXECUTIVES REVIEW (CONTINUED)

During the most recent period we have given new focus to core product availability in our outsourced web fulfilment operation; we have added considerably to our web-exclusive furniture offer; and we have improved our ability to take orders in store for home delivery transactions. These developments have contributed to an overall increase of over 70% in home delivery sales compared with the first half of the previous financial year, and the home delivery channel accounted for 5.5% of our total business in the period.

Infrastructure and People

In order to achieve our targeted growth level and support the planned future scale of the business it is important that we continue to invest in growth-driving activities (such as advertising and customer service), in building capacity and capability (in functions such as logistics and IT) and in expanding the skill-set and capacity of our senior team.

We have experienced a particular pinch-point in the first half of the financial year as the volume of stock flowing through our Stoke warehouse exceeded our normal capacity. This reflects the growth in number of stores as well as direct sourcing, but most particularly the commitment we have made to building stocks of furniture. We are now planning on the basis that this step change in inventory level will be sustained into the future, and are considering a number of options to accommodate this by establishing permanent additional capacity. It is likely that this will be in the form of a further leasehold facility. We expect to finalise these plans in the near future.

Our IT capability has increased significantly over the last 18 months and we are committed to further investment in order to create an IT function which has the depth of capability and resources to support a large-scale, national, multi-channel retail business.

We have a strong senior management team within the business and the process is under way to find a successor to David Stead who has indicated that he wishes to retire in the autumn after twelve years as Finance Director. Furthermore, as we have developed our more focused agenda over recent months I have concluded we will benefit from additional specialist expertise in certain functions. For example, we intend to bring in a senior HR professional to join the executive team.

Outlook

After five months in the role of Chief Executive, I am excited by the opportunities available over both the short and the medium term. Our focus is now emphatically on growth, and I am confident that we can deliver improving sales intensities in stores and significant growth in our home delivery business in order to achieve our medium-term goal of growing the business by 50%. In the remainder of this financial year we expect the benefits of top-line growth to be largely absorbed by increases in operating costs, with a return to stronger profit growth in our next financial year.

Will Adderley
Chairman

11 February 2015

FINANCE DIRECTORS REVIEW

Financial Performance

Sales

Total sales for the 26 weeks to 27 December 2014 were £406.4m (FY14: £356.4m), representing growth of 14.0%.

Taking our three key growth avenues in turn, sales performance was as follows:

	FY15 sales (£m)	Growth (£m)	Growth (%)
LFL stores	341.0	11.7	3.5%
Non-LFL stores	42.9	28.6	-
Home delivery	22.5	9.7	75.5%
Total	406.4	50.0	14.0%

Under our historical definition, total LFL growth (combining LFL stores and home delivery) was 6.2%.

Whilst one of the factors assisting this strong like-for-like performance was the heatwave which depressed sales in July 2013, other significant factors included:

- our improved offer in made-to-measure curtains and blinds (including our recently expanded home consultation service)
- furniture growth, reflecting better execution in stores, stronger availability and significantly extended ranges available for home delivery.

Gross margin

Gross margin for the half year was 50.4%, the same level as the first half in the previous financial year. We continued to derive benefit from direct sourcing, which accounted for c.19% of sales (approximately 1.5% points increase on the equivalent period last year), but this benefit was offset by adverse exchange rate movements; also, there was no repeat of the adjustment to obsolete stock provision which we were able to make last year due to improved clearance of old promotional product. Looking ahead, we anticipate that it will continue to be the case at least in the near term that direct sourcing benefits are offset by adverse impacts from currency movements.

Operating costs

Operating costs for the period were £137.7m, an increase of £20m (17.0%) year on year. The majority of this increase was planned investment, relating to new store openings, increased coverage of the Dunelm At Home service, additional marketing investment and fulfilment costs in respect of increased home delivery volumes. However, we incurred approximately £4m of additional warehousing and logistics expenditure, due to our significant extra investment in stock levels (particularly furniture). The same drivers of year on year cost increases are expected to apply over the remainder of this financial year.

Profit and Earnings per Share

Earnings before interest, tax, depreciation and amortisation (EBITDA) rose by 7.0% to £77.6m (FY14: £72.6m). On a last twelve months basis, EBITDA was £142.3m (FY14: £130.4m).

