Dunelm Group plc Annual report & accounts 2012

Dunelm mill

Simply Value for Money

Dunelm Group plc Annual report & accounts 2012

Dunelm continues to be a fast growing specialist out-of-town homewares retailer maintaining a strong focus on customer excellence through the Group's 'Simply Value for Money' proposition.

Our customers enjoy market-leading choice with a wide range of products available both in store and on-line. Our Reserve and Collect proposition offers greater flexibility in the way our customers can access our products.

Operational highlights

115 superstores at 30 June 2012

14 new superstores opened in the year (including two relocations)

Continued investment in store refits, 50% of superstores either new or benefited from major refit in past three years

Over 20,000 lines in a superstore – broad and deep ranges

Financial highlights FY12

Revenue increase 12.1%

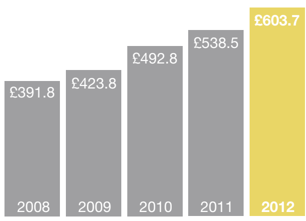
Operating margin 15.8%

Net cash generated from operations £91.9m

Contents

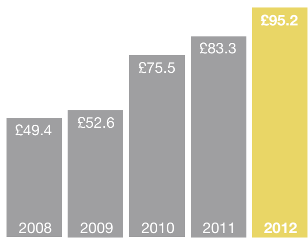
Revenue†

£603.7m (2011: £538.5m)



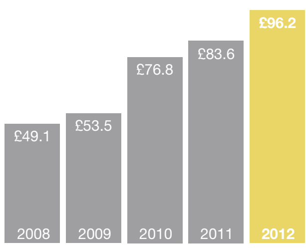
Operating Profit†

£95.2m +14.3% (2011: £83.3m)



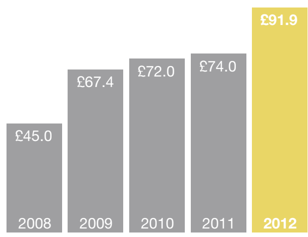
Profit before tax†

£96.2m (2011: £83.6m)



Net cash from operations†

£91.9m (2011: £74.0m)



† The 2009 figures reflect a 53 week trading period, compared with 52 weeks in all other years.

Our business model – Simply Value for Money

Choice & Value
one stop homewares destination

Dunelm's business is based on offering our customers an industry leading range and choice of over 20,000 different homewares products.

We aim to deliver the broadest price spectrum of quality products to compete at the entry level but at higher quality; and at the branded/quality level but at keener prices.

The customer offer is underpinned by strong availability and our investment in helpful and knowledgeable colleagues in store.

reserve & collect

Multi-channel
when and where our customers need us

In addition to our in-store offer we provide multi-channel convenience through our websites (www.dunelm-mill.com and www.dorma.co.uk) as well as a full Reserve and Collect proposition.

Like us on Facebook

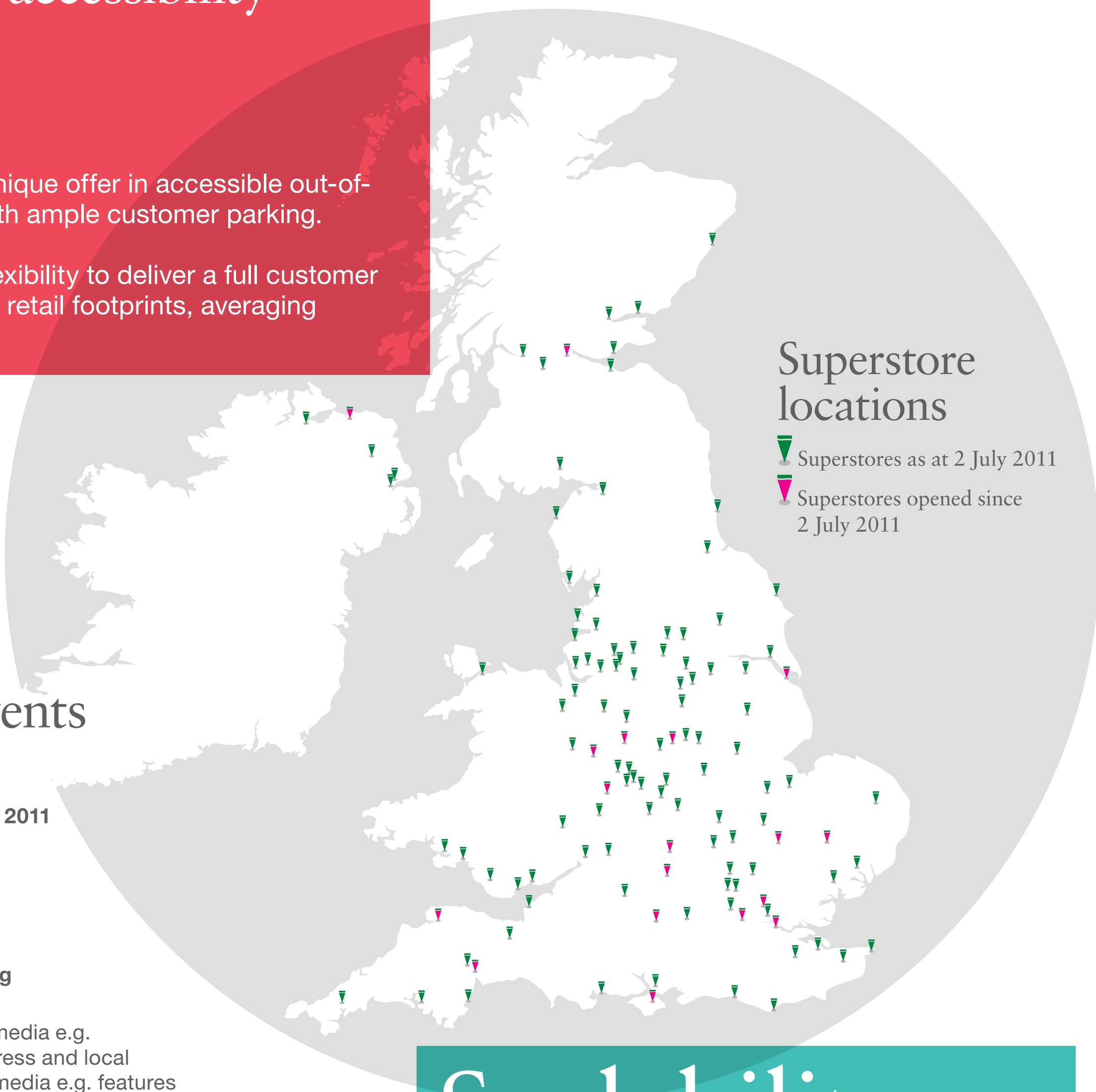
Follow us on Twitter

Convenient Locations

customer accessibility

We provide our unique offer in accessible out-of-town locations with ample customer parking.

Our format has flexibility to deliver a full customer offer in a range of retail footprints, averaging 30,000 ft^2.



Recent Events

Social media launched in July 2011

1. Facebook
2. Pinterest
3. Twitter

Press advertising campaigns

Move from local media e.g. adverts in local press and local radio to national media e.g. features in national magazines and national radio

Awards

1. House Beautiful Awards – Home Retailer of the Year Gold Award 2011

HouseBeautiful AWARDS 2011

2. Coffee Bar Sandwich Retailer of the Year – Highly Commended 2012
3. High Street Recycling Champion award 2012

Multi-channel

1. Mobile website launched in January 2012
2. First full catalogue to be distributed in autumn 2012

Scalability

investment ahead of the curve

We ensure that our supply chain provides the capacity and flexibility to support our ambitions and to take advantage of scale benefits.

We ensure that central infrastructure is in place to provide a backbone to further growth e.g. through our new Head Office, extended distribution capability and strong IT platforms.

Our strategic priorities

Our current focus

> Continuously evolve product ranges
> Develop knowledge-based customer service as a point of differentiation
> Develop value-added services such as 'made to measure' and 'Dunelm At Home'

Enhance
our specialist proposition

We must continue to evolve our offer so that we maintain and grow our competitive advantage in choice and price, supported by quality, service and availability.

Increasing awareness of the Dunelm brand is a clear priority.

Grow
multi-channel

Our current focus

> Extend the range on-line
> Improve delivery proposition
> Develop collect in-store service
> Trial catalogue

www.dunelm-mill.com accounts for c. 3% of revenue. We plan to increase customer engagement, develop new customer touch points and grow our multi-channel participation further.

Expand
the store portfolio

We aim to grow market share and reach more customers by opening more superstores across the UK. We expect to grow our portfolio to 200 superstores in the medium term.

Existing stores are continually improved with our refit programme covering 15 stores during the year.

Our current focus

> Continue new store opening programme
> Consider freehold property deals as appropriate
> Target payback of 36 months for larger catchments and 48 months for smaller catchments

Develop
and exploit our infrastructure

We have a well-invested infrastructure. Our aim is to ensure that we continue to develop this ahead of our growth curve, so that it is an enabler and never a constraint.

Our current focus

> Exploit IT systems to release time for customer service
> Enhance IT infrastructure to support further growth

'Dunelm has posted good revenue growth in the latest financial year, accompanied by further improvements in profitability and cash generation.'

Our key strengths

- UK's largest specialist homewares retailer
- Portfolio of established out-of-town superstores, average sales area approximately 30,000 square feet
- 'Simply Value for Money' proposition:
  - Good quality products
  - Great prices
  - Industry leading choice
  - Deep availability
  - Friendly knowledgeable service
- On-line store featuring 20,000 products
- Owner of 'Dorma' brand
- Robust, scalable infrastructure
- Experienced management team, entrepreneurial culture
- Highly cash generative
- Strong balance sheet

Business review
Chairman's statement

Geoff Cooper
Chairman

I am delighted once again to introduce Dunelm's annual report by announcing a year of strong business performance. The management team continues to focus on our well-established strategy for developing the business, as well as keeping tight control on day to day operations. As a result, Dunelm has posted good revenue growth in the latest financial year, accompanied by further improvements in profitability and cash generation. More details on this performance are given by Nick Wharton, our Chief Executive, in his report.

As a result of the continuing strong business performance, the Board is able to recommend an increase in the final dividend to 10.0p per share (2011: 8.0p), bringing the total dividend for the year to 14.0p (2011: 11.5p). In addition, the Board proposes returning £65.8m of excess capital to shareholders. The mechanism for this is explained by David Stead, our Finance Director, in his report and full details will be provided in a separate circular to shareholders.

The Board has evolved over the last financial year and now includes a new Non-Executive Director, Matt Davies. Matt was appointed in February and is already proving to be an excellent addition to your Board. His recent experience leading a similar sized, and equally young and dynamic multiple retailer has added to our perspectives on a number of operational and strategic issues including customer behaviour, supply chain development and colleague engagement.

Our Executive team is working very well following an exemplary transition of the Chief Executive role from Will Adderley to Nick Wharton. Nick took on the role of Chief Executive in February 2011, and we are benefiting greatly from his extensive executive experience, and the skill he is deploying in further developing our business. He is succeeding in building on the hungry and dynamic culture in key parts of our business, adding the important professionalism, precision and repeatability needed as we grow into a larger organisation.

As one of the leading retailers of his generation, Will Adderley was an outstanding Chief Executive of Dunelm for 15 years. His desire to move to his current role as Executive Deputy Chairman reflects his determination to continue to drive Dunelm's success by dedicating himself to activities – such as product development and sourcing – which are the hallmark of Dunelm's appeal to shoppers and where he has special expertise. He is clearly relishing his new role and adding enormous value to the business.

Looking ahead, we have a range of exciting development initiatives and continue to see significant potential to expand our store portfolio further within the UK. We remain confident in our 'Simply Value for Money' offer and look forward to further profitable growth.

Geoff Cooper
Chairman
13 September 2012

‘We remain focused on close operational management, while investing confidently in the future growth of the business.’

Business highlights

- 14 new superstore openings (including two relocations) and major refits of 15 existing stores
- Continued market share growth
- Exciting developments in our customer offer
- www.dunelm-mill.com number one store by turnover following strong revenue growth
- Continuing investment in infrastructure to underpin future growth

Chief Executive's review

Nick Wharton
Chief Executive

Overview

Against the background of the UK economy which has continued to put pressure on both consumer confidence and expenditure, during the last financial year the business has made further strong strategic progress and delivered a robust trading performance.

We remain focused on close operational management, while investing confidently in the future growth of the business. This investment, consistent with our four strategic priorities, centres on the further strengthening of our market leading customer proposition, while at the same time increasing scale through store and multi-channel expansion.

Our total revenue increased by 12.1% with like-for-like sales (calculated by comparing stores which have traded throughout the last two financial years) growing by 3.1%, considerably above the home textiles market as measured by the British Retail Consortium.

The rest of our revenue growth was delivered through the store development programme which over the course of the year contributed 14 new superstores, including two relocations.

Our strong trading performance combined with disciplined cost and inventory management has delivered a 30 basis points expansion in operating margin year on year. Furthermore, despite continued investment in new stores and the associated infrastructure to support further growth, the business remains highly cash generative allowing the opportunity to return capital of £65.8m to our shareholders in addition to offering a 22% increase in the annual dividend.

Strategy development

We continue to invest in and develop the business with a strong focus on our four strategic priorities.

Priority 1 – develop our specialist proposition

The UK homewares market is estimated by Verdict Research to be worth approximately £11bn. Within this fragmented market, where approximately 30% of sales remain with small independent operators, Dunelm's market leading proposition is built on our core differentiator of widest choice, offering the broadest price spectrum of quality products, supported by strong availability and friendly knowledgeable service.

Our range and choice advantage has been particularly important over the last financial year with the Dunelm 'Simply Value for Money' proposition appealing to a wide cross-section of customers. Our broad price architecture is mirrored across each of our core categories: from our entry price position which competes with products offered by grocers and discount multiples but at higher quality, through a number of mid-market options up to our highest quality products associated with department stores and higher-end independent retailers but at keener prices.

This positioning of higher quality at comparable entry-level prices and comparable quality at keener prices for mid-market and premium products, has helped to maintain existing footfall and attract new customers during the past financial year.

Chief Executive's review *continued*

The majority of products in our stores carry Dunelm branding. However, proprietary brands such as Fogarty and Brabantia are an important complement to the offer and, reflecting our increased scale within the market, we are frequently able to stock branded products on an exclusive basis. Our owned brand *Dorma* re-enforces our quality credentials, particularly in bedding and bathroom categories, and we are very pleased with the progress made with our in-house developed *Spectrum* brand. *Spectrum* is used as a common brand for our contemporary bright coloured ranges across a number of categories, encouraging customers to broaden their basket as they adopt a specific colour look in a given room. *Spectrum* is now present on over 300 products across the offer.

We continue constantly to re-invigorate our offer to ensure it remains contemporary, fresh and relevant. Through two seasonal refreshes we change approximately 25% of our ranges each year; Special Buys and Miss it Miss Out ('MIMO') promotions emphasise Dunelm's value credentials and provide a seasonal feel to the store.

Increasing awareness of the Dunelm brand remains a clear priority. Having refreshed our advertising during the year to provide a clearer and more consistent image we have continued to move away from local media and increase our presence in the national press. We have also significantly increased our digital marketing and social media activity, the latter being centred on Facebook, Twitter and Pinterest. Much of this increase in marketing activity has been funded by buying efficiencies.

Awareness and recognition of the quality of our customer offer is improving both with customers and specialist media. Specifically during the year we were delighted to be voted 'Homewares Retailer of the Year' by the readers of House Beautiful magazine.

Autumn 2012 will see the next phase of our brand awareness activity with the trial of a full catalogue. We believe the 200 page A4 catalogue will clearly illustrate our range breadth, quality and value. The distribution of the planned 700,000 print run will be biased towards the introduction of the Dunelm proposition to new customers.

Re-assigning colleague time in store from non-customer facing tasks to providing customers with knowledgeable, friendly service provides another important point of further differentiation for Dunelm. Our activities in this regard, both in terms of task elimination and re-investment of the freed-up time are tangible, measurable and targeted. For example, during the year we have extended system based automatic replenishment to over 60% of our products, replacing manual store ordering. The proportion of inventory checked for quantity and quality in the distribution centre has also increased, replacing time consuming in-store processes. We will expand both of these initiatives further during the coming year.

Specific departmental rotas have been created to ensure that high service areas of the store – such as our made to measure curtain service – are always staffed during periods of higher footfall. Product awareness and knowledge amongst our colleagues remains a priority and we continue to invest in training to this end.

Our Dunelm At Home service, through which customers can select bespoke, made to measure curtains and other window treatments via a free home consultation, is now available from an expanded trial of 10 stores and is achieving good levels of customer satisfaction.

Priority 2 – develop the store portfolio

Dunelm trades from two store formats. The bulk of the portfolio is represented by out-of-town superstores, with our average new store footprint now targeted towards 30,000 square feet of retail space. This enables us to offer over 20,000 homewares products with the depth of range and availability that customers expect from a specialist retailer. Our trial of smaller format stores continues in order for us to learn more about customer reaction and profitability at this scale. We also trade profitably from nine smaller high street locations where there are currently no suitable out-of-town alternatives.

In the last financial year we opened over 400,000 square feet of selling space through fourteen new superstores (two being relocations) taking our superstore chain to 115 stores at the year end, providing 3.4 million square feet of selling space in total. Maintaining this strong momentum, since the end of the year we have opened a further four stores with openings in Cambridge, Oxford, and Barnstaple, and one relocation to deliver a full customer offer in Telford. A further 9 new stores are contractually committed.

During the financial year we have updated our catchment analysis to reflect changes in demography and our latest understanding of catchment size from our 34 new store openings over the past three years. This modeling has confirmed that, despite the anticipated growth of our multi-channel sales, our mature UK superstore portfolio will consist of approximately 200 stores, at the top end of our previously indicated range.

We have until now targeted all investment in new store openings to achieve discounted cash flow payback of 36 months. We have consistently beaten this target and indeed the average payback for stores opened in the last three financial years is approximately 31 months. Nevertheless, as our portfolio becomes more mature we recognise that some locations will offer lower returns and going forward, we anticipate that a proportion of new stores will be targeted to achieve 48 months payback. This payback profile will allow for some cannibalisation of revenues from existing stores, whilst still delivering a very attractive return on invested capital.

Our refit programme covered 15 superstores this year of which four were 'major' refits. The programme is designed to improve the shopping environment in our existing stores and create a full and consistent customer experience under the Dunelm brand. These refits increase sales by introducing new product ranges such as Dorma sub-shops (now present in 73 stores) and extended kitchen concepts (93 stores), and improves the overall shopping experience, for example through better ranging, space allocation or department layouts.

In addition, our Pausa coffee shops are now in 74 stores, providing an additional reason for customers to visit and increasing their engagement and dwell time.

As a result of this continued investment our portfolio is highly contemporary with 50% of the superstore chain either new or having benefited from a major refit over the past three years.

Priority 3 – grow multi-channel
UK consumer behaviour continues to evolve and a greater on-line confidence, enthusiasm and capability have created a shift in shopping preferences. Consistent with this, Dunelm customers are embracing the convenience and value of multi-channel shopping with two thirds of total shopping visits now involving some element of on-line activity (browsing, research or purchasing) through our websites, www.dunelm-mill.com and www.dorma.co.uk.

In the year we successfully launched a full Reserve and Collect ('R&C') model that links our store stock files to the web in real time, enabling our customers to check availability and order from over 16,000 products. R&C customers, who represent over a third of multi-channel revenues, pay for their reserved products on collection in store. This model lends itself particularly well to our product range which customers will often wish to touch and feel before committing to a purchase, and at the same time creates a clear opportunity for add-on or incremental sales during their visit.

Multi-channel functionality was further enhanced through the launch, in January, of our dedicated mobile friendly site. This development gives the increasing volume of new and existing customers who use a range of android devices better access to our specialist multi-channel offer.

We have continued to invest significantly in both website development and in digital marketing, where returns remain highly attractive. Through these investments the number of visitors to our websites has increased by over 50% during the year, whilst enhancements to our offer and customer experience on the web have also led to improvements in conversion.

As a consequence of all the above our multi-channel revenues have continued to grow strongly, representing 2.5% of revenues over the full financial year and approximately 3% in the final quarter.

Despite the progress we have made, there are a number of areas where our multi-channel proposition could be further enhanced and this provides a clear opportunity for further revenue growth. Key within this are improvements to our delivery proposition to provide speed and choice in line with market norms. Achieving this will require technical enhancements to our site and the expansion of our logistics operations. These significant developments are targeted during the current financial year.

Following a successful trial of extended inventory within furniture, we are targeting further web exclusive ranges. We are also confident that our e:marketing and promotional capability will be significantly enhanced from a suite of developments scheduled to be in place before our peak trading period.

Priority 4 – develop and exploit our infrastructure
The Group's continued success is reliant upon a resilient, functionally rich and dynamic business infrastructure across IT systems, distribution facilities and people resources. Over the course of the year investment in our IT systems has enabled us to improve stock control, make in-store processes more efficient, and deliver an enhanced customer offer through Reserve and Collect.

The year saw the completion and occupation of our new head office in Syston, Leicestershire, which was opened in September 2011. We have retained our former head office which now operates as our central fabric warehouse, a photo studio, a mock-shop and acts as a key business recovery backup facility.

The capacity and capability of the Group has been further strengthened by recruitment of experienced retail professionals into the key new roles of Chief Operating Officer and Director of Multi-Channel. These positions allow a greater focus and specialism within an expanded Operating Board.

Finally, we have begun a programme of investment to upgrade both our customer facing transactional till systems and our central ERP system.

Summary and outlook
Dunelm has delivered robust trading results in a demanding retail environment, with our strong focus on retailing excellence leading to increased market share on a like for like basis. We have also made good progress with our strategic development, scaling our business through new stores, multi-channel and strengthened infrastructure, while continuing to improve our specialist customer proposition. I would like to thank all my colleagues for their hard work and commitment in achieving this.

Our financial position remains extremely strong which, together with the Board's confidence in Dunelm's future growth prospects, enables us to propose an increase in the dividend ahead of earnings, together with a return of excess capital equal to 32.5p per share.

Looking ahead, we remain cautious of the UK consumer environment and its impact on our trading in the near term. However, with a strong new store pipeline, good momentum in multi-channel and a 'Simply Value for Money' proposition that continues to resonate with a wide range of customers, we remain confident in the future growth prospects for the business.'

Nick Wharton
Chief Executive
13 September 2012

Finance Director's review

'The Group generated £91.9m net cash from operating activities in the last financial year, an increase of 24.2%.'

