Dunelm Group plc

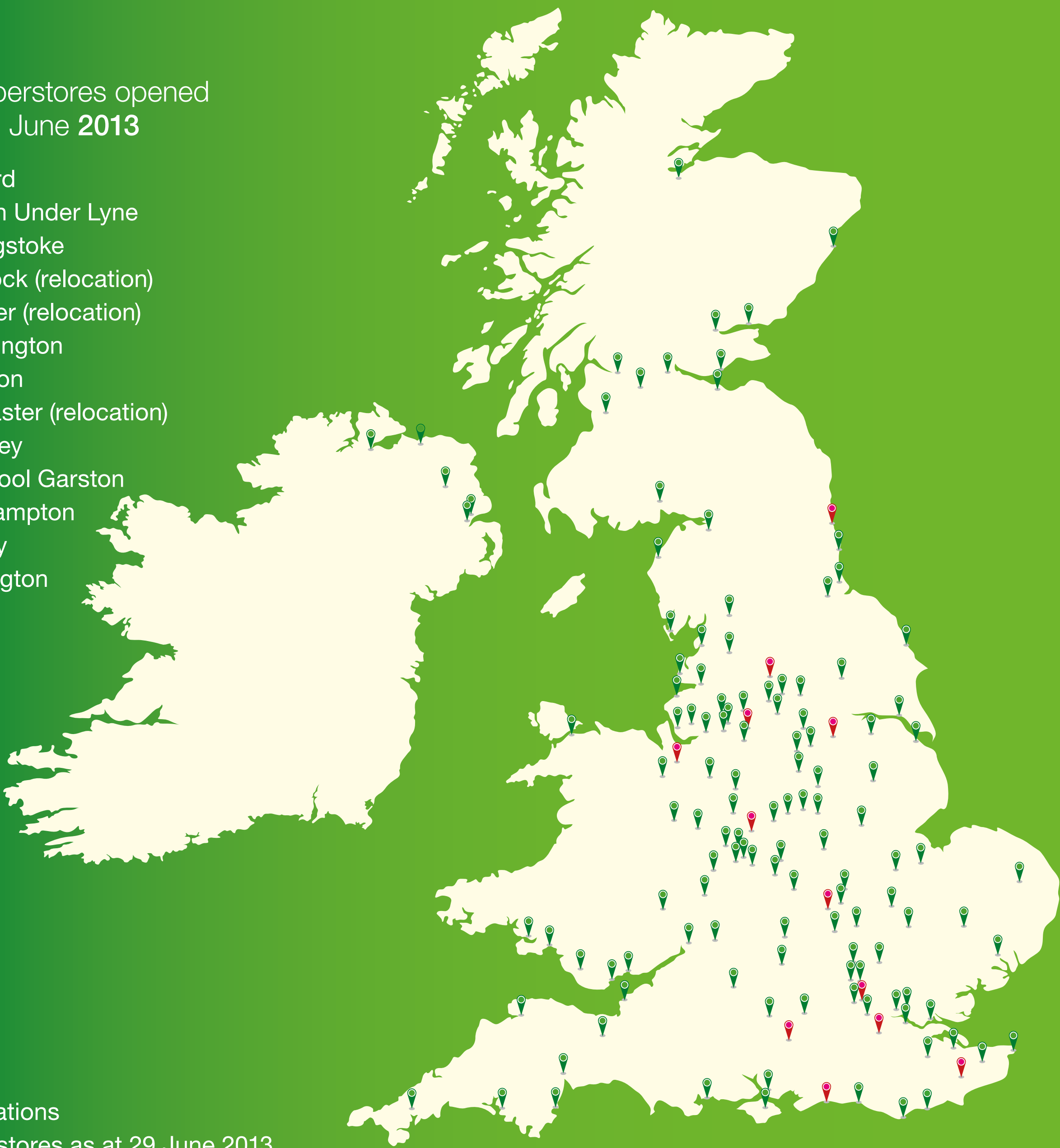
Annual Report and Accounts 2014

WELCOME TO DUNELM

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

New superstores opened since 29 June **2013**

- Ashford
- Ashton Under Lyne
- Basingstoke
- Cannock (relocation)
- Chester (relocation)
- Cramlington
- Croydon
- Doncaster (relocation)
- Keighley
- Liverpool Garston
- Northampton
- Paisley
- Rustington



Store locations

- Superstores as at 29 June 2013.
- Superstores opened since 29 June 2013.

OUR RESULTS

Financial Highlights

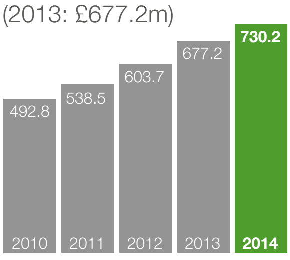
Revenue increase
7.8%

Operating margin
15.9%

Net cash generated from operations
£103.8m

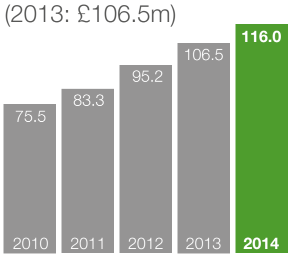
Revenue
£m

£730.2m
(2013: £677.2m)



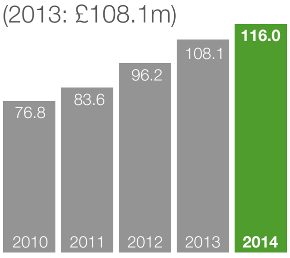
Operating Profit
£m

£116.0m
(2013: £106.5m)



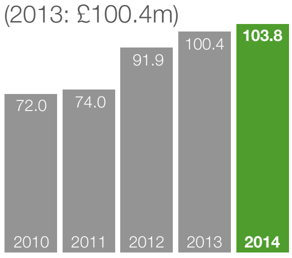
Profit before tax
£m

£116.0m
(2013: £108.1m)



Net cash from operations
£m

£103.8m
(2013: £100.4m)



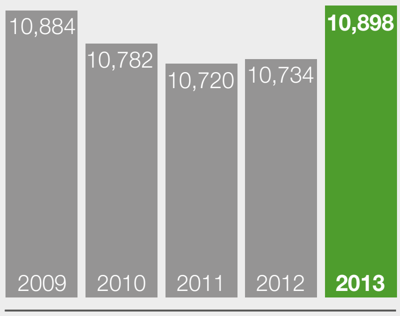
MARKET OVERVIEW

MARKET SIZE AND **GROWTH**

The UK Homewares market is estimated at £10.9bn. It demonstrates a relative resilience in tough times with somewhat muted growth as the economy expands.

Market predictions looking ahead are for modest growth.

Market size (£bn)



Source: Verdict Research

MARKET **SHARE**

Dunelm has grown significantly within the Homewares market and has achieved market leadership in recent years.

The market continues to see consolidation with major multiple retailers continuing to take share from smaller independent operators.

Market share

	2009	2013	Change
Dunelm	4.6%	7.4%	+2.8%
John Lewis	5.3%	7.3%	+2.0%
Argos	5.2%	4.9%	-0.3%
Top 10	41.1%	49.7%	+8.6%

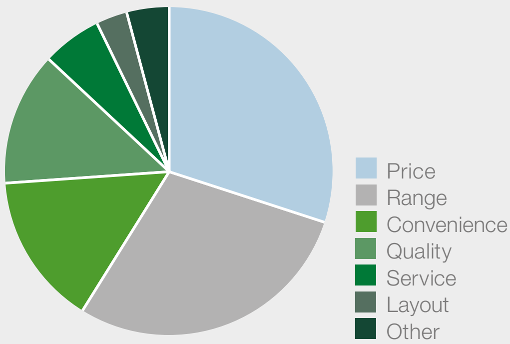
Source: Verdict Research

CUSTOMER **DRIVERS**

Customer loyalty in the Homewares market is driven primarily by range, price and convenience.

Dunelm's specialist customer proposition allows us to differentiate in this sector by providing industry leading choice, the broadest price spectrum and the convenience of a nationwide store portfolio together with on-line shopping.

Customer Drivers



Source: Verdict Research


U.S.A.
HOLDING POWER
ANCHORS
USA

BUSINESS MODEL

Dunelm is the UK's No.1 Homewares retailer offering over 20,000 quality products across 22 home categories. The business operates from 137 'out-of-town' superstores, 7 high streets and provides further 'multi-channel' convenience through on-line, mobile, catalogue, telephone ordering and reserve and collect propositions.

Our aim is to continually develop and deliver an industry leading specialist proposition by providing;

- The broadest range and choice
- Strong availability
- Multi-channel convenience
- Customer Service through knowledgeable and helpful staff
- Exceptional value for money

DEVELOP ›››
Specialist proposition to create market leading range, choice and value for our customers

SOURCE ›››
Expert and ethical sourcing of quality products through trusted UK and Worldwide partners

SHIP ›››
Efficient, scalable and flexible supply chain to distribute products wherever customers require

SELL ›››
Nationwide store portfolio plus on-line sales channel

OUR KEY STRENGTHS

Advantaged proposition we provide customers with broad and deep ranges across all key homewares categories, offering excellent value for money, and supported by friendly and knowledgeable customer service.

Property portfolio our superstore portfolio comprises good quality trading locations at low average rents.

Supplier relationships we have a number of long-established UK suppliers who are well placed to support the growth and development of our ranges.

Scale as market leader with a focus on homewares, we are able to leverage economies of scale whilst continuing to build our expertise in our chosen categories.

Financial strength with a highly cash generative business model and conservative capital structure, we are able to take a long-term view of both trading and investment decisions.

STRATEGY

Dunelm aims to provide market leading choice and complementary expertise at great value.

Dunelm's customer proposition offers industry-leading choice of quality products at keen prices, with high levels of availability and supported by expert, friendly service. Core ranges include many exclusive designs and premium brands such as Dorma, supported by a frequently changing series of special buys.

The superstore format provides an average of 30,000 sq ft of selling space with over 20,000 products across a broad spectrum of categories, extending from the Group's home textiles heritage (bedding, curtains, cushions, quilts and pillows) to a complete homewares offer including kitchenware and dining, lighting, wall art, furniture and rugs.

The value, breadth of choice and expertise inherent in the proposition are communicated to customers via the strapline "There's no place like Dunelm".

Dunelm has four strategic pillars that deliver an unbeatable customer proposition and underpin further profitable growth.

1 Develop our specialist proposition

Dunelm's competitive advantage stems from our success in complementing strong product credentials (range, choice and value) with excellent customer service and increased brand awareness. The first pillar of our strategy is to ensure we retain and build this advantage.

Current position

- 20,000 products across different Homewares categories available with 30% of ranges refreshed annually
- 'Customer First' service ethos embedded across the business
- Nationwide coverage of made-to-measure curtains and blinds service, including free in-home consultations
- Growing brand awareness through cross-media campaigns

2 Develop the store portfolio

Our store opening programme is intended to exploit the strength of our in-store proposition by making it accessible to more customers. This will allow us to grow market share, revenues and profit. We aim to grow the portfolio to 200 superstores over the medium term.

Current position

- 137 superstores stores trading providing 4.0 million sq ft selling space
- 11 stores legally complete and expected to open in the next 12 months
- Consistently strong payback on new store openings (significantly ahead of our 36 month target)
- Refit programme maintains a contemporary retail chain

3 Grow multi-channel

Recognising the trend for customers to interact with retailers across multiple touch points, our aim is to drive growth by providing a high quality experience in new channels (on-line and contact centre) as well as in stores.

Current position

- 60% of Dunelm shopping journeys now include more than one channel
- 6% of Company revenues now generated on-line
- Dedicated web fulfilment centre supporting 15,000 lines available for next day home delivery with on-line only range extensions in furniture and outdoor categories
- New website platform to be launched imminently, enhancing customer experience and supporting future growth

4 Develop and exploit our infrastructure

Investment in our business infrastructure across IT systems, supply-chain facilities and people has been a key contributor to Dunelm's success. Our strategy is to continue to invest ahead of our anticipated growth curve.

Current position

- Enterprise wide SAP system in place, upgraded in 2013
- New 'Made to Measure' system developed and deployed to all stores to enhance bespoke curtains offer
- Central warehouse reconfigured to support increased direct sourced product and store-efficient deliveries
- Investments in specialist central teams including Senior Management, IT, Buying and Multi-channel

CHAIRMAN'S STATEMENT

Geoff Cooper
Chairman

Since the year end there have been some important changes to our Board reflecting our on-going succession planning. We have announced the departure of Nick Wharton, our Chief Executive since 2010, and the resumption of the Chief Executive role by Will Adderley, who has been our Executive Deputy Chairman over the last few years. We also previously announced the appointment of a new Non-Executive Director, Andy Harrison, who joined the Board with effect from September. Andy is currently Chief Executive of Whitbread plc and was formerly Chief Executive of easyJet plc. He brings a wealth of experience across a variety of consumer-facing sectors.

I would like to thank Nick for the excellent job he has done in creating a strong operating platform for the business. Looking ahead, the Board is confident that Will, with his unique skill set, is the right person to lead the business through its next phase of growth.

Across the Group, I am pleased to report another year of strong progress. Our management team has continued to focus on driving our well-established strategy for developing the business and building the Group's future, as well as keeping tight control on day to day operations. As a result, Dunelm has again posted good growth in revenue and profits in the latest financial year, accompanied by further strong free cash flow, while also investing for continuing growth in the years ahead.

Given the continuing strong business performance, the Board is recommending a 30% increase in the final dividend to 15.0p per share (2013: 11.5p), bringing the total Ordinary dividend for the year to 20.0p (2013: 16.0p); this is in addition to a special dividend of 25.0p per share (£50.7m) paid last October. We remain committed to delivering appropriate cash returns to shareholders through both our Ordinary dividend and, where appropriate, additional returns of surplus cash.

Looking ahead, we will continue to invest in a range of exciting development initiatives that will strengthen our brand and increase the scale of our business through both new stores and multi-channel operations. We remain confident in the Dunelm proposition and look forward to further growth in the years ahead.

Geoff Cooper
Chairman

11 September 2014


have a grateful heart
BE YOURSELF
dream BIG
SAY I LOVE YOU
Believe in Miracles
BAILEY'S CIRCUS
London
KIT KEMP

CHIEF EXECUTIVE'S REVIEW

Will Adderley
Chief Executive

Overview

The business has delivered a solid trading performance over the last financial year as well as making further progress against our operational and strategic objectives.

We continue to strengthen our customer proposition through increasing the market leading choice we offer in store, improving the quality of customer service and introducing added value services, such as Dunelm at Home. This development of our customer offer will continue alongside our constant commitment to delivering excellent value for money.

Our total revenue for the year increased by 7.8%. Within this, like-for-like sales (calculated by comparing stores which have traded throughout the last two financial years) grew by 2.1%, despite a disappointing start to the year due to very hot weather in July 2013. During the year we opened 12 new superstores, including three relocations (resulting in the closure of two existing superstores and two high street shops).

Our continued store expansion and positive like-for-like growth has meant that during the past year we have consolidated further our leadership of the UK homewares market, as reported by Verdict Research. Verdict estimates our share of the market to have increased from 6.8% in 2012 to 7.4% over the 2013 calendar year.

We also continue to progress initiatives to support the longer term growth of the business. The key investments during the year are discussed in greater detail below and include the transition to a new multi-channel fulfilment operation, our first national TV advertising, the upgrading of key points of infrastructure and the roll-out of our 'Dunelm at Home' proposition. Whilst the scale of these planned investments resulted in operating costs growing at a faster rate than sales over the year, we were nevertheless able to deliver an operating margin which was slightly stronger year on year at 15.9%, reflecting continued benefit at the gross margin level from our ongoing direct sourcing initiative.

Dunelm is a highly cash generative business with capital expenditure fully funded from operating cash flows. Whilst we retain a preference for capital flexibility, we have decided to reflect our consistently strong generation of free cash flow by reducing the level of dividend cover from 2.5x to 2.2x. Combined with our earnings growth, this leads to a 25% year on year increase in the level of the total Ordinary dividend for the year. In addition we paid a special dividend totalling £50.7m during the financial year, reflecting our approach of periodically distributing surplus cash to shareholders.

Strategic progress

We have continued to make good progress with the four strategic pillars of our strategy.

Pillar 1 – develop our specialist proposition

We know from research that the primary criterion for customers in selecting a homewares retailer is breadth of choice. Furthermore, with colour, design and tactile aspects core to many of our customers' selections, most of homewares purchases are made in store, where physical comparisons can be made. Industry-leading product choice in our 137 superstores is therefore a key differentiator, with each store offering over 20 categories of quality products spanning a broad price spectrum and appealing to a wide variety of tastes.

We continue to build on this strength introducing a high proportion of new products and designs across our ranges, with 30% of our c.20,000 lines being refreshed annually. Over the last year we have given particular focus to enhancing both the product range and in-store representation of furniture in the majority of our stores; and we have expanded our child-focused proposition, including the creation of a dedicated 'kids zone' in newer format stores.

We recognise that, in order for product choice to be meaningful, it has to be allied to value for money at all price points. We constantly monitor our prices against a wide range of competitors and continue to have a very high level of confidence in the value we offer. Our approach to pricing is consistent across each product category. Our entry-level prices on basic products compete with products offered by grocers and discount multiples but at a higher quality, and our highest quality products are comparable with the quality of products in department stores and higher-end independent retailers but at keener prices, with exceptional value through the middle of our ranges. We also supplement our regular product ranges with a flow of 'special buy' products which are constantly changing so that our customers discover new merchandise each time they visit a store.

Our strong product credentials of choice and value are complemented by knowledgeable, friendly customer service together with a high quality in-store experience and key differentiating services.

During the last financial year, we invested further across each of these elements. Colleague labour hours released through continuing to simplify or remove in-store tasks have been re-allocated to customer service, and we have introduced the second phase of our customer service development programme – Customer First. The success of this approach is reflected in the continued improvement in our customer service metrics and excellent feedback from our customer satisfaction surveys.

Our Dunelm at Home service, through which customers can select bespoke, made-to-measure curtains, other window treatments and matching accessories via a free home design consultation, was extended significantly during the year and is now provided by the majority of our stores. This allows the vast majority of customers nationwide to have access to the service. We invest significantly in the training and development of our home consultants to ensure high levels of customer satisfaction.

We also continue to invest in increasing awareness of the Dunelm brand, launching a new logo and primary strapline ("There's no place like Dunelm") last autumn. This evolution of our brand positioning better communicates Dunelm's range authority across all homewares categories and our value, convenience and service advantages. We invested in national TV advertising for the first time in the spring, following a successful regional pilot prior to last Christmas. This involved an incremental investment of over £3m, at the same time as increasing our commitment to catalogues, traditional press advertising and digital marketing. We have seen unprompted brand awareness increase steadily since we commenced our TV advertising and we will continue testing it this autumn, including through the sole sponsorship of ITV's newly launched Encore channel.

Pillar 2 – develop the store portfolio

The vast majority of our portfolio comprises out-of-town superstores, with the average store footprint around 30,000 square feet of retail space. This investment in space enables us to offer over 20,000 homewares products with the depth of range, inspirational presentation and availability that customers expect from a specialist retailer and which we consider to be a key competitive advantage. In most cases we are also able to provide a Pausa coffee shop, now present in over 100 stores, giving an additional reason for customers to visit and increasing their engagement and time in our stores.

In the last financial year we opened 12 new superstores (two being superstore relocations and one being a high street relocation) taking our superstore chain to 136 stores at the year end, providing 4.0 million square feet of selling space in total. One additional new store has been opened since the year-end and 10 more stores are contractually committed and expected to open in the current financial year. We remain confident in further opportunities for us to increase our coverage nationwide, retaining our view that our mature UK superstore portfolio will consist of approximately 200 stores.

Our new stores continue to deliver strong returns on investment, with the average discounted payback for stores opened in the last three financial years expected to be approximately 24 months. We currently target the majority of our new store openings to achieve discounted cash flow payback of a maximum of 36 months, although we recognise that as our portfolio becomes more mature our investment appraisals will need to reflect greater cannibalisation of revenues from existing stores. Going forward, we anticipate that up to a third of new stores will be targeted to achieve payback in up to 48 months.

Our store refit programme continues, with approximately £4.0m invested during the year to improve the overall shopping environment, increase the number of inspirational displays and rebalance category space including the introduction of new ranges such as furniture. While the majority of this investment is now focused on smaller scale refits, we completed major refits in three stores during the financial year. As a result 38% of our superstores are either new or have benefited from a major refit over the past three years.

Pillar 3 – grow multi-channel

In common with trends elsewhere in UK retail, Dunelm customers continue to embrace the convenience and value of multi-channel shopping, with the majority of shopping journeys now involving some element of on-line activity (browsing, research or purchasing) through our website, www.dunelm.com.

A key development in our on-line proposition over the last year has been the move to a new dedicated fulfilment operation for deliveries to home, which has enabled us to increase significantly the number of products available for home delivery, shorten lead times for standard deliveries and offer next day delivery as a premium service on 15,000 lines. The new facility, operated on our behalf by a third party partner, became operational in October 2013.

We have also expanded choice for customers by increasing the range of products customers are able to buy from us on-line, launching extended ranges of online-only furniture to complement the ranges displayed and sold in stores.

With the above developments supported by increasing investment in digital marketing, we have seen our multi-channel revenues continue to grow strongly, representing 6% of revenues over the full financial year and approximately 7% in the final quarter. We see scope for this proportion to increase further.

At the same time, we are close to completing the upgrade of the software platform which runs our customer website, involving a capital investment of £7m, (of which £5.0m had been spent as at the end of the financial year). This upgrade provides further scalability, improves the customer journey and shopping experience and paves the way for more frequent enhancements to functionality going forward.

Pillar 4 – develop and exploit our infrastructure

Investment in our business infrastructure across IT systems, distribution facilities and people is a key contributor to Dunelm's success and this continued in the past year.

In addition to the work on our new web platform, our IT team has successfully completed a major upgrade to our enterprise wide SAP system and has launched new improved in-store systems for customers ordering made-to-measure curtains. Technology is increasingly critical to delivering a high quality customer experience, not only on-line but also in stores and through our customer contact centre. Accordingly, we have developed an extensive, multi-year programme of future improvements and are investing heavily in our own internal IT capability to enable this programme.

We have made further changes to our central warehouse operations to allow more store-efficient deliveries and also to support the increased volume of merchandise flowing through our own supply chain, driven by store expansion and the continuing move towards direct sourcing. However, our long term planning suggests that our rate of growth will require us to invest in enlarged central warehousing facilities in the medium term, and we are currently developing detailed plans for this project.

We also continue to increase the quality and quantity of our central capabilities to deliver our future growth plans. Specifically this includes adding additional resource in our buying and supply functions to service the greater level of inventory sourced directly. We have also further strengthened our senior management team. Following the recruitment of a new Chief Information Officer at the beginning of the financial year, in January we appointed an experienced Commercial Director, who has already helped us to develop further our buying, supply, marketing and space management teams. We will continue to build these teams in support of our enlarged business.

Summary and outlook

Dunelm has delivered solid trading results in the last financial year. We have again strengthened our specialist proposition, improved customer service in store and increased the profile of our brand. Each of these, together with our traditional product strength, has enabled us to increase sales on a like-for-like basis and to continue to gain market share. We have also made good strategic progress, growing our business through new stores and multi-channel, and strengthening our infrastructure. I would like to thank everyone involved in the business their hard work and commitment in achieving this.

On a personal note, I would like to thank Nick and the team for all that they have achieved over the last few years, continuing to build the business and further improving our operational platform. I am very much looking forward to leading the business in its next phase of growth.

Will Adderley
Chief Executive

11 September 2014

FINANCE DIRECTOR'S REVIEW

David Stead
Finance Director

The '2014' accounting period refers to the 52 weeks ended 28 June 2014 and the comparative period '2013' refers to the 52 weeks ended 29 June 2013.

Revenue

Group revenue for 2014 was £730.2m (2013: £677.2m), an increase of 7.8%. This increase in revenue was achieved through growth in like-for-like sales of 2.1% and contribution from net new space amounting to 5.7%. Like-for-like sales performance was positive in the second half (+5.3%), more than offsetting the first half performance (-0.9%) which included the adverse impact of the summer heat wave in July 2013.