Operating profit for the period showed an increase of 8.3%, £67.1m (FY14: £62.0m).

Financial items were positive in the period, due to interest receivable on our surplus cash balances, and a favourable difference on period-end retranslation of dollar holdings.

Profit before tax (PBT) grew by 10.7% to £68.2m (FY14: £61.6m).Profit after tax of £53.5m (FY14: £47.2m) reflects the projected full year effective tax rate of 21.5% (FY14: 23.4%). The effective rate has reduced substantially compared with last year primarily due to the lowering of the headline rate of corporation tax.

Fully diluted earnings per share were 26.4p (FY14: 23.1p), an increase of 14.3%.

Cash generation

The Group's cash generation was impacted in the period by a significant increase in stock (£19.8m), reflecting in part the expansion of the store chain, but principally an increase in stock cover driven by more direct sourcing and a significant commitment to furniture stock – features of the business which we expect to become permanent. Despite this stock investment, the Group continues to be strongly cash generative. Cash flow from operations, after interest and tax, was £58.7m (FY14: £75.1m), representing 88% of operating profit (FY14: 121%); this includes some benefit of seasonality, which is expected to reverse in the second half of the financial year.

Capital investment was £12.6m in the period (FY14: £12.4m), mainly relating to new store openings, other store investments, and development of our new web platform. Free cash flow was £46.1m, representing 68% of PBT (FY14: 102%).

Capital policy and shareholder distributions

The Board has reviewed its policy with regard to capital structure and dividends. Henceforward, the Group will operate with a modest amount of leverage such that net debt, measured as daily average liquid funds over the most recent six month period, should fall within the range 0.25x - 0.75x last twelve months EBITDA. Furthermore, the Board intends that ordinary dividend cover should in future be between 2.0x and 2.5x on a full year basis.

Reflecting these policies, we will pay an interim dividend on 10 April of 5.5p per share (a 10% increase year on year) to shareholders on the register at 13 March; and we propose, subject to shareholder approval, making a special distribution of 70p per share to shareholders on the register at 2 March. The special distribution will be effected via a B/C share scheme, allowing shareholders to elect to receive the distribution as capital or dividend income. A circular concerning this matter will be issued to all shareholders on 12 February. One-off costs associated with this distribution will depend on the proportion of shareholders who elect to take C shares.

The Board anticipates that further special distributions will be made in the future, as and when cash generation takes the Group's net debt level consistently below 0.25x historical EBITDA.

In order to fund the intended ongoing debt, the Group has entered into an arrangement with a syndicate of three major banks for the provision of a £150m revolving credit facility, expiring on 9 February 2020. We estimate that the incremental funding cost of this arrangement at current interest rates will be £0.8m in the current financial year, with a full financial year cost of approximately £1.6m.

Risks and Uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and beyond, and could cause actual results to differ materially from expected and historical results. The Board considers that the majority of significant risks and uncertainties remain as published in the annual report for the year ended 28 June 2014. These comprise:

- Damage to brand reputation
- Increased competition
- Failure to comply with legislative or regulatory requirements
- Disruption to key IT systems
- Fluctuations in commodity prices
- Access to sites for store chain expansion
- Loss of a key part of our infrastructure
- Unforeseen financing requirements or treasury exposures
- Loss of key personnel

A detailed explanation of these risks can be found on pages 16 to 19 of the 2014 Annual Report which is available at www.dunelm.com.

FINANCE DIRECTORS REVIEW (CONTINUED)

In addition, in its latest risk review the Board identified the following further potential risks:

- Furniture. Whilst the opportunity to develop a meaningful revenue stream via furniture is potentially attractive, we are still learning about the dynamics of this market. At our current level of activity and with our current supply chain structure this part of the business is only marginally profitable. Given our investment in furniture inventories, there is a risk of gross margin dilution in the event that significant price action is required in the future to clear slow-moving lines.
- Market disruption from the internet. In many segments of UK retail, the profitability of store-based incumbents has been significantly affected by the entry of internet-only players. We perceive this to be less likely to occur in homewares, but acknowledge that it is a potential threat to our competitive position.
- Climate change. Many retailers experience short-term fluctuations due to weather impacts, and this has also been the case with Dunelm from time to time. This alerts us to the potential implications of longer term changes in the climate, which could affect customer shopping behaviours in a variety of ways.