Financial highlights

- 12.1% increase in overall revenues
- Gross margin change +30 bps
- Operating profit £95.2m (14.3% increase)
- Earnings per share (diluted) 35.1p (19.8% increase)
- Dividends per share 14.0p (21.7% increase)

Key performance indicators

Sales growth %	
2012	12.1
2011	9.3
2010	18.2

Operating margin %	
2012	15.8
2011	15.5
2010	15.3

Like for like sales growth %	
2012	3.1
2011	-0.6
2010	8.0

EBITDA £m	
2012	113.9
2011	97.4
2010	86.9

Gross margin change (basis points)	
2012	30
2011	120
2010	190

Earnings per share (diluted) p	
2012	35.1
2011	29.3
2010	26.9

New store openings	
2012	14
2011	10
2010	10

Dividend per share p	
2012	14.0
2011	11.5
2010	8.0

Major refits	
2012	4
2011	8
2010	9

Operating result

Group revenue for the 52 weeks to 30 June 2012 was £603.7m (2011: £538.5m), an increase of 12.1%.

This increase was achieved through growth in like-for-like sales of 3.1% and contribution from net new space amounting to 9.0%. The like-for-like sales performance strengthened through the year with H2 delivering an increase of 5.2% compared with growth of 1.1% in H1.

Trading in the final quarter was exceptionally strong boosted by the unusually wet weather driving strong footfall. As a result like-for-like sales in the final quarter grew 10.4% (2011: +1.9%). We estimate that the benefit to total revenues from the weather conditions was approximately £8m in the quarter.

Gross margin increased by 30 basis points to 48.3% (2011: 48.0%) primarily reflecting benefits from direct sourcing initiatives. We have moved a small number of ranges to direct sourcing where significant margin benefit exists; at the same time we have used our deepened factory relationships to ensure that our UK based full service vendors continue to provide good value.

Operating costs grew by 12.3% compared with last year, with the increase primarily due to expansion of and investment in the store portfolio and supporting central infrastructure. Operating costs in like-for-like stores increased by just 2.1%, including increased investment in multi-channel operations and refits. Non-store costs grew in line with the overall growth of the business, including increased marketing investment and strengthened central teams.

Operating profit for the financial year was £95.2m (2011: £83.3m), an increase of £11.9m (14.3%). Adjusting for the benefit of unusual weather conditions, we believe that underlying operating profit would have been approximately £92.7m.

EBITDA

Earnings before interest, tax, depreciation and amortisation were £113.9m (2011: £97.4m). This has been calculated as operating profit (£95.2m) plus depreciation and amortisation (£18.7m) and represents an increase of 16.9% on the previous year. The EBITDA margin achieved was 18.9% of sales (2011: 18.1%).

David Stead
Finance Director

Financial items and PBT
The Group generated £1.0m net financial income for the year (2011: £0.4m). Financial items include interest earned on surplus cash deposits of £0.8m (2011: £0.5m) and foreign exchange gains arising from the translation of dollar denominated assets and liabilities at the end of the period, worth £0.2m (2011: loss of £0.1m). As at 30 June 2012 the Group held $1.4m in US dollar cash deposits and additional forward contracts for $22.3m representing approximately 35% of the anticipated US dollar spend over the next 12 months.

After accounting for interest and foreign exchange impacts, profit before tax for the year amounted to £96.2m (2011: £83.6m), an increase of 15.1%.

Tax, PAT and EPS
The tax charge for the year was 26.0% of profit before tax compared with 28.5% in the prior year. This year on year improvement reflects the reduction in the headline rate of corporation tax, as well as an increase in the level of assets qualifying for capital allowances following a review completed in the year.

Profit after tax was £71.2m (2011: 59.8m), an increase of 19.1%.

Basic earnings per share for the year ended 30 June 2012 was 35.3p (2011: 29.7p), an increase of 18.9%. Fully diluted EPS increased by 19.8% to 35.1p (2011: 29.3p).

Capital expenditure
Gross capital expenditure in the financial year was £38.6m compared with £37.2m last year. The most significant investments were made in order to support continued growth and development of the superstore portfolio with the addition of 14 new stores (which included 2 relocations and 2 freeholds) and major refits in 4 further stores. Investment was also made to support our multi-channel offer and our infrastructure was bolstered by the completion of our new Head Office in Leicestershire, fully operational since September 2011.

Working capital
Investment in working capital has increased by just £0.3m over the financial year as a result of additional stock to support new store openings partially offset by an increase in deferred rent in the same sites and a growth in VAT liabilities as a consequence of increased trading.

Cash position and dividend
The Group generated £91.9m (2011: £74.0m) net cash from operating activities in the last financial year, an increase of 24.2%. Net cash resources at the end of the year were £65.2m (2011: £35.1m), with average cleared funds across the year of £57.6m (2011: £35.9m).

An interim dividend of 4.0p was paid in April 2012 (2011: 3.5p). It is proposed to pay a final dividend of 10.0p per share (2011: 8.0p). The total dividend of 14.0p represents a 21.7% increase over last year reflecting the Group's strong financial performance and leaves dividend cover of 2.5x, within our target range of 2.5x–3.0x earnings. This dividend will be paid on 21 December 2012 to shareholders on the register at the close of business on 30 November 2012.

The Board reviews the Group's funding position on a regular basis and has concluded that access to external funding is not required in the short term.

The Group maintains uncommitted lines of funding with partner banks whilst trading with a positive net cash position.

Return of capital
The Group's policy is to maintain cash resources such that it is able to take advantage of investment opportunities as and when they arise, for example freehold property acquisitions. Periodically the Board will seek to return to shareholders any cash accumulated in excess of likely requirements.

Taking into account the Group's financial strength; its known and anticipated investment plans; the level of cash available as at the date of this report; and allowing for potential further weakness in the UK consumer environment the Board is proposing that surplus capital amounting to £65.8m (32.5p per share) be returned to shareholders in November 2012. It is proposed that this will be accomplished via a B/C share scheme which allows shareholders the option of receiving the return as capital or income. Full details will be announced in due course and provided in a circular to shareholders accompanying the annual report.

Financial risk and treasury management
The Board has established an overall treasury policy and approves authority levels within which the Group may operate. This policy ensures that risk is managed within the agreed framework.

Key performance indicators
In addition to the traditional financial measures of sales and profits, the Directors review business performance each month using a range of other KPIs. These include those in the table on page 12.

David Stead
Finance Director
13 September 2012

Key risks and uncertainties

In common with all businesses Dunelm faces risks and uncertainties that could impact the achievement of its core strategic objectives. The Board of Dunelm has overall responsibility for risk management, internal control and business continuity and determines the nature and extent of the risks it is willing to take. Continual review is required to identify, evaluate and prioritise risks and to ensure that appropriate controls are in place to manage these effectively.

An annual risk identification and assessment workshop is in place to review the risk profile of the organisation and to compile the Group's Risk Register. Quarterly reviews of these risks are undertaken by management and the Board gains assurance through twice yearly reviews, as well as by regular challenge to the executive team.

The Board considers that the principal risks to Dunelm's aims of achieving its strategic objectives are as follows:

Strategy	Risks	Mitigation
	Competition The Group competes with a wide variety of retailers both in-store and on-line. Failure to withstand increased competition in the Homewares market on multiple fronts (price, range, quality and service) could materially impact returns and limit opportunities for growth.	The Board continually monitors Group performance within the Homewares market and against specific competitive threats. Continuous brand tracking also operates to gauge relative customer perception and experience. Initiatives seek to develop and enhance the multi-channel customer offer and thus strengthen our specialist proposition and brand.
	Economic uncertainty Uncertainty surrounding the resilience of the UK economy and effectiveness of fiscal and monetary measures will continue to put pressure on consumer expenditure. This is likely to result in difficult trading conditions in the retail sector as a whole limiting profitability and growth opportunities.	The Group mitigates this by reacting quickly to consumer changes and adjusting its offer in response. In addition our focus on maintaining a low cost base helps us to maintain our affordable 'Simply Value for Money' proposition.
	Commodity prices Significant cost price increases and high levels of volatility have been a feature of retailing over recent years particularly freight rates, raw materials, energy and exchange rates. Failure to manage and control these changes will lead to pressure on margins and adversely impact the financial results.	Dunelm uses its scale, buying power and growth to secure supply of key raw materials at competitive prices. Freight rates, energy and currency are bought forward to help mitigate volatility and aid margin management.
	Portfolio expansion Vacant or new retail space is essential to deliver our growth plans. In addition, the quality and location of the Group's store portfolio are key contributors to the Group's strategy. Inability to secure or develop the required retail trading space to deliver our optimal store format will limit our pace of expansion or force us to compromise our offer.	The Group's strong cash generation and debt-free status provide an attractive covenant to landlords, and the ability to acquire freehold units if appropriate.

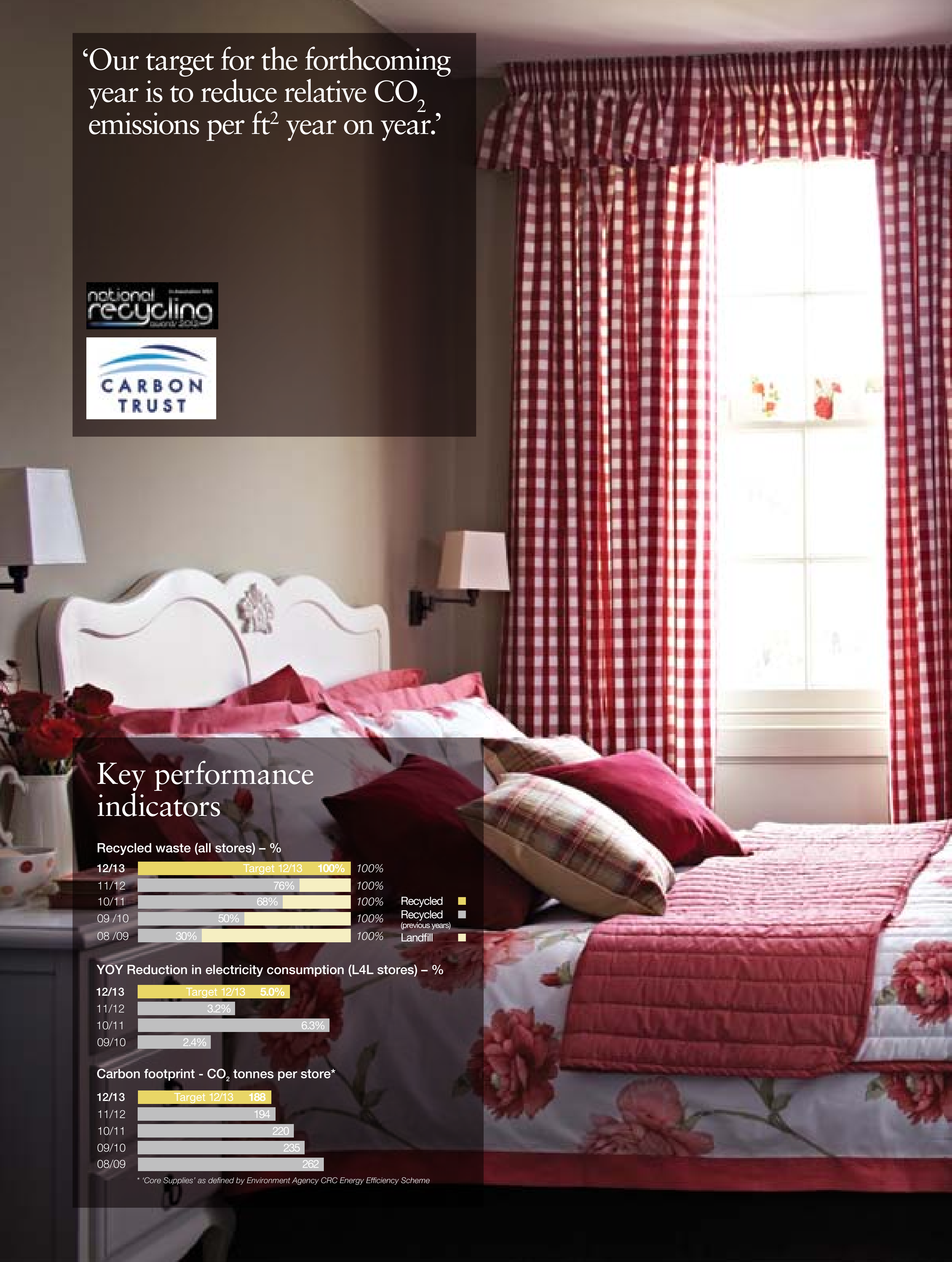
Key

- Develop our specialist proposition
- Grow multi-channel
- Develop the store portfolio
- Develop and exploit our infrastructure

Strategy	Risks	Mitigation
	Information technology Dunelm is dependent on the reliability and capability of key information systems and technology. A major incident or sustained performance problems with regard to store, logistics, multi-channel or head office systems could constitute a significant threat to the business, at least in the short term. Trading performance could be adversely impacted by this reliance.	All business critical systems are established, industry leading package solutions. They are supported by a disaster recovery strategy designed to ensure continuity of trade.
	Infrastructure The Group could suffer the loss of a major facility with a consequent impact on short term trading or diversion of focus from longer term strategy and planning. This could materially affect the profitability of the business. The Group could suffer the loss of a major supply partner also impacting short term trading.	Physical infrastructure - Head office, workroom, multi-channel and distribution centre activities are all subject to disaster recovery plans and could all operate from fall back facilities. Suppliers – The Group seeks to mitigate this risk by limiting the dependency on individual suppliers and by actively managing key supplier relationships. High stock service levels and a high proportion of direct-to-store deliveries further mitigate supply chain risk.
	Key personnel The success of Dunelm is dependent upon senior management closely supervising all aspects of Group performance, growth and development. The business could be vulnerable to the loss of individual key managers.	The Group's remuneration policy detailed on page 40 ensures that high calibre executives are attracted and retained. In addition the Board has ensured that the Board continues to build strength in-depth in the operating management team. Lock-in of senior management is supported by awards under the Long-Term Incentive Plan. The Operating Board seeks to develop high calibre individuals through sponsored talent management and succession planning.
	Product & service quality The Board recognises that the quality and safety of our products and services (including coffee shops) is essential to the business. If our specialist proposition fails to deliver this there is a risk that individuals could be harmed and that reputational damage could lead to consumers losing confidence in the brand.	Dunelm operates a full test schedule for all new products and on a sample basis for ongoing lines, overseen by our specialist Technology team. Food hygiene is maintained through the adoption of clear operating guidelines contained in the Groups 'Food Safety Manual'. Staff certification is compulsory and risk assessments, equipment inspections and compliance audits are in constant use to ensure standards are maintained.
	Compliance The Group risks incurring penalties or punitive damages arising from failure to comply with legislative or regulatory requirements across many areas including but not limited to, trading, health and safety, data protection, advertising, ethical standards and the environment.	Dunelm operates a number of policies and codes of practice outlining mandatory requirements within the business governing behaviours in all key areas. Operational management are also responsible for liaising with external advisers to ensure that potential issues from new legislation are identified and managed.
	Finance & treasury Lack of appropriate levels of cash resources or exposure to significant variations in interest rates or exchange rates could have an impact on the Group's operations and growth plans.	Dunelm has significant cash surpluses and further uncommitted borrowing facilities with partner banks to fund growth plans. In addition, cash flows are monitored weekly against agreed budgets. A Group Treasury Policy is in place to govern cash management strategies and to control foreign exchange exposures.

Nick Wharton
Chief Executive
13 September 2012

David Stead
Finance Director



‘Our target for the forthcoming year is to reduce relative CO_2 emissions per ft^2 year on year.’

Key performance indicators

Recycled waste (all stores) – %

	Recycled	Recycled (previous years) / Landfill	
12/13	Target 12/13 **100%**		100%
11/12	76%		100%
10/11	68%		100%
09 /10	50%		100%
08 /09	30%		100%

Recycled
Recycled (previous years)
Landfill

YOY Reduction in electricity consumption (L4L stores) – %

12/13	Target 12/13 **5.0%**
11/12	3.2%
10/11	6.3%
09/10	2.4%

Carbon footprint - CO_2 tonnes per store*

12/13	Target 12/13 **188**
11/12	194
10/11	220
09/10	235
08/09	262

* ‘Core Supplies’ as defined by Environment Agency CRC Energy Efficiency Scheme

Corporate social responsibility

Why does it matter to Dunelm?
We take Corporate social responsibility ('CSR') seriously because it matters to our customers and our colleagues, it affects profitability and it is important for our reputation.

Our key CSR considerations
Customers
Colleagues
Health and Safety
Suppliers
Environment
Community

How do we manage CSR?
The Board has overall responsibility for CSR, which includes approving our CSR policies and monitoring performance.

The Chief Executive, Nick Wharton, is responsible for reporting to the Board on all CSR matters. Each month the Board receives a 'scorecard' which includes CSR measures, and there is a separate Health and Safety report.

Our approach is to embed CSR into the responsibilities of members of the Operating Board, as identified below. Each individual then reports to the Chief Executive in respect of those matters.

We report to colleagues on our achievements regularly through our in-house magazine, the 'Gazette'.

Customers

Champion: Chief Operating Officer

Why does it matter?
The success and future growth of our business depend on us being able to deliver a range of products to our customers that meet our 'Simply Value for Money' ethos, together with a great customer experience.

What do we do?
Our aim is to consistently deliver great products, that are safe, legally compliant and competitively priced.

We want our customers to experience excellent service in store, on-line and through customer care.

We want our stores to be safe and accessible.

Our marketing will be fair and truthful.

What have we achieved this year?
We were the UK's fourth favourite homewares retailer according to the 2012 Verdict survey. Readers of House Beautiful magazine also voted us the Home Retailer of the year Gold Award for 2011. We were also 'highly commended' in the Coffee Bar Sandwich Retailer of the year award for 2012.

We have worked with a third party to help us to better understand what our customers like about us, and where we can improve.

We introduced a number of convenient new services, such as Reserve and Collect and ordering via mobile phone.

We launched our social media service including Facebook and Twitter pages, to enable us to communicate better with our customers and to gain their feedback.

2012/13 objectives:
- We will continue our work to better understand what our customers want from us, and to assess whether actions being taken by us are improving their customer experience.
- We will refocus the activities of our colleagues in-store, to enhance the service they offer to customers.
- We will continue to improve the service offered by our on-line store, in terms of choice, the overall website experience, and delivery of the product.

Colleagues

Champion: Finance Director

Why does it matter?
We employ nearly 7,000 colleagues across our stores, and in our distribution, manufacturing and store support centre locations. Without their hard work and dedication we would be unable to deliver great products and services to our customers and successfully grow and develop our business.

What do we do?
We are a growing business and we need to be able to attract and retain colleagues to help us deliver our development plans. We offer a competitive remuneration and benefits package, including our annual sharesave scheme which is open to all colleagues with three months' service.

We are an equal opportunities employer; our policy is to recruit, develop, promote and retain skilled and motivated people regardless of disability, race, religion or belief, sex, sexual orientation, gender reassignment, marital status or age.

We maintain regular communication with all colleagues, through store manager 'huddles', our Gazette magazine which is published at least quarterly, and via the computer-based 'Dunelm Academy', to which all colleagues have access. We also operate a Colleagues' Council, through which colleague representatives can raise and discuss ideas and concerns with senior management. Concerns raised are then fed back to the Operating Board for consideration and action.

We offer a range of training and development opportunities to colleagues at all levels of the business. These include:

- Nationally accredited modern apprenticeships and NVQs.
- Our graduate programme, which leads to an Institute of Leadership and Management qualification.
- Support for colleagues studying for professional qualifications, such as in finance and IT.
- A range of workshops in key management skills, such as leadership and communications.
- Interactive computer based product knowledge and other training.

What have we achieved this year?
We have taken part in the Government's work placement scheme, offering short term training opportunities to the unemployed.

We have an arrangement with Jobcentre Plus, offering preferential treatment to job applicants who have been unemployed for six months or more.

Access to computer based training has been extended to all store colleagues.

A plan has been implemented to ensure that every colleague in the business will receive a formal appraisal at least annually from 2012.

Our management induction training has been restructured, and the outcome will Include a personal development plan for all management recruits.

Corporate social responsibility *continued*

2012/13 objectives

- We aim to double the number of places on our graduate programme in 2012.
- We will conduct an employee engagement survey across the Group.
- Our Colleagues' Council will be relaunched.
- We will continue to improve our colleague training opportunities, through structured programmes and additional modules on the Dunelm academy.
- We will work with partners to provide opportunities to the unemployed.

Health and safety

Champion: Director of Central Operations

Why does It matter?

The Board recognises that we have a duty of care to ensure the health and safety of customers, colleagues, contractors and all other visitors to our premises. Health and safety risk management is an integral part of the core standards that we set for our business.

What do we do?

The Board is ultimately responsible for the creation and implementation of our health and safety policy and procedures, which include an effective system of 'upward' and 'downward' communication, appropriate standards for monitoring performance, and for ensuring that sufficient resources are available to support this activity.

Health and safety Is a standard agenda item at every Board meeting, and the Board receives a monthly report and a formal annual presentation from the Central Operations Director.

Regular Health & Safety review meetings are held with our dedicated Health & Safety manager and senior management from the key operational functions: Stores, Development, Manufacturing and Logistics. These meetings ensure respective risks are understood and that relevant mitigating action has been taken to provide a safe environment.

Each store manager is responsible for ensuring the implementation of health and safety policy and procedures in his or her store, supported by the area manager and the Group Health and Safety manager. Risk assessments are in place and updated as required.

We have an in-house health and safety audit document, which pro-actively addresses health and safety risk and is updated every six months. The audit covers stores, workplace transport, store development, warehousing and the store support centre. Our stores complete an on-line self audit monthly, and area managers audit all of their stores at least once a year. This is backed up by our in-house operational audit team and followed up by the Group Health and Safety Manager.

We have an on-going programme of education and training, including DVDs and interactive computer based learning.

What have we done this year?

By targeting high standards of compliance to company procedures and using positive reinforcement of success achieved, we have been able to improve compliance against our internal audit to 82% (2010/11 – 65%). Despite opening an additional 14 superstores during the year, we have seen a reduced accident rate of 3.5 accidents for every 100,000 visits.

A great deal of our focus and development this year has been on management and colleague training with further additions to our e-learning titles and bespoke DVDs on the following topics; Health and Safety induction, Fire Safety and Preventing Customer/ Colleague Accidents. Our insurers have recognised the improvements made in public and employee claims and supported us by providing DVD players for stores.

We have developed a Workplace Transport/Delivery Area Database to; assess risk, monitor compliance and identify remedial actions required from delivery driver surveys completed six monthly. The database will give clearer visibility of risk management issues and actions required/taken.

Our non store activities have been focused on developing Business Continuity Plans, with support from specialist consultants, to cover Emergency Response, Crisis Management and Recovery. This pro-active planning approach further embeds a positive health and safety culture and risk management commitment.

2012/13 objectives

- To further utilise and develop the intranet and e-learning systems for training and central recording of site documentation.
- To review and develop further our business continuity plans for non-store sites.
- To review and improve our key risk controls for:
  - Fire Safety
  - Work Related Road Safety
  - Workplace Transport.

Suppliers

Champion: Buying Director

Why does it matter?