The store expansion programme continued with 12 new openings in the year (of which two were relocations of existing superstores and one was a high street relocation). We expect sales in the coming year to benefit from our on-going investment in the customer proposition and marketing, together with the increased store portfolio.

Gross Margin

Gross margin increased by 80 basis points to 49.5% (2013: 48.7%) reflecting in particular continued benefit from direct sourcing initiatives. We will continue to pursue opportunities to drive margin benefits from direct sourcing and from challenging our UK based suppliers to achieve cost efficiencies, whilst maintaining quality.

Operating Costs

Operating costs in 2014 grew by 9.9% compared with the prior year. In addition to the expansion of the store portfolio, which saw average selling space increase by 7.7% compared with 2013, incremental investments of over £5.0m were made in a number of key areas to support differentiation in our customer proposition and to position the business for further growth. These included:

- **Customer service** – we have continued to roll out customer service training to all store colleagues
- **Multi-channel operations** – we completed the transfer of our in-house fulfilment operation for home delivery to an outsource partner, incurring one-off transition costs
- **Marketing** – we launched our first national TV advertising campaign, as well as increasing investment in other areas such as catalogues and digital marketing, bringing marketing spend to 1.7% of the sales for the year (2013:1.2%)
- **Dunelm At Home** – we rolled out this service to an additional 49 stores during the year, incurring one-off set-up costs
- **Business infrastructure** – we have continued to build the capability and capacity of central teams to support our expansion, particularly in the Commercial and IT functions

Looking ahead, we intend to continue investing to grow and strengthen the business. In addition to cost increases driven by new stores we intend to increase marketing spend further, to around 1.9% of sales; we will grow our capability and capacity to pursue further direct sourcing initiatives; and we will invest in other operational areas of the business as needed. In addition, we anticipate that depreciation and amortisation charges will increase by around 15% from their 2014 level of £21.3m, as new capital projects (notably our new web platform) are completed. As a result of all these factors, we anticipate that operating costs will grow at a faster rate than sales over at least the next financial year.

Operating Profit

Group operating profit for the financial year was £116.0m (2013: £106.5m), an increase of £9.5m (8.9%). Notwithstanding the investments outlined above, operating profit margin at 15.9% was slightly ahead of 2013 (15.7%).

EBITDA

Earnings before interest, tax, depreciation and amortisation were £137.3m (2013: £127.1m). This has been calculated as operating profit (£116.0m) plus depreciation and amortisation (£21.3m) and represents an increase of 8.0% on the previous year. The EBITDA margin achieved was 18.8% of sales (2013: 18.8%).

Financial Items

The Group generated a small net loss on financial items in 2014 (2013: £1.5m gain). This loss was made up of interest earned on cash deposits of £0.4m (2013: £0.9m) offset by foreign exchange differences arising on US dollar cash balances held during the period. In 2014 the strengthening of sterling over the year caused the Group to realise foreign exchange losses on surplus dollar holdings amounting to £0.5m (2013: £0.6m gain).

As at 28 June 2014 the Group held $87.2m (2013: $45.9m) in US dollar forward contracts representing approximately 78% of the anticipated US dollar spend over the next financial year. There were no surplus US dollar cash deposits.

PBT

After accounting for interest and foreign exchange impacts, profit before tax for the year amounted to £116.0m (2013: £108.1m), an increase of 7.3%.

Taxation
The tax charge for the year was 23.2% of profit before tax compared with 24.6% in the prior year. This reflects the reduction in the headline rate of corporation tax to 22.5% (2013: 23.75%) as well as additional benefits from an increase in the level of assets qualifying for capital allowances. We expect the tax charge to continue to trend approximately 100 bps above the headline corporation tax rate going forward. This difference is mainly due to depreciation charged on non-qualifying capital expenditure.

PAT and EPS
Profit after tax was £89.1m (2013: £81.5m), an increase of 9.3%.

Basic earnings per share (EPS) for the year ended 28 June 2014 was 44.0p (2013: 40.2p), an increase of 9.5%. Fully diluted EPS increased by 9.3% to 43.7p (2013: 40.0p).

Capital Expenditure & Working Capital
Gross capital expenditure in the financial year was £28.0m compared with £26.4m in 2013. Significant investments were made in order to support the continued growth and development of the store portfolio with the addition of 12 new superstores (49% of capital expenditure) and three major refits. The remaining investment related mainly to IT activities, including the upgrade of our core enterprise system (SAP) and further investment in a new technology platform to underpin and expand our multi-channel offer.

Investment in working capital increased by £9.3m (2013: £3.4m) over the year, primarily as a result of additional stock to support the expansion in the store estate as well as increased direct sourcing.

Cash Resources
Dunelm continues to deliver strong cash returns. In 2014 the Group generated £103.8m (2013: £100.4m) of net cash from operating activities, an increase of 3.4%. Net cash resources at the end of the year were £21.7m (2013: £44.7m) with daily average cleared funds over the course of the financial year of £48.3m (2013: £66.2m).

Our rate of cash conversion remains strong. Measured as the ratio of net cash from operations to operating profit, conversion was 89% (2013: 94%). Taking free cash flow as a proportion of PBT, conversion was 66% (2013: 69%). For the purpose of this calculation, free cash flow is defined as net cash from operations less capital investment and certain ‘other items’ in the cash flow statement.

Dividend
An interim dividend of 5.0p was paid in April 2014 (2013: 4.5p). It is proposed to pay a final dividend of 15.0p per share (2013: 11.5p). The total dividend of 20.0p represents an increase of 25.0% over the previous year and moves the dividend cover to 2.2x (2013: 2.5x). The Board considers that this reduction in dividend cover is appropriate in view of the Group’s consistently strong financial performance and cash generative nature. The final dividend will be paid on 19 December 2014 to shareholders on the register at the close of business on 28 November 2014.

Share Buy-back
During the year, the Group invested £15.4m to buy in shares to hold in treasury in order to satisfy future exercises of options granted under incentive plans and other share schemes. As at the year-end, we held 936,498 shares in treasury, equivalent to approximately 46% of options outstanding. Over time, we expect to increase our holding in treasury to be equivalent to approximately 60% of outstanding options.

Additional Returns to Shareholders
The Group’s policy is to maintain cash resources such that it is able to invest in the four pillars of its strategy and in addition to take advantage of investment opportunities as and when they arise, for example freehold property acquisitions. The Board also remains committed to returning excess capital to shareholders from time to time where cash resources are materially in excess of investment requirements.

During the year, the Group returned excess capital of £50.7m (25.0p per share) to shareholders through a special dividend.

The Board will continue to assess the capital structure of the business in light of anticipated trading performance, known and anticipated investment plans and the level of cash available and will look to distribute excess capital to shareholders when appropriate.

Treasury Management
The Group Board has established an overall Treasury Policy, day-to-day management of which is delegated to the Finance Director. This policy ensures the following;
- Effective management of all clearing bank operations.
- Access to appropriate levels of funding and liquidity.
- Optimal investment of surplus cash within an approved risk/return profile.
- Appropriate management of foreign exchange exposures and cash flows.

The funding position of the Group is regularly reviewed by the Board. As a result it has been agreed that access to committed lines of external funding is not required in the short term and that Dunelm will continue to maintain uncommitted lines of funding with partner banks whilst trading with a positive net cash position.

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 measures shown on page 14.

David Stead
Finance Director

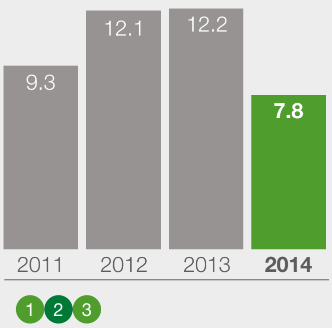
11 September 2014

KEY PERFORMANCE INDICATORS

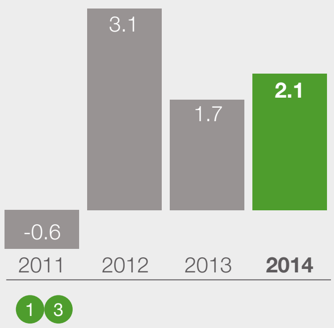
Key – Link to strategy

1 Develop our specialist proposition
2 Expand the store portfolio
3 Grow multi-channel
4 Develop and exploit our infrastructure

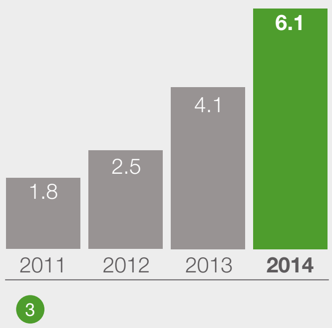
SALES GROWTH – %



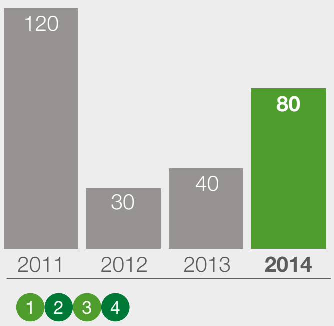
LIKE FOR LIKE SALES GROWTH – %



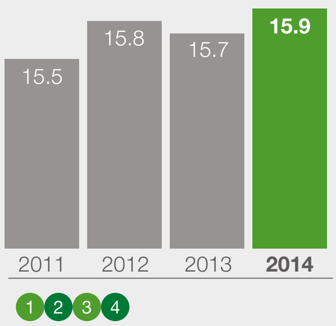
MULTI-CHANNEL SALES PARTICIPATION – %



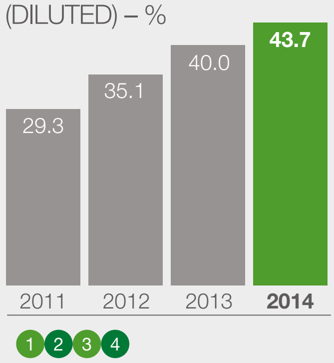
GROSS MARGIN CHANGE – BASIS POINTS



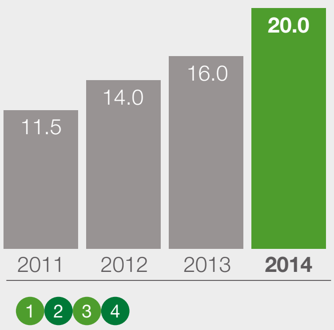
OPERATING MARGIN – %



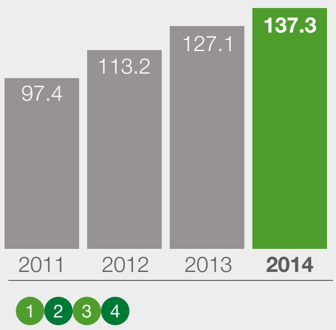
EARNINGS PER SHARE (DILUTED) – %



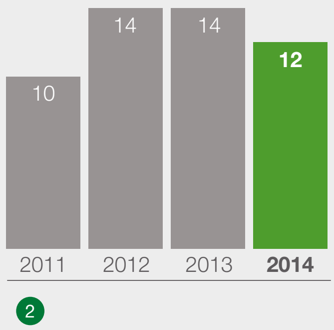
DIVIDEND PER SHARE – p



EBITDA – £m



NEW STORE OPENINGS



PRINCIPAL RISKS AND UNCERTAINTIES

Key – Link to strategy
1 Develop our specialist proposition
2 Expand the store portfolio
3 Grow multi-channel
4 Develop and exploit our infrastructure

The Board 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.

A systematic approach to the continuous identification, assessment and effective management of risks provides assurance that both strategic and operational objectives can be achieved.

Risk Management Framework
Our risk management framework promotes effective risk management across all areas of the Group and aims to ensure that the business balances both risk and reward and makes sound judgements as to likelihood and impact.

Executive Directors and senior operational management are tasked with the on-going management of risk through four key stages;
- Identification
- Evaluation
- Mitigation
- Reporting & Monitoring

Periodic risk identification and assessment workshops and reviews are in place to determine the overall risk profile of the organisation as well as specific, detailed risks inherent within individual areas. All risks identified are evaluated against 'likelihood' and 'impact' criteria to establish their potential severity, which enables us to produce a prioritised risk register. All risks are assigned owners from the senior management team and the highest priority risks are reviewed regularly by the Executive Board to further assess the extent and effectiveness of controls.

The Group Board gains assurance through twice yearly reviews, as well as by regular challenge to the executive team.

The principal risks and uncertainties facing the business are set out below, together with mitigation:

BRAND REPUTATION, PRODUCT AND SERVICE QUALITY 1 2 3

Performance Indicator:
Product complaints and recalls
Reportable health and safety incidents
Supplier audit outcomes

Executive responsibility:
Chief Executive

Description
The quality and safety of our stores, infrastructure, products and services is essential to the business. If we fail to deliver acceptable quality and safety standards there is a risk that individuals could be harmed and that reputational damage could lead to customers, colleagues and other stakeholders losing confidence in the brand.

Mitigation
- We have a range of policies specifying the quality of products and production processes that are signed up to by suppliers.
- We conduct regular audits on all stock suppliers in line with ETI guidelines. This also covers human rights concerns.
- We operate a full test schedule for all new products and on a sample basis for on-going 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, risk assessments, equipment inspections and compliance audits ensure standards are maintained.
- We continue to invest in a refit programme to ensure stores remain contemporary and provide a high quality shopping environment.
- All our operating locations are subject to regular health and safety compliance audits to ensure they provide a safe and secure environment.

Progress in 2013/14
- Our policies and procedures have been reviewed and updated.
- Our product recall procedure has been reviewed.
- Supplier audits have been completed for all key suppliers.

COMPETITION 1 2 3

Performance Indicator:
Market share

Executive responsibility:
Chief Executive

Description

The Group competes with a wide variety of retailers both in-store and online and across a broad price spectrum. Failure to maintain a competitive offer in the Homewares market on multiple fronts (price, range, quality and service) could materially impact returns and limit opportunities for growth.

Mitigation

- The Board continually monitors Group performance relative to the Homewares market and against specific competitors.
- Continuous brand tracking is used to gauge customer perception and experience.
- Investment in Brand Awareness through TV, digital and traditional press designed to differentiate on range, choice and value.
- We have a strong focus on new product development, both in existing and new homewares categories, to strengthen our specialist proposition.
- We have invested significantly in the front-end platform, fulfilment infrastructure and people capabilities to develop and enhance our multi-channel customer offer.

Progress in 2013/14

- We are the UK's leading homewares retailer with a growing market share, currently 7.4%.
- We have redirected the tasks of our colleagues in-store towards activities which enhance the customer experience.
- We have a customer feedback system which enables us to react quickly to both positive and negative feedback.
- Increased marketing expenditure has helped raise awareness of our brand.
- Our online sales now account for 6% of total sales (up from 4% in 2012/13).

REGULATORY ENVIRONMENT & COMPLIANCE 1 2 3 4

Performance Indicator:
Prosecution and other regulatory action

Executive responsibility:
Chief Executive

Description

The Group risks incurring penalties, damages, claims and reputational damage arising from failure to comply with legislative or regulatory requirements across many areas including but not limited to, trading, health and safety, employment law, data protection, Bribery Act, advertising, human rights and the environment.

Mitigation

- We operate a number of policies and codes of practice outlining mandatory requirements within the business governing behaviours in all key areas. These are regularly reviewed and updated.
- Operational management are also responsible for liaising with the Company Secretary and external advisers to ensure that potential issues from new legislation are identified and managed.
- We have a whistle-blowing procedure and helpline which enables colleagues to raise concerns in confidence.

Progress in 2013/14

- Training on the requirements of the Bribery Act and Competition Law is in place for all relevant colleagues and policies are communicated to all suppliers.
- Human Resources policies and health and safety policies and procedures are kept under constant review. For further details please see our Corporate Social Responsibility report on pages 20 to 27.

IT SYSTEMS, SENSITIVE DATA AND CYBER RISK 1 3 4

Performance Indicator:
Number of major IT incidents

Executive responsibility:
Chief Executive

Description

We are dependent on the reliability and capability of key information systems and technology. A major incident (including a cyber-attack), sustained performance problems or failure to keep technology up to date could constitute a significant threat to the business, at least in the short term.

Mitigation

- All business critical systems are based on established, industry leading package solutions, with full support in place.
- We have a disaster recovery strategy designed to ensure continuity of trade.

Progress in 2013/14

- We have embarked upon a two year plan of significant investment in the depth and capability of our IT function.
- We completed the upgrade of our main enterprise wide SAP system.
- We are nearing completion of a £7m upgrade of our multi-channel platform.
- Disaster recovery plans have been reviewed for all key sites.

PRINCIPAL RISKS AND UNCERTAINTIES continued

Key – Link to strategy
1 Develop our specialist proposition
2 Expand the store portfolio
3 Grow multi-channel
4 Develop and exploit our infrastructure

COMMODITY PRICES 1 4

Performance Indicator:
Gross margin

Executive responsibility:
Finance Director

Description
Significant cost price increases or high levels of volatility in key areas such as freight rates, raw materials, energy and exchange rates have been a feature of the British economy over recent years. Failure to manage and control these changes may lead to pressure on margins and adversely impact financial results.

Mitigation
- Dunelm uses its scale, buying power and growth to secure supply of key raw materials at competitive prices.
- Increased direct sourcing of products from the Far East has mitigated cost increases.
- Freight rates, energy and currency are bought forward to help mitigate volatility and aid margin management.
- Specialist procurement resource and tight contract management continues to identify and control costs.

Progress in 2013/14
- 17.7% of our products are now sourced directly from the Far East (16.2% 2012/13).
- Foreign currency hedging has been increased to provide a greater level of certainty in commercial decision making.
- Commodity price tracking is in place for all key commodities and regions to assist planning.

PORTFOLIO EXPANSION 2

Performance Indicator:
Number of new store openings and pipeline

Executive responsibility:
Chief Executive

Description
Availability of vacant or new retail space in the right location is essential to deliver our growth plans. Inability to secure or develop the required retail trading space to deliver our superstore format will limit our pace of expansion or force us to compromise our offer.

Mitigation
- Our Group Property Director actively monitors availability of retail space with the support of professional advisers.
- Financial modelling helps us assess the viability of potential sites.
- The Group's strong cash generation and debt-free status provide an attractive covenant to landlords and the flexibility to acquire freehold units if appropriate.

Progress in 2013/14
- We have opened 12 new superstores in the year.
- We have legally completed on 11 new stores due to open in 2014/15.
- Our strategy for the acquisition of sites in key catchment areas remains under regular review.

BUSINESS INTERRUPTION & INFRASTRUCTURE 1 3 4

Performance Indicator:
n/a

Executive responsibility:
Chief Executive

Description
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.

Mitigation
- 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.

Progress in 2013/14
- Desk-top simulations of disaster scenarios affecting our Head Office and Distribution Centre have been completed.
- We have moved away from UK supplies to direct sourcing from factories in cases where supplier capability issues were identified.
- Additional supply sources/routes have been identified for key product categories.

FINANCE AND TREASURY 1 2 3 4

Performance Indicator:
Available funds

Executive responsibility:
Finance Director

Description
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.

Mitigation
- We have significant cash surpluses and further uncommitted borrowing facilities with partner banks to fund growth plans.
- 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.

Progress in 2013/14
- We returned £50.7m of cash to shareholders in October 2013 by way of a special dividend, in addition to our Ordinary dividend.
- Net cash reserves at the end of the year were £21.7m.
- All investment outlined In the 2014/15 budget approved by the Board will be financed through operating cash flows.

MANAGEMENT TEAM & KEY PERSONNEL 1 2 3 4

Performance Indicator:
Colleague retention

Executive responsibility:
Chief Executive

Description
The success of Dunelm is dependent upon the availability of talented senior management. The business could be vulnerable to the loss of individual key managers.

Mitigation
- The composition of the Executive team is kept under constant review by the Board to ensure that it is appropriate to deliver the growth plans of the business.
- Succession plans and annual appraisals are in place across the Group.
- The Executive Board seeks to develop high calibre individuals through sponsored talent management and succession planning.
- The Group's remuneration policy detailed on page 49 is designed to ensure that high calibre executives are attracted and retained. Retention of senior management is supported by awards under the Long-Term Incentive Plan and Company Share Option Plan.

Progress in 2013/14
- Two important new appointments to the Executive Board were made during the year: Chief Information Officer and Commercial Director.
- Significant growth has been made in key buying and business supplier areas.

Will Adderley
Chief Executive

David Stead
Finance Director

11 September 2014

CORPORATE SOCIAL RESPONSIBILITY REPORT

Key – Link to strategy

1. Develop our specialist proposition
2. Expand the store portfolio
3. Grow multi-channel
4. Develop and exploit our infrastructure

How do we manage CSR?

Although we report on CSR separately, we do not treat it as a separate function; it is embedded in senior management role accountabilities. The Board has overall responsibility for setting policies and monitoring performance.

The table below sets out how we manage CSR matters:

Board	Overall responsibility for CSR	• Approve policies • Executive members have line responsibility for managing specific CSR topics • Monitor progress through KPIs and Board reports • Annual presentations on health and safety and human rights
Executive Board	Members have line responsibility for managing specific CSR topics	• KPIs monitored by the Executive Board
Dialogue and Communication	• Customers: through customer care, weekly on-line surveys and social media • Colleagues: in-house magazine and through Colleagues' Council • Suppliers: annual conference and meetings throughout the year • Others: social media, corporate website	

CUSTOMERS

Executive responsibility:
Chief Executive

Why it matters

Our core strength as a business is the delivery of market leading choice of products and services, at great value for money, backed up by friendly and knowledgeable customer service. We can only deliver this by having customer interests at the heart of our business.

1 2 3

What do we do?

We aim to provide to our customers:

- Great products and services, that are safe, legally compliant and competitively priced.
- Excellent service in store, on-line and through customer care.
- Stores that are safe and accessible.
- Fair and truthful marketing.

What have we achieved this year?

2013/14 objectives	Achievements
Enhance customer service in-store through our targeted service training programme ('Customer First').	All store colleagues have completed two phases of the programme. As a result our customer satisfaction measure has improved across the business. Store support colleagues have also participated in training designed to create a customer centric organisation.
Extend on-line offer to include a wider range of products for home delivery.	Following the opening of our new fulfilment facility in October 2013 we have been able to increase the number of products available, including a larger number of products available exclusively on-line.
Improve home delivery times and speed of availability of 'reserve and collect' orders.	From October 2013 we have been able to offer next day delivery on 15,000 products (previously 3,000), and to increase the speed of our standard home delivery service from 5 working days to 3. 'Reserve and collect' service is now available same day if ordered before 12 noon; previously the service was next day.
Roll out 'Dunelm at Home' home consultation service for made to measure curtains and blinds.	This service was available in 45 stores from October 2013, and a further 30 stores from April 2014.

Other achievements

- Rebrand of the business as 'Dunelm' with the strapline "There's no place like Dunelm", supported by a TV campaign to build greater customer awareness.
- We have significantly increased the range of furniture available to order in-store or from our catalogue and website, including a custom made upholstery offer.
- We have improved the ordering system for our made to measure curtain and blinds service to improve accuracy, quality and speed.
- Improved Autumn/Winter and Spring/Summer catalogues, plus a spring mini-catalogue distributed.

Awards:

- UK's second favourite homewares retailer according to the 2014 Verdict survey (third in previous year).
- Readers of House Beautiful magazine voted us the Home Retailer of the year Gold Award for 2013 (third year running). For the first time we also received the Best On-line Retailer award.
- Café Pausa won the 'Sammies' sandwich bar retailer of the year award, beating Costa, Pret A Manger and Greggs amongst others.

2014/15 objectives:

- Reinforce our 'Customer First' ethos through further colleague training.
- Major upgrade of our website and a new mobile app will enhance the on-line customer experience.
- Further extend the range of products available for order from our website and catalogue.

Key – Link to strategy
1 Develop our specialist proposition
2 Expand the store portfolio
3 Grow multi-channel
4 Develop and exploit our infrastructure

COLLEAGUES

Executive responsibility: Finance Director

Why it matters
We employ over 8,000 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.

1 2 3 4

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 at all levels, including our annual sharesave scheme which is open to all colleagues.

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.

