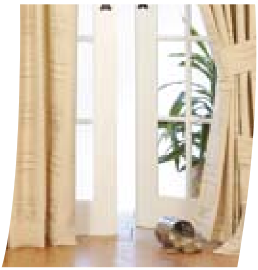
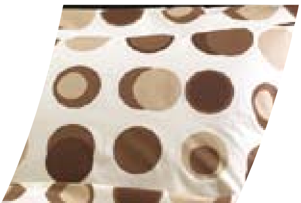




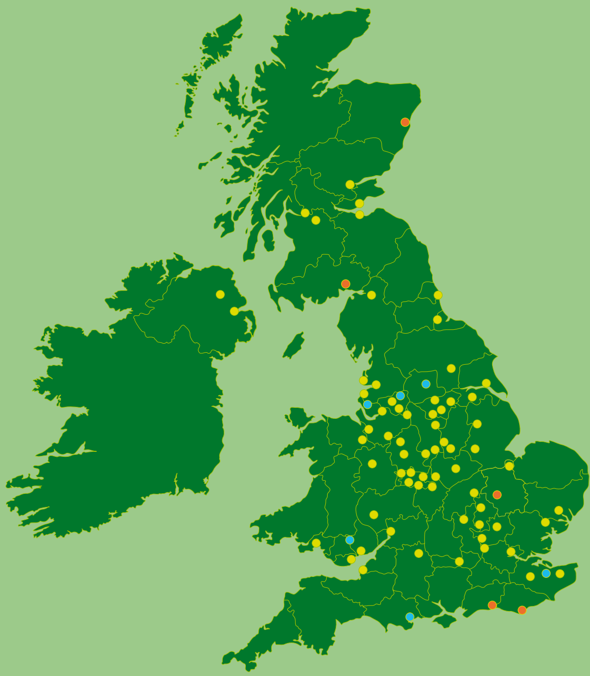
Dunelm Group plc | Interim report 2007

simply value for money...

Dunelm is a fast growing specialist out-of-town homewares retailer which provides a comprehensive range of products to a wide customer base, under the brand name Dunelm Mill.

CONTENTS

CURRENT SUPERSTORE PORTFOLIO



- = Superstores open as at 30 June 2007
- = Superstores opened since 30 June 2007
- = Superstores committed to at 27 February 2007

Dunelm Group plc is a company incorporated and domiciled in England with registered office Fosse Way, Syston, Leicestershire LE7 1NF and registered number 4708277.

Chairman's statement | Geoff Cooper

simply delivering...

I am delighted to report that Dunelm has continued to deliver strong performance through the first half of the 2007/08 financial year.

Dunelm has traded strongly in the first half of the financial year, delivering sales and profit growth, generating a healthy positive cash flow and at the same time continuing to invest in longer term growth through a successful new store opening programme. This is particularly pleasing given the difficult consumer and global economic background over the period as well as a significant number of gloomy statements from or about individual retailers and the retail sector generally.

I believe that this performance again demonstrates the strength of Dunelm's business model: well-stocked stores in out of town locations offering the widest range of home textiles and homewares in the UK, always at value for money prices, supported by a diverse and committed group of product suppliers; by first class teams within the business; and by a cost-effective and scaleable infrastructure. In essence this is a simple formula, but it works because the management team retain such a strong focus on execution. Everything is geared towards giving customers the value for money which they deserve.

I cannot allow this moment to pass without commenting on the career of Bill Adderley, co-founder of Dunelm with his wife Jean. Bill has chosen to step down from the Board with effect from the end of this month. It is thanks to his vision and flair that the business was created and has developed to its current position. For me personally it has been a privilege to follow in Bill's footsteps as Chairman. I have greatly appreciated his guidance over the last three years and his contributions to the Board have been invaluable. I am delighted to announce that Bill will continue to be associated with the business as Founder and Life President after stepping down from the Board. On behalf of all shareholders I would like to wish both Bill and Jean a long and happy retirement.