Our suppliers are crucial to help us achieve our growth ambitions. We need to maintain long term relationships with manufacturers worldwide who can meet our high standards for design, innovation, quality and value, but can also demonstrate that they operate in accordance with recognised standards that uphold human rights.

What do we do?

We aim to treat all of our suppliers fairly and consistently. We ask all of our suppliers to sign our standard terms and conditions. All new suppliers are made aware of the basis of trade with Dunelm and in particular our standard payment terms in advance of commencing trade. The number of days' purchases outstanding for payment at 30 June 2012 was 27 days (2011: 36 days).

We continue to work in collaboration with our suppliers to ensure that our products are produced in clean and safe environments, that workers are treated with respect and earn a reasonable wage and that suppliers work within the relevant local laws and legislation. All direct suppliers are required to sign up to our 'Code of Conduct' enforced by a full programme of independent factory audits at least every three years, based on the Ethical Trading Initiative ('ETI') base code. Our Technology department also covers Code of Conduct matters through routine quality audits.

Where non-conformities are discovered we have a formal procedure for working with a supplier to help them achieve compliance, usually within three months – although critical non-conformances such as use of child labour are escalated immediately. Ultimately if progress is inadequate we will cease to trade with the supplier.

What have we done this year?
We updated and relaunched our standard supplier terms and conditions, amongst other things to include a warranty that the supplier has systems in place to prevent bribery and corruption.

Our Code of Conduct was updated.

We held supplier conferences in China to educate suppliers on our Code of Conduct and other regulatory requirements.

All product suppliers were required to demonstrate an ethical audit by June 2012. This was completed, with no critical issues outstanding; over two thirds of suppliers passed the audit with no follow up action required.

2012/13 objectives
- We will work with selected partners to develop our in-house ethical auditing expertise.
- Our supplier ethical audit database will be developed to give us greater visibility of up to date audit status.

Environment
Champion: Deputy Finance Director

Why does it matter?
As a responsible business Dunelm is committed to minimising the impact of its operations on the environment and recognises that good environmental management makes good business sense.

What have we done this year?
Dunelm operates an ‘Energy Policy’ overseen by an Environment Steering Group made up of senior management from across the business. This framework allows us to embed environmental considerations into our business and to deliver a strategy to achieve high levels of environmental performance.

The key areas of focus are waste management, energy consumption and carbon emissions. In these areas our progress over the past financial year and our goals for the forthcoming year are detailed as follows:

Waste recycling

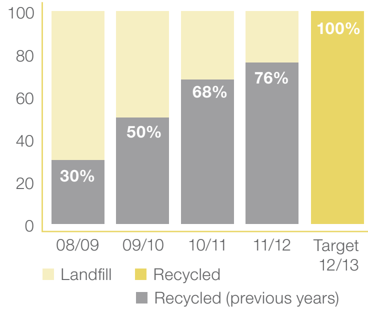
Dunelm has established the specialist position of ‘Group Recycling Manager’. This role reports into the Environment Steering Group and focuses on the effective optimisation and delivery of our waste management strategies.

The Group is focused on minimising the volume of waste sent to landfill. To this end, we target year-on-year increases in the proportion of waste recycled across all areas of the business. Our progress during the year is detailed below:

- A new in-house recycling centre has been built at our central warehouse in Stoke. This facility now enables the Group to recycle all types of plastic waste, back-hauled from stores, in addition to cardboard and paper. As a result we have seen significant increases in recycled material and revenues.
- Investment has been made to provide every store with an industrial baler. This enables efficient local processing of recyclable material and boosts our capability to manage volume through our business.
- We have engaged in a new partnership with a specialist waste management company to deliver reductions in the volume of waste to landfill.
- An initiative to ‘Recycle at Work’ was re-launched at our annual store manager’s conference. This established local ownership of our waste strategy through a network of ‘Recycling Champions’ in stores. These principles were also applied to all other sites including our new head office at Syston.
- This year every site has had a waste audit designed to challenge and improve waste management practices. As a result the capacity of ‘general waste’ containers has been reduced. These audits will be conducted every year.
- Through the year we have partnered with a number of charities to re-use our fabric waste in creative ways culminating in our current agreement to supply waste material for use in acoustic panelling in the motor industry.

These initiatives have enabled Dunelm to reduce the proportion of waste to landfill from 32% (2011) to our lowest ever level of 24% and our effort has been recognised externally by the award of ‘High Street Recycling Champion’ as part of the Lets Recycle.com Rewards for Excellence.

Waste recycled (all stores) - %



2012/13 objectives
- We have already commenced trials of glass recycling, food recycling and replacement of cardboard outer packaging by reusable ‘Tote’ boxes for some stock.
- We have set our target for the forthcoming year to reduce all waste sent to landfill to zero.

Energy use
Energy reduction on a site-by-site basis continues to be a key focus for the Group.

During the year we have completed a project to equip our superstore chain with Building Management Systems (‘BMS’) designed to optimise and control energy usage across the site while maintaining an appropriate shopping environment for our customers and staff. With BMS systems continuing to be fitted as standard to all new stores Dunelm now has 101 stores (30 in 2011) controlled by this energy saving technology. Our entire superstore estate reports energy consumption on a half hourly basis typically through AMR (‘Automatic Meter Reading’) smart meters. Data captured in this way enables the Group to report on energy trends and volumes to understand high or unusual patterns and to target specific sites for reduction or to monitor the success of our energy reduction initiatives.

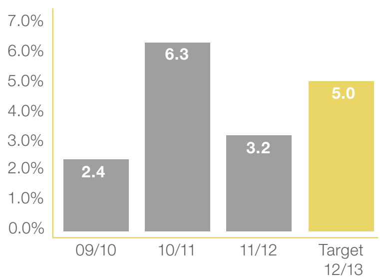
We have engaged with a specialist partner in energy management to monitor energy usage and to control our BMS systems with the goal of reducing consumption.

Corporate social responsibility *continued*

During the year we have also invested in a lighting solution for one of our High Street stores. This trial successfully reduced the energy consumption of the store by 40% and we now intend to retro-fit this solution into other High Street stores.

As a result of these actions we have reduced electricity usage by 3.2% and gas usage by 25.1% in like-for-like stores.

YOY Reduction in electricity consumption (L4L stores)



2012/13 objectives
- Our target for the forthcoming year is to reduce electricity and gas usage by 5% in like-for-like stores.

Carbon emissions (CO_2)
Over the past year we have continued to procure energy from 'Green Energy' supplies such as combined heat and power sources where CO_2 emissions are 30% lower than the national average.

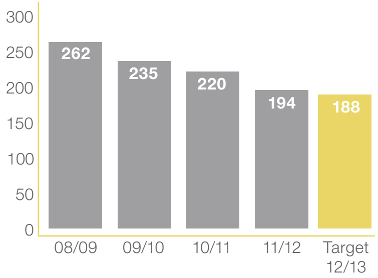
We have continued to reduce the maximum emissions tolerated within our company car fleet, this is now 135g/km (2011: 155g/km) and many fuel efficient models have been added to the scheme.

Dunelm holds the Carbon Trust Standard ('CTS') certification recognising our success in reducing our carbon footprint but also our continuing governance and management in this area.

As participants in the Environment Agency's Carbon Reduction Commitment ('CRC') we have submitted both 'annual' and 'footprint' reports. This is the second year we have submitted an 'annual' report and our progress has been to reduce average carbon emissions per site by 11.6%.

Dunelm's carbon footprint from 'core' supplies as defined by the CRC scheme was 23,234 tonnes of CO_2.

Carbon footprint - CO_2 tonnes per site*



* 'Core Supplies' as defined by Environment Agency CRC Energy Efficiency Scheme

2012/13 objectives
- We will continue to partner with an external consultancy to further focus on reducing our carbon emissions.
- Our target for the forthcoming year is to reduce CO_2 emissions per sq ft year on year.

Product packaging
Dunelm continues to work with suppliers to reduce both the absolute level and recyclability of packaging in our products.

In the year we have commenced the trial of a new 'tote' delivery system for our product. In addition to operational benefits of a more efficient flow-through of stock to the sales floor, this initiative reduces the level of outer packaging per delivery by up to 40% and has the potential to increase vehicle fill and thereby reduce miles travelled and carbon.

The Group is promoting a reduction in the use of 'single-use' carrier bags and we ensure that Eco-bags are offered in all stores. In October, in line with a new initiative from the Welsh Development Agency, we started charging for all single-use carrier bags in our Welsh stores. As a result the use of these bags has dropped by 75% and net revenues earned through the charges have been donated to 'Groundwork Wales', supporting sustainable communities.

Over the course of the year the number of plastic carrier bags used in the course of trade was flat YOY, only growing in line with new store openings.

2012/13 objectives
- Our target for the forthcoming year is to reduce the number of carrier bags used per store by 10%.
- We also plan to further roll-out our reusable 'Tote' delivery initiative to reduce the volume of outer packaging.

Community
Champion: Marketing Director

Why does it matter?
As a responsible retailer, we are committed to supporting charities, both on a national and a local basis.

What do we do?
We adopt a 'charity of the year', for which collections are made in-store, specific fund-raising events are organised, and the Group makes its own donations. Each store has a 'Charity Champion' and amounts raised by store are reported monthly, the top 3 are named in the colleague magazine 'The Gazette'. We also support colleagues who are raising money for charities of their choice, often by matching the sums raised.

We do not make any political donations.

What have we done this year?
Our charity of the year was Wallace and Gromit's children's charity, whose objectives are to improve the quality of life of sick children in hospitals and hospices across the United Kingdom. We have raised funds through a variety of ways, including our Friends and Family night, a themed fancy dress fundraising evening in store, through sale of pin badges, bake sales, fancy dress days and the 'Wrong Trousers' day on 29 June.

We introduced a monthly payroll lottery, half of the proceeds of which go to our chosen charity.

We also supported a variety of other events such as 'Children in Need'.

The total value of donations made by the Group in the year ended 30 June 2012 was £97,000 (2011: £56,000). Total funds raised for charity by the Group and colleagues was £192,000 (2011: £140,000).

2012/13 objectives
- During 2012/13 The Wallace and Gromit children's charity will continue to be our charity of the year, and we will support our colleagues in their charitable fundraising efforts as described above.

Governance
Letter from the Chairman

Geoff Cooper
Chairman

Dear Shareholder,
Significant developments occurred in both external and internal governance matters in the last financial year:

Externally there was heightened public awareness and debate about governance matters and their wider impact; important government consultation; and new guidance on remuneration.

Dunelm's governance activities included our first governance presentation to shareholders; an initiative by us to engage pro-actively with voting services; our new Chief Executive's first full year leading the company; and the appointment of a new Non-Executive Director, Matt Davies.

I have asked Marion Sears, who chairs our Remuneration and Nominations committees to write a separate personal letter to you as part of this annual report, to cover, particularly in remuneration matters, our response to relevant governance matters dealt with by those committees.

Overriding our approach to governance is our view that good, sensible and pragmatic application of governance requirements leads to stronger value creation and lower risks for shareholders – and our starting position is that we will seek to comply with all requirements. However, our judgment is that good governance is ensured more by the culture and ethics of the boardroom than by rote application of guidelines. 'Is this the right thing for Dunelm?' is the most frequent point raised when your Board is handling governance matters. As a relatively young, and fast growing plc with a dynamic trading culture, we are always careful to ensure the essence of good governance whilst implementing simple, cost-effective and practical governance arrangements – to which the Board pays real attention.

Our governance presentation, our increased contact with voting services and the individual contact by NEDs with shareholders has generally met with a positive response and we intend to repeat these activities in 2012/13. These have allowed us to discuss our approach to governance interactively and go beyond formal reporting to explain the thinking behind our current arrangements.

Amongst the various factors that help create the right approach by the Board, the most important are; the skills, experience and diversity of individuals around the board table; a small, unified team and yet a challenging debating environment; and a high level of engagement by all directors. In particular, NEDs are expected to engage regularly with senior and middle management colleagues, visit stores and other facilities, report on their activities and observations at every board meeting and attend selected family and institutional shareholder meetings and events.

Your Board now comprises three excellent executive directors and three diligent NEDs, together with myself as Chairman. We believe this '3 plus 3 plus 1' model is right for the business. Succession, both to the Board, and in senior management has been given a lot of attention and remains under constant review.

The Board conducted an internal review, led by me, of its performance and processes towards the end of the year. Key recommendations related to focusing our attention more onto key strategic developments and metrics, giving more attention to the top level risks emerging from the Group's risk management framework and widening the Board's exposure to experts in emerging aspects of our business environment and operations. The review also involved feedback to individual Board members on their performance as directors.

In the present environment, we expect the attention on companies' governance arrangements to continue. Through the approach I have described, we hope to keep pace with developments whilst retaining an efficient and effective governance environment for the Dunelm business.

I look forward to meeting shareholders at the AGM in November.

Yours sincerely,

Geoff Cooper
Chairman of the Board
13 September 2012

Directors and Officers

Bill Adderley *Founder and Life President*

Bill Adderley, together with his wife Jean, founded the business in 1979. Although no longer on the Board or actively involved in management, Bill and Jean remain major shareholders.

Geoff Cooper *Non-Executive Chairman*

Attends Audit Committee by invitation.

Key strengths: A current CEO with extensive experience in international general management, the retail sector, finance and IT. Long-standing Plc experience and shareholder understanding.

Dunelm role: Chairs the Board. Attends and speaks at Store Managers Seminars. Regularly visits stores to meet store colleagues and members of the senior management team. Leads investor presentations and attends shareholder meetings.

Joined Dunelm Board: November 2004.

Previous Experience: Qualified accountant. Formerly a Director of Gateway (subsequently Somerfield plc). Then Finance Director and subsequently Deputy Chief Executive of Alliance UniChem Plc.

Other Commitments: Chief Executive of Travis Perkins Plc.

Nick Wharton *Chief Executive Officer*

Key strengths: Finance background, plc board experience and shareholder understanding, predominantly in retail. Strong process and operational focus. Knowledge and experience of e-commerce and Continental European retail markets.

Dunelm role: Leads the Company and chairs the Operating Board. In addition to his Board role, provides liaison with the Remuneration Committee for pay below board level.

Joined Dunelm Board: August 2009 as an Independent Non-Executive Director. Appointed as CEO-designate in December 2010 and became CEO in February 2011.

Previous Experience: Qualified accountant. Formerly Finance Director of Halfords Group Plc.

Other Commitments: None.

Will Adderley *Executive Deputy Chairman*

Attends Remuneration Committee by request.

Key strengths: Has worked in, and is familiar with, all parts of the Group. Specific product strengths in buying and trading with strong and long-standing supplier relationships. Has been instrumental in growing the Group to its current size having, as the former CEO, developed the out-of-town format in the late 1990s.

Dunelm role: Is a major shareholder and spends the majority of his time out in stores and with a focus on long term strategy.

Joined Dunelm Board: 1992, and has worked for Dunelm for his whole career. He took over the day-to-day running of the Group from his father in 1996. Remained as Chief Executive through the Group's IPO in 2006. Became Deputy Chairman in February 2011.

Previous Experience: All parts of Dunelm's business.

Other Commitments: None.

Audit Committee Member
Nominations Committee Member
Remuneration Committee Member

David Stead *Executive Finance Director*

Key strengths: Finance background and extensive Plc experience. Understanding of investor community and company secretarial matters. An experienced strategic and financial perspective across all Group functions.

Dunelm role: Leads the finance department. Also has responsibility for HR and IT. Participates in Audit Committee meetings by request and sits on the Operating Board.

Joined Dunelm Board: September 2003.

Previous Experience: Qualified accountant. Formerly 14 years at Boots where he was Finance Director of Boots The Chemists and Finance Director of Boots Healthcare International.

Other Commitments: None.

Simon Emeny *Non-Executive Director*

Key strengths: A current CEO with extensive general management experience in a retail model, customer service and hospitality expertise. Long-standing Plc experience and shareholder understanding.

Dunelm role: Regularly visits stores to meet store colleagues and members of the senior management team. Attends investor presentations and shareholder meetings.

Joined Dunelm Board: June 2007.

Previous Experience: Sales and marketing, customer service and general management in the brewing and hospitality sector.

Other Commitments: Group Managing Director of Fuller Smith and Turner Plc.

Marion Sears *Non-Executive Senior Independent Director*

Chair of Nominations and Remuneration Committees.

Key strengths: Extensive City, investor and banking experience including mergers and acquisitions. Customer focused and strategic. Long-standing Plc experience and shareholder understanding.

Dunelm role: Regularly visits stores to meet store staff and members of the senior management team. Together with the Chairman, takes specific responsibility for co-ordinating the Board's corporate governance duties and for liaising with shareholders on corporate governance matters. Attends investor presentations and shareholder meetings.

Joined Dunelm Board: July 2004.

Previous Experience: Robert Fleming, JP Morgan Investment Banking.

Other Commitments: Senior Independent Director of Zetar Plc, Non-Executive Director of Octopus AIM VCT Plc.

Matt Davies *Non-Executive Director*

Chair of Audit Committee.

Key strengths: A former CEO with extensive general management experience in retail with focus on HR, marketing, trading and customer service. A successful track record of building a branded out-of-town retail group nationwide in the UK with a strong service offer. Experience of the private equity industry and business model.

Dunelm role: Regularly visits stores to meet store colleagues and members of the senior management team. Attends investor presentations and shareholder meetings. Chairs the Audit Committee.

Joined Dunelm Board: February 2012.

Previous Experience: Qualified accountant. Formerly CEO of Pets at Home.

Other Commitments: None.

Dawn Durrant *Company Secretary*

Key strengths: Extensive Plc company secretarial and legal experience including corporate governance, legal and regulatory compliance, mergers and acquisitions, company and commercial, retail and consumer law.

Dunelm role: Responsible for governance, legal and regulatory matters.

Joined Dunelm Board: November 2011

Previous Experience: Qualified as a solicitor at Allen & Overy. Company Secretary of Geest Plc.

Other Commitments: Company secretarial consultant to Spicers Limited.

Directors' report and business review

The Directors present their report together with the audited financial statements for the year ended 30 June 2012. Together with certain information in the reports from the Chief Executive and the Finance Director on pages 9 to 13 and the Corporate Social Responsibility review on pages 17 to 20, which are incorporated into this report by reference, this report satisfies the requirements of the Companies Act 2006 to produce a Business Review.

The purpose of this Business Review is to provide to shareholders a review of the Group's business over the period, and to describe the principal risks and uncertainties facing the Group.

Principal activity
The principal activity of the Group is that of a specialist UK homewares retailer selling to customers through stores and over the internet.

Review of business and future developments
A review of the business and future developments of the Group is given in the Chief Executive's Review on pages 9 to 11.

Shareholder and voting rights
All members who hold Ordinary Shares are entitled to attend and vote at the Annual General Meeting. On a show of hands at a general meeting every member present in person shall have one vote and on a poll, every member present in person or by proxy shall have one vote for every Ordinary Share held.

On 2 October 2006, Jean Adderley, Bill Adderley and Will Adderley (all shareholders) entered into a Relationship Agreement with the Company, pursuant to which each of Jean Adderley, Bill Adderley and Will Adderley undertook to the Company that, for so long as, individually or together, they are entitled to exercise, or to control the exercise of, 30 per cent 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, they will:

(a) conduct all transactions and relationships with any member of the Group on arms length terms and on a normal commercial basis;
(b) not take any action which precludes or inhibits any member of the Group from carrying on its business independently of Jean and Bill Adderley and their associates (as defined in the Listing Rules);
(c) not exercise any of their voting rights or other powers to procure any amendment to the Articles of Association of the Company which would be inconsistent with or undermine any of the provisions of the Relationship Agreement;
(d) abstain from voting on any resolution to which LR11.7.R(4) of the Listing Rules applies involving Jean Adderley, Bill Adderley or Will Adderley or any of their associates as the related party;
(e) not carry on (other than through their holding of securities of the Company) or have any financial interest (other than a financial interest in securities which are held for investment purposes only) in any person who carries on a business as a homewares retailer, to the extent that it would be inconsistent with or undermine any provisions of the Relationship Agreement; and
(f) only enter into, amend or terminate any transaction, agreement or relationship between themselves or any of their associates and any member of the Group with the approval of a majority of the independent Non-Executive Directors.

There are no restrictions on the transfer of Ordinary Shares in the Company other than certain restrictions imposed by laws and regulations (such as insider trading and marketing requirements relating to close periods) and requirements of the Listing Rules whereby Directors and certain employees of the Company require Board approval to deal in the Company's securities.

Change of control
The Company is not party to any significant agreements which take effect, alter or terminate solely on a change of control of the Company following a takeover bid.

There are no agreements between the Company and its Directors or employees providing for additional compensation for loss of office or employment (whether through resignation, redundancy or otherwise) that occurs because of a takeover bid.

Results and dividends
The consolidated profit for the year after taxation was £71.2m (2011: £59.8m). The results are discussed in greater detail in the Finance Director's review on pages 12 and 13.

A final dividend of 10.0p per share (2011: 8.0p) is proposed in respect of the year ended 30 June 2012 to add to an interim dividend of 4.0p per share paid on 13 April 2012 (2011: 3.5p). The final dividend will be paid on 21 December 2012 to shareholders on the register at 30 November 2012.

Together with this annual report and accounts is a circular containing proposals for a return of capital to shareholders. This will be subject to approval of shareholders, to be sought at a general meeting of the company to take place immediately after the annual general meeting on 16 November 2012.

Directors

Details of the Directors in office at the year end are set out below.

Matt Davies was appointed on 8 February 2012.

Directors serving at the year end and their beneficial interests in the shares of the Company were:

	At 30 June 2012 1p ordinary shares	At 2 July 2011 1p ordinary shares
WL Adderley	61,703,398	69,943,939
D Stead	625,426	529,338
G Cooper	181,611	181,611
M Sears	101,313	101,313
N Wharton	39,500	30,000
S Emeny	26,400	26,400
M Davies	4,500	0

During the period there were the following changes to Will Adderley's shareholding:

11 October 2011	Transfer to Nadine Adderley (his wife)	-259,459
13 October 2011	Exercise of nil cost options under LTIP	259,459
5 March 2012	Placing (4,956,602 sold by Will Adderley and 2,543,398 sold by Nadine Adderley)	-7,500,000
8 March 2012	Transfer to the Leicester Foundation	-1,000,000
4 May 2012	Transfer to WA Capital Limited[1]	-50,600,000

[1] WA Capital Limited is a company established by Will Adderley to act as a long term holding company for his Dunelm shareholding. It is a United Kingdom limited company of which he is the sole director and shareholder, and is UK resident for tax purposes. Shares held by WA Capital Limited and by Nadine Adderley are included in the total beneficial interest of Will Adderley in the table above. At the period end WA Capital Limited's shareholding was 50,600,000 Ordinary Shares and Nadine Adderley's shareholding was nil Ordinary Shares.