David Stead
Finance Director

11 February 2015

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the 26 weeks ended 27 December 2014

	Note	26 weeks ended 27 December 2014 £'000	26 weeks ended 28 December 2013 £'000	52 weeks ended 28 June 2014 £'000
Revenue	4	**406,372**	**356,350**	**730,152**
Cost of sales		(201,571)	(176,651)	(368,851)
Gross profit		**204,801**	**179,699**	**361,301**
Operating costs		(137,688)	(117,724)	(245,273)
Operating profit		**67,113**	**61,975**	**116,028**
Financial income		1,061	251	436
Financial expenses		-	(661)	(478)
Profit before taxation		**68,174**	**61,565**	**115,986**
Taxation	5	(14,657)	(14,406)	(26,914)
Profit for the period attributable to owners of the parent		**53,517**	**47,159**	**89,072**
Earnings per Ordinary Share - basic	7	26.5p	23.3p	44.0p
Earnings per Ordinary Share - diluted	7	26.4p	23.1p	43.7p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the 26 weeks ended 27 December 2014

	26 weeks ended 27 December 2014	26 weeks ended 28 December 2013	52 weeks ended 28 June 2014
	£'000	£'000	£'000
Profit for the period	53,517	47,159	89,072
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
Effective portion of movement in fair value of cash flow hedges	5,094	(2,849)	(3,286)
Deferred tax on hedging movements	(1,019)	605	668
Other comprehensive income for the period, net of tax	4,075	(2,244)	(2,618)
Total comprehensive income for the period	**57,592**	**44,915**	**86,454**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 27 December 2014

	Note	27 December 2014 £'000	28 December 2013 £'000	28 June 2014 £'000
Non–current assets				
Intangible assets	9	11,298	5,935	9,260
Property, plant and equipment	9	152,910	151,133	152,866
Deferred tax asset		1,582	2,897	3,783
Total non-current assets		**165,790**	**159,965**	**165,909**
Current assets				
Inventories		135,326	102,238	115,528
Trade and other receivables		20,295	19,512	19,479
Cash and cash equivalents		38,312	26,423	21,740
Financial instruments		2,196	-	-
Total current assets		**196,129**	**148,173**	**156,747**
Total assets		**361,919**	**308,138**	**322,656**
Current liabilities				
Trade and other payables		(88,475)	(86,911)	(76,016)
Liability for current tax		(13,649)	(14,736)	(13,461)
Financial instruments		-	(2,461)	(2,898)
Total current liabilities		**(102,124)**	**(104,108)**	**(92,375)**
Non-current liabilities				
Trade and other payables		(43,546)	(39,611)	(40,544)
Total non-current liabilities		**(43,546)**	**(39,611)**	**(40,544)**
Total liabilities		**(145,670)**	**(143,719)**	**(132,919)**
Net assets		**216,249**	**164,419**	**189,737**
Equity				
Issued share capital		2,028	2,028	2,028
Share premium		1,624	1,624	1,624
Capital redemption reserve		43,157	43,157	43,157
Hedging reserve		1,756	(1,945)	(2,319)
Retained earnings		167,684	119,555	145,247
Total equity attributable to equity holders of the Parent		**216,249**	**164,419**	**189,737**