At the end of the financial period the breakdown of male and female colleagues was as follows:

	Male	Female	% Female
Group Board	6	2	25%
Senior Managers	15	6	29%
All colleagues	2,625	5,974	69%

We maintain regular communication with all colleagues, through store manager 'huddles', our Dunelm Gazette magazine which is published at least quarterly, and via the computer-based 'Dunelm Academy', to which all colleagues have access. We operate a Colleagues' Council, through which colleague representatives can raise and discuss ideas and concerns with senior management. These are fed back to the Executive Board for consideration and action. In addition we run a colleague engagement survey at least annually, the output of which also is fed back to the Executive Board and actions agreed.

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, HR 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?

2013/14 objectives	Achievements
Continue to add talent to the organisation through our graduate programme.	We recruited 23 graduates in September 2013.
Conduct an employee engagement survey across the Group.	Survey completed in September 2013 and further surveys planned for September 2014 and March 2015.
Colleagues' Council will be re-launched.	This was re-launched across the business with a set timetable for local and area meetings. Feedback and suggestions are put forward every six months to our Executive Board.
Continue to improve our colleague training opportunities, through structured programmes and additional modules on the Dunelm Academy.	Significant training programme launched for all store based colleagues and non-store colleagues under the 'Customer First' initiative during 2013 with further modules continuing to roll out. We continue to invest in training for all colleagues including product knowledge, master classes and management development programmes.
Work with partners to provide opportunities to the unemployed.	We have continued to provide work experience opportunities for the long-term unemployed this year and maintained strong relationships with Job Centre Plus. We continue to offer enhanced support to job applicants who have been unemployed for six months or more.

Other achievements
- We continue to work closely with local communities both through and alongside our work with our national charities and have introduced paid time off for colleagues to participate in volunteering.
- From April 2014, all colleagues now receive a paid 'Birthday day off' as part of our engagement strategy.
- Successfully opened 12 new stores with fully recruited teams during the year to June 2014.

2014/15 objectives
- New careers website to be launched in the summer.
- Further graduate intake planned for September 2014.
- Continue to develop and rollout the 'Customer First' Programme to all areas of the business.
- Continue to develop and deliver learning and development initiatives to meet the needs of the business.
- Respond to issues and opportunities identified from the engagement survey taking place in September 2014 and again in March 2015.
- Continue to recruit and train colleagues in line with our new store opening programme.

HEALTH AND SAFETY

Executive responsibility: Chief Operating Officer

Why it matters

We have a duty of care to ensure the health and safety of customers, colleagues, contractors and all other visitors to our premises. A poor record can lead to prosecution, damages claims and loss of reputation.

1 2 3 4

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 Group's Health and Safety manager.

Although senior management take responsibility for the overall implementation, maintenance and development of our safety management system, every colleague has a responsibility for the safety of themselves and other colleagues, customers and visitors.

In our stores, 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, which monitors compliance to policy and procedures and is reviewed annually to ensure that it meets best practice industry standards and to address any specific risks identified. Our stores complete an online self-audit monthly and area managers audit each of their stores at least once a year. This is backed up by our in-house operational audit team and followed up by the Health and Safety Manager. Regular review meetings are held between the Group's Health and Safety Manager and senior management from key operational functions.

We have a pro-active approach to safety, and colleagues are encouraged to report all potential hazards and risks. We have an on-going programme of education and training, including DVDs and interactive computer based learning, and ensure colleague Involvement through the Colleague Council.

What have we achieved this year?

2013/2014 Objectives	Achievements
Review and update Health and Safety training DVDs.	The training DVDs have been reviewed to ensure up to date information regarding new products and safe merchandising throughout the store.
Develop an online accident reporting system.	Our on line reporting system has been developed in house, amongst the benefits of the new system are; reduction of administration costs, easier to complete and analyse, quicker customer contact and improved service.
Development of new claim handling procedures in line with requirements of legal reforms.	We have streamlined our complaint/claim handling procedures to ensure a quick and effective resolution to customer issues.

Other achievements

During July 2013, our insurers completed an external audit for claims defensibility and rated our health and safety management system highly.

We completed training of all store management teams in 'Safe Merchandising' which focuses on customer accident prevention, and provided them with training materials to support them when cascading on to their store colleagues.

By targeting high standards of compliance to Company procedures and using positive reinforcement of success achieved, we have been able to improve average compliance audit scores to 93% for 2013/14 (89% for 2012/13).

We had an accident rate of 3.5 accidents for every 100,000 customer visits in 2013/14 (down from 3.9 in 2012/13), which reflects our focus on ensuring that our accident analysis feeds into our agreed objectives and actions for the year.

2014/15 objectives

- Further improve support to stores.
- Monitor standards and potential issues in stores more closely.
- Provide additional support to non-store sites through inspections, systems development and training.

CORPORATE SOCIAL RESPONSIBILITY REPORT continued

Key – Link to strategy

1. Develop our specialist proposition
2. Expand the store portfolio
3. Grow multi-channel
4. Develop and exploit our infrastructure

SUPPLIERS AND HUMAN RIGHTS

Executive responsibility: Commercial Director

Why it matters

We do not manufacture our own products; therefore we need to maintain relationships with suppliers and manufacturers worldwide who can meet our high standards for design, innovation, quality and value. These suppliers must also demonstrate that they operate in accordance with recognised standards that uphold human rights.

1 3

What do we do?

Effectively managing human rights throughout our supply chain is one of our key requirements, and management of this area is built into our product procurement procedures. Members of our in-house technology team have extensive experience of working with factories to improve adherence to quality and ethical standards. Monitoring and working to improve human rights issues forms part of the factory management role carried out by our Far East sourcing partners on our behalf.

We work 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 regulations. All manufacturers with whom we trade directly are required to sign up to our 'Code of Conduct' based on the Ethical Trading Initiative ('ETI') base code, this is available on our website www.dunelm.com. No new factory source is taken on without a satisfactory audit being in place, and audits are repeated at least every two years.

Where non-conformances are discovered we have a formal procedure for working with a supplier to help them achieve compliance, usually within three months. Critical non-conformances such as use of child labour, working against choice or absence of valid Building or Fire Certificate are escalated immediately, and supplies cease until the issue has been resolved. Ultimately if progress is inadequate we will cease to trade with the supplier.

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 28 June 2014 was 32 days (2013: 29 days).

What have we achieved this year?

2013/14 objectives	Achievements
Join SEDEX to gain better visibility of supply chain standards.	We are members and are encouraging suppliers to use the Sedex Members' Ethical Audits (SMETA) to allow comparability across the supply base.
Set targets for key suppliers to improve workplace conditions beyond the minimum.	We have extended coverage of our auditing regime to c.1000 factories which supply to us either directly or indirectly. Over 56% of these have 'green' or 'amber' audit status.
New sustainability standards to be introduced – to encourage better water usage, reduction of harmful effluents, use of recycled materials and energy efficiency.	The volume of polystyrene waste has been reduced, by moving to more environmentally friendly materials and engineered packaging solutions. SMETA factory audits now include a sustainability section, so water usage, effluents etc can be monitored and processes improved.
Procedure to be implemented to ensure full traceability for timber and paper products.	We are working with a third party to help validate and maintain the traceability information for timber based materials.

Other achievements

We have improved our internal management of supply chain human rights by creating our own database containing details of factory audits and on-going work on corrective actions. We have provided specialist training for our Technology team and also built consideration of corrective action progress into standard supplier monitoring procedures. Through our Sedex membership and use of the SMETA standard audit we are able to evaluate factories fairly and have used Sedex resources to help educate our factories.

2014/15 objectives

- Improve communication with factories to develop their understanding of our requirements.
- Increase the proportion of factories with 'green' or 'amber' audit status.
- Continue to develop our in-house expertise in relation to human rights issues.

COMMUNITY

Executive responsibility: Commercial Director

Why it matters
It is important for us to be responsible members of our community, to maintain our reputation with customers, colleagues and the general public.

1 2 3 4

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, with the top three recognised in the Dunelm Gazette.

We support colleagues who are raising money for charities of their choice, often by matching the sums raised. From 2014, all colleagues are permitted a day’s paid leave for charitable activities.

We do not make any political donations.

The Group pays corporation tax on its operations In the United Kingdom and does not operate in any tax havens, or use any tax avoidance schemes.

What have we achieved this year?

2013/14 objectives	Achievements
Support our Charity of the Year, Barnardo’s whose work includes reaching and helping children who have been sexually exploited, young people leaving the care system, children with a parent in prison and families struggling to cope.	Funds were raised through a variety of ways, the annual Friends and Family night, (a themed fancy dress fundraising evening in store), through sale of key rings, bake sales, fancy dress days, sample sales and team fundraising events.

The total value of donations made by the Group in the year ended 28 June 2014 was £206,000 (2013: £80,000). This includes a donation of £129,000 in lieu of 2013 annual bonus waived by Will Adderley. Total funds raised for charity by the Group and colleagues was £352,000 (2013: £205,000).

2014/15 objectives

- During 2014/15 our charity of the year will be Barnardo’s.
- We will continue to support our colleagues in their charitable fundraising efforts.

Key – Link to strategy
1. Develop our specialist proposition
2. Expand the store portfolio
3. Grow multi-channel
4. Develop and exploit our infrastructure

ENVIRONMENT

Executive responsibility: Finance Director

Why it matters
Dunelm recognises that it has a responsibility to manage the impact of its business on the environment both now and in the future. The Group is committed to controlling and minimising the impact of its operations, both directly and indirectly, in the key areas of waste management, energy consumption Greenhouse Gas (GHG) emissions.

2 4

The Group has an 'Environment Committee' consisting of senior managers representing key areas of the business. This team is tasked with the development and implementation of strategy as well as ongoing monitoring of environmental performance.

1. WASTE RECYCLING

What do we do?
Dunelm is committed to increasing the volume of waste which is recycled whilst maintaining the status of 'zero waste to landfill'.

Our 'Recycle at Work' initiative ensures that all superstores and warehouses have the capability to segregate, grade and process waste locally and that colleagues are engaged and supported to deal appropriately with waste at source. We have invested across the estate in balers, colour coded bins and signage and conduct twice-yearly waste audits to ensure on-going compliance and improvement.

Our National Distribution Centre ('NDC') in Stoke recycles all of our cardboard, plastics, paper, bottles, and cans. Cardboard and plastic from this centre is subsequently sold through our partnership with a packaging supplier to be reprocessed into new packaging. In addition we segregate all of our metal, wood and electrical items to be sold for recycling and eventual re-use.

Investment in the NDC, combined with our drive in stores has increased the level of recycled waste to 83% (2013: 82%)

Any waste that is not recycled within the business is sent offsite for further sortation, to extract other recyclable content, with the remaining 'general waste' being incinerated in a waste to energy plant with carbon capture technology.

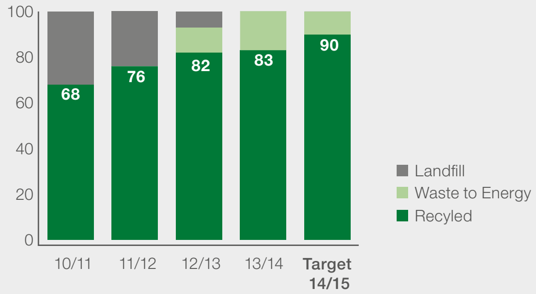
We have also focused on reducing supply-chain waste at source. In 2014 we have increased investment in re-usable totes. In addition we have eliminated the use of polystyrene packaging in two key suppliers and ensure that all suppliers package in clear LDPE ('Low Density Polyethylene'), this product having a much greater recyclable content.

Lastly we have launched a programme with HM Prison Service to repair and re-use damaged furniture. If the stock cannot be re-sold as 'Grade A' then it will used to support prisoners integrating back into society or donated to HM Prisons charity shop.

2013/14 Achievements

2013/14 objectives	Achievements
Maintain strategy of zero waste to landfill.	Dunelm has achieved 'Zero Waste to Landfill' in 2013/14.
Increase the recycled element of waste.	Recycled waste increased to 83% in 2013/14.
Reduce the level of polystyrene in packaging by 50%.	Polystyrene has been reduced in circa 10% of packaging to date.

Waste recycled (all stores) – %



2014/15 objectives
- Maintain 'zero waste to landfill'.
- Increase the recycled element of waste to over 90%.
- Continue to reduce polystyrene content in packaging.

2. ENERGY USAGE

What do we do?

Dunelm targets energy reduction on a site-by-site basis. We ensure that all sites are fitted with Automatic Meter Reading ('AMR') smart meters to monitor and control consumption of both electricity and gas. Data on energy consumption is captured on a half-hourly basis allowing us to profile high or unusual patterns, target specific sites and to monitor the success of our energy reduction initiatives.

In addition stores are fitted with Building Management Systems ('BMS') as standard. These BMS are hosted and monitored by a specialist partner and are designed to help optimise energy usage while maintaining an appropriate trading environment for our customers and colleagues. At the end of the year we had 130 stores (2013: 118) with BMS.

Key initiatives to reduce energy usage have included;

- Investment in two full LED stores in Basingstoke and Doncaster
- Introduction of low energy and LED bulbs into all Lighting Department displays
- Removal of in-shelf lighting in stores where appropriate
- Reduction in lux levels in stores during non-trading periods
- Reduction of night-time gas usage

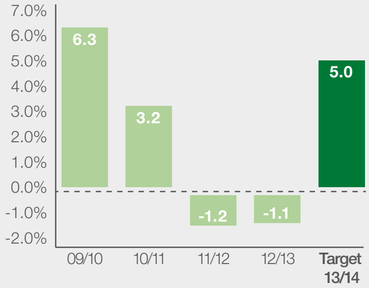
Over the course of the year, despite these actions, we have seen an increase in electricity usage of 1.1% in like-for-like stores although this was impacted by the untypically hot weather in July & August where consumption rose by 20% year-on-year. Underlying electricity usage, excluding this initial 5-week period, showed a reduction of 0.6% year-on-year.

Gas usage has decreased by 16.6% year-on-year, partly as a result of the mild winter, but also as a result of our success in reducing seasonal night time usage.

What have we achieved this year?

2013/14 objectives	Achievements
To reduce electricity usage by 5% in LFL stores.	Electricity consumption increased by 1.1%.
To reduce gas usage by 10% in LFL stores.	Gas usage has reduced 16.6%.
To fully trial LED lighting technologies in new stores.	Full LED Investments have been made in Basingstoke and Doncaster.

Y-O-Y Reduction in electricity consumption (LFL stores) – %



2014/15 objectives

- Reduce electricity by 5% in LFL stores.
- Reduce gas usage by 10% in LFL stores.
- Roll-out full LED in new stores.

3. GREENHOUSE GAS EMISSIONS (GHG)

What do we do

The Group continues to source electricity from 'Green Energy' supplies such as combined heat and power sources where CO_2 emissions are 30% lower than the national average.

As part of our carbon reduction work we have invested in photovotaic technology on the roof of our Leeds store. This array is targeted to generate over 85,000 KWhr's of electricity and replace energy sourced through the national grid.

We continue to reduce the emissions generated by our company car fleet by increasing and encouraging the use of fuel efficient vehicles in all schemes. Average emissions were 112 CO_2 g/km (2013: 114 CO_2 g/km).

The Group works with a specialist partner to consult on our energy buying strategy, investments in energy saving technology and to further focus on reducing our carbon emissions.

Dunelm participates in the Environment Agency's Carbon Reduction Commitment ('CRC') scheme and have, in addition, achieved accreditation with the Carbon Trust Standard ('CTS') recognising our success and commitment to reducing our carbon footprint.

Carbon Dioxide Equivalent (CO_2e) emissions data is reported using the GHG Protocol Corporate Standard (Scope 1 & Scope 2) and applies to our organisational boundary as defined by the 'operational control' approach.

The methodology used to calculate our emissions is based on the UK Government's GHG Conversion Factors for Company Reporting 2013. CO_2e emissions were as follows:

Tonnes of CO_2e	2014	2013
Purchase of Energy	28,504	26,747
Cars on Company Business	650	500
Total	29,154	27,247
Intensity Measure – tCO_2e per £1m Group Revenue	39.93	40.24

Dunelm uses 'Tonnes of CO_2e per £m of turnover' as its intensity measure reflecting the link between growth, activity and performance.

What have we achieved this year?

2013/14 objectives	Achievements
Reduce relative CO_2 emissions per £1m turnover year on year.	tCO_2e have reduced 0.8% year-on-year.
Trial electricity generation from solar panels.	Solar array installed at Leeds.

2014/15 objectives

- Reduce tCO_2e emissions year on year.
- Invest in an additional photovoltaic solar scheme.

Will Adderley
Chief Executive

11 September 2014

DIRECTORS AND OFFICERS

A Audit and Risk Committee member
B Nominations Committee member
C Remuneration Committee member

Geoff Cooper B C
Non-Executive Chairman

Key strengths: A former 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. Member of the Remuneration and Nominations Committees and attends Audit and Risk Committee meetings by invitation.

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. Chief Executive of Travis Perkins plc between 2005 and 2013.

Other Commitments: Non-Executive Chairman of Bourne Leisure Holdings Limited and Card Factory plc; Non-Executive Director of Informa plc.

Will Adderley B
Chief Executive

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

Dunelm role: Leads the Group and chairs the Executive Board. In addition to his board role, provides liaison with the Remuneration Committee for reward below Board level. Member of the Nominations Committee and attends Audit & Risk Committee meetings by invitation. A major shareholder.

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 and was reappointed Chief Executive in September 2014.

Previous Experience: All parts of Dunelm's business.

Other Commitments: None.

David Stead
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 and HR departments, as well as taking responsibility for a number of cross-functional initiatives. Participates in Audit and Risk Committee meetings by invitation and sits on the Executive 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: Non-Executive Director of Card Factory plc.

Simon Emeny A B C
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: Chief Executive of Fuller Smith and Turner plc.

Marion Sears A B C
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 colleagues 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: Non-Executive Director of Persimmon plc, Fidelity European Values plc and Octopus AIM VCT plc.

Matt Davies A B C
Non-Executive Director

Chair of Audit and Risk Committee*.

Key strengths: A current Chief Executive 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 and Risk Committee.

Joined Dunelm Board: February 2012.

Previous Experience: Qualified accountant. Chief Executive of Pets at Home.

Other Commitments: Chief Executive of Halfords Group plc.

Liz Doherty A B C
Non-Executive Director*

Key strengths: A former Finance Director with extensive operational experience in international consumer and retail businesses, specifically with brands, marketing and online. 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: May 2013.

Previous Experience: Qualified accountant. Finance Director of Reckitt Benckiser plc, Brambles Limited (Australia) and Group International Finance Director of Tesco plc.

Other Commitments: Non-Executive Director of Nokia Corporation and Delhaize Group.

Andy Harrison A B C
Non-Executive Director

Key strengths: A current CEO with considerable experience of leading large consumer facing organisations with a strong service offer. 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: September 2014.

Previous Experience: Chief Executive of easyJet plc from 2005 to 2010. Chief Executive of RAC plc between 1996 and 2005. Non-Executive Director and chair of Audit Committee at EMAP plc from 2000 to 2008.

Other Commitments: Chief Executive Officer of Whitbread PLC.

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: November 2011.

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

Other Commitments: None.

Bill Adderley Founder and Life President
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.

Nick Wharton was a Director and Chief Executive of the Group during the financial period and up until 10 September 2014.

* Note that with effect from 12 September 2014 the above responsibilities change. Please see the section headed 'Change of Non-Executive Director Responsibilities' on page 35.

CORPORATE GOVERNANCE
CHAIRMAN'S LETTER

Geoff Cooper
Chairman

Dear Shareholder
Governance continues to be a focus of governments, shareholders and regulators, and as usual we have monitored developments and adapted accordingly.

We continue to believe that sound governance is an essential requirement for long-term, sustainable growth and we apply regulatory guidelines in a pragmatic way that adds value to your Board and your Company.

Board succession has continued to be an area of focus for us and our work in this area has led to the re-appointment since the year end of Will Adderley as Chief Executive of the Group.

Also since the year end we have appointed a new Non-Executive Director, Andy Harrison. Andy's perspective and understanding of consumer behaviour and the challenges of leading high quality, world class organisations will add considerably to development of strategy.

We have also given particular consideration to the question of director independence as our Senior Independent Director, Marion Sears, has now served more than nine years on the Board. The Corporate Governance Code, and from May 2014 the Listing Rules, require the Board to consider the independence of all Non-Executive Directors annually, which we did at our meeting in September 2014. We concluded that all Non-Executive Directors continue to exhibit the required independence, and to add value to the Board.

We have also announced some changes to the responsibilities of the Non-Executive Directors, which are outlined in this report. I would like to thank Marion for her work as Senior Independent Director and Chair of the Nominations and Remuneration Committees; I have served on a number of public company boards, and I would count Marion as one of the most hard working, diligent and responsible committee chairs to be found anywhere. I also thank Matt Davies for chairing the Audit and Risk Committee for the past two and a half years, as he assumes the role of Chair of the Remuneration Committee in Marion's place.

The work of the Audit and Risk Committee has been at the forefront of governance developments this year, with requirements for auditor rotation continuing to evolve, and responsibilities widening to include a review of whether the annual report is "fair, balanced and understandable". As mentioned in our 2013 annual report, this year we tendered the external audit, inviting a number of parties including a firm outside the 'big four'. In January 2014 we appointed PricewaterhouseCoopers in place of KPMG, who I would like to thank for their work over past years. We have also adopted a formal audit tender policy.

In January we held our third Corporate Governance presentation, attended by a number of our major institutional shareholders and their representative bodies. We had an open discussion of a number of topics that are important to our shareholders and ourselves, including succession, remuneration, corporate responsibility and auditor rotation.

At our AGM this year as usual all Directors will be seeking reappointment. In accordance with the new Listing Rules, each of the Non-Executive Directors will, in addition, be subject to a vote of shareholders independent of the Adderley family. We will again be seeking authority to buy back shares to satisfy employee share option entitlements and seeking a waiver under the Takeover Code.

I look forward to meeting shareholders at the AGM.

Yours sincerely

Geoff Cooper
Chairman

11 September 2014

CORPORATE GOVERNANCE REPORT

Overview

Our approach to governance can be summarised as follows:

- 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 includes 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.

2013/14 Summary

Principal activities

- Full compliance with the Corporate Governance Code during the period.
- New auditors appointed following competitive tender.
- Corporate Governance presentation to investors held in January 2014.
- Board evaluation conducted.
- All Directors submitted for reappointment at the AGM; NEDs to be subject to an additional independent vote.
- Rule 9 waiver approved to enable share buybacks; further approval sought at this year's AGM.

Since the year end:

- Will Adderley reappointed as Chief Executive from 11 September 2014.
- Andy Harrison appointed to the Board as Non-Executive Director on 1 September 2014.
- Change of Non-Executive Director responsibilities from September 2014.

For more information please see the copy of the presentations that we made to our major institutional investors and shareholder representatives in January 2012 , 2013 and 2014, available in the 'Reports and Presentations' section of our corporate website.

Code compliance

This report explains how we have applied the principles of good governance and code of best practice set out in the Corporate Governance Code published in September 2012 (the 'Corporate Governance Code').

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

CORPORATE GOVERNANCE REPORT continued

Board role and composition

The role of the Board is to set the strategy that will secure the continued growth of the Group over the long term in the interests of its shareholders, whilst preserving and enhancing our culture. In doing so we take account of our responsibilities to colleagues, customers, the community in which we operate and the interests of our other stakeholders.

Within this context, the Board has overall responsibility for controlling the Group, making decisions relating to the Group's strategic direction and measuring progress towards strategic goals.

Board balance and committee membership is fully compliant with the requirements of the Corporate Governance Code.

The names and roles of each of the Directors during the period are set out in the table below. Andy Harrison was appointed to the Board on 1 September 2014.

Board Structure at date of this report

Geoff Cooper
Chair

Executives

- **Will Adderley** – Chief Executive*
- **David Stead** – Finance Director

Independent Non–Executives

- **Marion Sears** – SID, Chair of Nominations and Remuneration Committees
- **Matt Davies** – Chair of Audit and Risk Committee
- **Simon Emeny**
- **Liz Doherty**
- **Andy Harrison**

* Nick Wharton was Chief Executive during the financial period and up until 10 September 2014.