Will Adderley is deemed to retain a legal interest in shares held by two trusts, the Leicester Foundation and the Paddocks Discretionary Trust, by virtue of the fact that he and his wife are trustees, although not beneficiaries, of those trusts. At the period end the shareholdings of these trusts were: Leicester Foundation: 1,167,250 Ordinary Shares (2011: 167,250), Paddocks Trust: 172,750 Ordinary Shares (2011: 172,750). These interests are not included in the table above. In total therefore, Will Adderley's legal and beneficial interest in Ordinary Shares totals 63,043,398 representing 31.2% of the issued Ordinary Share Capital.

David Stead exercised nil cost options over 178,378 shares under the Long Term Incentive Plan on 13 October 2011. On the same day he sold 90,000 Ordinary Shares at a price of 465.1p per share to cover his income tax and national insurance liability, the balance of 88,378 shares were transferred to his wife Jane Stead. On 22 February 2012, David Stead exercised options over 7,710 shares under the Sharesave scheme, at a price of 124.5p per share, following exercise the shares were transferred to his wife. Shares held by David's wife are included in his beneficial interest in the table above.

On 6 March 2012, Donna Wharton, the wife of Nick Wharton purchased 9,500 shares at a price of 480p per share, included in Nick's beneficial holding in the table above; and on the same day Matt Davies purchased 4,500 shares at a price of 499p per share.

There were no changes in the Directors' shareholdings between the year end and 13 September 2012.

Details of share options held by Directors at the period end are given in the Remuneration Report.

All Directors will be retiring at the 2012 Annual General Meeting and will be offering themselves for re-election. Biographical details of the Directors are set out on page 22 and 23 and details of their service contracts are in the Remuneration Report on page 44.

Share capital and treasury shares

The Company has only one class of shares, Ordinary Shares of 1p each.

The issued Ordinary Share capital of the Company has increased by 449,960 Ordinary Shares during the period due to the exercise of share options. Details of option exercises by Directors are set out above.

At 30 June 2012 the Company did not hold any Ordinary Shares in treasury (2011: nil). There were no movements of shares in or out of treasury during the period, and there have been no movements of shares in or out of treasury since the period end.

Directors' report and business review *continued*

Substantial shareholders

At 13 September 2012 the following had notified the Company of a disclosable interest in 3 per cent or more of the nominal value of the Company's Ordinary Shares:

	Ordinary shares	Percentage of share capital
WL Adderley	61,703,398	30.5
W Adderley	48,070,000	23.8
Kames Capital	10,147,214	5.0

WL Adderley is also deemed to hold a legal interest in 1,167,250 Ordinary Shares held by The Leicester Foundation and 172,750 Ordinary Shares held by the Paddocks Discretionary Trust, by virtue of the fact that he is a trustee of those trusts.

Powers of Directors

Specific powers of the Directors in relation to shares and the Company's Articles of Association are referred to in the Corporate Governance report on page 28.

Treasury and risk management

The Group's approach to treasury and financial risk management is explained in the Key Risks and Uncertainties section on pages 14 and 15.

Going concern

The Directors have made appropriate enquiries and formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

Auditor

KPMG Audit Plc offer themselves for reappointment as auditors in accordance with section 489 of the Companies Act 2006.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Disclaimer

This Directors' Report and Business Review and the Financial Statements contain certain forward-looking statements with respect to the financial condition, results, operations and business of Dunelm Group plc. These statements and forecasts involve risk and uncertainty because they relate to events, and depend upon circumstances, that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this Directors' Report and Business Review or in these Financial Statements should be construed as a profit forecast.

Annual General Meeting

The Annual General Meeting will be held at 9.30 am on Friday 16 November 2012 at The Holiday Inn Express, Rockingham Road, Kettering, NN14 1UD.

A formal notice of meeting, explanatory circular and a form of proxy will accompany this report and accounts.

By order of the Board

Dawn Durrant
Company Secretary
13 September 2012

Corporate governance report

2011/12 summary
- **Matt Davies appointed to the Board as Non-Executive Director and Audit Committee Chair.**
- **Full compliance with the Corporate Governance Code at year end.**
- **Corporate Governance presentation to investors held In January 2012.**
- **All Directors submitted for re-appointment at the AGM.**
- **Bribery Act procedures implemented.**
- **Pro-active engagement with proxy advisers.**

At our first Corporate Governance presentation held in January 2012, to which our major institutional investors were invited, we explained our approach to governance. A copy of the presentation is available in the 'presentations' section of our corporate website.

Our policy can be summarised as folllows:

- We believe that good governance leads to stronger value creation and lower risks for shareholders.
- We support corporate governance guidelines and seek to apply them in a way that is meaningful to our business and consistent with our culture and values.
- If we decide that the interests of the Company and its shareholders can be better served by doing things in a different way, we will explain the reasons why.
- We believe that the Board's governance role consists of instilling and maintaining a culture of honesty, integrity and transparency throughout the business, through our policies, communications and by the way in which we act.

This report explains how we have applied the principles of good governance and code of best practice set out in the Corporate Governance Code ('the Corporate Governance Code') published in June 2010.

At the end of the financial year, the Board considers that it is fully compliant with the Corporate Governance Code.

Board role and composition
The Board has overall responsibility for controlling the Group, making decisions relating to the Group's strategic direction and measuring progress towards strategic goals.

Following the appointment of Matt Davies as a Non-Executive Director and Chairman of the Audit Committee on 8 February 2012, the Board balance and committee membership is now fully compliant with the requirements of the Corporate Governance Code.

The names and roles of each of the Directors is set out in the table below. David Stead was also the Company Secretary prior to the appointment of Dawn Durrant on 17 November 2011.

The Board considers that Geoff Cooper was independent on appointment, and that Marion Sears, Simon Emeny and Matt Davies are independent. Overall the Board considers that there is a good balance of Executive and Non-Executive Directors.

The Board has adopted written statements setting out the respective responsibilities of the Chairman, Executive Deputy Chairman and the Chief Executive, these are available on the Group's website or from the Company Secretary. In general terms, the Chairman is responsible for running the Board and the Chief Executive is responsible for running the Group's business, supported by the Executive Deputy Chairman who focuses specifically on strategic activities which protect and enhance shareholder value and embed the Company's culture and values.

Board process
The Board held 11 meetings in the course of the year, one of which was dedicated to a formal review of strategy, and one of which comprised the Board evaluation. Attendance at meetings was as follows:

Director	Role	Meetings attended:
Geoff Cooper	Non-Executive Chairman	11
Marion Sears	Senior Independent Director and Chair of Remuneration and Nominations Committees	11
Will Adderley	Executive Deputy Chairman	8
Simon Emeny	Independent Non-Executive Director	10
Nick Wharton	Chief Executive	11
David Stead	Finance Director	11
Matt Davies	Independent Non-Executive Director and Chair of Audit Committee	5 [1]

[1] Matt Davies attended all Board meetings since his appointment.

Corporate governance report *continued*

There is a schedule of matters reserved to the Board for decision or approval, which was reviewed in 2011 and is available on the Group's website or from the Company Secretary. Examples of such matters include Group strategy and budget, Group capital structure, approval of financial results and report and accounts, significant capital or contractual commitments, maintaining internal control and risk management, and approval of significant Group-wide policies.

At each meeting, the Chief Executive and the Finance Director report on operational performance (including health and safety) and the Finance Director reports on financial performance and position. There is a rolling schedule of other operational, strategic and risk topics to be discussed, and other matters are debated by the Board as required, supported by a briefing paper where a decision is to be made.

Minutes of all Board and Committee meetings are taken by the Company Secretary and committee secretaries respectively and circulated for approval. Any unresolved concerns raised by a Director are recorded in the minutes.

The Chairman and the other Non-Executive Directors meet from time to time without Executive Directors being present, and regularly have individual meetings with other senior managers in the business, usually at a store location. In addition the Non-Executive Directors have the opportunity to meet at least once a year without the Chairman present as part of the Board effectiveness review process, which includes a formal review of the Chairman's performance.

Board committees
The Board has appointed three committees, an Audit Committee, a Nominations Committee and a Remuneration Committee. The terms of reference of each of these committees, which were updated in 2011, can be found on the Group's website and are available from the Company Secretary.

Details of the membership of the committees and of their activities during the past financial year, can be found in the reports from the Chair of each of the committees on pages 33 to 47.

Appointment and removal of Directors
The Articles of Association of the Company provide that a Director may be appointed by ordinary resolution of the Company's shareholders in general meeting, or by the Board so long as the Director stands down and offers himself for election at the next Annual General Meeting of the Company. The Articles also provide that each Director must stand down and offer him or herself for re-election by shareholders at the Annual General Meeting at least every three years. The Board has decided to adopt the requirement of the Corporate Governance Code, that all Directors should stand down and offer themselves for re-election at the Annual General Meeting.

Directors may be removed by a special resolution of shareholders, or by an ordinary resolution of which special notice has been given in accordance with the Companies Act 2006. The Articles also provide that the office of a Director shall be vacated if he is prohibited by law from being a director, or is bankrupt; and that the Board may resolve that his office be vacated if he is of unsound mind or is absent from Board meetings without consent for six months or more. A Director may also resign from the Board.

The Nominations Committee makes recommendations to the Board on the appointment and removal of Directors.

In accordance with the Corporate Governance Code, all Directors will retire from the Board and offer themselves for re-election at the Annual General Meeting.

Powers of Directors
In accordance with the Companies Act 2006 and the Articles of Association, the business of the Company is managed by the Board, which may exercise all of the powers of the Company, subject to the requirements of the Companies Acts, the Articles of Association of the Company, and any special resolution of the Company. As stated above, the Board has adopted internal delegations of authority in accordance with the Code, and these set out matters which are reserved to the Board or committees and the powers and duties of the Chairman, the Executive Deputy Chairman and the Chief Executive respectively.

At the Annual General Meetings of the Company from 2007 onwards, the Board sought and was given authority to issue shares and to buy back and re-issue shares, subject to the limits imposed by law and those set out in the text of the resolution. Similar resolutions are being tabled at the 2012 Annual General Meeting, together with a waiver of any obligation of Will Adderley under the City Code on Takeovers and Mergers to make an offer for all of the shares of the Company if the authority to buy back shares is used. For further details see the Notice of Annual General Meeting which accompanies this report.

Advice and insurance
All Directors have access to the advice and services of the Company Secretary. In addition Directors may seek legal advice at the Group's cost if they consider it necessary in connection with their duties.

The Group purchases Directors' and Officers' Liability insurance cover for its Directors.

Training
Upon joining the Board, any new Director is offered a comprehensive and tailored induction programme with visits to key sites and meetings with senior managers and other colleagues. As part of each Director's annual review any additional training or development needs are addressed. Please see the Directors' biographies on pages 22 and 23 for details of the specific skills and experience of each Director.

Throughout the year all Directors have maintained a regular series of visits to stores and meetings with members of the senior management team. The Company Secretary reports monthly to the Board on new legal, regulatory and governance developments that affect the Company. The Board also received presentations from independent advisers on financial and governance issues. Directors attend seminars and tutorials provided by independent organisations which cover the whole range of governance topics.

Evaluation
The Chairman appraises the performance of the Chief Executive with regard to personal objectives agreed at the start of each financial year. The Chief Executive similarly appraises the performance of other Executive Directors. Separately the Senior Independent Director meets with the other Non-Executive Directors to evaluate the Chairman's performance.

There is a formal, rigorous and well established process for evaluating the performance of the other Non-Executive Directors, the Board Committees and the Board as a whole. A questionnaire is circulated to all Directors, to seek their views on matters such as the effectiveness of meetings, the approach to strategy and risk, succession planning and the AGM. The completed questionnaire forms the basis of a discussion between the Chairman and each Director. The Chairman presents the overall result back to the Board at a Board meeting convened solely for this purpose. During the course of this meeting there is the opportunity for the Chairman or other Directors to be asked to leave the discussion whilst their performance is assessed.

Following the Board review a list of actions is formulated and progress against these is monitored periodically by the Board. In the review which took place during the period these actions included a restructuring of Board agendas to provide additional focus on strategic issues, a review of how the Board communicates with all of its stakeholders and an extension of the Board's review of succession planning activity below senior management level.

The Board considers that this process is effective for a small and very open Board; it will be assessing tenders for an external review of the Board during the next financial year.

Conflicts of interest
The Companies Act 2006 allows the Board of a public company to authorise conflicts and potential conflicts of interest of individual directors where the Articles of Association contain a provision to that effect. The Company's Articles of Association give the Board this authority subject to the following safeguards:

- Directors who have an interest in matters under discussion at a Board meeting must declare that interest and abstain from voting.
- Only Directors who have no interest in the matter being considered are able to approve a conflict of interest and, in taking that decision the Directors must act in a way they consider, in good faith, would be most likely to promote the success of the Company.

The Directors are able to impose limits or conditions when giving authorisation if they feel this is appropriate.

All Directors are required to disclose any actual or potential conflicts to the Board and the following existing conflicts have been considered and approved:

- Will Adderley is a major shareholder and connected to other major shareholders. Authorised on the basis that Mr Adderley continues to abide by the terms of the Relationship Agreement entered into between himself, other major shareholders and the Company on flotation of the Company in 2006.
- Geoff Cooper is a Director of Travis Perkins plc which potentially competes with the Company for retail property. Authorised on the basis that Mr Cooper is not involved in day to day decisions in relation to the property portfolio in either company.

There were no other matters disclosed that are considered by the Board to give rise to a conflict of interest.

Any conflicts considered by the Board and any authorisations given are recorded in the Board minutes and reviewed annually by the Board.

The Board considers that its procedures to approve conflicts of interest and potential conflicts of interest are operating effectively.

Corporate governance report *continued*

Risk management

Throughout the year and up to the date of approval of this Annual Report there has been in place an established, ongoing process for identifying, evaluating and managing the significant risks faced by the Group. The process has been reviewed by the Audit Committee and the Board and is in accordance with the Turnbull Guidance on Internal Control for Directors.

- A register of major strategic and operational risks is maintained. Each risk is documented, together with the mitigating factors and controls in place to manage it. Risks are assessed in terms of impact and likelihood, and the 'top 10' risks are identified for specific focus. A member of the Operating Board is allocated responsibility for management of each risk.
- The register is reviewed twice per annum by the Board, which also monitors the status of agreed actions.
- The Operating Board and other senior colleagues review the risks once a year in a workshop and the Operating Board reviews the register quarterly throughout the year.
- Important strategic or operational risk areas, such as loss of competitive position, health and safety, property portfolio, attracting and retaining key personnel, are considered regularly by the Board.
- Risk topics selected by the Audit Committee are considered 'in-depth' at Board meetings, supported by a paper prepared by the relevant executive. In the period topics covered included IT security, supply chain security, property risk, disaster planning and insurance.

Internal control

The Board accepts its responsibility for the Group's system of internal control and for reviewing its effectiveness. However such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material loss and misstatement.

The system of internal control comprises:

- A well established control framework comprising clear structures and accountabilities, well understood policies and procedures and budgeting and review processes.
- Each store manager has clear responsibilities and operates within defined policies and procedures covering such areas as financial targets, human resources management, customer service, health and safety.
- The Executive Directors monitor compliance with these policies and procedures in the course of regular reviews.
- In addition there is a rolling programme of review of store compliance by the operational audit team.

The Audit Committee considers annually whether an internal audit function is required, and did so again in May 2012. It does not currently consider that this is necessary in view of the adequacy of internal and risk management controls and reporting in place, the relatively low level of complexity in the business and the close involvement of the Executive Directors in the operation of the business. This assessment was supported by KPMG.

In the financial year, as part of our increased focus on fraud risk, a third party end to end review of all our payment controls, processes and authorities was performed. Whilst there were no significant deficiencies resulting from this review, there were a series of recommended actions, which have been implemented during the year.

Bribery Act 2010

Following the coming into force of the Bribery Act in July 2011, we have reviewed the procedures in place to ensure that we are able to comply with its requirements. Actions taken include:

- Anti-corruption and anti-bribery policy implemented.
- The policy on acceptance of gifts and other privileges has been updated and a formal procedure has been implemented for signing off and logging hospitality.
- Operating Board members and Heads of Department have received training and also signed a declaration of compliance, which will be an annual process.
- Standard terms and conditions for suppliers have been amended to include a Bribery Act clause.
- The Whistleblowing Policy has been amended to specifically refer to the Bribery Act.

Further actions are planned in the next financial year, to include additional training and more detailed due diligence with suppliers.

Investor relations and understanding shareholder views

There is a formal investor relations programme based around results presentations and trading statements, as well as the corporate governance presentation referred to above. We also periodically hold a specific presentation to analysts in store, the most recent event was on 13 July 2012 at our Milton Keynes store.

The Chief Executive and the Finance Director report back to the Board after meetings with analysts and shareholders and the Company brokers attend a Board meeting annually to feed back investor views. The Non-Executive Directors are present at results presentations and also attend meetings with shareholders.

All Directors will be available at the Annual General Meeting to meet with shareholders and answer their questions.

We plan to repeat our invitation to the corporate governance representatives of our major institutional shareholders to attend a presentation in January 2013. This is designed to allow us to communicate our approach to governance and to facilitate discussion with our shareholders outside of the busy Annual Report and AGM timetable. Again, this will be hosted by the Chairman, the Non-Executive Directors and Will Adderley, the Executive Deputy Chairman, representing the majority family shareholding. The other executives will not be present.

During the year we also met or had contact with representatives of the main proxy advisers in the United Kingdom and have planned follow-up meetings with them. The purpose of this is to explain our approach to governance topics outside of the short timescales dictated by the AGM timetable, to enable a better evaluation of our Annual Report.

Significant shareholders
The Group's significant shareholders are listed in the Directors' report on page 26 and voting rights are stated on page 24.

Articles of Association
The Company's Articles of Association may only be amended by a special resolution of shareholders.

Letter from the Chair of the Audit Committee

Dear Shareholder,
I was appointed to the Board on 8 February 2012, and became Chair of the Audit Committee on that date. My thanks go to Geoff Cooper who ably chaired the committee on a temporary basis over the previous 15 months.

Since my appointment, I have held discussions with David Stead, the Finance Director, and members of his team, and with KPMG. I have also reviewed the controls and systems in place at Dunelm. I am pleased to say that controls appear to be sound and that management has adopted an appropriate attitude to financial control and risk management. I look forward to working with the other members of the committee and the Board as a whole to ensure that this is maintained and enhanced.

Yours sincerely,

Matt Davies
Chair of the Audit Committee
13 September 2012.

Audit Committee report

2011/12 summary
- **Matt Davies becomes committee Chair in February 2012.**
- **More focus on fraud risk, including detailed review of payment controls by a third party, leading to strengthened anti-fraud measures.**
- **Introduction of a schedule of risk topics to be reviewed in-depth by the Board.**

This report provides details of the role of the Audit Committee and the work it has undertaken during the year.

The purpose of the committee is to oversee the integrity of the Group's financial statements and public announcements relating to financial performance, to oversee the audit process, monitor the effectiveness of financial controls and the process for identifying and managing risk throughout the Group. The full terms of reference for the committee can be found via the Company's website, www.dunelm-mill.com.

The committee has approved a policy which allows employees to raise legitimate concerns in confidence without fear of discrimination.

The following Directors served on the committee during the year:

Member	Period from:	To:
Matt Davies (Chair)	8 February 2012	To date
Geoff Cooper (acting Chair)	1 December 2010	8 February 2012
Marion Sears	18 January 2005	To date
Simon Emeny	25 June 2007	To date

I have been Chairman of the committee since my appointment to the Board on 8 February 2012. Prior to that, Geoff Cooper was acting Chair following the resignation of Nick Wharton when he assumed his executive role on 1 December 2010.

The Board considers that I have recent and relevant financial experience by virtue of my professional qualification and my recent executive role as Chief Executive of Pets at Home Limited.

The Finance Director and the Chairman of the Board usually attend meetings by invitation, along with a representative from the external auditors.

Committee activities in 2011/12
Three meetings were held in the year and members' attendance was as shown in the table below. Marion Sears also acted as Secretary to the committee until the appointment of Dawn Durrant as Company Secretary in November 2011.

Member	Meetings attended:
Matt Davies	1 [1]
Geoff Cooper (acting Chair until 8 February 2012)	2
Marion Sears	3
Simon Emeny	2

[1] Matt Davies has attended all committee meetings since his appointment.

During the year the activities of the committee included:

- Approval of the full year results issued in September 2011 and the half year results issued in February 2012.
- Review of the requirement for an internal audit function – we continue to consider that this is not required in view of the adequacy of financial controls in place and the relatively low level of complexity in the business, and this is supported by KPMG.
- Introduction of a schedule of risk topics to be considered in-depth at Board meetings (these included IT security, supply chain security, property risk, disaster planning and insurance during the period).
- End to end review by a third party of all of our payment controls, processes and authorities. Whilst there were no significant deficiencies resulting from this review, there were a series of recommended actions, which have been implemented during the year. The Finance Director also now presents a fraud report at each committee meeting.
- Review and confirmation of the Group's policy for use of the auditors for non-audit work; the committee has approved a policy that the auditors should only be used for non-audit work if they offer demonstrably better capability than alternative providers and there is no potential conflict with the independence of the audit.
- Verification of the independence of the auditor, and approval of the scope of the audit plan and the audit fee.
- Review of the processes that have been introduced following the Bribery Act (for further details please see the Corporate Governance report).
- Monitoring the current proposals by the United Kingdom Financial Reporting Council and by the European Union that would require companies to tender their external auditor.

Audit Committee report *continued*

External auditor

The Group reappointed KPMG Audit Plc as external auditor for the financial year ended 30 June 2012. The Group paid KPMG £75,000 in relation to the statutory audit of the Group and Company financial statements and the audit of Group subsidiaries pursuant to legislation. The Group also paid KPMG £74,000 in relation to other non-audit services which mainly consisted of tax compliance and tax planning initiatives.

The committee had the opportunity to meet privately with the auditor in the course of each meeting during the period. In addition, I held private discussions with the audit partner following my appointment.

This report was reviewed and approved by the Board on 13 September 2012.

Matt Davies
Chair of the Audit Committee

Letter from the Chair of the Nominations Committee

Dear Shareholder,
The focus for the Nominations Committee over the past year has been to find a new Non-Executive Director to chair the Audit Committee as a final step following the CEO succession which took place in 2010/11. We were delighted to announce the appointment of Matt Davies as our new Non-Executive in February and as expected, he has already contributed in many ways to strategic discussions as well as demonstrating that he is very able to chair the Audit Committee.

With Matt's appointment we are compliant in terms of Board balance between executives and independent directors. Having regard to our diversity policy, as we did on Matt's appointment, we will make a specific effort to ensure that suitably qualified female candidates are brought forward for consideration as Board vacancies arise.

During the year we have reviewed, as a full Board, the talent in the business across all levels of management in store and in support functions. The purpose of the exercise has been to create an on-going process which identifies and can nurture a supply of future executives required within our expanded business. As Dunelm continues to grow it will be important to balance internal promotion, key to preserving our culture, with external recruitment to provide new capability and fresh perspective. As part of our approach to ensure this blend we had a successful first graduate recruitment process in 2010/11 and in 2011/12 we have hired 21 new graduates to help boost the early stages of our human talent supply pipeline.