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

For the 26 weeks ended 27 December 2014

	Note	26 weeks ended 27 December 2014 £'000	26 weeks ended 28 December 2013 £'000	52 weeks ended 28 June 2014 £'000
Profit before taxation		68,174	61,565	115,986
Adjustment for net financing (income)/costs		(1,061)	410	42
Operating profit		67,113	61,975	116,028
Depreciation and amortisation		10,509	10,118	20,257
Impairment losses on non-current assets	9	-	-	25
Loss on disposal of non-current assets		5	524	942
Operating cash flows before movements in working capital		77,627	72,617	137,252
Increase in inventories		(19,798)	(9,298)	(22,588)
Increase in receivables		(771)	(1,155)	(1,160)
Increase in payables		15,463	24,415	14,448
Net movement in working capital		(5,106)	13,962	(9,300)
Share-based payments expense		(439)	1,485	2,470
Foreign exchange gains		-	(27)	95
		72,082	88,037	130,517
Interest received		273	238	461
Tax paid		(13,630)	(13,149)	(27,144)
Net cash generated from operating activities		**58,725**	**75,126**	**103,834**
Cash flows from investing activities				
Proceeds on disposal of property, plant and equipment	9	-	-	35
Acquisition of property, plant and equipment	9	(9,616)	(9,379)	(20,760)
Acquisition of intangible assets	9	(2,980)	(3,009)	(7,303)
Net cash utilised in investing activities		**(12,596)**	**(12,388)**	**(28,028)**
Cash flows from financing activities				
Proceeds from issue of share capital		-	12	12
Proceeds from issue of treasury shares		22	427	1,278
Purchase of Treasury Shares		-	(6,865)	(15,404)
Dividends paid	8	(30,322)	(73,995)	(84,119)
Net cash flows utilised in financing activities		**(30,300)**	**(80,421)**	**(98,233)**
Net increase (decrease) in cash and cash equivalents		15,829	(17,683)	(22,427)
Foreign exchange revaluations		743	(634)	(573)
Cash and cash equivalents at the beginning of the period		21,740	44,740	44,740
Cash and cash equivalents at the end of the period		**38,312**	**26,423**	**21,740**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the 26 weeks ended 27 December 2014

	Note	Issued share capital £'000	Share premium £'000	Capital redemption reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
As at 29 June 2013		**2,028**	**1,612**	**43,157**	**299**	**150,598**	**197,694**
Profit for the period		-	-	-	-	47,159	47,159
Movement in fair value of cash flow hedges		-	-	-	(2,849)	-	(2,849)
Deferred tax on hedging movements		-	-	-	605	-	605
Total comprehensive income for the period		-	-	-	(2,244)	47,159	44,915
Issue of share capital		-	12	-	-	-	12
Purchase of treasury shares		-	-	-	-	(6,865)	(6,865)
Issue of treasury shares		-	-	-	-	427	427
Share-based payments		-	-	-	-	1,485	1,485
Deferred tax on share-based payments	5	-	-	-	-	274	274
Current corporation tax on share options exercised	5	-	-	-	-	472	472
Dividends	8	-	-	-	-	(73,995)	(73,995)
Total transactions with owners, recorded directly in equity		-	12	-	-	(78,202)	(78,190)
As at 28 December 2013		**2,028**	**1,624**	**43,157**	**(1,945)**	**119,555**	**164,419**
Profit for the period		-	-	-	-	41,913	41,913
Movement in fair value of cash flow hedges		-	-	-	(437)	-	(437)
Deferred tax on hedging movements		-	-	-	63	-	63
Total comprehensive income for the period		-	-	-	(374)	41,913	41,539
Purchase of treasury shares		-	-	-	-	(8,539)	(8,539)
Issue of treasury shares		-	-	-	-	851	851
Share-based payments		-	-	-	-	985	985
Deferred tax on share-based payments		-	-	-	-	12	12
Current corporation tax on share options exercised	5	-	-	-	-	594	594
Dividends	8	-	-	-	-	(10,124)	(10,124)
Total transactions with owners, recorded directly in equity		-	-	-	-	(16,221)	(16,221)
As at 28 June 2014		**2,028**	**1,624**	**43,157**	**(2,319)**	**145,247**	**189,737**
Profit for the period		-	-	-	-	53,517	53,517
Movement in fair value of cash flow hedges		-	-	-	5,094	-	5,094
Deferred tax on hedging movements		-	-	-	(1,019)	-	(1,019)
Total comprehensive income for the period		-	-	-	4,075	53,517	57,592
Issue of treasury shares		-	-	-	-	22	22
Share-based payments		-	-	-	-	(439)	(439)
Deferred tax on share-based payments		-	-	-	-	133	133
Current corporation tax on share options exercised	5	-	-	-	-	(474)	(474)
Dividends	8	-	-	-	-	(30,322)	(30,322)
Total transactions with owners, recorded directly in equity		-	-	-	-	(31,080)	(31,080)
As at 27 December 2014		**2,028**	**1,624**	**43,157**	**1,756**	**167,684**	**216,249**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the 26 weeks ended 27 December 2014

1 Basis of preparation

These condensed interim financial statements for the 26 weeks ended 27 December 2014 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (previously the Financial Services Authority) and with IAS 34, 'Interim financial reporting', as adopted by the European Union.