Independence of Non-Executive Directors

The Board considers that Geoff Cooper was independent on appointment and that Marion Sears, Simon Emeny, Matt Davies, Liz Doherty and Andy Harrison are independent. Two directors, Geoff Cooper and Marion Sears, have served nine years on the Board during the 2013/14 financial year (seven years since flotation of the Company).

As required by the Corporate Governance Code and the Listing Rules of the United Kingdom Listing Authority, in September 2014 the Board considered whether all Non-Executive Directors continue to exhibit independence of character and judgement, and confirmed that they do.

However the Board is aware that certain investor representatives and proxy advisers apply their own criteria for independence, and automatically treat Non-Executive Directors as non-independent once they have nine years' service, regardless of the Board's determination. Notwithstanding Marion Sears' tenure, the Board retains the required balance of Executive and Independent Non-Executive Directors that is required by the Code. Nevertheless, as we announced on 17 July 2014, some changes will be made to the responsibilities of our Non-Executive Directors with effect from 12 September 2014, and these are outlined below.

As noted in the report of the Nominations Committee, Board refreshment is a continued area of focus and the tenure of all Directors is being considered as we manage succession over the next few years. Our policy on Board diversity is explained in the Nominations report.

Change of Non-Executive Director responsibilities

To address the concerns of certain investor bodies and proxy agencies who do not regard Marion Sears as independent in view of her tenure, Marion will retire from her positions as Senior Independent Director and Chair of the Remuneration Committee, and the following changes will take effect from 12 September 2014:

	Current	With effect from 12 September 2014
Senior Independent Director	Marion Sears	Simon Emeny
Audit and Risk Committee Chair	Matt Davies	Liz Doherty
Remuneration Committee Chair	Marion Sears	Matt Davies
Nominations Committee Chair	Marion Sears	Marion Sears

Marion Sears will remain as a member of the Audit and Risk and Remuneration Committees and will continue to chair the Nominations Committee for a further period, in order to ensure continuity of approach during the next stage of Board succession. It is anticipated that the chair of the Nominations Committee will pass to a new chairman of the Board following chairman succession in the future.

Revised Board Structure from 12 September 2014

Geoff Cooper
Chair

Executives

Will Adderley
Chief Executive

David Stead
Finance Director

Independent Non–Executives

Simon Emeny
Senior Independent Director

Matt Davies
Chair of Remuneration Committee

Liz Doherty
Chair of Audit and Risk Committee

Marion Sears
Chair of Nominations Committee

Andy Harrison
Non-Executive Director

Executive Director responsibilites

The Board has adopted written statements setting out the respective responsibilities of the 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.

CORPORATE GOVERNANCE REPORT continued

Board attendance

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

Director	Role	Meetings attended:
Geoff Cooper	Non-Executive Chairman	8
Marion Sears	Senior Independent Director and Chair of Remuneration and Nominations Committees	8
Will Adderley	Executive Deputy Chairman[2]	8
Simon Emeny	Independent Non-Executive Director	8
Nick Wharton	Chief Executive[2]	8
David Stead	Finance Director	8
Matt Davies	Independent Non-Executive Director and Chair of Audit and Risk Committee	8
Liz Doherty	Independent Non-Executive Director	8
Andy Harrison	Independent Non-Executive Director[1]	0

[1] Andy Harrison was appointed after the end of the financial year.
[2] Nick Wharton was Chief Executive during the period and until 10 September 2014. Will Adderley was Executive Deputy Chairman during the period and became Chief Executive on 11 September 2014.

Board activities

There is a schedule of matters reserved to the Board for decision or approval, which 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. There is a rolling agenda of other operational, strategic and risk topics which is regularly refreshed to reflect the most up to date strategy and 'live' issues in the business. The principal topics discussed by the Board in 2013/14 were:

Strategic

- Strategy
- Board independence, composition and diversity
- Board and senior management succession
- Budget
- Dividend policy and return of cash to shareholders
- Logistics strategy

Risk

- Risk review
- Health and safety
- Bribery Act
- Ethical sourcing
- IT security and cyber security
- Treasury policy
- Competition Law
- Data Protection

Operational

- Competitor activity
- Multi-channel development
- Brand awareness
- 'Customer First' training programme
- Customer survey and mystery shop
- Colleague engagement survey
- Range development
- Direct sourcing

Assurance

- Corporate Governance presentation
- Investor meetings
- Investor feedback via advisers
- AGM voting and feedback

Following our Board evaluation in 2014, we measured the time spent on strategy, governance and operational performance at each meeting. Over the year, the majority of our time was spent on strategy, followed by governance and operational performance, which the Board considers to be appropriate.

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

Non-Executive Director Meetings

The Chairman and the other Non-Executive Directors met twice during the year without Executive Directors being present and regularly have informal individual meetings with the Executive Directors and other senior managers in the business, usually at a store location. In addition the Non-Executive Directors met 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 and Risk Committee, a Nominations Committee and a Remuneration Committee. The terms of reference of each of these committees 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 43 to 72.

Training and induction

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. This might include, for example, access to recent Board and Committee papers, including strategy documentation; meetings with each of the Executive Directors and the Company Secretary and other members of senior management; store visits.

As part of the annual Board evaluation, any additional training or development needs are addressed by the Chairman with each Director. Please see the Directors' biographies on pages 30 and 31 for details of the specific skills and experience of each Director.

Throughout the year all Directors have visited stores both informally and together with members of the senior management team. Feedback is given at the following Board meeting. One Board meeting was also held near a store (Lincoln) and was followed by a store tour.

The Company Secretary reports to the Board at each meeting on new legal, regulatory and governance developments that affect the Group and actions are agreed where needed. Directors attend seminars and tutorials provided by independent organisations which cover the whole range of governance topics.

Evaluation

Each of the Directors receives a formal evaluation of their performance during the year.

The Board and Committees are also formally evaluated as a whole.

In 2013 we held an externally co-ordinated evaluation by Condign Board Consulting Limited. Actions implemented during the period, as a result of our 2013 evaluation, included:
- Continued focus on Board succession planning, progress considered at each Board meeting;
- Risk appetite considered;
- Board agenda structure was revised to distinguish between strategic, operational and governance items to help ensure that an appropriate balance is struck between them;
- Contacts between NEDs and between NEDs and Executive Directors/Executive Board members, timetabled formally;
- The agenda planner was formally reviewed by the whole Board.

In 2014 we held an internal review led by the Chairman.

The evaluation confirmed that:
- The Board is operating effectively and is closely aligned to the culture of the business;
- Board members are appropriately qualified and experienced for their roles as Directors, and take steps to remain well informed about the Group's activities and operations;
- In board discussions, an appropriate balance is being achieved between governance, strategic and operational matters;
- NED succession planning is still an important area of focus; and
- The increased level of contact occurring over the recent period between directors outside formal board activities has contributed significantly to discussions about strategic topics, including succession.

Agreed actions planned as a result of the evaluation include:
- The Board succession plan will remain a regular Board agenda item (alongside formal Nominations Committee meetings).

CORPORATE GOVERNANCE REPORT continued

Investor relations and understanding shareholder views

We formalised our Investor Relations Strategy in 2013 and it is available on our corporate website. The main elements are:

Event	Company attendees
Results presentation Twice a year	Presented by Chief Executive and Finance Director Attended by other Directors
Meetings with institutional investors ('roadshow') Twice a year	Chief Executive and Finance Director Chairman and Non–Executive Directors attend a selection of meetings
Adderley family dinner Once a year	All Directors and Company Secretary
AGM Once a year	All Directors and Company Secretary
Corporate governance presentation Usually once a year	Chairman, Non–Executive Directors and Will Adderley
Analyst and shareholder presentation at store Every two or three years	Chief Executive and Finance Director Other senior managers

The Chief Executive and the Finance Director report back to the Board after the investor roadshows. The Group's brokers also provide a written feedback report after the full and half year results announcements and investor roadshows to inform the Board about investor views.

The Corporate Governance presentation was hosted by Geoff Cooper, the Chairman and the other Non-Executive Directors in January 2014, with Will Adderley representing the Adderley family shareholding. 14 institutional investors and investor representatives attended. The presentation covered our approach to corporate governance, Board succession, risk, audit, remuneration, corporate social responsibility, changes since last year and live issues. We find this a useful way to communicate and exchange views, and it has been well received by attendees.

Our corporate website contains useful shareholder information, copies of presentations and policies in relation to governance and corporate social responsibility. Please see http://dunelm.production.investis.com.

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

Rule 9 waiver

We will be requesting authority to buy back up to 5 million shares (2.5% of our share capital) at the AGM. As our Chief Executive, Will Adderley, has a beneficial interest in 30.7% of our share capital, in order to exercise this right we have to ask shareholders to approve a waiver of Rule 9 of the Takeover Code, which would otherwise require him to make an offer to buy all of the shares in the Company. We understand that a number of shareholders have concerns about Rule 9 waivers in general, as they can lead to major shareholders gaining 'creeping control'; as a result they automatically vote against the resolution.

We would like to reassure shareholders that:

- Shares bought back by the Company would be held in treasury and used only to satisfy share option entitlements, and not cancelled.
- From 2012, Will Adderley no longer participates in the Long Term Incentive Plan and therefore his shareholding will not increase through that mechanism after the vesting in November 2014.
- Since flotation of the Company in 2006, the Adderley family has reduced its holding (from 67% to 55% currently).
- There has been a Relationship Agreement in place since flotation which provides safeguards to other shareholders – for details please see the Directors' Report on page 73.

We therefore request that shareholders take into account our specific circumstances when making their voting decision in relation to the waiver resolution and we hope that shareholder will support the Board's recommendation.

Significant shareholders

The Group's significant shareholders are listed in the Directors' report on page 74 and voting rights are stated on page 73.

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 Will 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.
- Until 6 March 2014, Geoff Cooper was a Director of Travis Perkins plc which potentially competes with the Company for retail property. Authorised on the basis that Geoff was not involved in day to day decisions in relation to the property portfolio in either Company.
- On 14 November 2013, Nick Wharton was appointed a Director of Mothercare plc which potentially competes with the Company for retail property. Authorised on the basis that Nick is not involved in day to day decisions in relation to the property portfolio in Mothercare plc.

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

Any conflicts are 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.

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 him or herself 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 each 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 or her office be vacated if he or she 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. Non-Executive Directors will also be subject to a separate vote by shareholders independent of the Adderley family as required by the Listing Rules of the United Kingdom Listing Authority.

Powers of Directors
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 Act, 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 and the Chief Executive respectively.

At the Annual General Meetings of the Company from 2007 onwards, the Board has sought and been given authority to issue shares and to buy back and reissue shares. Similar resolutions are being tabled at the 2014 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. Any shares bought back would be held in treasury for reissue to employees who exercise options under one of the Group's share incentive schemes. 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.

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

Governance and risk
Risk is a 'whole Board' matter for Dunelm. Given the size of our Board and the relative lack of complexity in our business we do not have a separate Risk Committee, our Audit and Risk Committee oversees risk as part of its activities.

We believe that risk is best managed by a combination of the following:
- Formal risk management processes as described in this report.
- The Board and senior management leading by example.
- Alignment through shareholding.
- Embedding our culture and ethics.

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

The diagram below sets out how responsibility for risk management is allocated.

Board	Collective responsibility for managing risk	• Formal consideration of risk appetite • Formal risk review twice annually • Consideration of 'what keeps us awake at night' • Standard agenda items • Regular timetabled presentations • Regular 'Deep Dive' reviews • Monitor KPIs through Board reports • Executive members have line responsibility for managing specific risks
Audit and Risk Committee	Oversees risk management process	• Formal risk review twice annually • Selects topics for 'Deep Dive' reviews
Executive Board	Members have line responsibility for managing specific risk areas	• Periodic review of risk register • Regular consideration of 'what keeps us awake at night' and mitigating actions • Participate in annual risk review process

- Risk management is a collective Board responsibility. The Board as a whole sets the “risk appetite”, in the context of which major decisions are taken, including our approach to risk management.
- Risks are reviewed formally twice a year and separately management consider the main risks that ‘keep us awake at night’. Important risk topics are covered in-depth either by regular timetabled presentations (e.g. health and safety), by ‘Deep Dive’ discussions (e.g. competition law, cyber security), or regularly as a standard agenda item (e.g. competitor activity).
- The Audit and Risk Committee is responsible for overseeing the risk management framework. Risks are reviewed by the Committee formally twice a year. Risk topics selected by the Audit and Risk Committee are considered ‘in-depth’ at Board meetings, supported by a paper prepared by the relevant executive. In the period topics covered included Competition Law compliance, Data Protection, cyber security and food safety.
- 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 highest priority risks are identified for specific focus. A member of the Executive Board is allocated responsibility for management of each risk.
- The Executive Board reviews the risk register periodically throughout the year. It is presented twice per annum to the Audit and Risk Committee and key risks and mitigating actions are taken on to the Board agenda for monitoring as appropriate.

Internal control and internal audit

The Board is responsible for the Group’s system of internal control and for reviewing its effectiveness. The diagram below summarises the Group’s system.

Board	Audit and Risk Committee	Executive Board	Internal Audit Programme	Operational Audit Team
• Collective responsibility for internal control • Formal list of matters reserved for decision by the Board • Control framework setting out responsibilities • Approval of key policies and procedures • Monitors performance	• Oversees effectiveness of internal control • Receives reports from external auditors • Approves internal audit programme • Receives reports generated through the internal audit programme	• Responsible for operating within the control framework • Reviews and monitors compliance with policies and procedures • Recommends changes to controls/policies where needed • Monitors performance	• Reviews specific matters selected by the Audit and Risk Committee	• Reviews compliance with certain internal procedures in stores and at other locations

The system of internal control comprises:

- A list of matters specifically reserved for Board approval, for example significant capital expenditure.
- A well-established control framework comprising clear structures and accountabilities for colleagues, well understood policies and procedures and budgeting and review processes.
- Each Head of Department and 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 and Executive Board 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 and Risk Committee has oversight of the system of internal controls and of the internal audit programme (see below) and receives the report of the external auditor following the annual statutory audit.

The Audit and Risk Committee considers that a permanent internal audit function is not required 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. There is however a programme of internal audit activities carried out either by external or internal teams, reporting to the Audit and Risk Committee. The topics reviewed in 2013/14 were readiness for greenhouse gas reporting, business continuity planning, payment controls and certain aspects of compliance with pensions auto-enrolment regulations. The Committee confirmed in February 2014 that this method of internal audit remains satisfactory.

CORPORATE GOVERNANCE REPORT continued

Please note that internal control systems such as this are 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 or accounting misstatement.

The Board confirms that where any significant failures or weaknesses have been identified from the risk management review or the internal control procedures, actions have been taken to remedy these.

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.
- Executive Board members and Heads of Department have received training and also signed a declaration of compliance, which is an annual process.
- All members of the Buying, Merchandising and Quality departments are required to attend a Bribery Act training session.
- Standard terms and conditions for suppliers include a Bribery Act clause.
- The Whistleblowing Policy refers specifically to the Bribery Act.

This report was reviewed and approved by the Board on 11 September 2014.

Geoff Cooper
Chairman

11 September 2014

LETTER FROM THE CHAIR OF THE AUDIT AND RISK COMMITTEE

Matt Davies
Chair of the Audit and Risk Committee

Dear Shareholder,
This is our first report under the revised Corporate Governance Code and I hope that the additional disclosures will give a greater Insight into how the Audit and Risk Committee carries out its responsibilities. In accordance with the new requirements, we have also confirmed to the Board that we consider the annual report and accounts as a whole to be "fair, balanced and understandable".

As KPMG had been the Group's auditors since 2003, we carried out a competitive tender for our external audit during the year, which included a 'non big four' firm. PricewaterhouseCoopers offered the best combination of quality and price, and in January 2014 we appointed that firm as auditors for the 2013/14 accounts in place of KPMG. I would like to thank KPMG for the work they have conducted during their ten year tenure.

In accordance with best practice, we intend to tender the external audit every 5 years going forward.

2013/14 was the first year of our formalised internal audit programme. Reports were received by the Committee on readiness for Greenhouse Gas reporting, business continuity planning, payment controls and compliance with pensions auto-enrolment regulations. Further information is provided in the report.

Shareholders will note that we did not pay any advisory fees to our auditor PwC in the financial year.

Following the change of Board responsibilities noted in the Corporate Governance Report, this is my last report as Chair of the Audit and Risk Committee, and I welcome Liz Doherty as the incoming Chair.

I look forward to meeting shareholders at the AGM.

Yours sincerely,

Matt Davies
Chair of the Audit and Risk Committee

11 September 2014

AUDIT AND RISK COMMITTEE REPORT

2013/14 Summary

Principal activities

- Tender of statutory audit led to appointment of PricewaterhouseCoopers in January 2014
- Policy to tender statutory audit at least every five years
- Formal risk appetite statement adopted
- First reports received from the formalised internal audit programme

This report provides details of the role of the Audit and Risk 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 Group's website, www.dunelm.com.

The Committee has approved a policy which allows employees to raise legitimate concerns in confidence without fear of discrimination, including access to an independent whistleblowing helpline. A copy of our policy is available on our corporate website. During the year we have agreed that the Committee will receive a report annually detailing the calls made to the helpline.

The following Directors served on the Committee during the year:

Member	Period from:	To:
Matt Davies (Chair)	8 February 2012	To date
Marion Sears	18 January 2005	To date
Simon Emeny	25 June 2007	To date
Liz Doherty	1 May 2013	To date
Andy Harrison[1]	1 September 2014	To date

[1] Andy Harrison joined the Board after the financial year end.

The Company Secretary acts as secretary to the Committee.

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

The Board considers that I have recent and relevant financial experience by virtue of my professional qualification and my executive role as Chief Executive of Halfords Group plc.

Committee activities in 2013/14

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

Member	Meetings attended:
Matt Davies	2
Marion Sears	2
Simon Emeny	2
Liz Doherty	2
Andy Harrison	0[1]

[1] Andy Harrison joined the Board after the financial year end.

During the year the activities of the Committee included:

Routine items

- Approval of the full year results issued in September 2013 and the half year results issued in February 2014.
- Review of the process for identifying and managing risk within the business in September 2013, including a review of the risk register, and a mid year update of these in February 2014.
- Verification of the independence of the auditor and approval of the scope of the audit plan and the audit fee.
- Review and confirmation of the Group's policy for use of the auditors for non-audit work (see below).
- Review of fraud and Bribery Act controls and cyber security are standing agenda items for each meeting.
- Receipt of internal audit reports.

Specific topics

- Following a tender of the statutory audit, a new firm was appointed for the 2013/14 audit (see below).
- A policy on future tender of the audit was agreed (see below).
- The schedule of risk topics to be considered in-depth at Board meetings was updated; in the period these included cyber security, disaster planning, Competition Law compliance and Data Protection Act compliance.
- We reviewed a formal statement of our risk appetite.

Significant areas of judgement

Within its terms of reference, the Committee monitors the integrity of the annual and half-year results and interim management statements, including a review of the significant financial reporting issues and judgements contained in them.

At its meeting in September 2014, the Committee reviewed a comprehensive paper prepared by the Finance Director, which analysed the Group's results for the financial year; highlighted matters arising in the preparation of the Group financial statements; and provided forecasts to support the Directors' going concern statement. The Committee also considered a paper prepared by the external auditors, which included significant reporting and accounting matters.

The major accounting issue discussed by the Committee concerned the Group's approach to writing down the value of obsolete inventory. The Committee noted the basis of calculation, which was in accordance with the Group's accounting policy, and concluded that the overall inventory valuation included in the Group's financial statements was fair and reasonable.

The Committee confirmed that it was satisfied that the judgements made by management are reasonable and that appropriate disclosures have been made in the accounts. The Committee also confirmed to the Board that it considered the annual report and accounts as a whole to be "fair, balanced and understandable".

External auditor

As mentioned in last year's report, the Committee decided to tender the statutory audit for 2013/4 as KPMG had been the Group's auditor since 2003. A formal tender process was conducted, including KPMG and a 'non big four' firm. The tender was led by myself, with support from David Stead, the Finance Director, and other members of his team.

PricewaterhouseCoopers offered the best combination of quality and price and as a result the Committee recommended that they be appointed, which the Board accepted. As a result KPMG resigned and PricewaterhouseCoopers were appointed by the Board in January 2014. As part of the appointment process, the Committee considered the independence and objectivity of the new auditors and concluded that the safeguards in place are satisfactory.

One of the primary responsibilities of the Audit and Risk Committee is to assess the effectiveness of the external audit process and make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditors. The committee took a number of factors into account in its assessment including but not limited to:

- The quality and scope of the planning of the audit. In February 2014, the external auditors presented their strategy for 2013/14 to the Committee. The Committee reviewed and agreed with the external auditor's assessment of risks. The Committee also reviewed the audit approach and the approach to assessing materiality for the Group.
- The quality of reports provided to the Committee and the Board and the quality of advice given;
- The level of understanding demonstrated of the Group's businesses and the retail sector;
- The objectivity of the external auditors' views on the controls around the Group and the robustness of challenge and findings on areas which required management judgment;
- The key messages highlighted in the Public Report on the 2012/13 inspection of PricewaterhouseCoopers by the FRC's Audit Quality Review Team (AQRT) and the findings highlighted for audit committees in the AQRT's Annual Report for 2012/13.

The fee paid to PricewaterhouseCoopers for the statutory audit of the Group and Company financial statements and the audit of Group subsidiaries pursuant to legislation was £69,900. A breakdown of fees paid to both PricewaterhouseCoopers and KPMG during the financial year is set out on page 46.

PricewaterhouseCoopers have conducted the statutory audit for 2013/14 and they attended the Committee meetings in February and September 2014. The Committee had the opportunity to meet privately with them during the period.

Resolutions to reappoint PricewaterhouseCoopers as auditor and to authorise the Directors to agree their remuneration will be put to shareholders at the AGM.

Use of auditors for non-audit work

The Committee is aware that the use of audit firms for non-audit work is a sensitive issue for investors and corporate governance analysts, as it could potentially give rise to a conflict of interest.

AUDIT AND RISK COMMITTEE REPORT continued

Our policy is simple – we will only use auditors for non-audit work if:
- they offer demonstrably better capability or lower cost than alternative providers; and
- there is no potential conflict with the independence of the audit.

We have a relatively flat management structure and all work commissioned by our auditor is required to be sanctioned by the Finance Director, who consults with the Committee Chair if the fee involved is significant or if there are any issues regarding independence. Therefore we do not consider that any more complex guidelines are needed.

We decided to retain the services of KPMG for tax advice following the appointment of PricewaterhouseCoopers as auditor. As much of the advisory work that we outsource is tax related, this is expected to result in a reduction in the level of advisory fees paid to our statutory auditor.

No fees were paid to PricewaterhouseCoopers for non-audit work during the year. However, in connection with our internal audit programme, we asked them to conduct a review of compliance with pension auto-enrolment obligations. Whilst this assignment was agreed prior to the appointment of PricewaterhouseCoopers as auditors, the work was not carried out until after the year end. The fee relating to this is £17,500.

KPMG resigned as auditor in January 2014 and did not audit either the half year or full year financial statements. No fees were paid to KPMG during the financial period for audit work, and fees for non-audit work (principally tax advice and tax related projects) were £97,833.

Auditor rotation
The regulatory requirements on mandatory audit tendering and rotation are continuing to evolve and the Committee will monitor developments in this area. However we have decided to adopt a policy that we will tender the statutory audit at least every five years going forward. This means that the next tender will be for the 2018/19 audit at the latest. We will also invite at least one firm outside the 'big four' to participate in the tender process.

Internal audit
The Committee initiated a formalised internal audit programme in 2013 in view of the continuing growth of the Group's business In terms of both scale and complexity. Prior to that it had considered that an internal audit function was not required in view of the adequacy of financial controls in place and the relatively low level of complexity in the business.

The internal audit programme is conducted either by an internal team that is independent of the activity under review, or by an external party, decided on a case by case basis. In either case, the review is conducted on behalf of the Committee and will report back to them.