GEOFF COOPER
CHAIRMAN
27 February 2008

Chief Executive's review | Will Adderley

simply value for money...

1.
Total Sales
+ 10.6%

2.
Operating Profit
+ 16.3%

3.
Earnings Per Share
+ 21.1%

OVERVIEW

Dunelm continues to go from strength to strength. According to data from Verdict, the market research agency, the homewares market as a whole grew by 3.4% in 2007. Our own growth was in double digits, so that we gained market share faster than any other major player. In a sector which remains fragmented, our share of 3.8% puts us in joint fifth place, excellent progress when compared with our share of under 2% as little as five years ago.

We have achieved this growth by staying true to what Dunelm stands for – 'simply value for money'. We want all of our customers to feel they are getting good value from us, whether they are buying a set of face cloths for 99p or spending hundreds of pounds on having curtains custom made and fitted in their home. We believe that this proposition appeals to all segments of the population, as evidenced in the recent Customer Satisfaction Index research by Verdict in which we were voted the UK's third favourite retailer.

FINANCIAL PERFORMANCE

During the period, sales grew by 10.6% to £197.4m (2006: £178.4m), with a like-for-like increase of 4.9%.

Product gross margin increased by 80 basis points. Selling prices remained stable after many years of price deflation, and we continued to experience improvements in bought in costs due to our increasing volumes.

Operating profit grew significantly to £27.6m. This was 40% higher than last year's statutory operating profit, and 16.3% higher on an underlying basis (we added back £4.0m of non-recurring costs to last year's statutory operating profit of £19.7m, to show an underlying operating profit of £23.7m).

One of the core strengths of Dunelm remains our low cost operating model. This is reflected in our operating margin of 14.0% in the first half, up by 70 basis points. We believe this keeps us firmly in the top tier of UK retailers.

Profit before tax was £27.2m, an increase of 24.4% over the £21.9m recorded in the equivalent period last year on an underlying basis.



Profit after tax reflects the projected full year effective tax rate of 31.5%.

Fully diluted earnings per share were 9.2p, an increase of 21.1% against last year's underlying figure of 7.6p.

Net cash generated from operations (after interest and tax) was £39.7m. Despite the addition of new stores, stock levels were actually reduced during the period as we saw the benefit of managing lines in the new warehouse more efficiently.

Creditors increased by £17.3m reflecting short term timing on payments; we continue to pay our suppliers in accordance with agreed terms. We made capital investments of £13.1m during the period, including the acquisition of a freehold site at Leeds.

Net debt reduced from £22.6m at the start of the period to £1.8m at the end.

An interim dividend of 2.0p per share will be paid on 23 April to shareholders on the register at 4 April.

NEW STORE OPENINGS

During the period we opened new superstores in Shoreham, Aberdeen, Peterborough, Eastbourne and Dumfries. We therefore ended the period with 86 stores, of which 73 are out of town superstores. Since then, we have opened superstores in Leeds and Bournemouth with Sittingbourne to follow shortly.

We monitor customer reaction to our new openings carefully, and we continue to see a very positive response in all locations. This gives us further confidence that we can expand the chain to at least 150 superstores across the UK. We intend to roll out as rapidly as we can, subject to the overriding requirement that new store appraisals must pass our rigorous financial hurdle (ie expected to pay back, on a discounted cash flow basis, within 36 months from opening).

We believe that the dynamics of the retail warehouse market are currently in favour of strong occupiers and this is reflected in a healthy pipeline of potential new sites for opening in the next financial year – with agreements already signed for units in four locations. In order to secure attractive locations for further expansion, we will consider acquiring freehold units where we see an appropriate development opportunity.

SPECIALIST OFFER

Our 'simply value for money' proposition remains at the heart of all we do, and we are constantly striving to improve the offer for customers. We continue to introduce new products in a controlled way across all areas of the store, and we have further strengthened the offer in recent months by giving a particular focus to availability of best-selling lines.