The presentation of the condensed financial statements requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

These condensed interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 28 June 2014 were approved by the Board of Directors on 11 September 2014 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006. These condensed interim financial statements have not been audited.

2 Going concern basis

The Group has considerable financial resources together with long standing relationships with a number of key suppliers and an established reputation in the retail sector across the UK. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully. The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Interim Report and Accounts.

3 Accounting policies

The condensed financial statements have been prepared under the historical cost convention, except for financial instruments and share-based payments which are stated at their fair value.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 28 June 2014, as described in those financial statements, except as described below:

- Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 28 June 2014, which have been prepared in accordance with IFRSs as adopted by the European Union.

4 Segmental reporting

The Group has only one class of business, retail of homewares, and operates entirely in the UK market.

5 Taxation

The taxation charge for the interim period has been calculated on the basis of the estimated effective tax rate for the full year of 21.5% (26 weeks ended 28 December 2013: 23.4%).

6 Financial risk management and financial instruments

Financial risk factors

The Group's activities expose it to a variety of financial risks including currency risk, fair value interest rate risk, credit risk and liquidity risk. The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 28 June 2014. There have been no changes in any risk management policies since the year end.

Fair value estimation

Financial instruments (hedging) carried at fair value are required to be measured by reference to the following levels:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments carried at fair value have been measured by a Level 2 valuation method.

7 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to equity holders of the company by the weighted average number of Ordinary Shares in issue during the period excluding ordinary shares purchased by the company and held as treasury shares.

For diluted earnings per share, the weighted average number of Ordinary Shares in issue is adjusted to assume conversion of all dilutive potential Ordinary Shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's Ordinary Shares during the period.

Weighted average numbers of shares:

	26 weeks ended 27 December 2014	26 weeks ended 28 December 2013	52 weeks ended 28 June 2014
	'000	'000	'000
Weighted average number of shares in issue during the period	201,973	202,736	202,554
Impact of share options	896	1,805	1,474
Number of shares for diluted earnings per share	202,869	204,541	204,028
	£'000	£'000	£'000
Profit for the period	53,517	47,159	89,072
Earnings per Ordinary Share - basic	26.5p	23.3p	44.0p
Earnings per Ordinary Share - diluted	26.4p	23.1p	43.7p

8 Dividends

		26 weeks ended 27 December 2014	26 weeks ended 28 December 2013	52 weeks ended 28 June 2014
		£'000	£'000	£'000
Special dividend for the period ended 29 June 2013	– paid 25.0p	-	(50,708)	(50,708)
Final for the period ended 29 June 2013	– paid 11.5p	-	(23,287)	(23,287)
Interim for the period ended 28 June 2014	– paid 5.0p	-	-	(10,124)
Final for the period ended 28 June 2014	– paid 15.0p	(30,322)	-	-
		(30,322)	(73,995)	(84,119)

The Directors have declared an interim dividend of 5.5p per Ordinary Share for the period ended 29 December 2014 which equates to £11.1m. The dividend will be paid on 10 April 2015 to shareholders on the register at the close of business on 13 March 2015.

9 Property, plant and equipment and intangible assets

	Intangible assets	PPE	Total
	£'000	£'000	£'000
Cost			
At 28 June 2014	19,071	251,679	270,750
Additions	2,980	9,616	12,596
Disposals	-	(83)	(83)
At 27 December 2014	**22,051**	**261,212**	**283,263**
Accumulated amortisation and depreciation			
At 28 June 2014	9,811	98,813	108,624
Charge for the financial period	942	9,567	10,509
Disposals	-	(78)	(78)
At 27 December 2014	**10,753**	**108,302**	**119,055**
Net book value			
At 28 June 2014	9,260	152,866	162,126
At 27 December 2014	**11,298**	**152,910**	**164,208**

All additions were acquired and do not include any internal development costs. All amortisation and depreciation is included within operating costs in the income statement.

10 Announcement

The interim report was approved by the Board on 11 February 2015 and copies are available from the website at www.dunelm.com.

STATEMENTS OF DIRECTORS' RESPONSIBILITIES

The Directors confirm that these condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim financial reporting', as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

By order of the Board

Will Adderley
Chief Executive
11 February 2015

David Stead
Finance Director
11 February 2015