Looking forward, we will address the fact that Geoff, Simon and I all joined the Board around the time of IPO. We are proceeding on the basis that a continual, but measured, refreshment programme over the medium term will maintain the strength and unity of the Board whilst at the same time bringing fresh thinking in areas that will be important to Dunelm's future.

The evaluation of the Nominations Committee took place as part of the Board evaluation. We continue to regard Board appointments as whole Board business which must be unanimous and we have just completed an updated Board skills analysis which will inform future recruitment.

Yours sincerely,

Marion Sears
Chair of the Nominations Committee
13 September 2012

Nominations Committee report

2011/12 summary

- **Appointment of Matt Davies as Non-Executive Director and Audit Committee Chair.**
- **Detailed review of Board skills and experience repeated.**
- **Update of Board succession plan.**
- **Review of talent supply within the business.**

This report provides details of the role of the Nominations Committee and the work it has undertaken during the year.

The purpose of the Committee is to assist the Board by keeping the composition of the Board under review and conducting a rigorous and transparent process when new appointments to the Board are made. The full terms of reference for the committee can be found on the Company's website.

The following Directors served on the committee during the year:

Member	Period from:	To:
Marion Sears (Chair)	18 January 2005	To date
Geoff Cooper	18 January 2005	To date
Simon Emeny	25 June 2007	To date
Will Adderley	17 February 2011	To date
Matt Davies	8 February 2012	To date

Four meetings were held in the year and members' attendance was as shown in the table below. Marion Sears also acts as Secretary to the Committee.

Member	Meetings attended:
Marion Sears (Chair)	4
Geoff Cooper	4
Simon Emeny	4
Will Adderley	3
Matt Davies	0[1]

[1] There were no meetings between 8 February (when Matt Davies joined the Board) and the year end.

General succession planning

The Committee keeps under review the balance of skills on the Board as a whole and the knowledge, experience, length of service and performance of the Directors. On at least an annual basis each Director's intentions are discussed with regard to serving on the Board and their succession is considered in the context of the shape of the overall Board and the corporate governance guidance on NED tenure. This transparency amongst a small and collegiate Board allows for an open discussion about succession for each individual, both for short term emergency purposes as well as longer term retirement plans.

While all Board appointment processes and succession discussions are led by the Nominations Committee these are viewed as important whole-Board topics and no appointment will be made to the Board without unanimous agreement of all Directors.

Committee activities in 2011/12

NED search

Last year we stated that we were continuing to search for an additional Non-Executive Director to replace Nick Wharton. In February 2012 we were pleased to announce the appointment of Matt Davies as Non-Executive Director and Chair of the Audit Committee. We engaged an executive search firm to conduct this search on our behalf.

Matt's most recent executive role was as Chief Executive of Pets at Home. He held that position between 2004 and 2012, having joined the business as Group Finance Director in 2001. During his time at Pets at Home he developed the business significantly, organically through new store openings, through services, and by e-commerce. Prior to Pets at Home Matt was Finance Director of a distribution business within Caudwell Communications before which he worked in mergers and acquisitions. Matt began his career at Arthur Anderson where he qualified as a chartered accountant in 1995.

In our search for an additional Non-Executive Director to join the Board, the Nominations Committee set out a number of criteria, consistent with Dunelm's strategy and likely development. Matt matches these criteria very closely:

- Strong relevant experience in retail or similar business.
- An executive with up-to-date operational experience.
- Experience of the strategy and practical application of branding and marketing in a retail business.
- Relevant financial experience to chair the Audit Committee, but not only having had financial roles.
- Awareness of the particular culture of entrepreneurially led businesses, and of the challenges they face with rapid growth.

The Board also had regard to the requirement to achieve a diversity of characters, backgrounds and experiences amongst Board members. In particular, notwithstanding that there has been female representation on the Board since 2004, it asked its nominated search adviser to prioritise the presentation of suitably qualified women. Although females were equally represented on our shortlist, Matt was clearly the best candidate.

Board succession
As stated in last year's report, the committee is aware that both Geoff Cooper and I have served on the Board for more than six years since flotation of the Company, and that the Corporate Governance Code requires a careful consideration of our continued contribution, balanced against the value of refreshing Board membership. In the past financial year, in the context of the Chief Executive succession, we considered that maintaining Board stability outweighed other considerations. In addition Matt Davies has introduced another perspective to Board debate. The Nominations Committee and the Board have increased their focus on succession planning activities at Board level, and as a result we now have a formal plan for how Board membership should develop over the coming years, and we are taking actions to implement this.

Skills balance and Directors' Performance Evaluation
The Nominations Committee reviews Board composition and the balance of skills provided by the directors in a whole Board session each year. In 2012 we have repeated the detailed review conducted during 2010/11 of the skills that a company might require and each director has been assessed against these. The results of this have been incorporated into our Board succession plan.

In addition, the performance of all of the directors has been assessed individually. The Chairman of the Board led a process of collecting feedback on each director's performance and provided them with a one-to-one evaluation and discussion of training needs. As Senior Independent Director I collected feedback about the Chairman and provided him with an evaluation of his performance.

Diversity
In 2011 we set out the Board's policy on diversity which can be summarised as follows:

- Whilst confirming that our overriding concern is to ensure the Board comprises outstanding individuals who can lead the Company, we also believe the Company's best interests are served by ensuring that these individuals represent a range of skills, experiences, backgrounds and perspectives, including gender.
- Accordingly, it is our policy that the Board should always be of mixed gender.
- Quotas are not appropriate as a target for female representation on company Boards, since they are likely to lead to compromised decisions on Board membership, quality and size.
- We will seek to ensure that specific effort is made to bring forward female candidates for Board appointments.
- We will monitor the Company's approach to development to ensure that it continues to enable talented individuals, both male and female, to enjoy career progression activities within Dunelm.

Re-election of Directors
In accordance with the UK Corporate Governance Code, all Directors will seek re-election at the 2012 AGM.

This report was reviewed and approved by the Board on 13 September 2012.

Marion Sears
Chair of the Nominations Committee

Letter from the Chair of the Remuneration Committee

Dear Shareholder,

In the year to 30 June 2012, Dunelm performed well in a difficult retail market. The management team performed strongly and exceeded budget. I hope shareholders will appreciate their efforts under Nick Wharton who was in his first full year as Chief Executive.

We exceeded budget EPS by 6.7% and accordingly the Executive Directors will receive an annual bonus equivalent to 100% of the maximum opportunity. The compound annual growth rate in EPS over the last three years has exceeded RPI by more than 12%, therefore the LTIP award made to Will Adderley and David Stead in 2009 will vest in full. Nick Wharton participates in the LTIP but was not in the 2009 scheme as he became an executive in 2010. In accordance with best practice and a desire to be fully transparent we are publishing what has become known as 'the Single Number' for each of the Executive Directors and this can be found in the Remuneration Report, together with an explanation of the assumptions we have made in calculating this.

We have communicated more than ever with institutional shareholders this year and much of the discussion has focused on remuneration. We held a meeting for corporate governance analysts which we intend to repeat annually, we had meetings with voting advisory services, we held a number of one-to-one meetings between independent Directors and shareholders and, as usual, the independent Directors attended a selection of post-results shareholder meetings together with the executive team. We have noted the feedback, predominantly about base salaries, and been pleased with the recognition of our simple, transparent and straightforward remuneration policy.

Looking forward, in 2012/13 the Executive Directors will receive a 2% increase in base salary, in line with the company average. Will Adderley has declined this increase and will be paid the same base salary as last year. As a major shareholder, Will has also declined any future grants under the LTIP scheme so we will not be seeking a rule 9 waiver for this purpose at this year's AGM.

We have consciously sought to leave the remuneration structure unchanged this year following changes to the bonus and LTIP in 2010 and 2011 respectively. However, we have included a new claw back provision which covers unvested pay and details can be found in the Remuneration Report.

We are aware of an emerging issue that if Dunelm continues to grow as the market expects, inflation-linked base salaries will mean that our executive team reward will increasingly lag behind those of our peer group as our peer group changes. While we have a stated policy that fixed pay is 'median-or-below' and that variable pay is upper quartile, we do not wish to fall too far out of line. We will continue to monitor this and consider ways to ensure our executives are motivated and, most importantly, aligned with shareholders for long term value creation. We will not introduce any new elements of remuneration structure without consultation.

I look forward to meeting shareholders at the AGM in November.

Yours sincerely,

Marion Sears
Chair of the Remuneration Committee
13 September 2012

Remuneration report

The Directors present their Remuneration Report for the period ended 30 June 2012.

2011/12 summary
- **Significantly increased engagement with shareholders through direct meetings.**
- **Corporate governance presentation held in January 2012, to be repeated annually.**
- **No change to remuneration policy in the year except that pension contributions have been harmonised for all Executive Directors at 10% of base salary with effect from 1 January 2012.**
- **New LTIP quantum of 150%, approved by shareholders in 2011, with increased stretch performance criteria.**
- **Only David Stead received an increase to base salary (1.5%) during the period, in line with Group-wide pay award.**
- **Strong operating performance gives rise to cash bonus 100% payable in respect of the period to Nick Wharton, Will Adderley and David Stead.**
- **LTIP awards from 2009 vesting to Will Adderley and David Stead.**
- **Disclosure of single figure for the remuneration of each Executive Director. In 2011/12 total executive remuneration amounted to £3.2m.**
- **Required shareholding introduced for senior management group.**

Looking forward
- **Executive Directors awarded 2% increase to basic salary from July 2012 in line with Group-wide pay award (waived by Will Adderley).**
- **Policy will remain structured around low fixed proportion (30%) and high performance-related proportion (70%) of maximum earnings opportunity.**
- **Claw back to be introduced to cash bonus and unvested share awards from 2012/13.**
- **As a major shareholder, Will Adderley has indicated his wish not to participate in further conditional share awards under the LTIP scheme.**

Introduction
The Remuneration Committee has prepared this report in accordance with the requirements of Section 420 Companies Act 2006 and the Listing Rules. The report and the Group's remuneration policy comply with the UK Corporate Governance Code. An ordinary resolution to approve the report through a shareholder vote will be proposed at the Annual General Meeting.

The disclosures that the Group's auditors are required to audit within the Remuneration Report are contained in the section headed 'Audited Information'. The auditors' opinion is included in their report on page 49.

Non-audited information
Remuneration Committee membership and advisers
The purpose of the Committee is to assist the Board by:

- Recommending to the Board the specific pay and benefits packages for the Executive Directors.
- Recommending and monitoring the structure and level of pay and benefits for senior management below Board level; and
- Approving any awards made under share incentive schemes.

The full terms of reference for the committee can be found on the Company's website.

The following Directors served on the committee during the year:

Table 1 – Committee membership

Member	Period from:	To:
Marion Sears (Chair)	18 January 2005	To date
Geoff Cooper	18 January 2005	To date
Simon Emeny	25 June 2007	To date
Matt Davies[1]	8 February 2012	To date

[1] Matt Davies was appointed to the Board on 8 February 2012.

Marion Sears acts as Secretary to the Committee.

Remuneration report *continued*

Four meetings were held in the year and members' attendance was as shown in the table below.

Table 2 – Attendance at committee meetings

Member	Meetings attended:
Marion Sears (Chair)	4
Geoff Cooper	4
Simon Emeny	3
Matt Davies[1]	2

[1] Matt Davies has attended all committee meetings since his appointment.

No Director is ever present when their own remuneration is discussed.

During the year, the committee took advice from Deloitte in respect of the remuneration of the Executive Directors. Deloitte had no other connection with the Company in the last financial year.

Remuneration Committee role, responsibility and meetings

The Board has delegated to the Remuneration Committee responsibility for reviewing and recommending the pay and benefits and contractual arrangements of the Executive Directors, for monitoring the structure and level of pay and benefits for senior managers and for overseeing the operation of the Group's share schemes. The Remuneration Committee is committed to principles of accountability and transparency to ensure that remuneration arrangements demonstrate a clear link between performance and reward. The committee considers fully the principles and provisions of the UK Corporate Governance Code.

Executive remuneration policy

The Remuneration Committee's policy is to provide an executive remuneration structure that will pay fairly for the roles and responsibilities of each Director and incentivise strongly for value creation, with an emphasis on the long term. It is our intention to maintain a simple and transparent remuneration structure that does not frequently change.

Base salaries are set at, or below, the median for comparable companies and increases are expected to be in line with Group-wide awards unless merited by specific circumstances. In setting base salaries a retail peer group is considered within the FTSE 250 as well as industry wide surveys which cover the FTSE 250 and small-cap sector. It is our policy that base salary should comprise a minority of the total remuneration that an Executive Director can earn.

The opportunity is available for executives to earn a multiple of base pay if the Group delivers strong results. Potential performance pay currently comprises just over two thirds of maximum potential earnings at up to 2.5x base salary. It is set at the median for the annual cash bonus but in the upper quartile for the three-year Long Term Incentive Plan ('LTIP') in order to incentivise consistent above-market-average growth.

Policy alignment with corporate strategy

Our corporate strategy is centred around the growth and development of our specialist product offer, our stores, our multi-channel capability and our infrastructure. These are all long-term objectives and the Committee has, since IPO, structured senior executive remuneration in three specific ways: to be aligned in share ownership terms, to reward performance and to be focused on long term value creation. This is in keeping with the family origin of the business and is important to the Adderley family who remain our majority shareholders.

In view of this, required Director shareholdings are set at above market levels (two times base salary for Executive Directors) and senior executives will be highly rewarded on a market competitive basis for the delivery of stretching goals. However they will receive reduced rewards if the business performs less strongly.

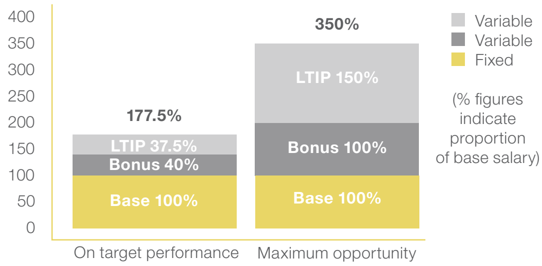
On an annual basis, around 70% of the maximum earnings opportunity is performance related and over 40% is measured on a three year cumulative performance. Our new CEO has an additional five-year LTIP award, which was approved by shareholders in 2010, which runs until 2015 and which aligns him to share price performance over and above the regular three year LTIP.

To strengthen further the alignment between management and long term business success, members of the Operating Board are required to build a shareholding equivalent to at least one times their base salary and other senior management who receive discretionary share awards are required to build a holding of 50% of their salary.

Balance of fixed and variable remuneration

As described above, the Remuneration Committee's policy is that a substantial proportion of the Executive Directors' remuneration should be variable and performance-related in order to encourage and reward superior business performance and shareholder returns. Through performance criteria and the setting of personal objectives each Director's remuneration is individually linked to both personal and Group performance. The following illustrates the balance between fixed and variable remuneration during the year for the Executive Directors:

Table 3 – Balance of fixed and variable remuneration



The breakdown does not include any share price growth or other benefits (e.g. cash car allowance, value of private medical insurance, pension contribution or all employee share ownership plans).

Summary of Remuneration

The Remuneration Committee selects performance measures that it believes are aligned with the Group's strategic goals, that are unambiguous and easy to calculate and that are transparent to Directors and shareholders.

Table 4 – Summary of Remuneration

Element	Purpose and link to remuneration policy	Maximum award	Key features
Base salary	• Reflects at or below median market salary for the individual and their role • Takes account of personal performance and contribution to corporate performance	N/A	• Paid monthly in cash • Based on individual contribution • Reviewed annually – any increase in context of Group wide review
Annual bonus	• Rewards the achievement of annual budget measured by EPS	100% of base salary	• Paid in cash after year end results are audited • No bonus paid if EPS is less than 95% of budget; maximum paid if EPS is 105% of budget • Payment conditional on satisfactory performance against personal job objectives, as judged by the Remuneration Committee • Will be subject to claw back from 2012/13
LTIP	• Aligns with shareholder interests through the delivery of shares • Rewards growth in long-term earnings and increase in shareholder value • Executive Directors required to build a holding equal to twice base salary over time	150% of base salary	• Based on EPS performance • Vests based on a three year performance period • Shares vesting may contribute to minimum shareholding requirement • Will be subject to claw back from 2012/13

Remuneration report *continued*

Further details are provided about each element of remuneration below.

Base salary and benefits
Prior to the beginning of each financial year the Remuneration Committee sets the base salaries of Executive Directors. The committee examines the salaries of Directors in a comparator retail peer group of public companies and also considers all-industry surveys for the FTSE 250 and small cap sectors. In addition the operational scale and complexity of the role each Director performs is discussed and adjustments are applied to reflect these. In setting base salaries any increase for Executive Directors is expected to be in line with Group-wide staff increases unless specific circumstances merit a different approach. Base salary comprises just under one third of the total potential remuneration that an Executive Director can earn.

In addition to base salary, the Executive Directors are entitled to benefits comprising a car allowance, a contribution of 10% of base salary to a personal pension, private medical insurance and life insurance.

Nick Wharton's base salary of £400,000 was set on his appointment in December 2010, with the first review due In July 2012. Accordingly Nick did not receive an increase in base salary in July 2011. Will Adderley waived any increase to his reduced salary of £265,000 during the year. In July 2011 David Stead was awarded an increase in base salary of 1.5%, in line with the pay increase across the Group, to £258,800.

Executive Directors have been awarded a 2% increase in basic salary from July 2012, in line with the Group-wide award. Will Adderley has waived this increase. Therefore, from July 2012 Nick Wharton's base salary is £408,000, Will Adderley's base salary is £265,000 and David Stead's base salary is £264,000.

Annual bonus
The Group operates a discretionary annual cash bonus scheme. Any bonus amounts determined to be payable are paid after the year-end results are finalised. The Remuneration Committee has established bonus objectives that are principally financial, based on the level of EPS achieved against budget target for the relevant financial year, but also include personal objectives for the year relevant to each Director.

For Nick Wharton and David Stead 100% of the annual bonus is calculated according to the performance against budget but may be adjusted at the discretion of RemCo depending on an individual's performance against personal objectives. For Will Adderley, 50% of the annual bonus is calculated according to the performance against budget and 50% is awarded for performance on strategic projects which are an important focus of his time.

The prospects for the market and the Company are considered when setting the budget EPS target for the year. In addition we have regard to both market consensus expectations for EPS and individual broker forecasts.

Table 5 – bonus parameters

	EPS performance (percentage of target)	Percentage of maximum bonus payable
Threshold	95%	5%
Target	100%	40%
Maximum	105%	100%

For the year ended 30 June 2012, the EPS budget target set by the Committee was 32.9p, an increase of 12.3% over the prior year. Market consensus for the period at the date the target was set was 32.6p. Reported EPS of 35.1p was 6.7% above target. After due consideration of job performance, the committee awarded an annual bonus to Nick Wharton of £400,000, to Will Adderley of £265,000 and to David Stead of £258,800.

Long-Term Incentive Plan ('LTIP')
Under the LTIP, Executive Directors are awarded nominal cost share options annually. These awards will vest three years after date of grant, to the extent that the applicable performance target is met.

If there is a change of control of the Company, any awards under the LTIP that have not yet vested will be exercisable, at the discretion of the Remuneration Committee taking into account the period of time that has elapsed since grant of the award, and to the extent that any performance target has been met.

The Remuneration Committee has chosen growth in fully diluted EPS over each three-year performance period as the performance target for the awards under the LTIP. The committee believes that this measure is closely aligned to the drivers of growth of the business, and that in the long term, EPS performance will be reflected in shareholder value. The committee is satisfied that capital expenditure controls exercised by the Board are sufficiently rigorous to avoid EPS accretion by means of ineffective investment of capital, and in any event reserves the right to adjust the target in the event of a major capital transaction.

The LTIP is structured as follows (awards vest on a straight-line basis between the threshold and maximum points):

Table 6 – LTIP performance parameters

	Compound Annual Growth in EPS		Amount of award to vest
Plan period	2009/2012 and 2010/2013	2011/2014 onwards	
Threshold	RPI + 3%	RPI + 3%	25%
Maximum	RPI + 12%	RPI + 15%	100%

The maximum point was increased for awards made from 2011 onwards, in line with the increase In maximum annual award to 150% of base salary. This was part of an overall review of Executive Directors' remuneration. It was explained fully in last year's annual report and approved by shareholders at the AGM in November 2011.

The committee meets after the results for each three-year performance period are available to determine the extent to which performance conditions have been satisfied. There is no retesting.

Awards cannot be granted to Executive Directors under the LTIP over Ordinary Shares in excess of 5% of the issued Ordinary Share capital in any rolling 10 year period.

Details of outstanding awards made to Executive Directors under the LTIP and awards made and exercised during the financial year are set out in tables 11 to 14 of this report.

The Remuneration Committee has reviewed the Company's EPS record over the three-year performance period which ended on 30 June 2012. Reported fully diluted EPS grew at a compound annual rate of 23.6%. This is 19.3% above the compound annual growth in RPI over the same period. Accordingly, 100% of the September 2009 LTIP award will vest in September 2012 representing 123,949 shares in favour of Will Adderley and 85,215 shares in favour of David Stead.

Nick Wharton, who became an Executive Director in December 2010, was not a participant of the 2009 LTIP and therefore does not receive any shares under the 2011/12 vesting.

The 2009 LTIP shares which vested in favour of Will Adderley and David Stead as described above are included in the single number for total remuneration for 2011/12 set out in table 10. Their value has been calculated using the average share price over the three months preceding the end of the performance period on 30 June 2012, which is 501p. See table 13 and the note to table 10 below.

Changes in policy

Annual bonus range – agreed in 2010/11, implemented in 2011/12

As noted in last year's report, with effect from 1 July 2011 we amended the bonus range for the annual performance bonus to 95%–105% of budget, compared with 93% to 112% previously. This narrower range is considered to be more appropriate for a larger company, and also harmonises the bonus structure for the Executive Directors with that of the Operating Board.

LTIP quantum – approved in 2010/11, implemented in 2011/12

In addition, as mentioned above, with the approval of shareholders at the AGM, the maximum potential annual award of nominal cost options under the LTIP was increased to 150% of base salary, compared with 120% previously. At the same time the performance target required to achieve the maximum award was made more stretching; compound annual growth rate in EPS over the plan period of between RPI+3% and RPI+15% is now required , compared to RPI+3% to RPI+12%. These new criteria apply to all awards made in 2011 and future years.

Future LTIP participation by Will Adderley

With effect from 1 January 2012, and in response to shareholder concerns about Will Adderley obtaining 'creeping control' of the company through vesting of share incentive awards, Will Adderley has indicated that he no longer wishes to receive further awards under the LTIP. He will be entitled to receive shares under existing awards, subject to performance criteria being met.