Topics reviewed in the year are set out below:

Review topic	Reviewed by
Ability to comply with mandatory carbon reporting requirements	External auditors (KPMG) as part of the 2012/13 audit
Adequacy of disaster planning and business continuity plans and procedures	Specialist external business continuity consultants
Payment controls	External advisors (KPMG)
Compliance with pensions auto-enrolment regulations	External advisors (PwC)

Reports were discussed by the Committee and the Board and a number of actions agreed to improve controls.

The Committee also discussed and agreed that this approach to internal audit remains satisfactory.

Change of responsibilities
As noted in the Corporate Governance Report, as Marion Sears will be retiring as Chair of the Remuneration Committee on 12 September 2014, I have agreed to chair that committee. Liz Doherty will take my place as Chair of the Audit and Risk Committee.

This report was reviewed and approved by the Committee on 11 September 2014.

Matt Davies
Chair of the Audit and Risk Committee

11 September 2014

LETTER FROM THE CHAIR OF THE REMUNERATION COMMITTEE

Marion Sears
Chair of the Remuneration Committee

Dear Shareholder,
We have not made any changes to the structure of executive remuneration in recent years and we aim to maintain the same structure for the foreseeable future. Although we have appointed a new Chief Executive since the year end, the Remuneration Policy which is being put to a shareholder vote this year under the new rules is the same as shareholders have voted on in previous years. Other than for Will Adderley, who is a significant shareholder, the majority of the executive remuneration opportunity continues to be performance-based.

During the year base salary for all Directors increased by 2%, the same percentage as for all colleagues. The market has been challenging, we have invested strongly in the business and reported EPS was marginally behind budget. Accordingly the bonus award to executives is 22.5% of base salary. By contrast, the 2011-2014 LTIP produced a CAGR in EPS of 14.3%. This was a strong performance, being 11.4% in excess of RPI over the period and, as a result, 77.5% of the conditional shares awarded in 2011 will vest in November.

Looking forward we have not changed the performance conditions for either the bonus or the LTIP although, as introduced last year, we now use non-financial KPIs to inform our judgement on the annual bonus award. We are not disclosing the details of these KPIs as the formula, based on EPS, prevails this year, and there is no formulaic link.

Since the year end Nick Wharton has stepped down as Chief Executive and Will Adderley has been appointed to this position. Nick has created significant shareholder value during his tenure and is a good leaver. His severance remuneration reflects this but also conforms to our Policy which becomes binding this year. Will Adderley has been appointed as Chief Executive on a median base salary with a bonus opportunity of 100%. However he will not participate in the LTIP scheme as Chief Executive given his significant shareholding.

I hope shareholders appreciate the efforts made to 'keep things simple' in all areas of Dunelm, including remuneration. A similar structure is mirrored below the Board and the Committee provides oversight on senior managements' bonus and LTIP awards, as well as shareholding requirements.

I have chaired the Remuneration Committee since 2004 when we began preparing for IPO and, having served 10 years since appointment, I am happy to hand the responsibility to Matt Davies who I know will continue to keep things appropriate, simple and fair for all stakeholders.

Yours sincerely,

Marion Sears
Chair of the Remuneration Committee

11 September 2014

REMUNERATION REPORT

How our remuneration is aligned to strategy

The principles behind, and the reasons for, the overall remuneration structure that we have adopted for our Executive Directors are directly related to our long term strategic goal of delivering shareholder value through the profitable growth of a quality business.

Since the flotation of the Company our executive remuneration has been structured specifically:

- To pay fairly and appropriately for an individual's role and responsibilities;
- To reward strong performance;
- To be focused on long term value creation;
- To align executives strongly with shareholders through share ownership.

A substantial proportion of the Executive Directors' potential remuneration is variable and performance-related in order to encourage and reward superior business performance and shareholder return. Discretion is allowed in certain circumstances to ensure rewards are appropriate and overall levels of pay are analysed carefully each year.

This is consistent with delivery of the objectives set out in our corporate strategy, which are all long term in nature; namely the growth and development of our specialist product offer, our stores portfolio, our multi-channel capability and our infrastructure. Our approach is also in keeping with the family origin of the business, and is important to the Adderley family who remain our majority shareholders.

It is our intention to maintain a simple and transparent remuneration structure which executives and shareholders alike can easily understand.

Introduction

This Directors' Remuneration Report is divided into three sections: **the Letter from the Chair of the Remuneration Committee**, set out on page 47; the **Policy Report** and the **Annual Report on Implementation**, which follow.

The **Policy Report** sets out the Directors' remuneration policy, which will be put to shareholders for approval at the Annual General Meeting in November 2014 for the first time. Subject to shareholder approval, the policy will be effective as of 11 November 2014. The shareholder vote on the policy report will be binding, and if not passed the Policy Report must be amended and put to a further vote at a specially convened General Meeting.

Once the Policy Report has been approved, no payment may be paid to a Director or past Director unless it is consistent with the approved policy unless shareholder approval is sought. The exception to this is if the payment is made pursuant to a contractual obligation that was in force at 27 June 2012 (when the new Regulations came into force).

The Policy Report which we are putting forward for approval is consistent with the policy which applied during the 2013/14 financial year.

The **Annual Report on Implementation** sets out how the policy has been applied during the financial year being reported on and how it will be applied in the coming year. This report will also be put to shareholders for approval at the Annual General Meeting in November 2014, although the vote on the implementation report is advisory. If this vote were not passed, the Company would consult with shareholders and would be obliged to put the Policy Report back to shareholders for approval at the Annual General Meeting of the Company in 2015.

This report complies with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, as well as the UK Corporate Governance Code and the UKLA Listing Rules.

The Policy Report

Directors' remuneration policy 2014

The policy set out below will take binding effect from the date of its approval by shareholders at the 2014 Annual General Meeting. It will remain in force for three years, with approval being sought for renewal of the policy at the latest at the 2017 AGM.

The information contained in this report is unaudited unless specifically stated as being audited.

Future policy table

The following table sets out the structure of remuneration for Directors of the Company.

Executive Directors

Base salary

Purpose and link to strategic objectives	Fixed remuneration for the role. To attract and retain the high-calibre talent necessary to develop and deliver the business strategy. Reflects the size and scope of the Executive Director's responsibilities.
Operation	Normally paid monthly. Base level set in the context of: • Pay for similar roles in companies of similar size and complexity in the relevant market. • Size, scale and complexity of the role. Should comprise a minority of potential remuneration, with base salary normally set at a median or below, except where the director is also a significant shareholder.
Maximum opportunity	Reviewed annually, with percentage increases in line with the Company-wide review unless other circumstances apply, such as: • A significant change in the size, scale or complexity of the role or of the Company's business • Development and performance in role (for example on a new appointment base salary might be initially set at a lower level with the intention of increasing over time). The Committee does not consider it to be appropriate to set a maximum base salary that may be paid to an Executive Director within the terms of this policy.
Performance metrics	None, although performance of the individual is considered at the annual salary review. No recovery provisions apply to base salary.

Retirement benefits

Purpose and link to strategic objectives	To provide a competitive post-retirement benefit. To attract and retain the high-calibre talent necessary to develop and deliver the business strategy.
Operation	Contribution equivalent to a percentage of base salary made to a defined contribution plan. Delivered as a cash allowance.
Maximum opportunity	Median rate for companies of a similar size and complexity. No element other than base salary is pensionable.
Performance metrics	None. No recovery provisions apply to retirement benefits.

Benefits

Purpose and link to strategic objectives	To provide a competitive benefits package. To attract and retain the high-calibre talent necessary to develop and deliver the business strategy.
Operation	A range of benefits are provided, which may include car or car allowance; private health insurance for the individual and their family; permanent health cover; life assurance; mobile phone; use of a car and driver in connection with the role; colleague discount. Additional benefits, such as relocation expenses, housing allowance and school fees may also be provided in certain circumstances if considered reasonable and appropriate by the Committee. For non-UK executives (none at present) the Committee may consider additional allowances in accordance with standard practice.
Maximum opportunity	Current benefits provided are described in the Annual Report on Implementation on pages 60 to 68. The Committee reserves the right to provide such benefits as it considers necessary to support the strategy of the Company. The Committee does not consider it to be appropriate to set a maximum cost to the Company of benefits to be paid.
Performance metrics	None. No recovery provisions apply to benefits.

Annual bonus

Purpose and link to strategic objectives	Rewards and incentivises delivery of annual financial, strategic and personal targets.
Operation	Paid in cash, after the results for the financial year have been audited, subject to performance targets having been met.
Maximum opportunity	Maximum opportunity – 100% of base salary per annum. For on target performance – 40% of base salary. For threshold performance – 5% of base salary.
Performance metrics	Stretching performance targets are set each year. Performance targets for the Executive Directors are typically based on financial and strategic objectives set by the Remuneration Committee annually. Financial objectives include, but are not limited to, budgeted EPS for the financial year taking into account market consensus and individual broker expectations. The strategic objectives will vary depending on the specific business priorities in a particular year Typically, the majority of the annual bonus for Executives is subject to financial objectives Once targets have been applied, the Committee may apply judgement to amend the bonus payment up or down in the light of performance against personal job objectives, delivery of strategic KPIs and share price performance, although there is no formulaic link. The maximum opportunity including any amendment is 100% of base salary. Subject to recovery provisions (malus) at the discretion of the Committee if there has been a misstatement of results for the year in respect of which the bonus is paid, if there has been an error in calculating performance or in the case of gross misconduct. For bonus payable in respect of financial year 2014/15 onwards, the Remuneration Committee also has the discretion to claw back the bonus up to three years after payment in these circumstances; and in cases of fraud the Committee can apply malus and claw back for an unlimited period of time.

Long Term Incentive Plan

Purpose and link to strategic objectives	Supports delivery of strategy by targeting EPS growth, which the Committee believes to be closely aligned to the drivers of growth In the business over the long term. Rewards strong financial performance and sustained increase in shareholder value over the long term. Aligns with shareholder interests through the delivery of shares.
Operation	Conditional awards are made annually (which can take the form of a conditional award, nil-cost option or nominal value option), with vesting subject to performance over three financial years. Shares earned after applying the performance criteria are subject to an additional two year holding period. For further details please see below. During this two year period dividend entitlement (including, at the discretion of the Remuneration Committee, any special dividend) will also accrue and be paid at the end of that period.
Maximum opportunity	Maximum face value of shares at award date is 150% of base salary. Maximum opportunity – shares worth 150% of base salary at award date. Threshold performance – 25% of the award. Straight-line vesting between the above points.
Performance metrics	Growth in fully diluted EPS over the three year performance period compared with growth in the index of retail prices (RPI) over the same period. The Remuneration Committee considers the target annually taking into account market consensus and individual broker expectations. For information, the target applicable to outstanding awards at the date of this report is: • No part of the award will vest until fully diluted EPS growth exceeds RPI growth by 3%. • 25% of the award vests at RPI growth plus 3%. • 100% of the award vests at RPI growth plus 15%. • Between those figures the award will vest on a straight line basis. Awards are subject to recovery provisions (malus) at the discretion of the Committee if there has been a misstatement of results for the performance period to which the award relates, if there has been an error in calculating performance or in the case of gross misconduct. In respect of awards made from 2014, the Remuneration Committee also has the discretion to claw back vested awards for up to three years from vesting in these circumstances; and in cases of fraud the Committee can apply malus and claw back for an unlimited period of time.

Shareholding targets

Purpose and link to strategic objectives	Aligns with shareholder interests through shareholding.
Operation	Executive Directors are required to build a beneficial holding of shares equal to 100% of salary after 3 years and 200% of salary after 5 years from appointment. Shares that have been earned under the LTIP after the relevant three year performance period and are expected to vest at the end of the two year holding period (taking account of any that would be sold to cover tax and national insurance liability) will be treated as if they are beneficially owned for the purpose of this test. An Executive Director would be expected to retain any shares that vest under the LTIP (after sale of shares to cover tax and national insurance liability on exercise) until this requirement is met. Given that the maximum award at date of grant is 150% of salary and a Director would be required to sell 47% of shares earned after applying performance criteria to cover his or her tax and national insurance liability, this holding requirement is likely to require a personal investment in shares as well as vesting of shares under the LTIP. Failure to adhere to the requirement would be taken into account by the Remuneration Committee when considering whether to issue further awards under the LTIP.
Maximum opportunity	Not applicable.
Performance metrics	Not applicable.

All Employee Share Plan (Sharesave)

Purpose and link to strategic objectives	Promotes share ownership by all eligible colleagues (including Executive Directors).
Operation	All UK employees with a minimum service requirement are eligible to join the UK tax approved Dunelm Group Savings Related Share Option Plan (the Sharesave). Monthly savings are made over a period of three years linked to the grant of an option over Dunelm shares at a discount of up to 20% of the market price (or such other amount as permitted by law) at date of invitation to join the scheme. Invitations are normally issued annually at the discretion of the Remuneration Committee, which also has discretion to set the minimum service requirement, maximum discount, maximum monthly savings and any other limits (such as scaling back) within the terms of the scheme rules.
Maximum opportunity	Maximum participation limits are set by the UK tax authorities. Currently the maximum limit is savings of £500 per month (having increased from £250 per month in April 2014).
Performance metrics	None.

Share Option Plan

Purpose and link to strategic objectives	Promotes share ownership by all eligible colleagues. **Note that although Executive Directors are eligible to receive options under the rules of this scheme, our policy is that this scheme is for below-Board colleagues and that the Executive Directors should not participate.**
Operation	Options are granted to senior employees, usually annually, at the discretion of the Remuneration Committee. The option price is the market price of Dunelm shares on the business day preceding the date of grant. Options may be exercised after three years from grant provided that performance criteria over a three year financial period have been met.
Maximum opportunity	No individual limits apply to individuals who are not Executive Directors. Current practice is to grant awards over shares with a market value of between 50% and 75% of salary. Our policy is that Executive Directors should not receive options under this scheme as well as the LTIP in any year. (For information, the scheme rules provide that the maximum opportunity for Executive Directors options is 150% of base salary at grant date, although the Remuneration Committee may grant awards up to a value of 200% of salary).
Performance metrics	The Remuneration Committee may select a performance condition that applies to the grant of options. The condition applied by the Remuneration Committee is that growth in fully diluted EPS over the three year performance period is 5% or more. Subject to recovery provisions (malus) at the discretion of the Committee if there has been a misstatement of results for the performance period to which the award relates, if there has been an error in calculating performance or in the case of gross misconduct.

Non-Executive Directors

Fees

Purpose and link to strategic objectives	To attract and retain a high calibre Chairman and Non-Executive Directors by offering competitive fee levels.
Operation	Fees for the Chairman and Non-Executive Directors are set by the Board. No Director participates in any decision relating to his or her own remuneration. The Chairman is paid an all-inclusive fee for all Board responsibilities. The Non-Executive Directors receive a basic fee, with supplemental fees for additional Board responsibilities. The level of fee reflects the size and complexity of the role and the time commitment. Fees are reviewed annually and increased in line with the Company-wide increase. In addition there will be a periodic review against market rates and taking into account time commitment and any change in size, scale or complexity of the business. Flexibility is retained to increase fee levels in certain circumstances, for example, if required to recruit a new Chairman or Non-Executive Director of the appropriate calibre. With the exception of colleague discount, no benefits are paid to the Chairman or the Non-Executive Directors, and they do not participate in any incentive scheme.
Maximum opportunity	Maximum fees to be paid by way of fees to the Non-Executive Directors are set in the Company's Articles of Association. Fees paid to each Director are disclosed in the Annual Report on Implementation.
Performance metrics	None.

The Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the policy set out above, where the terms of the payment were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes "payments" includes the Committee satisfying awards of variable remuneration, in relation to an award over shares, the terms of payment are "agreed" at the time the award is granted.

The Committee may also make minor changes to this policy, which do not have a material advantage to Directors, to aid its operation or implementation without seeking shareholder approval but taking into account the interests of shareholders.

Performance measures and how targets are set

The Remuneration Committee selects performance measures that it believes are:

- Aligned with the Group's strategic goals.
- Unambiguous and easy to calculate.
- Transparent to Directors and shareholders.

The financial performance measure applicable to both the annual cash bonus and the LTIP is based on growth in earnings per share ('EPS') over the performance period.

The Remuneration Committee considered the use of EPS as a performance measure carefully when the Company was floated in 2006 and has discussed it with shareholders regularly. It was recently discussed at the Corporate Governance presentation in January 2014. EPS is believed to be closely aligned to the drivers of growth for the business and in the long term, EPS performance is expected to be reflected in shareholder value. As discussed with institutional shareholders at the most recent Corporate Governance presentation in January 2014, EPS is a more suitable performance measure for Dunelm than for many other companies and it is therefore considered appropriate to use it as a single measure, supplemented by discretion reflecting non-financial performance measures as described below. The use of EPS as a primary measure for Dunelm is considered appropriate because of the absence of leverage in the business and because the capital expenditure controls exercised by the Board are sufficiently rigorous to avoid EPS accretion by means of ineffective investment of capital. Should this change the Committee would review whether an additional financial underpin would be appropriate.

Cash bonus

Both financial and non-financial performance measures apply to the annual cash bonus. Each Director's bonus is therefore linked to both personal performance and Group strategy and performance. There is a two step process: application of financial targets, followed by a consideration of performance against KPIs and personal non-financial job objectives linked to delivery of the strategy and share price performance. This may lead to an adjustment (up or down) to result in a payment that the Committee considers to be fair.

The financial target is set by the Committee each year, based on delivery of budget EPS for the financial year. Market consensus and individual broker expectations are taken into account when setting the Budget. The Committee reserves the right to adjust the financial performance target or change the performance condition if justified by the circumstances, for example if there was a major capital transaction.

Following application of the financial performance target, the Committee may exercise its judgement to adjust the bonus payment up or down in the light of performance against personal, non-financial job objectives linked to delivery of the strategy, set at the commencement of the year and assessed by the Remuneration Committee. In addition to personal job objectives, the Committee refers to certain strategic KPIs and share price performance to inform its judgement, although there will not be a formulaic link. The maximum cash bonus that could be paid, including any exercise of judgement, is 100% of basic salary. Any adjustment and the reason for it would be disclosed.

LTIP

The EPS target for the LTIP is based on growth in EPS compared to the increase in the Index of Retail Prices (RPI) over the performance period. The targets that apply to awards that are outstanding are set out in the table above.

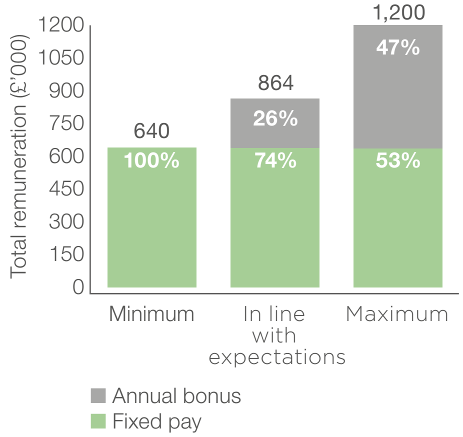
The number of shares comprised in an award or the performance target which applies may be adjusted by the Remuneration Committee in accordance with the plan rules if justified by the circumstances, for example if there were a major capital transaction. Any amendment and the reason for it would be fully disclosed. A copy of the plan rules is available from the Company Secretary on request.

LTIP awards made to Executive Directors prior to approval of this policy may vest on their original terms.

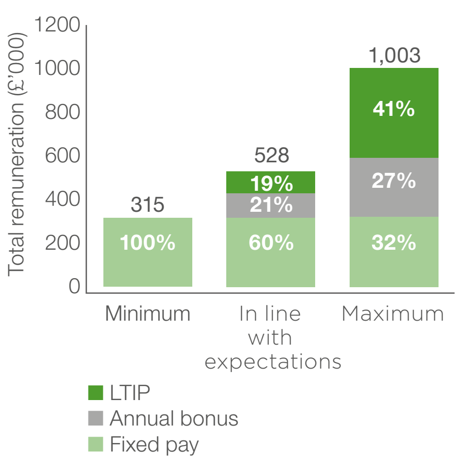
Illustrative performance scenarios

The following graphs set out what each of the Executive Directors could earn in the first financial year to which the policy applies (2014-15) under the following scenarios:

Will Adderley



David Stead



The following assumptions have been made in respect of the above scenarios:

- **Minimum (performance below threshold)** – Fixed pay (comprising base salary, benefit and pension) only with no vesting under the cash bonus or LTIP (see table below)

	Base (Last known salary) £'000	Benefits (As in single figure table page 61) £'000	Pension (10% of last known salary) £'000	Total fixed £'000
Will Adderley	560	24	56	640
David Stead	275	12	28	315

- **In line with expectations –** Fixed pay plus a cash bonus at on target performance of 40% and vesting of 25% of shares under the LTIP
- **Maximum performance –** Fixed pay plus 100% of cash bonus and 100% of shares vesting under the LTIP (150% of base).

It should be noted that the numbers above are likely to be different to the actual pay that is earned by the Executive Directors during the year. Actual pay will reflect company and personal performance over the relevant performance period. Also we are required to show the value of the LTIP award that is expected to be made in the year based on face value at the date of grant without making any assumptions for share price growth.

Please note that as in the past two years, Will Adderley has waived his entitlement to receive an LTIP award.

Recovery

There is provision for recovery of variable pay, as highlighted in the policy table.

At the discretion of the Remuneration Committee, recovery (malus) may be made against any unpaid cash bonus or unvested LTIP options (this includes awards during the two year deferral period following the end of the three year performance period) in the following circumstances:

- performance to which a bonus or LTIP award relates proves to have been misstated; or
- there has been a miscalculation 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
- there has been gross misconduct on the part of the individual.

From 2014 claw back may be operated at the discretion of the Remuneration Committee against all variable awards made after 1 July 2014 in the above circumstances, for up to three years from payment or vesting as appropriate; and in cases of fraud the Committee can apply malus and claw back for an unlimited period of time.

Salary, pension and benefits and Sharesave options are not subject to recovery.

Service contracts and loss of office payments

All of the Executive Directors have service contracts. The notice period for termination is 12 months from either party. If the Company terminates the employment of the Executive Director it would honour its contractual commitment. Any payment of salary on termination is contractually restricted to a maximum of the value of salary plus benefits for the notice period. If termination was with immediate effect, a payment in lieu of notice may be made. The Remuneration Committee may apply mitigation in respect of any termination payment.

The Remuneration Committee has discretion to make a payment in respect of annual cash bonus, provided that it is pro-rated to service.

The limited circumstances in which unexercised LTIP awards might be exercised following termination of an Executive Director's service contract are set out below. If the Remuneration Committee exercises its discretion to allow exercise of an unvested LTIP award, it may make a cash payment in lieu of the anticipated value of the award, calculated at the date of the payment (taking into account pro rating of the award and the extent to which performance criteria may apply, as appropriate).

Non-Executive Directors have letters of appointment. The term is 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. Letters are renewed for up to two additional three year terms, and then renewed annually. The letter of appointment will terminate without compensation if the Director is not reappointed at the AGM.

The Directors' service contracts and letters of appointment are available for inspection by shareholders at the Company's registered office.

Exercise of LTIP and Sharesave options following termination of employment

LTIP

If a participant leaves the employment of the Group, the following provisions apply to options granted under the LTIP:

- Options that have vested but have not yet been exercised may be exercised within 6 months of cessation of employment (12 months in the case of death).
- Except in the case of dismissal for gross misconduct, options which have not yet vested, but where the performance period has elapsed (for example if cessation of employment occurs during the deferral period applicable to LTIP options granted from 2013 onwards), may be exercised within 6 months of the relevant vesting date (or 12 months in the case of death), to the extent that the performance condition has been met. The Remuneration Committee has discretion to allow earlier exercise but would only use this in exceptional circumstances (such as death or ill health retirement), or at its discretion for a good leaver.
- If the participant leaves the Group before an option has vested and before the performance period has elapsed, the option will usually lapse. Except in the case of dismissal for gross misconduct, the Remuneration Committee has a discretion to allow the exercise of options to which the performance period has not elapsed at the date of cessation of employment, within 6 months of the relevant vesting date (or 12 months in the case of death). The Remuneration Committee also has discretion to allow earlier exercise. The Remuneration Committee would only use this discretion in exceptional circumstances (such as death or ill health retirement), or at its discretion for a good leaver.
- If early exercise is permitted, the Remuneration Committee may apply an adjustment to take into account the amount of time that has elapsed through the performance period and the extent to which any performance criteria have been met.