INFRASTRUCTURE

The new warehouse facility at Stoke, commissioned in 2006, has operated smoothly through the winter trading period and has provided a high quality of service to our stores.

With our new stock management system now rolled out to all stores, we have much better information to control stock levels than ever before. An early win has been to identify old discontinued stock, allowing us to clear this aggressively in our winter sale. We will continue to exploit information from SAP to manage our stocks more efficiently.

Chief Executive's review | Will Adderley continued



LONGER TERM OPPORTUNITIES

We recognise the growing importance of the internet as a channel not only for sales, but also for customer communication. Our on-line offering has developed significantly since it was launched two years ago and even though e-commerce remains a small part of our business at present, we do now have over 9,000 products available for purchase on the web. We intend to improve the functionality of the site and to relaunch it later this calendar year.

OUTLOOK

The business has continued to grow in the eight weeks to 23 February with sales up by 11.2% in total and 0.9% on a like-for-like basis.

We have recently seen weaker consumer demand, and we anticipate that trading in the second half will prove tougher than in the first. However, we believe that our business model will stand us in good stead during periods of market weakness, as it has done in the past. Customers can easily trade up or down in our stores and the average spend per transaction (under £30) is relatively low so, for most people, a trip to Dunelm does not represent a major outlay. With a very strong balance sheet and low operational gearing, we are financially very robust and will continue to invest in the growth of the business.

WILL ADDERLEY
CHIEF EXECUTIVE
27 February 2008

Consolidated income statement (unaudited)

For the 26 weeks ended 29 December 2007

	NOTE	**26 WEEKS ENDED 29 DECEMBER 2007 £'000**	26 WEEKS ENDED 30 DECEMBER 2006 £'000	52 WEEKS ENDED 30 JUNE 2007 £'000
Revenue	2	**197,361**	178,434	354,721
Cost of sales		**(161,053)**	(147,424)	(297,481)
Gross profit		**36,308**	31,010	57,240
Administrative expenses ongoing		**(8,727)**	(7,289)	(13,247)
Administrative expenses non-recurring (relating to IPO and warehouse transition)		**–**	(4,015)	(3,178)
Total administrative expenses		**(8,727)**	(11,304)	(16,425)
Operating profit		**27,581**	19,706	40,815
Analysed as:				
Operating profit before non-recurring items		**27,581**	23,721	43,993
Non-recurring items		**–**	(4,015)	(3,178)
Financial income		**608**	103	503
Financial expenses		**(965)**	(1,947)	(3,492)
Profit before taxation		**27,224**	17,862	37,826
Taxation	4	**(8,574)**	(6,108)	(13,198)
Profit for the period		**18,650**	11,754	24,628
Earnings per share – basic	5	**9.3p**	5.9p	12.3p
Earnings per share – diluted	5	**9.2p**	5.8p	12.2p
Dividend proposed per share	6	**2.0p**	0.8p	3.0p
Dividend paid per share	6	**3.0p**	25.0p	25.8p

All activities relate to continuing operations. All profit is attributable to equity shareholders.

Consolidated balance sheet (unaudited)

As at 29 December 2007

	29 DECEMBER 2007 £'000	30 DECEMBER 2006 £'000	30 JUNE 2007 £'000
Non-current assets			
Intangible assets	**2,720**	3,893	3,668
Property, plant and equipment	**76,272**	67,392	67,064
Deferred tax asset	**1,390**	2,231	3,276
Total non-current assets	**80,382**	73,516	74,008
Current assets			
Inventories	**59,775**	66,471	60,657
Trade and other receivables	**12,494**	11,336	8,996
Cash and cash equivalents	**18,209**	7,551	17,368
Assets held for sale	**–**	5,998	–
Total current assets	**90,478**	91,356	87,021
Total assets	**170,860**	164,872	161,029
Current liabilities			
Trade and other payables	**(68,635)**	(56,860)	(51,464)
Liability for current tax	**(6,073)**	(6,781)	(6,310)
Interest-bearing loans and borrowings	**–**	(67)	(21)
Provisions	**–**	(36)	–
Total current liabilities	**(74,708)**	(63,744)	(57,795)
Non-current liabilities			
Interest-bearing loans and borrowings	**(20,000)**	(50,000)	(40,000)
Total non-current liabilities	**(20,000)**	(50,000)	(40,000)
Total liabilities	**(94,708)**	(113,744)	(97,795)
Net assets	**76,152**	51,128	63,234
Equity			
Issued capital	**2,008**	2,006	2,006
Share premium	**346**	267	267
Retained earnings	**73,798**	48,855	60,961
Total equity attributable to equity holders of the parent	**76,152**	51,128	63,234