Pension payments

We decided to harmonise the pension contributions made to Executive Directors at 10% of basic salary. This is the entitlement of Nick Wharton. Previously Will Adderley and David Stead received a fixed contribution of £20,000 per annum, subject to annual review by the Committee. This change took effect from 1 January 2012, and so the payments will be as follows:

Table 7 – Executive Director pension entitlements

	Past	2011/12	2012/13 @ 10% base salary (based on salary from July 2012)
Nick Wharton	10% of base salary	£40,000	£40,800
Will Adderley	£20,000 pa	£23,250	£26,500
David Stead	£20,000 pa	£22,940	£26,400

There have been no other changes to remuneration policy during the year.

Remuneration report *continued*

Proposed future changes in policy

Claw back

From 2012 the committee has decided to introduce a claw back provision under which cash bonus entitlements and unvested LTIP awards made from 2012 onwards will not be paid in certain circumstances. Claw back will take place at the Remuneration Committee's discretion if:

- Performance to which a bonus or LTIP award relates proves to have been mis-stated; or
- There has been a mis-calculation in the extent to which performance conditions have been met in respect of previous awards made to the individual that have vested and been exercised; or
- Where there has been gross misconduct on the part of an individual.

Other share options

The Group operates an all-employee SAYE scheme in which Executive Directors are also entitled to participate after having been employed for three months.

Pension arrangements

The Remuneration Committee has decided not to use final salary pension plans as a way of remunerating its Executive Directors. Instead the Group contributes to the Executive Directors' personal pension plans. The Remuneration Committee believes this is an efficient way to assist Executives to prepare for retirement. When determining overall remuneration levels for an Executive, the Remuneration Committee takes account of contributions to pension plans.

As noted above in the section headed 'changes in policy', in January we decided to harmonise the sum paid by the company on a Director's behalf into a personal pension at 10% of salary.

Share ownership requirements

Executive Directors are required to build a shareholding equal to at least twice their base salary over time and shares vesting under the LTIP should be held for this purpose. Below Board level, members of the Operating Board are required to own shares equal to at least one times their base salary, to be accumulated over time; and other members of senior management in receipt of discretionary share incentives are required to build up a holding equal to 50% of their salary over time.

Non-Executive remuneration policy

Non-Executive Directors' remuneration is determined by the Executive Directors. The Non-Executive Directors do not receive bonuses or participate in any incentive plans. They are paid annual fees which reflect additional responsibilities taken when chairing a committee of the Board. Fees were reviewed and amended in the light of market practice in July 2010. The next review will be in July 2013.

Service contracts

In accordance with the Group's policy, the service contracts of the Executive Directors have no fixed term, the notice period for termination is 12 months from either party and payments on termination are restricted to a maximum of the value of salary for the notice period. The Remuneration Committee will apply mitigation rigorously in respect of any post remuneration payment.

The Non-Executive Directors have letters of appointment for an initial period of three years with a provision for termination of one month's notice from either party, or three months' notice from either party in the case of Geoff Cooper, the Chairman.

Table 8 – Directors' service contracts

	Date of contract	Unexpired term	Notice period
Nick Wharton	15 September 2010	N/A	12 months
Will Adderley	28 September 2006	N/A	12 months
David Stead	15 September 2003	N/A	12 months
Geoff Cooper	8 October 2004	13 months	3 months
Marion Sears	22 July 2004	10 months	1 month
Simon Emeny	25 June 2007	9 months	1 month
Matt Davies	8 February 2012	30 months	1 month

Senior Executive remuneration

The Remuneration Committee provides oversight and guidance on the remuneration structure for below Board management. The package for new appointments is formally presented to the committee for approval. In conducting its assessment of senior executive remuneration the committee pays particular regard to whether any individual is incentivised to take risks inappropriate to their role and responsibilities. In the finance function, managers are not remunerated against individual financial performance, but against corporate performance and personal qualitative objectives.

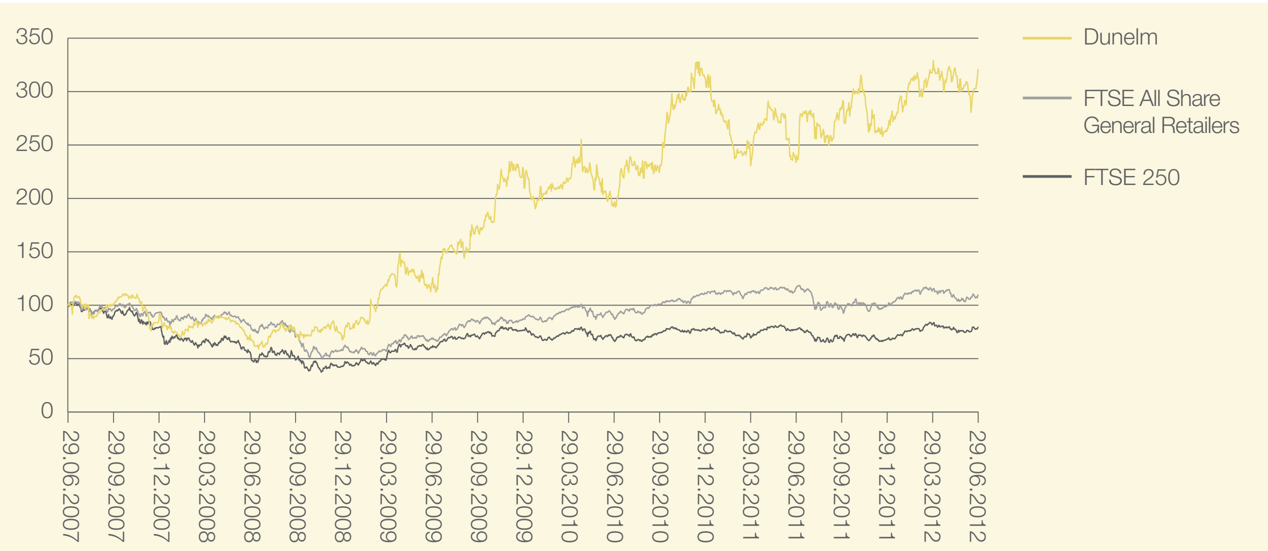
Share options and dilution

It is Group policy to comply with the provisions of the Association of British Insurers' Guidelines on Executive Remuneration when determining the number of shares over which share scheme incentive awards may be made. At the date of this report options have been granted over 1.15% of the Company's issued share capital.

Performance graph

The graph below shows the Group's performance over 5 years, measured by total shareholder return, compared with the FTSE General Retail Index and the FTSE 250. The Remuneration Committee has chosen these indices for comparison because they provide a range of comparator companies which have similar market capitalisation, which are in the same sector and which face similar market and economic challenges in the long term.

Table 9 – total shareholder return performance graph (re-based to 29 June 2007 = 100)



The shares traded in the range 393p to 533p during the year, and stood at 519p at 30 June 2012.

Audited information

Details of Directors' remuneration

Details of individual Directors' remuneration in respect of the year ended 30 June 2012 are as follows:

Table 10 – Directors' remuneration

	Base salary or fees £'000	Vehicle allowance £'000	Taxable benefits £'000	Contribution to personal pension £'000	Annual bonus £'000	Actual gain on SAYE exercise £'000	Realisable gain on share incentives vesting in 2012 (table 13)	2012 Total £'000	Realisable gain on share incentives vesting in 2011 (table 12)	2011 Total £'000
Executive Directors										
Nick Wharton	400	12	1	40	400	–	–	853	–	429
Will Adderley	265	12	1	23	265	–	621	1,187	1,144	1,494
David Stead	259	12	–	23	259	30	427	1,010	787	1,086
Non-Executive Directors										
Geoff Cooper	100	–	–	–	–	–	–	100	–	100
Marion Sears	40	–	–	–	–	–	–	40	–	40
Simon Emeny	30	–	–	–	–	–	–	30	–	30
Matt Davies[1]	12	–	–	–	–	–	–	12	–	–
Total	1,106	36	2	86	924	30	1,048	3,232	1,931	3,179

[1] Reflects fees since appointment on 8 February 2012.

Remuneration report *continued*

David Stead waived taxable benefits totalling approximately £1,000.

The realisable gain on LTIP awards vesting in the relevant financial period is calculated using the LTIP award whose performance period ends on the last day of the financial period being reported on (so for 2011/12, the LTIP award used is the 2009 award, with a performance period of July 2009 to June 2012 inclusive). The realisable value of the award is then calculated by multiplying the number of shares which will vest after applying the performance criteria, by the average share price for the three months ended on the last day of the performance period.

Directors' interests in share options

Long-Term Incentive Plan ('LTIP')
As at 30 June 2012, the Directors' beneficial interests in options granted under the LTIP, which (unless otherwise noted) will vest only if EPS performance conditions are met, are as follows:

Table 11 – Directors' interests in LTIP

Director	Date of award	Nature of award	Share options at 30 June 2012	End of performance period	Market price of shares at date of award
Nick Wharton	Dec 2010	One-off joining award	198,807	Nov 2015[1]	503p
	Dec 2010	2010/13 LTIP – 120% quantum (pro-rata to time served)	55,666	Jun 2013	503p
	Nov 2011	2011/14 LTIP – 150% quantum	139,211	Jun 2014	431p
Will Adderley	Sep 2009	2009/12 LTIP – 120% quantum	123,949	Jun 2012	316p
	Dec 2010	2010/13 LTIP – 120% quantum (pro rata salary 2010/11)	72,614	Jun 2013	503p
	Nov 2011	2011/14 LTIP – 150% quantum	92,227	Jun 2013	431p
David Stead	Sep 2009	2009/12 LTIP – 120% quantum	85,215	Jun 2012	316p
	Dec 2010	2010/13 LTIP – 120% quantum	60,835	Jun 2013	503p
	Nov 2011	2011/14 LTIP – 150% quantum	90,070	Jun 2014	431p

[1] The nominal cost options over 198,807 shares made to Nick Wharton on 1 December 2010 can only vest if he remains an employee for five years. There is no vesting entitlement if Nick leaves the company, for any reason, before 1 December 2015. This award was made in compensation for LTIP benefits left behind with Nick's previous employer and there are no other performance conditions attached to it.

LTIP options exercised during the period
The September 2008 award was in respect of the three-year performance period to 2 July 2011, over which the compound annual fully diluted growth in EPS was 21% (19% above RPI). Accordingly, 100% of the conditional nominal cost options awarded in September 2008 vested in September 2011. The entitlements were exercised by both Will Adderley and David Stead and details are set out below:

Table 12 – LTIP options exercised during 2011/12

Name	No of shares vested	Date of vesting	3 month average share price to 2 July 2011	Realisable gain on 2 July 2011 (end of performance period) £	Exercise date	Share price on exercise date	Actual gain on exercise date £
Will Adderley	259,459	18 Sep 2011	441p	1,144,214	11 Oct 2011	470p	1,219,457
David Stead	178,378	18 Sep 2011	441p	786,647	13 Oct 2011	474p	845,512

LTIP options to vest in 2012/13

The Remuneration Committee has reviewed the Company's EPS record over the three-year performance period which ended on 30 June 2012. Reported fully diluted EPS grew at a compound annual rate of 23.6%. This is 19.3% above RPI over the same period. Accordingly, 100% of the September 2009 LTIP award will vest in September 2012 and details are set out below:

Table 13 – Directors' LTIP options vesting in 2012/13

Name	No of shares to vest	Date of vesting	3 month average share price to 30 June 2012	Realisable gain on 30 June 2012 (end of performance period)
Will Adderley	123,949	24 Sep 2012	501p	£620,984
David Stead	85,215	24 Sep 2012	501p	£426,927

Other options

The Directors' beneficial interests in options granted under the savings related share plan (SAYE or sharesave) plan are as follows:

Table 14 – Directors' options under SAYE

Director	Type of option	Shares under option at 30 June 2012	Shares under option at 2 July 2011	Granted during period	Exercised during period	Lapsed during period	Exercise price per share	Market price of shares at date of exercise	Vesting date	Expiry date
Nick Wharton	SAYE 2012	2,493	–	2,493	–	–	361p	–	Jan 2015	Jun 2015
Will Adderley	SAYE 2009	–	7,710	–	–	7,710	124p	–	Jan 2012	Jun 2012
David Stead	SAYE 2009	–	7,710	–	7,710	–	124p	506.5p	Jan 2012	Jun 2012
	SAYE 2012	2,493	–	2,493	–	–	361p	–	Jan 2015	Jun 2015

David Stead exercised 7,710 shares under the 2009 sharesave on 22 February 2012. The closing share price on that date was 506.5p and so the actual gain made by him on that date was £29,491. Will Adderley waived his entitlement to exercise his options under this scheme and they lapsed on 30 June 2012.

The table above sets out the entire history of SAYE options granted to and exercised by Directors.

The Directors do not have entitlements under any other share based incentive plan.

Total remuneration figure

In line with developing requirements to set out total remuneration in a transparent way as a 'single number' we have included a Total Remuneration figure for each Executive Director in Table 10. This total includes all rewards that the Director received or will receive pertaining to the year being reported.

In the case of Dunelm our simple remuneration structure means that the total remuneration includes: base salary, value of benefits, pension contribution, cash bonus relating to the year, the actual value of SAYE options vesting and exercised in the year and the value of the (gross) LTIP shares vesting in respect of the performance period ended in the year, calculated using the average share price over the three months ended on the last day of the performance period (which we refer to in the tables as 'realisable value').

Total remuneration earned by the Executive Directors in 2011/12 was £3.0m and by the Non-Executive Directors was £0.2m. The total remuneration of all Directors was £3.2m.

Approval

This report was approved by the Board of Directors on 13 September 2012 and signed on its behalf by:

Marion Sears
Chair, Remuneration Committee
13 September 2012

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the European Union ('EU') and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility Statement
We confirm that to the best of our knowledge:

(a) The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
(b) the management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Geoff Cooper
Chairman
13 September 2012

Nick Wharton
Chief Executive

Independent Auditor's report to the members of Dunelm Group plc

We have audited the financial statements of Dunelm Group plc for the financial year ended 30 June 2012 set out on pages 50 to 78. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the EU and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 48, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ('APB's') Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 27 to 31 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 48, in relation to going concern
- the part of the Corporate Governance Statement on pages 27 to 31 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Wayne Cox
(Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Leicester
13 September 2012

Consolidated income statement

For the 52 weeks ended 30 June 2012

	Note	2012 £'000	2011 £'000
Revenue	1	**603,729**	**538,474**
Cost of sales		(311,992)	(280,125)
Gross profit		**291,737**	**258,349**
Operating costs	3	(196,537)	(175,051)
Operating profit	2	**95,200**	**83,298**
Financial income	5	1,048	523
Financial expenses	5	–	(172)
Profit before taxation		**96,248**	**83,649**
Taxation	6	(25,026)	(23,814)
Profit for the period attributable to equity shareholders of the parent		**71,222**	**59,835**
Earnings per ordinary share – basic	8	35.3p	29.7p
Earnings per ordinary share – diluted	8	35.1p	29.3p
Dividend proposed per ordinary share	7	10.0p	8.0p
Dividend paid per ordinary share	7	4.0p	3.5p

All activities relate to continuing operations.

Consolidated statement of comprehensive income

For the 52 weeks ended 30 June 2012

	2012 £'000	2011 £'000
Profit for the period	71,222	59,835
Effective portion of movement in fair value of cash flow hedges	343	147
Deferred tax on hedging movements	(90)	(50)
Total comprehensive income for the period	**71,475**	**59,932**

Consolidated statement of financial position

As at 30 June 2012

	Note	30 June 2012 £'000	2 July 2011 £'000
Non-current assets			
Intangible assets	9	3,238	4,692
Property, plant and equipment	10	146,313	125,850
Total non-current assets		**149,551**	130,542
Current assets			
Inventories	12	86,221	76,455
Trade and other receivables	13	17,054	14,566
Cash and cash equivalents	14	65,190	35,139
Total current assets		**168,465**	126,160
Total assets		**318,016**	256,702
Current liabilities			
Trade and other payables	15	(97,442)	(85,805)
Liability for current tax		(13,195)	(12,636)
Financial instruments	17	(56)	(398)
Total current liabilities		**(110,693)**	(98,839)
Non-current liabilities			
Deferred tax liability	11	(297)	(645)
Total non-current liabilities		**(297)**	(645)
Total liabilities		**(110,990)**	(99,484)
Net assets		**207,026**	157,218
Equity			
Issued capital	18	2,023	2,015
Share premium		1,025	681
Capital redemption reserve		43,155	43,155
Hedging reserve		(42)	(295)
Retained earnings		160,865	111,662
Total equity attributable to equity holders of the Parent		**207,026**	157,218

The financial statements on pages 50 to 68 were approved by the Board of Directors on 13 September 2012 and were signed on its behalf by:

Nick Wharton
Chief Executive

Consolidated statement of cash flows

For the 52 weeks ended 30 June 2012

	Note	2012 £'000	2011 £'000
Profit before taxation		96,248	83,649
Adjustment for net financing costs		(1,048)	(351)
Operating profit		95,200	83,298
Depreciation and amortisation		18,678	14,079
(Profit)/loss on disposal of property, plant and equipment		(15)	703
Operating cash flows before movements in working capital		113,863	98,080
(Increase) in inventories		(9,766)	(13,872)
(Increase) in receivables		(2,465)	(4,080)
Increase in payables		11,955	13,848
Net movement in working capital		(276)	(4,104)
Share-based payments expense		1,803	1,199
Foreign exchange gains/(losses)		218	(115)
		115,608	95,060
Interest paid		–	(29)
Interest received		756	507
Tax paid		(24,473)	(21,513)
Net cash generated from operating activities		**91,891**	74,025
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment		634	–
Acquisition of property, plant and equipment		(37,030)	(36,124)
Acquisition of intangible assets		(1,594)	(1,085)
Net cash utilised in investing activities		**(37,990)**	(37,209)
Cash flows from financing activities			
Proceeds from issue of share capital		346	101
Dividends paid		(24,248)	(17,119)
Net cash flows utilised in financing activities		**(23,902)**	(17,018)
Net increase in cash and cash equivalents		29,999	19,798
Foreign exchange revaluations		52	(28)
Cash and cash equivalents at the beginning of the period		35,139	15,369
Cash and cash equivalents at the end of the period	14	**65,190**	35,139

Consolidated statement of changes in equity

For the 52 weeks ended 30 June 2012

	Issued share capital £'000	Share premium £'000	Capital redemption reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
As at 3 July 2010	**2,010**	**580**	**43,155**	**(392)**	**67,335**	**112,688**
Profit for the financial year	–	–	–	–	59,835	59,835
Movement in fair value of cash flow hedges	–	–	–	147	–	147
Deferred tax on hedging movements	–	–	–	(50)	–	(50)
Total comprehensive income for the financial year	–	–	–	97	59,835	59,932
Issue of share capital	5	101	–	–	–	106
Treasury shares reissued in respect of share option schemes	–	–	–	–	(9)	(9)
Share-based payments	–	–	–	–	1,199	1,199
Deferred tax on share-based payments	–	–	–	–	(41)	(41)
Current corporation tax on share options exercised	–	–	–	–	462	462
Dividends	–	–	–	–	(17,119)	(17,119)
Total transactions with owners, recorded directly in equity	5	101	–	–	(15,508)	(15,402)
As at 2 July 2011	**2,015**	**681**	**43,155**	**(295)**	**111,662**	**157,218**
Profit for the financial year	–	–	–	–	71,222	71,222
Movement in fair value of cash flow hedges	–	–	–	343	–	343
Deferred tax on hedging movements	–	–	–	(90)	–	(90)
Total comprehensive income for the financial year	–	–	–	253	71,222	71,475
Issue of share capital	8	344	–	–	(6)	346
Treasury shares reissued in respect of share option schemes	–	–	–	–	–	–
Share-based payments	–	–	–	–	1,803	1,803
Deferred tax on share-based payments	–	–	–	–	(199)	(199)
Current corporation tax on share options exercised	–	–	–	–	631	631
Dividends	–	–	–	–	(24,248)	(24,248)
Total transactions with owners, recorded directly in equity	8	344	–	–	(22,019)	(21,667)
As at 30 June 2012	**2,023**	**1,025**	**43,155**	**(42)**	**160,865**	**207,026**

Accounting policies

Basis of preparation
The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'). The Parent Company financial statements present information about the Company as a separate entity and not about its Group.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs') and in accordance with the provisions of the Companies Act 2006 and these are presented on pages 50 to 68.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

The annual financial statements are prepared under the historical cost convention except where financial instruments have been stated at fair value. The financial statements are prepared in pounds sterling, rounded to the nearest thousand.

Going concern
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 different geographic areas. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current economic outlook. 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 Annual Report and financial statements.

Further information regarding the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Directors' Report and Business Review on pages 24 to 26. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Director's review on pages 12 and 13. In addition note 17 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk.

Use of estimates and judgements
The presentation of the annual 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 experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The key estimates and judgements used in the financial statements are as follows:

Inventory provisions
The Group provides against the carrying value of inventories held, based upon average losses incurred to clear old and discounted lines.

Dilapidations
The Group provides for the full estimated costs of any dilapidations on stores where required.

Taxation
There are transactions whose ultimate tax treatment is uncertain. The Group makes provision for anticipated tax issues based on the likelihood of whether additional taxes may arise. The Group recognises deferred tax assets and liabilities based on estimates of future taxable income and recoverability. If these estimates do not materialise or change, or there are changes in tax rates or to the period over which losses might be recognised, then the value of the deferred tax assets or liability will need to be revised in a future period.

Equity-settled share-based payments
Certain employees and Directors of the Group receive equity-settled remuneration in the form of equity-settled share-based payment transactions, whereby employees render services in exchange for shares or rights over shares. The cost equity-settled transactions with employees is measured by reference to the fair value, determined using an appropriate pricing model, at the date at which they are granted. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the non-market vesting conditions are expected to be fulfilled, ending on the relevant vesting date. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date is adjusted to reflect the Directors' best available estimate of the number of equity instruments that will ultimately vest based upon non-market conditions.

Accounting policies *continued*

Basis of consolidation
Subsidiaries
Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation
Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Revenue
Revenue represents the proceeds from sales of goods and related services. It excludes sales between Group companies and is after deducting returns, discounts given and VAT. For the majority of sales, revenue is recognised at the point of sale with the exception of custom made products, where revenue is recognised at the point that the goods are collected, and gift vouchers, where revenue is recognised when the vouchers are redeemed.

Foreign currencies
Transactions in foreign currencies are recorded at the prevailing rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated at the rates ruling at the balance sheet date. Resulting exchange gains or losses are recognised in the income statement for the period.

Intangible assets
These comprise software development and implementation costs and trademarks and are stated at cost less amortisation (see below).

Amortisation
Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of the asset. These are as follows:

- software development 3 years
- trademarks 5 years

Property, plant and equipment
Owned assets
Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation
Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- computer equipment 3 years
- freehold buildings 50 years
- fixtures and fittings 4 years
- motor vehicles 4 years
- office equipment 5 years
- plant and machinery 4 years
- leasehold improvements over the period of the lease

The residual value of an asset, if significant, is reassessed annually.