In all cases, unexercised LTIP awards would be subject to recovery (malus) in the circumstances described above. In respect of LTIP awards made after 1 July 2014, claw back may also apply to vested awards.

Sharesave

If a participant leaves the Group, options granted under the Sharesave will normally lapse, but may be exercised within 6 months (or 12 months in the case of death) from the cessation of employment due to death, injury, disability, retirement, or redundancy, or the employing company leaving the Group.

Executive Share Option Plan

Executive Directors do not participate in the Executive Share Option Plan, therefore the details below are given for information only.

If a participant leaves the Group, options will normally lapse.

If the participant dies, an unvested option will vest, unless the Remuneration Committee determines otherwise. The Committee may adjust the number of options that vest to take account of the amount of time that has elapsed through the performance period and the extent to which the performance condition has been met.

If a participant ceases to be employed by the Group by reason of ill-health, injury, disability, retirement, sale of the entity that employs him out of the Group or for any other reason at the Remuneration Committee's discretion (except for gross misconduct), a participant's unvested option will usually continue until the normal vesting date unless the Remuneration Committee determines that the option will vest as soon as reasonably practicable following the date on which the participant ceases to be employed by the Group. It may then be exercised within 6 months of the vesting date.

Change of control and other corporate events

LTIP

The following provisions apply to awards made under the Long Term Incentive Plan in accordance with the Plan rules if there is a change of control or winding up of the Company:

- Any vested but unexercised options may be exercised.
- Any options in respect of which the performance period has elapsed and to which the performance condition has been applied will vest and may be exercised.
- Any options in respect of which the performance period has not elapsed may be exercised at the discretion of the Remuneration Committee, subject to any adjustment to take into account the amount of time that has elapsed through the performance period and the extent to which any performance criteria have been met.

The Executive Director may agree that his awards are 'rolled over' into shares of the acquiring company as an alternative.

If the Company has been or will be affected by any demerger, dividend in specie, super dividend or other transaction which will adversely affect the current or future value of any awards under the LTIP, the Plan rules allow the Remuneration Committee, acting fairly and reasonably, to determine the extent to which any awards should vest and the period within which Options may be exercised.

A copy of the Plan rules is available from the Company Secretary on request.

Sharesave

Sharesave options may be exercised within 6 months following a change of control or winding up of the Company, using savings in his or her account at the date of exercise. The participant may agree that his or her awards are 'rolled over' into shares of the acquiring company as an alternative

If the Company has been or will be affected by a capitalisation, rights issue, subdivision, reduction, consolidation or other variation in respect of which HMRC will allow the variation of options, the Plan rules allow the Remuneration Committee, with the consent of HMRC, to vary the number and / or nominal value of shares covered by an option or the option price to be varied proportionately.

A copy of the Plan rules is available from the Company Secretary on request.

Executive Share Option Plan

Executive Directors do not participate in the Executive Share Option Plan, therefore the details below are given for information only.

In the event of a change of control of the Company, options will vest to the extent that any performance condition has been satisfied at the date of change of control, and, unless the Remuneration Committee determines otherwise, taking into account the period of time which has elapsed between the grant date and the relevant event. Alternatively, the Remuneration Committee may permit or, in the case of an internal reorganisation, require options to be exchanged for equivalent options which relate to shares in another company.

If other corporate events occur such as a demerger, delisting or other event which, in the opinion of the Remuneration Committee may affect the current or future value of shares, the Remuneration Committee may determine whether options will vest. Vesting will be subject to the satisfaction of any performance condition and, unless the Remuneration Committee determines otherwise, pro-rating to reflect the period from the grant date to the date of the relevant event.

In the event of a variation of the Company's share capital or, other than in the case of an option granted under the part of the plan approved by HM Revenue & Customs, a demerger, delisting, special dividend, rights issue or other similar event, which may, in the Remuneration Committee's opinion, affect the current or future value of shares, the number of shares subject to an option and the exercise price and/or any performance condition attached to options, may be adjusted. HM Revenue & Customs approval will be required for adjustment of an option granted under the part of the plan approved by HM Revenue & Customs.

A copy of the Plan rules is available from the Company Secretary on request.

Executive pay and the pay of other colleagues

Pay for all colleagues throughout the Group is set at a level that is fair for the role and responsibilities of the individual, and is designed to attract and retain high calibre talent that is needed to deliver the Group's strategy, without paying too much.

The remuneration of Executive Directors is more heavily weighted towards variable pay than other colleagues, so that a greater part of their pay is linked to successful delivery of strategy and aligned with shareholders. They are also subject to shareholding targets. The remuneration of colleagues below the Board reflects the seniority of the role, market practice and the ability of the individual to influence Company performance.

All eligible colleagues are encouraged to participate in the Sharesave scheme, which enables them to become shareholders at a discounted rate. Participation is usually offered annually at the maximum price discount permitted (currently 20%), at the discretion of the Remuneration Committee.

In setting the policy for the Executive Directors' remuneration, the Committee takes note of the overall approach to remuneration in the Group. The base salary of Executive Directors may be increased annually in line with the Company-wide award unless other circumstances apply, as set out in the policy table.

The Committee does not formally consult with colleagues in relation to executive pay. However colleagues have the opportunity to raise any concerns via the Head of Human Resources through the Colleagues Council, or anonymously through engagement surveys. Recent engagement surveys have not identified executive pay to be a concern to colleagues.

Shareholder views

The Board is committed to on-going engagement with shareholders in respect of all governance matters, including executive remuneration. The Non-Executive Directors hold a Corporate Governance Day, usually annual, hosted by the Chairman and the other Non-Executive Directors, to which all major shareholders are invited. This enables both parties to discuss governance topics, including remuneration, informally. In addition, the Chairman and Non-Executive Directors usually attend results presentations and a selection of shareholder meetings.

Formal feedback on shareholder views is given to the Board twice per annum by the Company's brokers and financial public relations advisers. The AGM reports issued by the Association of British Insurers (ABI), ISS and Pensions Investment Research Council (PIRC) are also considered by the Board.

All Directors usually attend the Annual General Meeting, and the Chairman and the Chair of the Remuneration Committee may be contacted via the Company Secretary during the year.

If any significant change to policy were proposed, the Committee would consult with major shareholders in advance.

Approach to recruitment remuneration

The Company's remuneration policy was set at the time of its flotation in 2006, and has changed very little since then. During the period only one new Executive Director appointment has been made. The Committee recognises that some flexibility may be required if a new Executive Director were to be appointed during the life of this policy.

The Remuneration Committee will apply the following principles when agreeing a remuneration package for a new Director (whether an external candidate or an internal promotion):

- The package must be sufficient to attract and retain the high calibre talent necessary to develop and deliver the Company's strategy.
- No more should be paid than is necessary.
- Remuneration should be in line with the policy set out above, however the Committee reserves the discretion to make appropriate remuneration decisions outside the standard policy to meet the individual needs of the recruitment provided the Committee believes the relevant decisions are in the best interests of the Company.
- These circumstances might include:
  - Where an interim appointment is made on a short term basis, including where the Chairman or another Non-Executive Director has to assume an executive position.
  - Employment commences at a time in the year when it is inappropriate to provide a bonus or share incentive award as there is insufficient time to assess performance; the quantum for the subsequent year might be increased proportionately instead.
  - An executive is recruited from a business or location that offered benefits that the Committee considers it appropriate to 'buy out' but cannot do so under the specific terms of the regulations, or which the Committee considers it appropriate to offer.

Examples of remuneration decisions that the Committee may decide are set out below:

- It may be appropriate to offer a lower salary initially, with a series of increases to reach the desired salary over a period of time, subject to performance.
- A longer notice period of up to a maximum of 24 months might be offered, reducing by one month for every month served until the policy position is reached.
- The Committee may also alter the performance criteria applicable to the initial annual bonus or LTIP award so that they are more applicable to the circumstances of the recruitment.
- An internal candidate would be able to retain any outstanding variable pay awarded in respect of their previous role that pays out in accordance with its terms of grant.

The Committee does not intend to use any discretion in this section to make a non-performance related incentive payment (for example a 'golden hello').

Appropriate costs and support will be provided if the recruitment requires the relocation of the individual.

The maximum level of variable pay that could be awarded to a new Executive Director in the first year of employment, excluding any buyout arrangements and awards in the first year of employment as set out above would normally be in line with the policy table set out above.

In addition, on hiring an external candidate the Committee may make arrangements to buy out remuneration that the individual has forfeited on leaving a previous employer. The Committee will generally seek to structure buyout awards and payments on a comparable basis to remuneration arrangements forfeited. These awards or payments are excluded from the maximum level of variable pay referred to above; however, the Committee's intention is that the value awarded or paid would be no higher than the expected value of the forfeited arrangements.

In order to implement the arrangements described above, the Committee may rely on exemption 9.4.2 of the Listing Rules, which allows for the grant of awards to facilitate, in exceptional circumstances, the recruitment of a Director.

The Committee would explain the rationale for the remuneration package in the next annual report of the Company.

On the appointment of a new Chairman or Non-Executive Director, the fees will be set taking into account the experience and calibre of the individual and pay for similar roles in companies of similar size and complexity in the relevant market. No share incentives or performance related incentives would be offered.

Annual report on implementation

Directors' remuneration – report on implementation 2014

This section of the report sets out how the Directors' Remuneration Policy has been applied in the financial year being reported on, and how it will be applied in the coming year. Although the policy was not in effect for 2013/14, the remuneration described below is consistent with it.

Committee membership and meetings

The following Directors served on the Remuneration 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	8 February 2012	To date
Liz Doherty	1 May 2013	To date
Andy Harrison	1 September 2014	To date

Marion Sears acts as Secretary to the Committee.

Two 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)	2
Geoff Cooper	2
Simon Emeny	2
Matt Davies	2
Liz Doherty	2
Andy Harrison[1]	0

[1] Andy Harrison joined the Board after the financial year end.

No Director is ever present when his or her own remuneration is discussed.

Advisers

The Committee has an informal relationship with Deloitte. This firm provides general advice in relation to executive remuneration on an ad hoc basis. Deloitte is a member of the Remuneration Consultants' Group and as such voluntarily operates under code of conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice that they have received from Deloitte in the year has been objective and independent.

During the period Deloitte provided advice in relation to rule changes to the Long Term Incentive Plan and the Executive Share Option Plan. Total fees paid to Deloitte in the year were £9,910.

Single figure for total remuneration (audited information)

The following table sets out total remuneration for Directors for the year ended 28 June 2014:

Table 3 – Directors' remuneration – single figure table

	Salary / fees[2] £'000		Benefits[3] £'000		Bonus[4] £'000		LTIP awards[5] £000		Pension[6] £'000		Total £'000	
Director	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Executive												
Nick Wharton	**416**	408	**45**	13	**94**	396	**997**	434	**42**	41	**1,594**	1,292
Will Adderley	**265**	265	**24**	13	**60**	-	**661**	567	**27**	-	**1,037**	845
David Stead	**269**	264	**12**	12	**61**	256	**645**	475	**27**	26	**1,014**	1,033
Non-Executive												
Geoff Cooper	**120**	100	**-**	-	**-**	-	**-**	-	**-**	-	**120**	100
Marion Sears	**50**	40	**-**	-	**-**	-	**-**	-	**-**	-	**50**	40
Simon Emeny	**40**	30	**-**	-	**-**	-	**-**	-	**-**	-	**40**	30
Matt Davies	**45**	30	**-**	-	**-**	-	**-**	-	**-**	-	**45**	30
Liz Doherty	**40**	7	**-**	-	**-**	-	**-**	-	**-**	-	**40**	7
Andy Harrison[1]	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Total	**1,245**	1,144	**81**	38	**215**	652	**2,303**	1,476	**96**	67	**3,940**	3,377

1 Appointed to the Board on 1 September 2014.

2 Base salaries for Executive Directors were increased by 2% on 1 July 2013, in line with the Company-wide award. Following the first review since 2010, fees for Non-Executive Directors were increased on 1 July 2013 as follows: Chairman from £100,000 to £120,000; base Non-Executive Director fee from £30,000 to £40,000; supplement for Senior Independent Director and Committee Chair £5,000. Going forward it is intended that fees will rise in line with the Company-wide award.

3 Benefits include the cost to the Company of a car allowance and private health insurance for the individual and their family (health insurance waived by David Stead). The 2013/14 value also includes the taxable benefit in respect of the car and chauffeur provided to Nick Wharton and Will Adderley in connection with their roles.

4 Annual bonus is the amount earned in respect of the financial year 2013/14. Details of how this was calculated are set out below.

5 LTIP award number for 2014 is the value of the LTIP award whose three year performance period ends on the last day of the financial period being reported (2013/14). Details of how this value was calculated are set out in the note to table 5 below. The comparable figure for 2012/13 is the actual value of the 2010 LTIP awards which vested in favour of Nick Wharton, Will Adderley and David Stead on 1 December 2013 based on the mid market price on 29 November 2013, of 900.0p. The comparable figure in the 2012/13 annual report was based on the number of shares in the 2010 LTIP awards due to vest in favour of Nick Wharton, Will Adderley and David Stead on 1 December 2013 calculated using the average share price over the three months preceding the end of the performance period on 29 June 2013, which was 866.45p. Note that the LTIP award vesting in favour of Nick Wharton in 2013/14 is his first full year LTIP award since joining the Group. The award vesting in 2012/13 was pro rated to his service in 2009/10.

6 Pension is a fixed sum (10% of base salary) contributed to a personal pension on behalf of the individual, or a salary supplement of the same amount.

Annual bonus

Executive Directors were awarded an annual performance-related cash bonus for 2013/14 with a maximum potential payment of 100% of salary. For Nick Wharton and David Stead, the performance criterion was earnings per share against budget; the Committee may then apply judgement to increase or decrease the amount payable taking into account performance against personal non-financial objectives relevant to each Director, linked to delivery of strategy. For Will Adderley, 50% of the annual bonus is calculated according to the financial target and 50% is awarded for performance on strategic projects which are an important focus of his time. For further details please see the policy report on page 49.

For the year ended 28 June 2014, budget EPS was 44.8p. The financial target set was that no bonus would be paid until EPS reached 42.5p, and at 47.0 p maximum bonus would be paid. Between those sums, bonus would be payable calculated on a straight line basis. Market consensus for 2013/14 EPS at the date the target was set was 44.2p. Reported EPS of 43.7p has therefore given rise to a bonus payable of 22.5% of base salary.

After due consideration of performance against personal job objectives and strategic KPIs the Committee resolved not to adjust the bonus as calculated by the EPS bonus formula. The Committee has not disclosed the personal job objectives and strategic KPIs referred to above, as they are confidential, and also they are used to inform the Committee's judgement as whether the bonus payable is fair, with no formulaic link.

Table 4 – Annual bonus in respect of 2013-14 performance

	Bonus awarded £	Percentage of maximum award
Nick Wharton	93,636	22.5
Will Adderley	59,625	22.5
David Stead	60,593	22.5

LTIP – awards vesting in respect of performance in 2013/14

Awards are made under the LTIP annually to Executive Directors of up to 150% of basic salary, with a three year performance period. The performance target is based on growth in fully diluted EPS over the performance period. For further information please see the policy report above.

Over the three-year performance period which ended on 28 June 2014, reported fully diluted EPS grew at a compound annual rate of 14.3 %. This is 11.4 % above the compound annual growth in RPI over the same period. Accordingly, 77.5 % of the November 2011 LTIP award will vest in November 2014 as follows:

Table 5 – LTIP awards vesting in respect of performance in 2013-14

	Shares vesting	Percentage of maximum award
Nick Wharton	107,888	77.5
Will Adderley	71,476	77.5
David Stead	69,804	77.5

The 2011 LTIP awards which vest in favour of Nick Wharton, Will Adderley and David Stead as described above are included in the single number for total remuneration for 2013/14 set out in table 3. Their value has been calculated using the average share price over the three months preceding the end of the performance period on 28 June 2014, which was 924.13p.

LTIP awards made to Directors during 2013/14

LTIP awards were made to Executive Directors on 7 October 2013 as set out below:

Table 6 – LTIP awards made to Directors during 2013/14

Name	Award	Number of shares	Face value at date of award (percentage of salary)	Performance condition	Performance period	Vesting date (vesting deferred for 2 years following end of performance period)	% vesting at threshold performance
David Stead	Nil cost option under LTIP	46,087	£403,950 (150%)	Growth in fully diluted EPS over the three year performance period compared with growth in the index of retail prices (RPI) over the same period. No part of the award will vest until EPS growth exceeds RPI growth by 3%. 25% of the award vests at RPI growth plus 3%. 100% of the award vests at RPI plus 15%. Between those figures the award will vest on a straight line basis. Subject to a two year deferral period following the end of the performance period.	July 2013 to June 2016	7 October 2018	25%
Nick Wharton	Nil cost option under LTIP	71,220	£624,240 (150%)	As above	July 2013 to June 2016	7 October 2018	25%

Payments to past Directors and for loss of office (audited)

There have been no payments to past Directors during the year. No payments to Directors for loss of office have been made during the year.

Nick Wharton resigned from the Board on 10 September 2014. Details of his severance terms are still to be finalised at the date of this report and will be posted on the Company's website once agreed in final form. The Remuneration Committee has resolved that termination payments will cover contractual entitlements and conform to the policy set out in this report.

Statement of Directors' share interests (audited)

Executive Directors are subject to a shareholding target which requires them to build a beneficial holding of Dunelm shares with a value of 1x salary after 3 years and 2x salary after 5 years (measured based on share price at the financial year end). All Executive Directors comply with this requirement.

The following tables show the interests of the Directors in shares of the Company at 28 June 2014 as follows:

- Shares held beneficially
- Interests in nil cost options under the LTIP
- Interests in options under the Savings Related Share Option Scheme

Table 7 – Directors' beneficial shareholdings (audited)

	At 28 June 2014 1p Ordinary Shares	At 29 June 2013 1p Ordinary Shares
Will Adderley	61,890,303	61,827,347
David Stead	695,135	667,181
Geoff Cooper	181,611	181,611
Marion Sears	101,313	101,313
Nick Wharton	65,077	39,500
Simon Emeny	26,400	26,400
Matt Davies	4,500	4,500
Liz Doherty	2,500	0
Andy Harrison	0	0

There were no changes in Directors' beneficial holdings between the financial year end and the date of this report.

Table 8 – Directors' interests in options under the LTIP at the period end (audited)

Director	Date of award	Nature of award	Share options at 28 June 2014	End of performance period	Market price of shares at date of award
Nick Wharton	Dec 2010	One–off joining award	198,807	Dec 2015	503p
	Nov 2011	2011/14 LTIP	139,211	June 2014	431p
	Nov 2012	2012/15 LTIP	95,401	June 2015	642p
	Oct 2013	2013/16 LTIP	71,220	June 2016	876.5p
Will Adderley	Nov 2011	2011/14 LTIP	92,227	June 2013	431p
David Stead	Nov 2011	2011/14 LTIP	90,070	June 2014	431p
	Nov 2012	2012/15 LTIP	61,730	June 2015	642p
	Oct 2013	2013/16 LTIP	46,087	June 2016	876.5p

None of the Non-Executive Directors have options under the LTIP.

All of the above were nil cost options, and (except as stated below) are subject to the performance condition noted in the policy table.

Vesting of the awards made in October 2013 is subject to a two year deferral. At the end of the three year performance period, shares earned after applying the performance criteria are subject to an additional two year holding period. During this two year period dividend entitlement (including any special dividends) will accrue and be paid at the end of that period.

Table 9 – Directors' options under Sharesave at the period end

	Shares under option at 28 June 2014	Shares under option at 29 June 2013	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	2,493	2,493	-	-	-	361p	-	Jan 2015	Jun 2015
David Stead	2,493	2,493	-	-	-	361p	-	Jan 2015	Jun 2015

None of the other Directors have options under the Sharesave.

Share options and dilution

The Remuneration Committee considers 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, since flotation of the Group in 2006 options have been granted over 1.7% of the Company's issued share capital. The Group does not hold any shares in an employee benefit trust.

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 base salary and benefits for the notice period. The Remuneration Committee may apply mitigation in respect of any termination 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 10 – Directors' service contracts

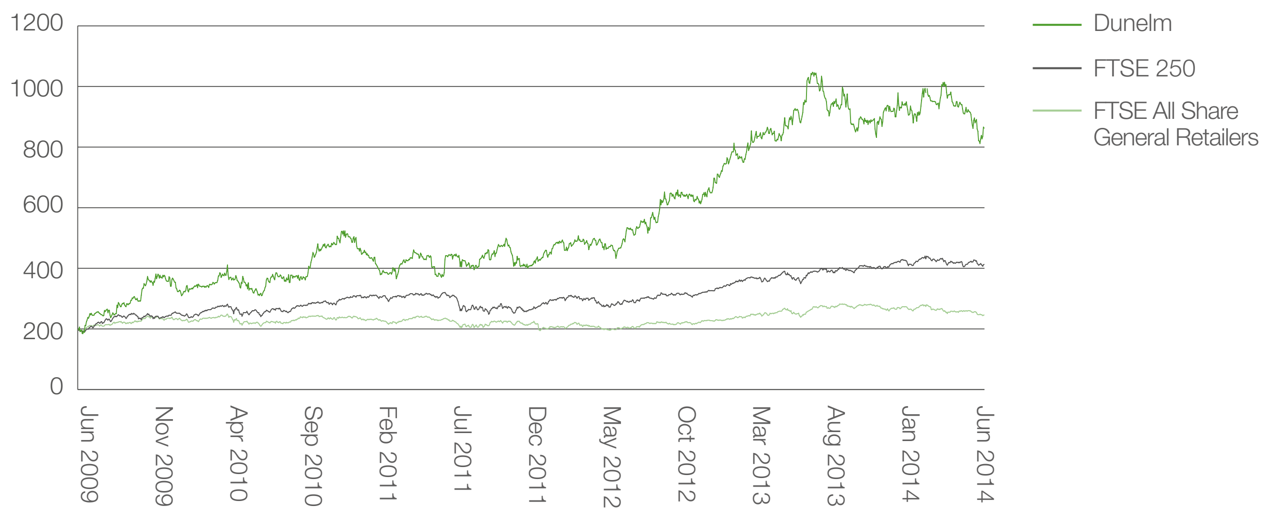
	Date of contract	Unexpired term	Notice period
Will Adderley	28 September 2006	n/a	12 months
David Stead	15 September 2003	n/a	12 months
Geoff Cooper	8 October 2004	1 month	3 months
Marion Sears	22 July 2004	10 months	1 month
Simon Emeny	25 June 2007	21 months	1 month
Matt Davies	8 February 2012	7 months	1 month
Liz Doherty	1 May 2013	19 months	1 month
Andy Harrison	17 July 2014	35 months	1 month

Since Geoff Cooper and Marion Sears have now served nine years on the Board (seven of which are post flotation of the Company in 2006) their contracts are renewed for one year terms going forward (with the notice period referred to above).

Relative TSR performance

The graph below shows the Group's performance over five 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 11 – Total shareholder return performance graph (rebased to 29 June 2008 = 100)



The shares traded in the range 811.5p to 1047p during the year and stood at 862.5p at 28 June 2014.

REMUNERATION REPORT continued

Table 12 – Historic CEO pay

The table below sets out the prescribed remuneration data for each of the individuals undertaking the role of Chief Executive during each of the last five financial years

		CEO Single figure of total remuneration £'000	Annual bonus payment against maximum opportunity %	Long-term incentive vesting rates against maximum opportunity %
FY13/14	Nick Wharton[2]	1,594	22.5%	77.5%
FY12/13	Nick Wharton	1,292	97.0%	86.7%
FY11/12	Nick Wharton	853	100.0%	n/a
FY10/11	Nick Wharton[1]	429	6.0%	n/a
FY10/11	Will Adderley[1]	1,413	4.0%	100.0%
FY09/10	Will Adderley	1,366	100.0%	100.0%

[1] Will Adderley was CEO until he was succeeded by Nick Wharton on 1 February 2011. The data for each Director for 2010/11 is pro rated by time of service as Chief Executive.
[2] Nick Wharton's first LTIP award vested and was exercised in December 2013.