Consolidated cash flow statement (unaudited)

For the 26 weeks ended 29 December 2007

	NOTE	**26 WEEKS ENDED 29 DECEMBER 2007 £'000**	26 WEEKS ENDED 30 DECEMBER 2006 £'000	52 WEEKS ENDED 30 JUNE 2007 £'000
Cash flows from operating activities	7	**47,109**	21,416	49,300
Interest paid		**(1,099)**	(141)	(1,536)
Interest received		**608**	113	451
Tax paid		**(6,935)**	(5,497)	(13,468)
Net cash generated from operating activities		**39,683**	15,891	34,747
Cash flows from investing activities				
Proceeds on disposal of property, plant and equipment		**301**	6	7,200
Acquisition of property, plant and equipment		**(13,063)**	(10,750)	(14,130)
Acquisition of intangible assets		**–**	(317)	(996)
Net cash utilised in investing activities		**(12,762)**	(11,061)	(7,926)
Cash flows from financing activities				
Proceeds from the issue of share capital		**80**	273	273
Purchase of treasury shares		**(47)**	–	–
Net funds (repaid)/raised from bank loan		**(20,000)**	50,000	40,000
Repayment of finance lease liabilities		**–**	(83)	(150)
Dividends paid		**(6,024)**	(50,000)	(51,605)
Net cash utilised in financing activities		**(25,991)**	190	(11,482)
Net increase/(decrease) in cash and cash equivalents		**930**	5,020	15,339
Foreign exchange revaluations		**(68)**	(433)	(956)
Cash and cash equivalents at the beginning of the period		**17,347**	2,964	2,964
Cash and cash equivalents at the end of the period		**18,209**	7,551	17,347

Statement of changes in equity (unaudited)
For the 26 weeks ended 29 December 2007

	ISSUED SHARE CAPITAL £'000	SHARE PREMIUM £'000	RETAINED EARNINGS £'000	TOTAL EQUITY £'000
As at 1 July 2006	2,000	–	87,066	89,066
Total recognised income & expense	–	–	11,754	11,754
Issue of share capital	6	267	–	273
Share based payments	–	–	35	35
Dividends	–	–	(50,000)	(50,000)
As at 30 December 2006	2,006	267	48,855	51,128
Total recognised income & expense	–	–	12,874	12,874
Share based payments	–	–	199	199
Deferred tax on share based payments	–	–	327	327
Corporation tax on share options exercised	–	–	311	311
Dividends	–	–	(1,605)	(1,605)
As at 30 June 2007	2,006	267	60,961	63,234
Total recognised income & expense	–	–	18,650	18,650
Issue of share capital	2	79	–	81
Purchase of treasury shares	–	–	(47)	(47)
Share based payments	–	–	268	268
Deferred tax on share based payments	–	–	(50)	(50)
Corporation tax on share options exercised	–	–	40	40
Dividends	–	–	(6,024)	(6,024)
As at 29 December 2007	**2,008**	**346**	**73,798**	**76,152**

Notes to the interim results

1 BASIS OF PREPARATION
The interim statements are prepared under the historical cost convention except for share based payments and derivative financial instruments which are stated at their fair value. In addition, assets classified as held for sale are valued at the lower of net book value and fair value, less costs to sell.

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

2 ACCOUNTING POLICIES
The accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 June 2007, as described in those financial statements.