Current assets
Trade and other receivables
Trade and other receivables are initially recognised at fair value and then carried at amortised cost net of impairment provisions.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is derived using the average cost method and includes costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price less cost to sell in the ordinary course of business.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Bank borrowings and borrowing costs
Interest-bearing bank loans and overdrafts are recorded at the proceeds received.

Borrowing costs are recognised as an expense in the financial period in which they are incurred.

Borrowings are classed as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months from the balance sheet date.

Derivative financial instruments
Derivative financial instruments used are forward exchange contracts and are measured at fair value. The fair values are determined by reference to the market prices available from the market on which the instruments involved are traded.

Certain derivative financial instruments are designated as hedges in line with the Group's treasury policy. Cash flow hedges that hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecasted transaction.

For cash flow hedges that proportion of the gain or loss on the hedging instrument that is determined to be an effective hedge, as defined by IAS 39 'Financial Instruments: Recognition and Measurement', is recognised in equity, directly in the hedge reserve with any ineffective portion recognised in the income statement. Such hedges are tested, both at inception to ensure they are expected to be effective and periodically throughout their duration to assess continuing effectiveness. When the forecast transaction results in the recognition of a non-financial asset or liability, the associated gains or losses previously recognised in equity are included in the initial measurement of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedge cash flows affect the income statement.

Any gains or losses arising from changes in fair value derivative financial instruments not designated as hedges are recognised in the income statement.

Impairment
The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time-value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds the recoverable amount. Impairment losses are recognised in the income statement.

Share capital
Where the Company purchases its own equity share capital (treasury shares) the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received net of any directly attributable incremental transactions costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Provisions
A provision is recognised in the balance sheet when the Group has a current legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision for onerous contracts is recognised when the expected benefit to be derived by the Group from a contract is lower than the unavoidable costs of meeting its obligations under the contract.

Expenses
Property leases
Lease incentives received are recognised in the income statement evenly over the full term of the lease.

Where leases for land and buildings provide for fixed rent review dates and amounts, the Group accounts for such reviews by recognising, on a straight-line basis, the total implicit minimum lease payments over the non-cancellable period of the lease term.

Accounting policies *continued*

Financing income/expense
Financing income/expense comprises interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested and foreign exchange gains and losses.

Retirement benefits
The Group operates a defined contribution pension plan using a third-party provider. Obligations for the contributions to this plan are recognised as an expense in the income statement as incurred.

Share-based payment transactions
The Group operates an employee share save scheme open to all employees with over three months' service, enabling them to save money which may be used after three years to acquire shares in the Company at a predetermined price.

The Group also operates other share option schemes enabling certain employees to acquire shares of the Company.

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. Fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. Fair value is measured using the binomial model, taking into account the terms and conditions applicable to the options.

At each balance sheet date the Group revises its estimates of the number of share incentives that are expected to vest and amends the charge accordingly.

Dividends
Dividends are recognised as a liability in the period in which they are approved such that the Company is obligated to pay the dividend.

Taxation
Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax represents the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, together with any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be recognised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be recognised.

Adopted IFRS and IFRIC not yet applied
At the date of approval of these financial statements, the following standards, amendments and interpretations were in place but not yet effective:

IFRS 7	Revised IFRS 7	- Financial Instruments: Disclosure
IFRS 9	New standard	- Financial Instruments
IFRS 10	New standard	- Consolidated Financial Statements
IFRS 12	New standard	- Disclosure of Interests in Other Entities
IFRS 13	New standard	- Fair Value Measurement
IAS 32	Revised IAS 32	- Financial Instruments: Presentation

The above will be adopted in the Group and Company's financial statements when they become effective.

When adopted none of the above standards or amendments are expected to have any significant impact on the financial statements of the Group or Company.

IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement. The standard contains two primary measurement categories for financial assets:

- amortised cost; and
- fair value.

Notes to the annual financial statements

For the 52 weeks ended 30 June 2012

1 Segmental reporting

The Group has one reportable segment, retail of homewares.

The Chief Operating Decision Maker is Dunelm Group plc Board. Internal management reports are reviewed by them on a monthly basis. Performance of the segment is assessed based on a number of financial and non-financial KPI's as well as on profit before taxation.

All material operations of the reportable segment are carried out in the UK. The Group's revenue is driven by the consolidation of individual small value transactions and as a result Group revenue is not reliant on a major customer or group of customers.

Management believe that these measures are the most relevant in evaluating the performance of the segment and for making resource allocation decisions.

2 Operating profit

Operating profit is stated after charging the following items:

	2012 £'000	2011 £'000
Inventories		
Cost of inventories included in cost of sales	310,971	280,912
Movement on provisions for write down of inventories	1,021	(787)
Amortisation of intangible assets	2,445	1,909
Depreciation of owned property, plant and equipment	16,233	12,170
Operating lease rentals		
Land and buildings	28,287	25,493
Plant and machinery	1,310	1,522
(Profit)/loss on disposal of property, plant and equipment and intangible assets	(15)	703

The analysis of auditors' remuneration is as follows:

	2012 £'000	2011 £'000
Fees payable to the Company's auditors for the audit of the Parent and consolidated annual accounts	17	16
Fees payable to the Company's auditors and their associates for other services to the Group		
– audit of the Company's subsidiaries pursuant to legislation	58	56
– tax compliance	28	33
– other tax services	46	10

Total audit fees amounted to £75,000, fees for non-audit services amounted to £74,000.

3 Operating costs

	2012 £'000	2011 £'000
Selling and Distribution	162,097	147,392
Administrative	34,455	26,956
(Profit)/loss on disposal of property, plant and equipment and intangible assets	(15)	703
	196,537	175,051

4 Employee numbers and costs

The average number of people employed by the Group (including Directors) was:

	2012 Number of heads	2012 Full time equivalents	2011 Number of heads	2011 Full time equivalents
Selling	6,380	3,823	6,135	3,777
Distribution	290	283	261	252
Administration	241	235	228	223
	6,911	4,341	6,624	4,252

Notes to the annual financial statements *continued*

For the 52 weeks ended 30 June 2012

4 Employee numbers and costs *continued*

The aggregate remuneration of all employees including Directors comprises:

	2012 £'000	2011 £'000
Wages and salaries including bonuses and termination benefits	77,248	69,740
Social security costs	5,370	4,715
Share-based payment expense (note 20)	1,803	1,199
Defined contribution pension costs	426	282
	84,847	75,936

Details of Directors' remuneration, share options, long-term incentive schemes and pension entitlements are disclosed in the Remuneration Report on pages 39 to 47.

5 Financial income and expense

	2012 £'000	2011 £'000
Finance income		
Interest on bank deposits	778	523
Foreign exchange gains (net)	270	–
	1,048	523
Finance expenses		
Interest on bank borrowings and overdraft	–	(29)
Foreign exchange losses (net)	–	(143)
	–	(172)
Net finance income	1,048	351

6 Taxation

	2012 £'000	2011 £'000
Current taxation		
UK corporation tax charge for the period	26,342	24,610
Adjustments in respect of prior periods	(679)	(1,198)
	25,663	23,412
Deferred taxation		
Origination of temporary differences	(768)	(442)
Adjustment in respect of prior periods	131	844
	(637)	402
Total taxation expense in the income statement	25,026	23,814

The tax charge is reconciled with the standard rate of UK corporation tax as follows:

	2012 £'000	2011 £'000
Profit before taxation	96,248	83,649
UK corporation tax at standard rate of 25.5% (2011: 27.5%)	24,543	23,002
Factors affecting the charge in the period:		
Non-deductible expenses	78	179
Ineligible depreciation	1,206	1,035
Lease incentive deductions	(109)	(120)
Adjustments to tax charge in respect of prior years	(548)	(354)
Effect of standard rate of corporation tax change	(63)	(104)
(Profit)/loss on disposal of ineligible assets	(81)	176
	25,026	23,814

The taxation charge for the period as a percentage of profit before tax is 26.0% (2011: 28.5%).

A reduction in the UK corporation tax rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively.

6 Taxation *continued*
This will reduce the company's future current tax charge accordingly and further reduce the deferred tax liability at 30 June 2012 (which has been calculated based on the rate of 24% substantively enacted at the balance sheet date) by £12,000.

It has not yet been possible to quantify the full anticipated effect of the government's further 1% rate reduction to 22%, although this will further reduce the company's future current tax charge and reduce the company's deferred tax liability accordingly.

7 Dividends
All dividends relate to the 1p Ordinary Shares.

		2012 £'000	2011 £'000
Final for the period ended 3 July 2010	– paid 5.0p	–	(10,067)
Interim for the period ended 2 July 2011	– paid 3.5p	–	(7,052)
Final for the period ended 2 July 2011	– paid 8.0p	(16,158)	–
Interim for the period ended 30 June 2012	– paid 4.0p	(8,090)	–
		(24,248)	(17,119)

The Directors are proposing a final dividend of 10.0p per Ordinary Share for the period ended 30 June 2012 which equates to £20.2m. The dividend will be paid on 21 December 2012 to shareholders on the register at the close of business on 30 November 2012.

8 Earnings per share
Basic earnings per share is calculated by dividing the profit for the period attributable to equity shareholders by the weighted average number of Ordinary Shares in issue during the period.

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:

	52 weeks ended 30 June 2012 '000	52 weeks ended 2 July 2011 '000
Weighted average number of shares in issue during the period	201,968	201,394
Impact of share options	1,008	2,506
Number of shares for diluted earnings per share	202,976	203,900

9 Intangible assets

	Software development and licences £'000	Rights to Dorma brand £'000	Total £'000
Cost			
At 3 July 2010	3,529	5,036	8,565
Additions	1,399	–	1,399
Disposals	(3)	–	(3)
At 2 July 2011	4,925	5,036	9,961
Additions	1,590	4	1,594
Transfers from tangible assets	26	–	26
Disposals	(639)	–	(639)
At 30 June 2012	5,902	5,040	10,942
Amortisation			
At 3 July 2010	1,433	1,930	3,363
Charge for the financial period	902	1,007	1,909
Disposals	(3)	–	(3)
At 2 July 2011	2,332	2,937	5,269
Charge for the financial period	1,438	1,007	2,445
Disposals	(10)	–	(10)
At 30 June 2012	3,760	3,944	7,704
Net book value			
At 3 July 2010	2,096	3,106	5,202
At 2 July 2011	2,593	2,099	4,692
At 30 June 2012	2,142	1,096	3,238

Notes to the annual financial statements *continued*

For the 52 weeks ended 30 June 2012

9 Intangible assets *continued*

All additions were acquired and do not include any internal development costs.

Transfers relate to assets which were classified initially as fixtures and fittings and leasehold improvements.

10 Property, plant and equipment

	Land and buildings £'000	Leasehold improvements £'000	Plant and machinery £'000	Motor vehicles £'000	Fixtures and fittings £'000	Total £'000
Cost						
At 3 July 2010	52,882	57,204	476	53	29,934	140,549
Additions	13,806	12,004	1,166	–	9,148	36,124
Transfers to intangible assets and reclassifications	34	(34)	(14)	–	14	–
Disposals	(515)	(665)	(28)	(8)	(766)	(1,982)
At 2 July 2011	66,207	68,509	1,600	45	38,330	174,691
Additions	12,826	13,279	727	–	10,198	37,030
Transfers to intangible assets and reclassifications	–	25	14	–	(65)	(26)
Disposals	–	(347)	(23)	(26)	(294)	(690)
At 30 June 2012	79,033	81,466	2,318	19	48,169	211,005
Depreciation						
At 3 July 2010	3,517	16,954	139	53	17,287	37,950
Charge for financial period	896	5,032	242	–	6,000	12,170
On disposals	(127)	(413)	(2)	(8)	(729)	(1,279)
At 2 July 2011	4,286	21,573	379	45	22,558	48,841
Charge for financial period	1,794	6,051	497	–	7,891	16,233
On disposals	–	(160)	(6)	(26)	(190)	(382)
At 30 June 2012	6,080	27,464	870	19	30,259	64,692
Net book value						
At 3 July 2010	49,365	40,250	337	–	12,647	102,599
At 2 July 2011	61,921	46,936	1,221	–	15,772	125,850
At 30 June 2012	72,953	54,002	1,448	–	17,910	146,313

11 Deferred tax

Deferred tax is provided in full on temporary differences under the liability method using a taxation rate of 24% (2011: 26%).

Deferred taxation assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Property, plant and equipment	–	–	(1,331)	(1,670)	(1,331)	(1,670)
Other temporary differences	13	103	(83)	(155)	(70)	(52)
Share-based payments	1,104	1,077	–	–	1,104	1,077
	1,117	1,180	(1,414)	(1,825)	(297)	(645)

The movement in the net deferred tax balance is as follows:

	Balance at 3 July 2010 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 2 July 2011 £'000
Property, plant and equipment	(1,187)	(483)	–	(1,670)
Employee benefits	1,051	67	(41)	1,077
Short-term temporary differences	(16)	14	(50)	(52)
	(152)	(402)	(91)	(645)

	Balance at 2 July 2011 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 30 June 2012 £'000
Property, plant and equipment	(1,670)	339	–	(1,331)
Employee benefits	1,077	226	(199)	1,104
Short-term temporary differences	(52)	72	(90)	(70)
	(645)	637	(289)	(297)

12 Inventories

	2012 £'000	2011 £'000
Goods for resale	86,221	76,455

13 Trade and other receivables

	2012 £'000	2011 £'000
Trade receivables	345	454
Other receivables	2,969	2,159
Prepayments and accrued income	13,740	11,953
	17,054	14,566

All amounts fall due within one year. All trade receivables are current. No interest is charged on trade receivables, whilst these remain current.

14 Cash and cash equivalents

	2012 £'000	2011 £'000
Cash at bank and in hand	65,190	35,139

15 Trade and other payables

	2012 £'000	2011 £'000
Trade payables	30,156	36,709
Accruals and deferred income	53,773	42,695
Other taxation and social security	9,333	5,163
Other creditors	4,180	1,238
	97,442	85,805

All amounts fall due within one year. All trade payables are current. No interest is charged on trade payables, whilst these remain current.

16 Interest bearing loans and borrowings

The Group maintains a £10m overdraft facility. Interest is payable on funds utilised under the facility at the rate of 1.5% above the bank's base rate.

Financial assets at 30 June 2012 consisted of £345,000 (2011: £412,000) trade receivables and £65,190,000 (2011: £35,139,000) cash at bank and on deposit; interest earned is at normal commercial rates.

17 Financial risk management

The Board of Directors has overall responsibility for the oversight of the Group's risk management framework. A formal process for reviewing and managing risk in the business has been developed. A register of strategic and operational risks is maintained and reviewed quarterly by the Board, who also monitor the status of agreed actions to mitigate key risks.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers. The Group only deals with creditworthy counterparties, and uses publicly available financial information to rate its customers.

As the principal business of the Group is retail related, trade receivables consist of a relatively small number of customers, which tend to be charity or local authority based. The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and extreme circumstances. The Group manages this risk by continuously monitoring cash flow forecasts. The Group's available facilities can be found in note 16.

Group policy is that surplus funds are placed on deposit with counterparties approved by the Board, with a minimum of 'A' credit rating. Credit limits with approved counterparties are limited to £25m for any individual party.

Notes to the annual financial statements *continued*

For the 52 weeks ended 30 June 2012

17 Financial risk management *continued*

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income.

Interest rate risk

The Group's bank borrowings incur variable interest rate charges linked to LIBOR and Barclays Bank Base Rate. The Directors do not consider that future changes in interest rates are likely to cause a material direct impact on profitability. The Group's exposure to interest rates on financial assets and liabilities are detailed in note 16.

Foreign currency risk

The Group is exposed to foreign currency risk on purchases denominated in US dollars. These amounted to approximately 10% of the total stock purchases in the year ended 30 June 2012. The outstanding US dollar liabilities at the year end were $256,000 (2011: $353,000) and payments on account were $6,227,000 (2011: $4,141,000).

During the year the Group entered into exchange rate swaps for $41.6m to sell sterling and buy US dollars. These swaps are accounted for as cash flow hedges. During the year the net mark to market profit on foreign currency hedging instruments taken to equity was £0.3m (2011: £0.1m). At the balance sheet date the Group had 11 swap contracts outstanding with a maximum value of $40.1m.

All of the Group's revenues are in sterling. Purchases of promotional goods are generally in US dollars. Purchase of regular range goods are generally in sterling, although some lines are now being imported directly and paid for in dollars. We will cover exchange rate exposure on expected promotional product purchases up to a maximum of 100% of forecast purchases over a four month horizon. We will cover exchange rate exposure on expected regular range purchases up to a maximum of 50% of forecast purchases over a 12 month horizon. We will use various means to cover the above currency exposures; hold excess funds in US dollars, take out forward contracts for the purchase of US dollars, enter into forward rate options.

In the event of a significant adverse movement in the US dollar exchange rate, the Group would seek to minimise the impact on profitability by changing the selling price of goods.

Sensitivity analysis

The Group's principal foreign currency exposure is to the US dollar.

The Directors believe that an increase or decrease of 10% in the US dollar/sterling exchange rates would not have a material effect on the Consolidated Statement of Comprehensive Income.

The US dollar year end exchange rate applied in the above analysis is 1.5617 (2011: 1.6069). Strengthening and weakening of sterling may not produce symmetrical results depending on the proportion and nature of foreign exchange derivatives which do not qualify for hedge accounting.

Fair values

The fair value of the Group's financial assets and liabilities is not materially different from their carrying value. The fair value of foreign currency contracts are sums required by the counterparties to cancel the contracts at the end of the year.

Fair value hierarchy

Financial instruments 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.

Gains on cash flow hedges during the year amounted to £476,000 (2011: loss £284,000).

Capital management

The Board's objective with respect to capital management is to ensure the Group continues as a going concern in order to optimise returns to shareholders. The Board's policy is to retain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development. The Board regularly monitors the level of capital in the Group to ensure that this can be achieved.

From time to time the Group purchases its own shares on the market; the timing of these purchases depends on market prices. The shares are intended to be used for issuing shares under the Group's share option programmes. Buy and sell decisions are made on a specific transaction basis by the Board. The Group does not have a defined share buy-back plan.

17 Financial risk management *continued*

Capital management

The following table is a comparison by category of the carrying amounts and fair values of the Group's financial assets and liabilities at 20 July 2011 and 30 June 2012.

	2012 Carrying value £'000	2012 Fair value £'000	2011 Carrying value £'000	2011 Fair value £'000
Cash and cash equivalents	65,190	65,190	35,139	35,139
Trade receivables	345	345	454	454
Total financial assets	65,535	65,535	35,593	35,593
Trade payables	(30,156)	(30,156)	(36,709)	(36,709)
Forward exchange contracts – current	(56)	(56)	(398)	(398)
Total financial liabilities	(30,212)	(30,212)	(37,107)	(37,107)
Net financial liabilities	35,323	35,323	(1,514)	(1,514)

The fair value of trade receivables and trade payables are approximate to their carrying value.

The currency profile of the Group's cash and cash equivalents is as follows:

	2012 £'000	2011 £'000
Sterling	64,116	32,870
US dollar	878	1,526
Euro	196	743
	65,190	35,139

As at 30 June 2012, the analysis of trade receivables that were past due but not impaired is as follows:

	Total £'000	Neither past due nor impaired £'000	Less than 30 days £'000	31-60 days £'000	61-90 days £'000	More than 90 days £'000
2 July 2011	496	112	315	44	–	25
30 June 2012	345	30	296	–	3	16

18 Share capital

	Number of ordinary shares of 1p each 2012	Number of ordinary shares of 1p each 2011
In issue at the start of the period	201,490,108	201,040,148
Issued during the period in respect of share option schemes	765,140	449,960
In issue at the end of the period	202,255,248	201,490,108

Proceeds received in relation to shares issued during the period were £346,000 (2011: £101,000).

	2012 Number of shares	2012 £'000	2011 Number of shares	2011 £'000
Ordinary shares of 1p each:				
Allotted, called up and fully paid	202,255,248	2,023	201,490,108	2,015

19 Treasury shares

	2012 Number of shares	2012 £'000	2011 Number of shares	2011 £'000
Outstanding at beginning of year	–	–	99,628	128
Reissued during the period in respect of share option schemes	–	–	(99,628)	(128)
Outstanding at end of year	–	–	–	–

In the past the Company has acquired its own shares ('treasury shares') for the purpose of delivery to employees under employee share schemes. No such purchases were made during the financial year.

The Company did not reissue any treasury shares during the year. (2011: 99,628 treasury shares were reissued for a total consideration of £nil).

Notes to the annual financial statements *continued*
For the 52 weeks ended 30 June 2012

20 Share-based payments
As at 30 June 2012, the Group operated three share award plans:

a) Dunelm Group Share Option Plan ('GSOP')
b) Dunelm Group Savings Related Share Option Plan ('Sharesave')
c) Long-Term Incentive Plan ('LTIP')

There were 128,228 exercisable options in total under these schemes as at 30 June 2012.

a) Dunelm Group Share Option Plan
The GSOP was established in December 2003. Options have a vesting period of three years from date of grant and a maximum life of 10 years. All options granted prior to October 2006 have an exercise price equal to the market value as agreed with HMRC at date of grant; all subsequent grants have had an exercise price equal to market price at date of grant. There are no performance conditions but there is a requirement that the Group's shares be traded on a public exchange at date of exercise, and the awards are also subject to continued employment with the Group.

The fair value of services received in return for share options granted is measured by reference to the fair value of the options, assessed using a binomial model. The fair value per option granted and the assumptions used in the calculations are as follows:

	October 2010 grant
Fair value at measurement date	145.8p
Exercise price	420.0p
Expected volatility (weighted average volatility used in modelling – based on historical volatility of comparable quoted companies)	36%
Option life (weighted average life used in modelling)	3 years
Expected dividends	2.5%
Risk-free interest rate	1.7%

The number and weighted average exercise price of options under the GSOP is as follows:

	Weighted average exercise price 2012	Number of shares under option 2012	Weighted average exercise price 2011	Number of shares under option 2011
Outstanding at beginning of year	344.3p	136,495	203.8p	48,840
Granted during year	–	–	420.0p	100,000
Exercised during year	137.0p	(36,495)	–	–
Lapsed during year	–	–	405.0p	(12,345)
Outstanding at end of year	420.0p	100,000	344.3p	136,495

b) Dunelm Group Savings Related Share Option Plan
The Sharesave scheme was established in 2006 and is open to all staff with eligible length of service. One grant was made under the scheme during the year, in November 2011. Options may be exercised under the scheme on completion of the three year savings contract and must be exercised within six months from that date. There is provision for early exercise in certain circumstances such as death, disability, redundancy and retirement.