Change in remuneration of Chief Executive compared to Group employees

The table below sets out the increase in total remuneration of the Chief Executive and that of our other colleagues

Table 13 – Relative change in CEO pay

	Change in base salary 2012/13 to 2013/14	Change in benefits 2012/13 to 2013/14[1]	% of total bonus earned 2013/14	% of total bonus earned 2012/13	% change in bonus earned 2013/14	% change in bonus earned 2012/13
Chief Executive	+2.0%	+246%	22.5%	97.0%	-76%	+1%
All colleagues (per capita)	+2.4%	+17%	24.9%	66.6%	-57%	+60%

[1] The 2013/14 value includes the additional taxable benefit in respect of the car and chauffeur provided to Nick Wharton in connection with his role. If this amount were excluded, the percentage change in benefits for 2012/13 to 2013/14 would be 0%.

Table 14 – Relative spend on pay

The chart below shows the all employee pay cost and returns to shareholders by way of dividends (including special dividend) and share buyback for 2012/13 and 2013/14.

	2013/14 £'000	2012/13 £'000	increase %
Total spend on pay	**93,027**	87,178	6.7%
Ordinary dividend to shareholders	**33,411**	29,386	13.7%
Distributions to shareholders via share buy back	**6,852**	-	n/a
Special distributions to shareholders	**50,708**	65,842	-23.0%

This information is based on the following:

- Total spend on pay – total employee costs from note 4 on page 93, including salaries and wages, social security costs, pension and share based payments.
- Dividends taken from note 7 on page 94.
- Share buyback taken from consolidated statement of changes in equity on page 85.

Executive Director external Board appointments

Executive Directors are permitted to hold one external appointment as a Non-Executive Director or similar advisory or consultative role, subject to the Board being satisfied that there is no conflict of interest and that the position will not impact negatively on the executive's commitment to their Dunelm role. The Board may allow the executive to retain any remuneration received in respect of the appointment.

Nick Wharton was appointed as a Non-Executive Director of Mothercare plc on 14 November 2013. He retains his Director fee (£30,192 in 2013/14).

David Stead was appointed as a Non-Executive Director of Card Factory plc on 12 May 2014, prior to its admission to the London Stock Exchange on 20 May 2014. He retains his Director fee (£11,250 in 2013/14).

Will Adderley does not hold any external PLC Board appointments.

Senior executive remuneration

The Remuneration Committee provides oversight and guidance on the remuneration structure for below Board senior executives. 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.

Members of the senior management team are eligible for awards under either the LTIP or the Executive Share Option Plan (market priced options).

They are also subject to shareholding targets as follows:

Executives receiving LTIP Options	1 x base salary to be acquired over 5 years
Executives receiving market priced options	0.5 x base salary to be acquired over time

Statement of implementation of policy in the 2014/15 financial year

Base salary, benefits and pension

Base salary and benefits for each of the Executive Directors for 2014/15 are set out in the table below:

Table 15 – Base salary, benefits and pension for 2014/15

	Base salary	Increase year on year	Benefits	Increase year on year	Pension	Increase year on year
Will Adderley	£265,000 until date of appointment as Chief Executive £560,000 from 11 September 2014	Base salary as Executive Deputy Chairman unchanged (increase waived by Will)	Car allowance; use of a car and chauffeur in connection with his role; private health insurance for the individual and their family; permanent health cover; life assurance; mobile phone	Increased from 11 September 2014 due to change of role	£27,000 until date of appointment as Chief Executive £56,000 from 11 September 2014	Unchanged as a % of salary
David Stead	£274,690	+2%	Car allowance; private health insurance for the individual and their family; permanent health cover; life assurance; mobile phone	Unchanged	£28,000	+2%

Basic salary increase and the corresponding increase in pension contribution or supplement with effect from 1 July 2014 are in line with the Group-wide award of 2%.

Annual bonus

Each Executive Director has been awarded a bonus opportunity of 100% of basic salary, subject to a financial condition based on achievement of a target EPS for the financial year, taking into account market consensus and individual broker expectations. Non-financial personal objectives and targets linked to delivery of strategy will also be taken into account by the Committee alongside share price performance; the result based on financial performance may be adjusted in the light of these, although there is no formulaic link. The actual targets have not been disclosed at this time as they are commercially sensitive and they are not formal targets. The EPS budget targets will be disclosed in next year's remuneration report.

LTIP

An award is expected to be made to David Stead in October 2014, equivalent to 150% of basic salary, based on the closing share price on the dealing day preceding the grant. The terms of the award and the performance condition will be as set out in the policy report, the performance period being July 2014 to June 2017 inclusive. The awards will vest in the normal course, subject to continued employment until the third anniversary of the grant date and to the extent that performance conditions have been met, in October 2019, following a two year deferral at the end of the performance period.

As in the past two years, Will Adderley has waived his entitlement to receive an LTIP award.

Sharesave
An invitation will be issued in October 2014 to all eligible employees, to receive sharesave options at a 20% discount to the closing market price of Dunelm Group shares on the dealing day preceding the issue of the invitation. The maximum monthly savings will be raised to £500 per month from £250 per month in line with the statutory increase. Executive Directors are eligible to apply for Sharesave options.

Non-Executive Director fees for 2014/15
Fees to be paid to Non-Executive Directors are as set out in the table below:

Table 16 – Non-Executive Director Fees

Director	Position	Base Fee	Committee Fee	Increase year on year	Comment
Geoff Cooper	Chairman	£122,400	Nil	2.00%	
Marion Sears	Nominations Committee chair	£40,800	£6,100	-6.10%	Committee chair fees reduce from 12 September 2014
Matt Davies	Remuneration Committee chair	£40,800	£5,100	2.00%	
Simon Emeny	Senior Independent Director	£40,800	£4,100	12.13%	SID fee from 12 September 2014
Liz Doherty	Audit and Risk Committee chair	£40,800	£4,100	12.13%	Committee chair fee from 12 September 2014
Andy Harrison	Non-Executive Director	£34,000	Nil	n/a	Base fee £40,800; pro-rated from appointment on 1 September

Fee increases with effect from 1 July 2014 are in line with the Group-wide award of 2%.

Statement of shareholder voting
At the Annual General Meeting on 12 November 2013, the total number of shares in issue with voting rights (excluding treasury shares) was 202,781,698. The resolution to approve the Directors' Remuneration Report and to approve the new Executive Share Option Plan received the following votes from shareholders:

Table 17 – Voting on remuneration related resolutions at the 2013 AGM

Resolution	Votes for	% of votes cast	Votes against	% of votes cast	Votes withheld	% voting rights withheld
Approve Remuneration Report	186,874,938	99.7	480,666	0.3	5,246	0
Approve Executive Share Option Plan	183,396,479	99.2	1,404,481	0.8	2,558,990	1.4

Change Of Responsibilities
As noted in the Corporate Governance Report, I will be retiring as Chair of the Remuneration Committee on 12 September 2014. Matt Davies will take my place as Chair of the Remuneration Committee.

Approved by the Board of Dunelm Group plc on 11 September 2014 and signed on its behalf by

Marion Sears
Chair of the Remuneration Committee

11 September 2014

LETTER FROM THE CHAIR OF THE NOMINATIONS COMMITTEE

Marion Sears
Chair of Nominations Committee

Dear Shareholder,
We have continued to focus on Board composition and refreshment during the year with the aim of creating the right diversity of skills and mix of tenure.

With regard to Non Executives, in 2012 and 2013 we appointed Matt Davies and Liz Doherty respectively to the Board and in 2014 we have appointed Andy Harrison to the Board. This means that we now have the majority of NEDs in the first term of their tenure and the Board benefits from fresh insights, skills and experience arising from this new mix. In every recruitment process significant work and effort has gone into networking with a large number of contacts in order to ensure we have met a range of potential candidates. We are always looking for 'better' and we take our time to find individuals who fit Dunelm's culture and can bring an additional perspective.

With regard to Executives, the Nominations Committee has focused for some time now on the future executive needs for the next chapter of Dunelm's growth. As a result of this we conducted a search for a new Chief Executive who would have the skills for this next phase and we interviewed a number of external candidates. Ultimately we concluded that Will Adderley is the best person to lead Dunelm in this next phase and we look forward to building on our position as the UK's leading homewares retailer under his direction. We congratulate Nick Wharton for the shareholder value he has created over the last four years.

We are fully compliant in terms of Board balance between Executives and Independent Directors. We think continually about the future needs of the business and about how the Board can help to preserve our culture throughout the organisation, whilst at the same time ensuring the calibre of Board necessary to support our ambitions for growth.

Looking forward, we will continue to work on Board composition and Chairman succession, with the aim of achieving smooth succession of Directors over the next few years.

Yours sincerely,

Marion Sears
Chair of the Nominations Committee

11 September 2014

NOMINATIONS COMMITTEE REPORT

2013/14 Summary

Principal activities
- Non-Executive Director search
- Update of Board succession plan
- Board evaluation by the Chairman of the Board
- Chief Executive role assessment and search

Since the year end:
- Appointment of Will Adderley as Chief Executive
- Resignation of Nick Wharton as Chief Executive
- Appointment of Andy Harrison as Non-Executive Director

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
Liz Doherty	1 May 2013	To date
Andy Harrison	1 September 2014	To date

The NED search process, and succession planning as part of this, was discussed by the whole Board at every Board meeting with an update paper provided by myself. In addition there were six formal Committee meetings held in the year and members' attendance was as shown in the table below. I also act as Secretary to the Committee.

Member	Meetings attended:
Marion Sears (Chair)	6
Geoff Cooper	6
Simon Emeny	6
Will Adderley	6
Matt Davies	6
Liz Doherty	6
Andy Harrison[1]	0

[1] Andy Harrison joined the Board after the financial 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 Non-Executive Director 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 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 agreement of all Directors.

Committee activities in 2013/14

NED search

Focus has continued on Board succession and the need to refresh membership over the coming years. The Committee has continued to lead the search for a new Non-Executive Director.

Following our annual review of the skills and balance on the Board, the tenure of our Non-Executive Directors and our likely needs in the context of our strategy going forward, we drew up a role and person specification for which the main requirements were:

- Relevant experience in retail or similar business, including multi-channel.
- Strategic vision.
- Familiarity with the current challenges of operating management, including multi-channel and international.
- Understanding of branding and marketing.
- Cultural fit.

In accordance with our policy, we also had regard to the requirement to achieve a diversity of characters, backgrounds and experiences amongst Board members and we met an approximately equal number of male and female candidates.

In a different approach to our last appointment, with this search we used a recruitment consultancy to assist us. We engaged Russell Reynolds to map senior retail talent in the industry internationally in order to help us search widely. We also maintained contacts with a variety of intermediaries and discussed our process with our advisers and our shareholders at the Corporate Governance presentation in January. Therefore we continued to apply the requirements of best practice for 'open advertising' by talking to a large number of contacts who know Dunelm and who understand our culture and ambitions.

0n 17 July 2014 we were pleased to announce the appointment of Andy Harrison as an additional Non-Executive Director, with effect from 1 September 2014. Andy was identified by Russell Reynolds in our mapping exercise. Dunelm has no other relationship with Russell Reynolds.

Andy is currently Chief Executive of Whitbread plc; prior to that he was Chief Executive of EasyJet plc and RAC plc His skills and experience are an excellent fit with our specification; and having met all Board members at least once during the appointment process we are sure that he will work well with the Board and provide new challenge and perspective.

Chief Executive search

During the year the Committee reviewed the skills needed for the leadership of Dunelm in the next chapter of its growth. It concluded that, as planned at the time of his appointment, Nick Wharton has introduced processes and operational focus which have created a robust infrastructure and he has built a high quality operational management team. This is the base needed to enable continuing business growth over the medium term. However the Committee concluded that this is the appropriate moment to hand over to a different leader with fresh perspectives.

The main requirements in the candidate brief for a new Chief Executive were:

- Cultural fit.
- Experienced retailer.
- Strategic background.
- Visionary and passionate.
- Demonstrable track record of leadership.

We used CT Partners to conduct a search and we interviewed a shortlist comprising a number of strong candidates including an approximately equal number of men and women. The Committee was unanimous in its determination and ambition to find the highest quality individual to lead Dunelm. Ultimately the Committee concluded that Will Adderley is the best person to lead the Group. He is an outstanding retailer who knows Dunelm, and the world of homewares, better than anyone else. He is excited about this new stage for developing the business and will strengthen the senior leadership team further to support his plans.

Although Will Adderley is a member of the Nominations Committee he did not participate in the discussions or decision relating to the final candidate selection. The Chairman of the Board and I led the Committee meeting, from which Will Adderley was absent, to discuss Will's suitability for the role. The Committee was unanimous in concluding that Will Adderley should be appointed Chief Executive and we are confident that his long term perspective and focus on growth will reward all stakeholders.

NOMINATIONS COMMITTEE REPORT continued

Board succession

As stated last year, we have a formal plan for how Board membership should develop over the coming years. This is a long-range plan and we will continue to take 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 the light of the most recent strategy discussions. This has also been addressed in our Board evaluation which is described in the Corporate Governance Report. The outcome of this has been incorporated into our Board succession plan.

In addition to the external Board evaluation, 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 we believe remains appropriate for Dunelm. It can be summarised as follows:

- Whilst confirming that our overriding concern is to ensure the Board comprises outstanding individuals who can lead the Group, we also believe the Group'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 Group's approach to people development to ensure that it continues to enable talented individuals, both male and female, to enjoy career progression activities within Dunelm.

Details of the gender balance within the Group are set out in the Corporate Social Responsibility report on page 22. The Committee is pleased that whilst as one might expect as a retailer the majority of colleagues are female, there is also good representation at Board and senior management level (25% and 29% respectively).

Tenure and re-election of Directors

In accordance with the UK Corporate Governance Code, all Directors will seek re-election at the 2014 AGM, and as now required by the Listing Rules the Non-Executives will be subject to an additional vote by shareholders independent of the Adderley family.

Given that Geoff Cooper and I have been Board members since 2004, we have each served ten years on the Board, seven of these following the Company's flotation in 2006. In accordance with best practice, in 2014, our contracts were renewed for a one year term, subject to earlier termination by notice and reappointment at the AGM. Simon Emeny has entered a third term as Non-Executive Director which takes his tenure to 2016, and Matt Davies, Liz Doherty and Andy Harrison all remain within their first term. Our main priority during this succession phase is to balance the changes with a period of time in between each appointment and departure and, at the same time, achieve a continuous refreshment of skill and experience.

This report was reviewed and approved by the Board on 11 September 2014.

Marion Sears
Chair of the Nominations Committee

11 September 2014

DIRECTORS' REPORT

The Directors present their report together with the audited financial statements for the year ended 28 June 2014.

Where reference is made to other sections of the Annual Report and Accounts, these sections are incorporated into this report by reference.

Strategic report

The Group's Strategic Report is set out on pages 2 to 28. This contains an indication of likely future developments in the business of the Company and the Group.

Results and dividends

The consolidated profit for the year after taxation was £89.1m (2013: 81.5m). The results are discussed in greater detail in the Finance Director's review on pages 12 to 13.

A final dividend of 15.0 per share (2013: 11.5p) is proposed in respect of the year ended 28 June 2014 to add to an interim dividend of 5.0p per share paid on 11 April 2013 (2013: 4.5p). The final dividend will be paid on 19 December 2014 to shareholders on the register at 28 November 2014.

Special dividend

On 11 October 2013, 25.0p per Ordinary Share was returned to shareholders by way of a Special Dividend.

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% 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:

- conduct all transactions and relationships with any member of the Group on arms length terms and on a normal commercial basis;
- 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);
- 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;
- 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;
- 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
- 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.

WA Capital Limited and Nadine Adderley, to whom Will Adderley has transferred shares by way of a gift, have subsequently become party to this agreement.

In July 2014, the Relationship Agreement was amended so as to comply with Listing Rule LR 9.2.2A(2)(a), which came into effect on 16 May 2014. The following additional undertakings were given by the parties:

- No action will be taken that would have the effect of preventing the Company from complying with its obligations under the Listing Rules; and
- No resolution will be proposed, or procured to be proposed, which Is intended to, or appears to be intended to circumvent the proper application of the Listing Rules.

In addition, a resolution will be proposed at the Annual General Meeting in 2014 to amend the Articles of Association of the Company so that it allows the election and re-election of Independent Directors to be conducted in accordance with the election provisions set out in LR9.2.2ER and LR9.2.2FR. This means that the election or re-election of each Independent Director at the Annual General Meeting will be subject to an additional resolution upon which parties controlling 30% or more of the voting shares of the Company are not eligible to vote.

The Company confirms that it has complied with its obligations under the Relationship Agreement during the financial period under review, and that so far as it is aware all other parties to that agreement have complied with it.

The Company confirms that there are no contracts of significance between any member of the Group and any of the parties to the Relationship Agreement, with the exception of Will Adderley's service agreement as a Director of the Company, the terms of which are outlined in the Remuneration Report.

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.

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 3,743 Ordinary Shares during the period due to the exercise of share options. Details of option exercises by Directors are set out above.

At 28 June 2014 the Company held 936,498 Ordinary Shares in treasury (2013: nil).

During the period the Company purchased 1,706,154 Ordinary Shares into treasury, and transferred 769,656 to employees who exercised options under a share incentive scheme.

4,731 Ordinary Shares have been moved out of treasury since the period end to employees who exercised options under a share incentive scheme.

Substantial shareholders

At 11 September 2014 the following had notified the Company of a disclosable interest in 3% or more of the nominal value of the Company's Ordinary Shares:

	Ordinary Shares	Percentage of share capital
Will Adderley	61,890,303	30.6
Bill Adderley	48,070,000	23.7
Kames Capital	7,514,493	3.72

Will Adderley is also deemed to hold a legal interest in 1,167,250 Ordinary Shares held by The Stoneygate Trust (formerly known as 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.

Directors

The Directors of the Company and their biographies are set out on pages 30 to 31. Details of changes to the Board during the period are set out in the Corporate Governance Report on page 33.

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 40.

Employee information

Information relating to employees of the Group is set out in the Corporate Social Responsibility report on page 22.

Share incentive schemes in which employees participate are described in the Remuneration Report on pages 51 and 52.

Greenhouse gas emissions

The Corporate Social Responsibility report on page 28 sets out the greenhouse gas emissions disclosures required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Treasury and risk management

The Group's approach to treasury and financial risk management is explained in the Principal Risks and Uncertainties section on page 19.

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

On 14 January 2014, PricewaterhouseCoopers LLP were appointed auditor to the Group following the resignation of KPMG LLP, who were unsuccessful in the audit tender.

In accordance with section 489 of the Companies Act 2006 and the recommendation of the Audit and Risk Committee, a resolution is to be proposed at the AGM for the appointment of PricewaterhouseCoopers LLP as auditors of the Group.

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 9.30am on Tuesday 11 November 2014 at the offices of MHP Communications, 60 Great Portland Street, London W1W 7RT. A formal notice of meeting, explanatory circular and a form of proxy will accompany this report and accounts.

This report was reviewed and approved by the Board on 11 September 2014.

Dawn Durrant
Company Secretary

11 September 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess a company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Corporate Governance Report, confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the strategy report contained includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' Report is approved, it is confirmed that:

a. so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
b. he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Will Adderley
Chief Executive

David Stead
Finance Director

11 September 2014

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DUNELM GROUP PLC

Report on the financial statements

Our opinion

In our opinion:

- the financial statements, defined below, give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 28 June 2014 and of the Group's profit and the Group's and the Parent Company's cash flows for the period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group financial statements and Parent Company financial statements (the "financial statements"), which are prepared by Dunelm Group plc, comprise:

- the consolidated and Parent Company statements of financial position as at 28 June 2014;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated and Parent Company statements of cash flows for the period then ended;
- the consolidated and Parent Company statements of changes in equity for the period then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual report and accounts (the 'Annual Report'), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

We based our materiality on profit before tax. We have applied this benchmark, a generally accepted auditing practice, in the absence of indicators that an alternative benchmark would be appropriate. We determined materiality for the Group financial statements as a whole to be £5.8 million. This represents approximately 5% of profit before tax.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £0.2 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DUNELM GROUP PLC continued

Overview of the scope of the audit

The Group is structured with one segment. The Group financial statements are a consolidation of five legal entities within this segment, comprising the Group's operating business and centralised functions.

In establishing the overall approach to the Group audit, we identified two reporting units: Dunelm (Soft Furnishings) Limited and Dunelm Group plc Parent Company, which, in our view, required an audit of their complete financial information either due to size or risk characteristics.

In addition, we also conducted the statutory audits of the remaining three non-significant reporting units such that the audit work was complete prior to finalisation of the audit of the Group financial statements.

The audits of these five reporting units, together with the additional procedures performed at the Group level, including consolidation, gave us the evidence we needed for our opinion on the Group financial statements as a whole. This resulted in audit coverage of 100% of Group profit before tax.

Areas of particular audit focus

In preparing the financial statements, the Directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit and Risk Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 45.

Area of focus	How the scope of our audit addressed the area of focus
Inventory provisions Inventory represents a significant asset on the Group's balance sheet and is carried at the lower of cost and net realisable value. We focused on this area as judgement is required when assessing the need for and the value of obsolescence provisions.	In testing the inventory provisions we focused on historic loss experience to assess the provisions for loss, theft or damage of inventory. We assessed the net realisable value and obsolescence provisions against the historic rate of provisioning and actual recoveries achieved on clearances during the year. We tested the accuracy of the provision calculation and we evaluated updates to the provision calculation for the impact of changes in product mix, sales discount and clearance routes.
Fraud in revenue recognition ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results. Revenue is the key driver for the business and as such represents a financial statement line item that is susceptible to fraud or manipulation. Our main area of focus in considering the fraud risk in revenue recognition was whether transactions had occurred that entitled revenue to be recognised.	We assessed the design and operating effectiveness of controls over revenue systems. We tested key revenue and cash reconciliations and tested material manual journals to address the risk of management manipulation of revenue. Data analysis techniques were used for store and internet revenue streams to reconcile recorded revenue to cash received and to identify non-standard revenue transactions which were then tested by checking to supporting documentation.
Risk of management override of internal controls ISAs (UK & Ireland) require that we consider this.	We assessed the overall control environment of the Group, including the arrangements for staff to 'whistle-blow' inappropriate actions, and interviewed senior management and the Group's operational audit function. We examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the Directors that may represent a risk of material misstatement due to fraud. We also tested journal entries posted during the year to identify unusual or irregular items.

Going concern
Under the Listing Rules we are required to review the Directors' statement, set out on page 75, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Parent Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Parent Company's ability to continue as a going concern.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion:
- the information given in the Strategic Report and the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements;
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Corporate Governance Statement set out on pages 40 to 42 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Other matters on which we are required to report by exception
Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement
Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the Parent Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Parent Company's compliance with nine provisions of the UK Corporate Governance Code ('the Code'). We have nothing to report having performed our review.

On page 76 of the Annual Report, as required by the Code Provision C.1.1, the Directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Parent Company's performance, business model and strategy.

On page 45, as required by C.3.8 of the Code, the Audit and Risk Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:
- the statement given by the Directors is materially inconsistent with our knowledge of the Group and Parent Company acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.