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

4 TAXATION
The taxation charge for the interim period has been calculated on the basis of the estimated effective tax rate for the full year of 31.5% (26 weeks ended 30 December 2006: 34.2%, or 31.8% excluding non-deductible one off IPO costs of £3.0 million).

5 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:

	26 WEEKS ENDED 29 DECEMBER 2007 ('000)	26 WEEKS ENDED 30 DECEMBER 2006 ('000)	52 WEEKS ENDED 30 JUNE 2007 ('000)
Weighted average number of shares in issue during the period	**200,688**	200,108	200,363
Impact of share options	**2,812**	2,285	2,324
Number of shares for diluted earnings per share	**203,500**	202,393	202,687

Notes to the interim results continued

5 EARNINGS PER SHARE CONTINUED

In addition to standard earnings per share, an underlying earnings per share calculation is provided below which excludes the non-recurring charges which arose last year in respect of IPO expenses and the warehouse transition. The earnings used for the standard and underlying calculations, together with the resultant basic earnings per share, are shown below:

	26 WEEKS ENDED 29 DECEMBER 2007 £'000	26 WEEKS ENDED 30 DECEMBER 2006 £'000	52 WEEKS ENDED 30 JUNE 2007 £'000
Profit for the period	**18,650**	11,754	24,628
Non-recurring costs (net of tax)	**–**	3,700	3,109
Profit for the period excluding one off costs	**18,650**	15,454	27,737
Basic earnings per share – standard	**9.3p**	5.9p	12.3p
Basic earnings per share – underlying	**9.3p**	7.7p	13.8p

6 DIVIDENDS

	26 WEEKS ENDED 29 DECEMBER 2007 £'000	26 WEEKS ENDED 30 DECEMBER 2006 £'000	52 WEEKS ENDED 30 JUNE 2007 £'000
Interim for the period ended 30 December 2006 – paid 25.0p	**–**	50,000	50,000
Interim for the period ended 30 June 2007 – paid 0.8p	**–**	–	1,605
Final for the period ended 30 June 2007 – paid 3.0p	**6,024**	–	–
	6,024	50,000	51,605

An interim dividend of 2.0p per ordinary share will be paid for the period ended 29 December 2007 which equates to £4.0m. The dividend will be paid on 23 April 2008 to shareholders on the register at the close of business on 4 April 2008.

7 CASH FLOWS FROM OPERATING ACTIVITIES

	26 WEEKS ENDED 29 DECEMBER 2007 £'000	26 WEEKS ENDED 30 DECEMBER 2006 £'000	52 WEEKS ENDED 30 JUNE 2007 £'000
Cash flows from operating activities			
Profit before taxation	**27,224**	17,862	37,826
Adjusted for:			
Net financing costs	**357**	1,844	2,989
Depreciation and amortisation	**4,760**	4,940	9,529
Share based payment expense	**268**	35	234
Loss on disposal of property, plant and equipment	**(258)**	(6)	(1,130)
Operating cash flows before movement in working capital	**32,351**	24,675	49,448
Decrease/(increase) in stocks	**882**	(10,126)	(4,312)
(Increase)/decrease in debtors	**(3,498)**	(1,312)	1,028
Increase in creditors	**17,333**	8,771	4,480
Increase/(decrease) in provisions	**61**	(22)	(58)
Foreign exchange losses	**(20)**	(570)	(1,286)
Cash flows from operating activities	**47,109**	21,416	49,300

8 ANNOUNCEMENT

The interim report was approved by the Board on 27 February 2008 and copies are available from the registered office at Fosse Way, Syston, Leicestershire LE7 1NF, or from the website at www.dunelm-mill.com

Responsibility statement of the directors in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;

- the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By Order of the Board

WILL ADDERLEY
CHIEF EXECUTIVE
27 February 2008

DAVID STEAD
FINANCE DIRECTOR
27 February 2008

Designed and produced by **Emperor Design Consultants Ltd**
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