The fair value per option granted and the assumptions used in the calculations are as follows:

	October 2011	October 2010	October 2009	October 2008
Fair value at measurement date	160.2p	192.8p	180.4p	47.0p
Share price	503.5p	497.5p	376.3p	125.0p
Exercise price	361.0p	337.0p	253.0p	124.5p
Expected volatility (weighted average volatility used in modelling – based on historical volatility of comparable quoted companies)	31%	43%	57%	58%
Option life (weighted average life used in modelling)	3.5 years	3.5 years	3.5 years	3.5 years
Expected dividends	2.5%	2.5%	2.5%	2.5%
Risk-free interest rate	1.1%	1.7%	2.8%	3.0%
Forfeiture rate	48%	29%	10%	0%

20 Share-based payments *continued*

b) Dunelm Group Savings Related Share Option Plan

The number and weighted average exercise price of options outstanding under the Sharesave at 30 June 2012 is as follows:

	Weighted average exercise price 2012	Number of shares under option 2012	Weighted average exercise price 2011	Number of shares under option 2011
Outstanding at beginning of year	245.7p	870,612	190.4p	671,772
Granted during year	361.0p	325,879	337.0p	349,142
Exercised during the year	127.3p	(230,051)	139.2p	(64,207)
Forfeited during year	263.4p	(145,687)	252.4p	(86,095)
Outstanding at end of year	321.5p	820,753	245.7p	870,612

The weighted average share price at the time of exercise was 453.7p.

c) Long-Term Incentive Plan

The LTIP was approved by the Board in 2006 enabling the Group to award shares to particular individuals, normally in the form of nominal cost options. The LTIP is administered by the Remuneration Committee. Three grants were made in the year, to the Executive Directors, senior management and selected staff. The Executive Directors' and selected staff grants in October 2011 are exercisable in October 2014 and the Executive Directors' grant in November 2011 is exercisable in November 2014. The grant to the Executive Directors is dependent on the level of growth in Group EPS relative to RPI, as well as continuing employment. The grants to senior management and selected staff and the separate grant to Nick Wharton are dependent on continuing employment within the Group. The maximum life of options under the LTIP is 10 years from the date of grant. Full details of this plan are included in the Remuneration Report on pages 39 to 47.

The fair value of services received in return for share options granted is measured by reference to the fair value of the options.

This has been calculated as follows:

	December 2010	October 2010	December 2009	September 2009	September 2008
Share price at date of grant	500.0p	440.1p	313.0p	316.0p	148.0p
Discount factor, based on dividend yield of 2.5% to vesting date	0.927	0.927	0.330	0.913	0.889
Fair value of option	463.4p	407.9p	103.4p	288.5p	132.5p

	November 2011	October 2011	October 2011	December 2010
Share price at date of grant	431.0p	499.0p	451.0p	500.0p
Discount factor, based on dividend yield of 2.5% to vesting date	0.927	0.927	0.927	0.881
Fair value of option	399.8p	462.9p	408.3p	440.6p

The number and weighted average exercise price of options under the LTIP at 30 June 2012 is as follows:

	Weighted average exercise price 2012	Number of shares under option 2012	Weighted average exercise price 2011	Number of shares under option 2011
Outstanding at beginning of year	–	1,499,266	–	1,326,468
Granted during year	–	441,477	–	664,661
Exercised during year	–	(498,594)	–	(482,482)
Forfeited during year	–	(14,881)	–	(9,381)
Outstanding at end of year	–	1,427,268	–	1,499,266

The weighted average share price at the time of exercise was 473.6p.

The total expense recognised in the income statement arising from share-based payments is as follows:

	2012 £'000	2011 £'000
GSOP	45	61
Sharesave	337	240
LTIP	1,421	898
	1,803	1,199

Notes to the annual financial statements *continued*

For the 52 weeks ended 30 June 2012

21 Commitments

As at 30 June 2012 the Group had entered into capital contracts amounting to £15.3m. The equivalent figure as at 2 July 2011 was £21.8m.

The future minimum lease payments under non-cancellable operating leases were as follows:

	2012 Motor vehicles £'000	2012 Land and buildings £'000	2012 Plant and machinery £'000	2011 Motor vehicles £'000	2011 Land and buildings £'000	2011 Plant and machinery £'000
Within one year	552	31,005	287	414	27,566	380
In the second to fifth year inclusive	392	111,904	840	92	103,079	651
After five years	–	142,666	102	–	134,408	–
	944	285,575	1,229	506	265,053	1,031

The Group has 109 operating leases in respect of properties. These leases run for periods of up to 20 years, with an option to renew leases on expiry. Lease payments are typically reviewed every five years.

The Group also leases a number of vehicles, shop fittings and items of computer hardware under operating leases. These vary in length.

22 Contingent liabilities

The Group had no contingent liabilities at either period end date.

23 Related parties

Identity of related parties

The Group has related party relationships with its subsidiaries and with its Directors. Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation for the Group.

Key management personnel

The key management personnel of the Group comprise members of the Board of Directors and the executive team.

Directors of the Company and their immediate relatives control 31.0% of the voting shares of the Company.

Disclosures relating to remuneration of Directors are set out in the Remuneration Report on pages 39 to 47. The remuneration of the key management personnel (Executive Committee excluding Directors) of the Group is set out below:

	2012 £'000	2011 £'000
Salaries and other short-term benefits	1,753	1,086
Post-employment benefits	34	29
Share-based payments	217	186
	2,004	1,301

The Group has not entered into any transactions during the period with Bill Adderley, a major shareholder. In 2011 the aggregate value of these transactions was £1,750. These amounts were billed based on normal market rates for such supplies and payable under normal payment terms. No balances remain unsettled at either period end.

From time to time Directors of the Group, or their related entities, may purchase goods from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers and values involved are trivial.

24 Ultimate controlling party

The Directors consider that the Adderley family is the ultimate controlling party of Dunelm Group plc by virtue of their combined shareholding.

25 Subsequent events

The Board have announced an intention to return capital to the shareholders in November 2012 amounting to £65.8m (32.5p per share).

Parent Company statement of financial position

As at 30 June 2012

	Note	2012 £'000	2011 £'000
Non-current assets			
Investment in subsidiaries	4	47,500	46,719
Deferred tax asset	5	611	655
Total non-current assets		48,111	47,374
Current assets			
Trade and other receivables	6	168,949	89,886
Current tax asset		916	591
Total current assets		169,865	90,477
Total assets		217,976	137,851
Current liabilities			
Trade and other payables	7	(2,612)	(286)
Liability for current tax		–	–
Total current liabilities		(2,612)	(286)
Total liabilities		(2,612)	(286)
Net assets		215,364	137,565
Capital and reserves			
Issued capital	10	2,023	2,015
Share premium		1,025	681
Non-distributable reserves		2,345	1,564
Capital Redemption Reserve		43,155	43,155
Retained earnings		166,816	90,150
Equity shareholders' funds		215,364	137,565

The financial statements on pages 69 to 78 were approved by the Board of Directors on 13 September 2012 and were signed on its behalf by:

David Stead
Director
13 September 2012

Company number 4708277

Parent Company statement of cash flows

For the 52 weeks ended 30 June 2012

	2012 £'000	2011 £'000
Profit before tax	99,617	59,190
Adjusted for:		
Net financing costs	(5,223)	(2,061)
Operating profit	94,394	57,129
Operating cash flows before movements in working capital		
Increase in receivables	(79,063)	(41,976)
Increase/(decrease) in payables	2,325	(574)
Net movement in working capital	(76,738)	(42,550)
Investment income	(100,000)	(60,000)
Share-based payments expense	1,022	614
Cash flows from operating activities	(81,322)	(44,807)
Dividends received	100,000	60,000
Tax paid	–	(236)
Interest paid	–	(29)
Interest received	5,223	2,090
Net cash generated from operating activities	23,901	17,018
Cash flows from financing activities		
Proceeds from issue of share capital	347	101
Dividends paid	(24,248)	(17,119)
Net cash flows utilised in financing activities	(23,901)	(17,018)
	–	–
Net increase in cash and cash equivalents	–	–
Cash and cash equivalents at the beginning of the period	–	–
Cash and cash equivalents at the end of the period	–	–

Parent Company statement of changes in equity

For the 52 weeks ended 30 June 2012

	Issued share capital £'000	Share premium £'000	Merger reserve £'000	Capital redemption reserve £'000	Non-distributable reserve £'000	Retained earnings £'000	Total £'000
As at 3 July 2010	2,010	580	–	43,155	979	46,993	93,717
Profit for the financial year	–	–	–	–	–	59,385	59,385
Total comprehensive income for the financial year	–	–	–	–	–	59,385	59,385
Issue of share capital	5	101	–	–	–	–	106
Treasury shares reissued in respect of share option schemes	–	–	–	–	–	(9)	(9)
Share-based payments	–	–	–	–	585	614	1,199
Deferred tax on share-based payments	–	–	–	–	–	52	52
Current corporation tax on share options exercised	–	–	–	–	–	234	234
Dividends	–	–	–	–	–	(17,119)	(17,119)
Total transactions with owners, recorded directly in equity	5	101	–	–	585	(16,228)	(15,537)
As at 2 July 2011	2,015	681	–	43,155	1,564	90,150	137,565
Profit for the financial year	–	–	–	–	–	99,677	99,677
Total comprehensive income for the financial year	–	–	–	–	–	99,677	99,677
Issue of share capital	8	344	–	–	–	(6)	346
Treasury shares reissued in respect of share option schemes	–	–	–	–	–	–	–
Share-based payments	–	–	–	–	781	1,022	1,803
Deferred tax on share-based payments	–	–	–	–	–	(157)	(157)
Current corporation tax on share options exercised	–	–	–	–	–	378	378
Dividends	–	–	–	–	–	(24,248)	(24,248)
Total transactions with owners, recorded directly in equity	8	344	–	–	781	(23,011)	(21,878)
As at 30 June 2012	2,023	1,025	–	43,155	2,345	166,816	215,364

The non-distributable reserve's purpose is to reflect movements in share-based payments in respect of awards given by the Parent Company to employees of subsidiaries.

Accounting policies

Basis of preparation
The Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs') and as applied in accordance with the provisions of the Companies Act 2006.

The accounts of the Company are prepared under the historical cost convention, in accordance with the Companies Act 2006, applicable accounting standards and specifically in accordance with the accounting policies set out below.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Investments
Investments in subsidiary undertakings are stated at the adjusted cost of the investment, IFRIC 8 'Scope of IFRS 2 share-based payments' requires the Parent Company to recognise an increase in the cost of its investment in a subsidiary which has issued share options in the Parent Company's shares to its employees.

Current assets
Trade and other receivables
Trade and other receivables are initially recognised at fair value and then carried at amortised cost net of impairment provisions.

Bank borrowings and borrowing costs
Interest bearing bank loans and overdrafts are recorded at the proceeds received.

Borrowing costs are recognised as an expense in the financial period in which they are incurred.

Borrowings are classed as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months from the balance sheet date.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Where a Group Company enters into financial guarantee contracts to guarantee the indebtedness of other Group Companies within the Group, the Company considers these to be insurance arrangements for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable the Company will be required to make a payment under the guarantee.

Share capital
Where the Company purchases its own equity share capital (treasury shares) the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received net of any directly attributable incremental transactions costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Share-based payments
The Company operates three share option schemes details of which are set out in note 12.

The fair value of options granted is realised as an employee expense with a corresponding increase in equity. The fair value of employee services received in the subsidiaries under these schemes are recognised as an expense in the financial statements of the subsidiary undertakings which benefit from the employee services. The company has recognised the fair value of the share-based payments as an increase in equity with a corresponding adjustment to investments.

Fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. Fair value is measured using the binomial model, taking into account the terms and conditions applicable to the options.

At each balance sheet date the Company revises its estimates of the number of share incentives expected to vest. Any impact of this revision is recognised as an adjustment to equity with a corresponding adjustment to investments.

Dividends
Dividends are recognised as a liability in the period in which they are approved such that the Company is obligated to pay the dividend.

Taxation
Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax represents the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, together with any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be recognised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be recognised.

Adopted IFRS and IFRIC not yet applied
At the date of approval of these financial statements, the following standards, amendments and interpretations were in place but not yet effective:

IFRS 7	Revised IFRS 7	- Financial Instruments: Disclosure
IFRS 9	New standard	- Financial Instruments
IFRS 10	New standard	- Consolidated Financial Statements
IFRS 12	New standard	- Disclosure of Interests in Other Entities
IFRS 13	New standard	- Fair Value Measurement
IAS 32	Revised IAS 32	- Financial Instruments: Presentation

The above will be adopted in the Group and Company's financial statements when they become effective.

When adopted none of the above standards or amendments are expected to have any significant impact on the financial statements of the Group or Company.

IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement. The Standard contains two primary measurement categories for financial assets:

- amortised cost; and
- fair value.

Notes to the Parent Company financial statements

For the 52 weeks ended 30 June 2012

1 Income statement

The Company made a profit after tax of £99,677,000 (2012: £59,385,000). The Directors have taken advantage of the exemption available under section 408 Companies Act 2006 and have not presented an income statement for the Company alone.

The Company is not required to give details of the fees paid to its auditors in accordance with the Companies (Disclosure of Auditor Remuneration) Regulations 2005.

2 Employee costs

The Company has no employees other than the three Executive Directors. Full details of the Directors' remuneration and interest are set out in the Remuneration Report on pages 39 to 47, and share-based payments details in note 20 on pages 66 to 67.

3 Dividends

All dividends relate to the 1p Ordinary Shares.

	2012 £'000	2011 £'000
Final for the period ended 3 July 2010 – paid 5.0p	–	(10,067)
Interim for the period ended 2 July 2011 – paid 3.5p	–	(7,052)
Final for the period ended 3 July 2011 – paid 8.0p	(16,158)	–
Interim for the period ended 30 June 2012 – paid 4.0p	(8,090)	–
	(24,248)	(17,119)

The Directors are proposing a final dividend of 10.0p per Ordinary Share for the period ended 30 June 2012 which equates to £20.2m. The dividend will be paid on 21 December 2012 to shareholders on the register at the close of business on 30 November 2012.

4 Investments

Shares in subsidiary undertakings.

	£'000
As at 3 July 2010	46,134
Share-based payments	585
As at 3 July 2011	46,719
Share-based payments	781
As at 30 June 2012	47,500

Principal subsidiaries

The following are the principal subsidiaries as at the end of the year:

Subsidiary	Proportion of ordinary shares held	Nature of business
Dunelm (Soft Furnishings) Limited	100%	Retailer of soft furnishings
Dunelm Estates Limited	100%	Property holding company

Both of the above subsidiaries and the Parent Company are registered and operate in England and Wales.

5 Deferred tax assets

	Assets	
	2012 £'000	2011 £'000
Employee benefits	611	655

The movement in deferred tax assets is as follows:

	Balance at 3 July 2010 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 2 July 2011 £'000
Employee benefits	630	(27)	52	655

	Balance at 2 July 2011 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 30 June 2012 £'000
Employee benefits	655	113	(157)	611

5 Deferred tax assets *continued*

Deferred tax assets are recognised for other temporary differences to the extent that the realisation of the related tax benefit through future taxable profits is probable.

6 Trade and other receivables

	2012 £'000	2011 £'000
Amounts owed by subsidiary undertakings	168,912	89,848
Prepayments and accrued income	37	38
Other taxation and social security	–	–
	168,949	89,886

Amounts owed by subsidiary undertakings are immediately repayable. Interest is charged monthly on all intercompany balances at an annual rate of 5.25%.

7 Trade and other payables

	2012 £'000	2011 £'000
Trade payables	24	39
Accruals and deferred income	2,388	196
Other taxation and social security	180	31
Other creditors	20	20
	2,612	286

8 Interest bearing loans and borrowings

	2012 £'000	2011 £'000
Bank overdraft	–	–
	–	–

On 7 February 2012 the Company entered into a £10m overdraft facility. Interest is payable on funds utilised under the facility at the rate of 1.5% above the banks' base rate.

9 Financial risk management

Capital management

The following table is a comparison by category of the carrying amounts and fair values of the Company's financial assets and liabilities at 30 June 2012 and 2 July 2011.

	2012 Carrying value £'000	2012 Fair value £'000	2011 Carrying value £'000	2011 Fair value £'000
Subsidiary loans	168,912	168,912	89,848	89,848
Total financial assets	168,912	168,912	89,848	89,848
Trade payables	(24)	(24)	(39)	(39)
Total financial liabilities	(24)	(24)	(39)	(39)
Net financial assets	168,888	168,888	89,809	89,809

The fair value on subsidiary loans and trade payables are approximate to the carrying value.

The currency profile of the Company's net debt is as follows:

	2012 £m	2011 £m
Sterling	–	–
	–	–

Notes to the Parent Company financial statements *continued*

For the 52 weeks ended 30 June 2012

10 Share capital

	Number of ordinary shares of 1p each 2012	Number of ordinary shares of 1p each 2011
In issue at the start of the period	201,490,108	201,040,148
Issued during the period in respect of share option schemes	765,140	449,960
In issue at the end of the period	202,255,248	201,490,108

Proceeds received in relation to shares issued during the period were £343,000 (2011: £101,000).

	2012 Number of shares	2012 £'000	2011 Number of shares	2011 £'000
Ordinary Shares of 1p each				
Allotted, called up and fully paid	202,255,248	2,023	201,490,108	2,015

The holders of the Ordinary Shares are entitled to receive dividends as declared and are entitled to one vote per share.

11 Treasury shares

	2012 Number of shares	2012 £'000	2011 Number of shares	2011 £'000
Outstanding at beginning of year	–	–	99,628	128
Reissued during the period in respect of share option schemes	–	–	(99,628)	(128)
Outstanding at end of year	–	–	–	–

In the past the Company has acquired its own shares ('treasury shares') for the purpose of delivery to employee share schemes. No such purchase was made during the year.

The Company did not reissue any treasury shares during the year (2011: 99,628) treasury shares for a total consideration of £nil.

The Company has the right to reissue the remaining treasury shares at a later date.

12 Share-based payments

As at 30 June 2012, the Company operated two share award plans:

a) Dunelm Group Share Option Plan ('GSOP')
b) Long-Term Incentive Plan ('LTIP')

There were no exercisable options as at 30 June 2012.

a) Dunelm Group Share Option Plan

The GSOP was established in December 2003. Options have a vesting period of three years from date of grant and a maximum life of 10 years. All options granted prior to IPO have an exercise price equal to the market value as agreed with HMRC at date of grant; there have been no further grants since IPO. There are no performance conditions but there is a requirement that the Group's shares be traded on a public exchange at date of exercise, and the awards are also subject to continued employment with the Group.

The fair value of services received in return for share options granted is measured by reference to the fair value of the options, assessed using a binomial model. The fair value per option granted and the assumptions used in the calculations are as follows:

	October 2010 grant
Fair value at measurement date	145.8p
Exercise price	420.0p
Expected volatility (weighted average volatility used in modelling – based on historical volatility of comparable quoted companies)	36%
Option life (weighted average life used in modelling)	3 years
Expected dividends	2.5%
Risk-free interest rate	1.7%

12 Share-based payments *continued*

a) Dunelm Group Share Option Plan

The number and weighted average exercise price of options under the GSOP is as follows:

	Weighted average exercise price 2012	Number of shares under option 2012	Weighted average exercise price 2011	Number of shares under option 2011
Outstanding at beginning of year	–	–	–	–
Exercised during year	–	–	–	–
Outstanding at end of year	–	–	–	–

b) Long-Term Incentive Plan

The LTIP was approved by the Board prior to IPO enabling the Company to award shares to particular individuals, normally in the form of nominal cost options. The LTIP is administered by the Remuneration Committee. Two grants have been made in the year, to the Executive Directors and Nick Wharton, the Executive Director's grant is exercisable in December 2013 depending on the level of growth in Group EPS relative to RPI, the grant awarded to Nick is exercisable in December 2015 and dependent on continuing employment. The maximum life of options under LTIP is 10 years from the date of grant. Full details of this plan are included in the Remuneration Report on pages 39 to 47.

The fair value of services received in return for share options granted is measured by reference to the fair value of the options.

This has been calculated as follows:

	December 2010	September 2009	September 2008
Share price at date of grant	500.0p	316.0p	149.0p
Discount factor, based on dividend yield of 2.5% to vesting date	0.927	0.913	0.889
Fair value of option	463.4p	288.5p	132.5p

	November 2011	October 2011	December 2010
Share price at date of grant	431.0p	499.0p	500.0p
Discount factor, based on dividend yield of 2.5% to vesting date	0.927	0.927	0.881
Fair value of option	399.8p	462.9p	440.6p

The number and weighted average exercise price of options under the LTIP at 30 June 2012 is:

	Weighted average exercise price 2012	Number of shares under option 2012	Weighted average exercise price 2011	Number of shares under option 2011
Outstanding at beginning of year	–	1,034,923	–	964,923
Granted during year	–	321,508	–	387,922
Exercised during year	–	(437,837)	–	(317,922)
Lapsed during year	–	–	–	–
Outstanding at end of year	–	918,594	–	1,034,923

The total expense recognised in the income statement arising from share-based payments is as follows:

	2012 £'000	2011 £'000
LTIP	1,022	614
	1,022	614

Notes to the Parent Company financial statements *continued*

For the 52 weeks ended 30 June 2012

13 Contingent liability

The Company and certain subsidiaries have given joint and several guarantees in connection with all bank facilities provided by the Group's principal bankers.

The Group's banking facilities are subject to a netting facility whereby credit balances may be offset against indebtedness of other Group companies.

14 Related party disclosure

The amount due to the Company from subsidiary undertakings is set out in note 6. Transactions between the Company and its subsidiaries were as follows:

	2012 £'000	2011 £'000
Cash paid to Group undertakings	(26,590)	(20,303)
Cash received from Group undertakings	432	192
Dividends received	100,000	60,000
Net interest receivable	5,223	2,090

Advisers

Corporate Brokers and Financial Advisers	**UBS Investment Bank** 1 Finsbury Avenue London EC2M 2PP Tel: 020 7567 8000
	Oriel Securities Limited 150 Cheapside London EC2V 6ET Tel: 020 7710 7600
Legal Advisers	**Allen & Overy LLP** One Bishops Square London E1 6AO Tel: 020 3088 0000
Auditor	**KPMG Audit Plc** 1 Waterloo Way Leicester LE1 6LP Tel: 0116 256 6000
Principal Bankers	**Barclays Bank plc** Midlands Corporate Banking PO Box 333 15 Colmore Row Birmingham B3 2WN Tel: 0845 755 5555
Registrars	**Equiniti** Aspect House Spencer Road Lancing West Sussex BN99 6DA Tel: 0871 384 2030
Financial Public Relations	**MHP Communications** 60 Great Portland Street London W1W 7RT Tel: 020 3128 8100

Notes

Designed and produced by **Emperor Design Consultants Ltd**
Telephone **+44 (0)121 262 3830 www.emperordesign.co.uk**

www.dunelm-mill.com

Tel: 0116 264 4356
Email: investorrelations@dunelm-mill.co.uk

Dunelm Group plc Annual report & accounts 2012