We have no exceptions to report arising from this responsibility.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DUNELM GROUP PLC continued

Report on the financial statements

Other information in the Annual Report

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Parent Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 76, 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Mark Smith (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

11 September 2014

CONSOLIDATED INCOME STATEMENT

For the 52 weeks ended 28 June 2014

	Note	2014 £'000	2013 £'000
Revenue	1	**730,152**	**677,192**
Cost of sales		(368,851)	(347,448)
Gross profit		**361,301**	**329,744**
Operating costs	3	(245,273)	(223,206)
Operating profit	2	**116,028**	**106,538**
Financial income	5	436	1,518
Financial expenses	5	(478)	(1)
Profit before taxation		**115,986**	**108,055**
Taxation	6	(26,914)	(26,601)
Profit for the period attributable to owners of the Parent		**89,072**	**81,454**
Earnings per Ordinary Share – basic	8	44.0p	40.2p
Earnings per Ordinary Share – diluted	8	43.7p	40.0p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 28 June 2014

	2014 £'000	2013 £'000
Profit for the period	89,072	81,454
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss:		
Effective portion of movement in fair value of cash flow hedges	(3,286)	443
Deferred tax on hedging movements	668	(102)
Other comprehensive income for the period, net of tax	(2,618)	341
Total comprehensive income for the period	**86,454**	**81,795**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 28 June 2014

	Note	28 June 2014 £'000	29 June 2013 restated (note 15) £'000
Non-current assets			
Intangible assets	9	9,260	4,262
Property, plant and equipment	10	152,866	151,060
Deferred tax asset	11	3,783	1,460
Total non-current assets		**165,909**	**156,782**
Current assets			
Inventories	12	115,528	92,940
Trade and other receivables	13	19,479	18,344
Cash and cash equivalents	14	21,740	44,740
Financial instruments	17	-	387
Total current assets		**156,747**	**156,411**
Total assets		**322,656**	**313,193**
Current liabilities			
Trade and other payables	15	(76,016)	(64,349)
Liability for current tax		(13,461)	(13,393)
Financial instruments	17	(2,898)	-
Total current liabilities		**(92,375)**	**(77,742)**
Non-current liabilities			
Trade and other payables	15	(40,544)	(37,757)
Total non-current liabilities		**(40,544)**	**(37,757)**
Total liabilities		**(132,919)**	**(115,499)**
Net assets		**189,737**	**197,694**
Equity			
Issued share capital	18	2,028	2,028
Share premium		1,624	1,612
Capital redemption reserve		43,157	43,157
Hedging reserve		(2,319)	299
Retained earnings		145,247	150,598
Total equity attributable to equity holders of the Parent		**189,737**	**197,694**

The financial statements on pages 81 to 104 were approved by the Board of Directors on 11 September 2014 and were signed on its behalf by:

Will Adderley
Chief Executive

CONSOLIDATED STATEMENT OF CASH FLOWS

For the 52 weeks ended 28 June 2014

	Note	2014 £'000	2013 £'000
Profit before taxation		115,986	108,055
Adjustment for net financing costs		42	(1,517)
Operating profit		116,028	106,538
Depreciation and amortisation	2	20,257	20,358
Impairment losses on non-current assets	10	25	166
Loss on disposal of non-current assets	2	942	76
Operating cash flows before movements in working capital		137,252	127,138
Increase in inventories	12	(22,588)	(6,719)
Increase in receivables	13	(1,160)	(1,321)
Increase in payables	15	14,448	4,664
Net movement in working capital		(9,300)	(3,376)
Share-based payments expense	20	2,470	2,045
Foreign exchange gains		95	451
		130,517	126,258
Interest paid		-	(1)
Interest received		461	937
Tax paid		(27,144)	(26,795)
Net cash generated from operating activities		**103,834**	**100,399**
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment	10	35	10
Acquisition of property, plant and equipment	10	(20,760)	(23,382)
Acquisition of intangible assets	9	(7,303)	(3,000)
Net cash utilised in investing activities		**(28,028)**	**(26,372)**
Cash flows from financing activities			
Proceeds from issue of share capital	18	12	589
Proceeds from issue of treasury shares	19	1,278	-
Purchase of treasury shares	19	(15,404)	-
Return of capital to shareholders		-	(65,841)
Dividends paid	7	(84,119)	(29,386)
Net cash flows utilised in financing activities		**(98,233)**	**(94,638)**
Net decrease in cash and cash equivalents		(22,427)	(20,611)
Foreign exchange revaluations		(573)	161
Cash and cash equivalents at the beginning of the period		44,740	65,190
Cash and cash equivalents at the end of the period	14	**21,740**	**44,740**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 52 weeks ended 28 June 2014

	Note	Issued share capital £'000	Share Premium £'000	Capital redemption reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
As at 30 June 2012		**2,023**	**1,025**	**43,155**	**(42)**	**160,865**	**207,026**
Profit for the period		-	-	-	-	81,454	81,454
Movement in fair value of cash flow hedges	17	-	-	-	443	-	443
Deferred tax on hedging movements		-	-	-	(102)	-	(102)
Total comprehensive income for the period		-	-	-	341	81,454	81,795
Issue of share capital	18	5	587	2	-	(6)	588
Share-based payments	20	-	-	-	-	2,045	2,045
Deferred tax on share-based payments	6	-	-	-	-	1,006	1,006
Current corporation tax on share options exercised	6	-	-	-	-	461	461
Dividends	7	-	-	-	-	(29,386)	(29,386)
Return of Capital to Shareholders		-	-	-	-	(65,841)	(65,841)
Total transactions with owners, recorded directly in equity		5	587	2	-	(91,721)	(91,127)
As at 29 June 2013		**2,028**	**1,612**	**43,157**	**299**	**150,598**	**197,694**
Profit for the period		-	-	-	-	89,072	89,072
Movement in fair value of cash flow hedges	17	-	-	-	(3,286)	-	(3,286)
Deferred tax on hedging movements		-	-	-	668	-	668
Total comprehensive income for the period		-	-	-	(2,618)	89,072	86,454
Issue of share capital	18	-	12	-	-	-	12
Purchase of treasury shares	19	-	-	-	-	(15,404)	(15,404)
Issue of treasury shares	19	-	-	-	-	1,278	1,278
Share-based payments	20	-	-	-	-	2,470	2,470
Deferred tax on share-based payments	11	-	-	-	-	286	286
Current corporation tax on share options exercised	6	-	-	-	-	1,066	1,066
Dividends	7	-	-	-	-	(84,119)	(84,119)
Total transactions with owners, recorded directly in equity		-	12	-	-	(94,423)	(94,411)
As at 28 June 2014		**2,028**	**1,624**	**43,157**	**(2,319)**	**145,247**	**189,737**

ACCOUNTING POLICIES

Basis of preparation

The Group financial statements consolidate those of Dunelm Group plc ('the Company') and its subsidiaries (together referred to as the 'Group'). The Company financial statements on pages 105 to 113 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 81 to 104.

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 for financial assets and financial liabilities, which 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 the UK. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully. The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the 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 Strategic Report and Business Review on pages 2 to 28. 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 to 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 in conformity with IFRS as adopted by the EU 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 on-going 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 the inventories held where it is anticipated that net realisable value (NRV) will be below costs. NRV is calculated on the basis of current selling price and expected future price reductions. Future price reductions in turn are assumed to be in line with the Groups standard approach to clearing discontinued and slow-moving inventory; and are applied to such proportion of inventory as deemed appropriate given the level of cover in relation to recent sales history, on a line by line basis.

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 of equity-settled transactions with employees is measured by reference to the fair value, determined using the Black-Scholes valuation model, at the date at which an option is granted. The inputs into the model for which estimate or judgement is used are volatility, dividend yield and risk free interest rate. Volatility is measured at the standard deviation of share returns based on the daily share price over a period of time prior to the grant date. The dividend yield used for each option is the prior year's yield. This is calculated using the prior years' dividends, excluding special dividends, divided by the year end closing share price. The five year UK gilts yield on the day of the grant is taken as the risk free interest rate. 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.

It is not considered likely that any change in assumptions with respect to inventory or share-based payments would have a material impact on the financial statements.

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. Consistent accounting policies have been adopted across the Group.

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. 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 accumulated amortisation (see below). Costs incurred in developing the Group's own brands are expensed as incurred.

Separately acquired trademarks are shown at historical cost. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period

Computer software development costs recognised as assets are amortised over their estimated useful lives.

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 and licences	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. Cost includes the original purchased price of the asset and the costs attributable to bringing the asset to its working conditions for intended use.

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 assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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. Provisions are made for obsolete, slow-moving or discontinued stock.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities and 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 their fair value net of transaction costs incurred and are subsequently carried at amortised cost.

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 are instruments 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, including property leases, 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.

A dilapidations provision is recognised when there is an expectation of future obligations relating to the maintenance of leasehold properties arising from events such as lease renewals or terminations.

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 financial statements 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.

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.

ACCOUNTING POLICIES continued

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 a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions; (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the company either issues new shares, or uses treasury shares purchased for this purpose. For issued new share, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

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. Interim dividends are recorded when paid.

Taxation
Tax on the profit or loss for the period 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 period, using tax rates enacted or substantively enacted at the balance sheet date, together with any adjustment to tax payable in respect of previous periods.

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.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

New Standards and interpretations

The following standards have been adopted by the Group for the first time:

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for the Group to combine items presented in 'other comprehensive income' on the basis of whether they potentially could subsequently be reclassified to the income statement.

IFRS 10, 'Consolidated financial statements' builds on the existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the Parent Company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This standard has not impacted the Group financial statements.

IFRS 13, 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend to the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

At the date of approval of these financial statements, the following relevant standards were endorsed by the EU, but not yet adopted by the Group:

IFRS 9, 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. This standard is effective for accounting periods commencing on or after 1 January 2015 and therefore the Group has not commenced its evaluation of the impact on the Financial Statements.

The above will be adopted in the Group 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the 52 weeks ended 28 June 2014

1 Segmental reporting

The Group has one reportable segment, retail of homewares in the UK.

The Chief Operating Decision Maker is the Executive Board of Directors of Dunelm Group plc. 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.

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

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.

2 Operating profit

Operating profit is stated after charging the following items:

	2014 £'000	2013 £'000
Cost of inventories included in cost of sales	365,746	347,170
Amortisation of intangible assets	1,798	2,125
Depreciation of owned property, plant and equipment	18,459	18,233
Impairment losses on non-current assets	25	166
Operating lease rentals	33,980	32,044
Loss on disposal of property, plant and equipment and intangible assets	942	76
Net foreign exchange revaluation losses/(gains)	573	(161)

The cost of inventories stated above includes the benefit of a net reduction in the provision for obsolete inventory of £1,953,000 (2013: £666,000). The reducing level of provisions reflects consistently improved realisation of cash on discontinued merchandise.

The analysis of auditors' remuneration is as follows:

	2014 £'000	2013 £'000
Fees payable to the Company's auditors for the audit of the Parent and consolidated annual accounts	16	19
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	54	58
– tax compliance	-	30
– other tax services	-	125

Total audit fees amounted to £70,000, fees for non-audit services amounted to nil. All 2013 auditors' remuneration was for the previous auditor.

3 Operating costs

	2014 £'000	2013 £'000
Selling and distribution	201,435	184,092
Administrative expenses	42,896	39,038
Loss on disposal of property, plant and equipment and intangible assets	942	76
	245,273	223,206

4 Employee numbers and costs

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

	2014 Number of heads	2014 Full time equivalents	2013* Number of heads	2013* Full time equivalents
Selling	7,558	4,258	7,187	4,132
Distribution	307	302	286	282
Administration	305	299	257	250
	8,170	4,859	7,730	4,664

* prior year comparatives have been aligned to the current year method of reporting

The aggregate remuneration of all employees including Directors comprises:

	2014 £'000	2013 £'000
Wages and salaries including bonuses and termination benefits	94,442	87,534
Social security costs	6,607	5,501
Share-based payment expense (note 20)	2,470	2,045
Defined contribution pension costs	1,300	375
	104,819	95,455

Details of Directors' remuneration, share options, long-term incentive schemes and pension entitlements are disclosed in the Remuneration Report on pages 48 to 68.

5 Financial income and expense

	2014 £'000	2013 £'000
Finance income		
Interest on bank deposits	425	906
Foreign exchange gains (net)	-	612
Other Interest received	11	-
	436	1,518
Finance expenses		
Interest on bank borrowings and overdraft	-	(1)
Foreign exchange losses (net)	(478)	-
	(478)	(1)
Net finance income	(42)	1,517

6 Taxation

	2014 £'000	2013 £'000
Current taxation		
UK corporation tax charge for the period	28,435	27,715
Adjustments in respect of prior periods	(152)	(261)
	28,283	27,454
Deferred taxation		
Origination of temporary differences	(1,386)	(1,027)
Adjustment in respect of prior periods	(463)	165
Impact of change in tax rate	480	9
	(1,369)	(853)
Total tax expense	26,914	26,601

6 Taxation continued

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

	2014 £'000	2013 £'000
Profit before taxation	115,986	108,055
UK corporation tax at standard rate of 22.5% (2013: 23.75%)	26,097	25,663
Factors affecting the charge in the period:		
Non-deductible expenses	740	1,039
Loss on disposal of non-qualifying assets	212	(14)
Adjustments to tax charge in respect of prior periods	(615)	(96)
Effect of standard rate of corporation tax change	480	9
Tax charge	26,914	26,601

The taxation charge for the period as a percentage of profit before tax is 23.2% (2013: 24.6%).

A reduction in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) was substantively enacted on 2 July 2013, and a further reduction to 20% (effective from 1 April 2015) was substantively enacted on the same day. This will reduce the Company's future current tax charge accordingly.

7 Dividends

All dividends relate to the 1p Ordinary Shares.

		2014 £'000	2013 £'000
Final for the period ended 30 June 2012	– paid 10.0p	-	(20,259)
Interim for the period ended 29 June 2013	– paid 4.5p	-	(9,127)
Special dividend for the period ended 29 June 2013	– paid 25.0p	(50,708)	-
Final for the period ended 29 June 2013	– paid 11.5p	(23,287)	-
Interim for the period ended 28 June 2014	– paid 5.0p	(10,124)	-
		(84,119)	(29,386)

The Directors are proposing a final dividend of 15p per Ordinary Share for the period ended 28 June 2014 which equates to £30.4m. The dividend will be paid on 19 December 2014 to shareholders on the register at the close of business on 28 November 2014.

8 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to equity holders of the company by the weighted average number of Ordinary Shares in issue during the period excluding ordinary shares purchased by the company and held as treasury shares (note 19).

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 28 June 2014 '000	52 weeks ended 29 June 2013 '000
Weighted average number of shares in issue during the period	202,554	202,598
Impact of share options	1,474	1,291
Number of shares for diluted earnings per share	204,028	203,889
	£'000	£'000
Profit for the period	89,072	81,454
Earnings per Ordinary Share – basic	44.0p	40.2p
Earnings per Ordinary Share – diluted	43.7p	40.0p

Strategic report

Governance

Financials

9 Intangible assets

	Software development and licences £'000	Rights to Dorma brand £'000	Total £'000
Cost			
At 30 June 2012	5,902	5,040	10,942
Additions	3,001	-	3,001
Transfers from property, plant and equipment	148	-	148
Disposals	-	-	-
At 29 June 2013	9,051	5,040	14,091
Additions	7,303	-	7,303
Disposals	(2,323)	-	(2,323)
At 28 June 2014	**14,031**	**5,040**	**19,071**
Accumulated amortisation			
At 30 June 2012	3,760	3,944	7,704
Charge for the financial period	1,115	1,010	2,125
Disposals	-	-	-
At 29 June 2013	4,875	4,954	9,829
Charge for the financial period	1,713	85	1,798
Disposals	(1,816)	-	(1,816)
At 28 June 2014	**4,772**	**5,039**	**9,811**
Net book value			
At 30 June 2012	2,142	1,096	3,238
At 29 June 2013	4,176	86	4,262
At 28 June 2014	**9,259**	**1**	**9,260**

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

Transfers relate to assets under construction which were classified initially as fixtures and fittings and leasehold improvements. There was no related depreciation to be transferred.

All amortisation is included within operating costs in the income statement.

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 30 June 2012	79,033	81,466	2,318	19	48,169	211,005
Additions	719	11,237	546	-	10,880	23,382
Transfers to intangible assets and reclassifications	49	52	-	-	(249)	(148)
Disposals	-	(167)	(4)	(19)	(1,017)	(1,207)
At 29 June 2013	79,801	92,588	2,860	-	57,783	233,032
Additions	209	10,465	799	-	9,287	20,760
Disposals	-	(1,140)	(35)	-	(938)	(2,113)
At 28 June 2014	**80,010**	**101,913**	**3,624**	**-**	**66,132**	**251,679**
Accumulated depreciation						
At 30 June 2012	6,080	27,464	870	19	30,259	64,692
Charge for the financial period	1,355	7,147	606	-	9,125	18,233
Disposals	-	(96)	(2)	(19)	(1,002)	(1,119)
Impairment	148	-	2	-	16	166
At 29 June 2013	7,583	34,515	1,476	-	38,398	81,972
Charge for the financial period	1,349	6,629	759	-	9,722	18,459
Disposals	-	(740)	(25)	-	(878)	(1,643)
Impairment	51	-	(10)	-	(16)	25
At 28 June 2014	**8,983**	**40,404**	**2,200**	**-**	**47,226**	**98,813**
Net book value						
At 30 June 2012	72,953	54,002	1,448	-	17,910	146,313
At 29 June 2013	72,218	58,073	1,384	-	19,385	151,060
At 28 June 2014	**71,027**	**61,509**	**1,424**	**-**	**18,906**	**152,866**

All depreciation expense and impairment charge has been included within operating costs in the income statement.

11 Deferred tax

Deferred tax is provided in full on temporary differences under the liability method using a taxation rate of 20% (2013: 23%).

Deferred taxation assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Property, plant and equipment	421	-	-	(603)	421	(603)
Share-based payments	2,704	2,207	-	-	2,704	2,207
Other temporary differences	658	-	-	(144)	658	(144)
	3,783	2,207	-	(747)	3,783	1,460

	Assets		Liabilities		Net	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Deferred tax to be recovered after more than 12 months	1,585	1,111	-	(834)	1,585	277
Deferred tax to be recovered within 12 months	2,198	1,096	-	87	2,198	1,183
	3,783	2,207	-	(747)	3,783	1,460

11 Deferred tax continued

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

	Balance at 30 June 2012 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 29 June 2013 £'000
Property, plant and equipment	(1,331)	728	-	(603)
Share-based payments	1,104	97	1,006	2,207
Other temporary differences	(70)	28	(102)	(144)
	(297)	853	904	1,460

	Balance at 29 June 2013 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 28 June 2014 £'000
Property, plant and equipment	(603)	1,024	-	421
Share-based payments	2,207	211	286	2,704
Other temporary differences	(144)	134	668	658
	1,460	1,369	954	3,783

12 Inventories

	2014 £'000	2013 £'000
Goods for resale	115,528	92,940

13 Trade and other receivables

	2014 £'000	2013 £'000
Trade receivables	950	351
Other receivables	3,626	3,579
Prepayments and accrued income	14,903	14,414
	19,479	18,344

All non-current trade receivables are due within one year from the end of the reporting period.

14 Cash and cash equivalents

	2014 £'000	2013 £'000
Cash at bank and in hand	21,740	44,740

Included in the cash and cash equivalents is £nil (2013: £19.7m) of short term deposits, accessible at notice periods not exceeding three months.

The Group banks with institutions that have a credit rating of 'A' and above.

15 Trade and other payables

	2014 £'000	2013 restated £'000
Current		
Trade payables	39,817	30,249
Accruals and deferred income	22,958	23,292
Taxation and social security	11,075	8,510
Other payables	2,166	2,298
Total current trade and other payables	76,016	64,349
Non-current		
Accruals and deferred income	40,544	37,757
Total non-current trade and other payables	40,544	37,757
Total trade and other payables	116,560	102,106

The maturity analysis of non-current accruals and deferred income is as follows:

	2014 £'000	2013 £'000
One to two years	4,424	4,070
Two to five years	13,644	12,144
After five years	22,476	21,543
	40,544	37,757

During the period the Directors have reassessed the liabilities of the Group and have determined that £40.5m (£37.8m at 29 June 2013) should be classified as non-current. These amounts represent deferred income in respect of lease incentives received, and will be released to the income statement after more than one year.

16 Interest bearing loans and borrowings

The Group has no committed borrowing facilities because of its strong cash position. It has an uncommitted overdraft facility of £10m.

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 is in place.

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 deposits with banks and financial institutions as well as foreign exchange hedging agreements with its banking counterparties. The Group only deals with creditworthy counterparties and uses publicly available financial information to rate its counterparties.

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.

The Group maximum exposure to credit risk is represented by payments In advance of goods to overseas suppliers. At the period end these amounted to $7,310,000 (2013: $6,234,000).

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.

All of the Group's derivative financial liabilities are due to settle within 18 months of the balance sheet date.

17 Financial risk management continued

Interest rate risk

The Group's bank borrowings, if any, incur variable interest rate charges. 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 is detailed in note 16.

Foreign currency risk

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 US dollars. The Group cover exchange rate exposure on expected promotional product purchases up to a maximum of 100% of forecast purchases over a four month horizon. Exchange rate exposure is covered on expected regular range purchases up to a maximum of 50% of forecast purchases over a 12 month horizon. The Group uses 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.

The Group is exposed to foreign currency risk on purchases denominated in US dollars. These amounted to approximately 16% of the total stock purchases in the period ended 28 June 2014. The outstanding US dollar liabilities at the period end were $150,000 (2013: $525,000)

During the period the Group entered into exchange rate swaps for $88.8m to sell sterling and buy US dollars. These swaps are accounted for as cash flow hedges. During the period the net mark to market loss on foreign currency hedging instruments taken to equity was £3.3m (2013: £0.4m profit). At the balance sheet date the Group had 13 swap contracts outstanding with an aggregate maximum value of $87.2m.

In the event of a significant adverse movement in the US dollar exchange rate, the Group could 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 to sterling exchange rates would not have a material effect on the Consolidated Statement of Comprehensive Income.

The US dollar period end exchange rate applied in the above analysis is 1.7016 (2013: 1.5239). Strengthening and weakening of sterling may not produce symmetrical results depending on the proportion and nature of foreign exchange derivatives.

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 period.

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.

Losses on cash flow hedges net of deferred tax impact during the period amounted to £2,898,000 (2013: gain £387,000).

Capital management

The Company considers that its capital is equity.

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 shares are intended to be used for issuing shares under the Group's share option programmes. The Board has authorised a share purchase programme designed to ensure that all options expected to vest under share option schemes can be fulfilled out of treasury shares.

17 Financial risk management continued

Financial liabilities/(assets)

The following tables show a comparison by category of the carrying amounts and fair values of the Group's financial assets and liabilities at 28 June 2014 and 29 June 2013.

	2014 Carrying value £'000	2014 Fair value £'000	2013 Carrying value £'000	2013 Fair value £'000
Cash and cash equivalents	21,740	21,740	44,740	44,740
Trade receivables	962	962	351	351
Forward exchange contracts – current	-	-	387	387
Total financial assets	22,702	22,702	45,478	45,478
Trade payables	(39,817)	(39,817)	(30,249)	(30,249)
Forward exchange contracts – current	(2,898)	(2,898)	-	-
Total financial liabilities	(42,715)	(42,715)	(30,249)	(30,249)
Net financial assets	(20,013)	(20,013)	15,229	15,229

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

	Loans and receivables £'000	Other financial liabilities at amortised costs £'000	Derivatives used for hedging £'000	Total £'000
Cash and cash equivalents	21,740	-	-	21,740
Trade receivables	962	-	-	962
Forward exchange contracts – current	-	-	-	-
Total financial assets	22,702	-	-	22,702
Trade payables	-	(39,817)	-	(39,817)
Forward exchange contracts – current	-	-	(2,898)	(2,898)
Total financial liabilities	-	(39,817)	(2,898)	(42,715)
As at 28 June 2014	22,702	(39,817)	(2,898)	(20,013)

	Loans and receivables £'000	Other financial liabilities at amortised costs £'000	Derivatives used for hedging £'000	Total £'000
Cash and cash equivalents	44,740	-	-	44,740
Trade receivables	365	-	-	365
Forward exchange contracts – current	-	-	387	387
Total financial assets	45,105	-	387	45,492
Trade payables	-	(30,249)	-	(30,249)
Forward exchange contracts – current	-	-	-	-
Total financial liabilities	-	(30,249)	-	(30,249)
As at 29 June 2013	45,105	(30,249)	387	15,243

17 Financial risk management continued

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

	2014 £'000	2013 £'000
Sterling	21,572	41,321
US dollar	34	3,137
Euro	134	282
	21,740	44,740

As at 28 June 2014, 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
29 June 2013	365	57	47	52	3	206
28 June 2014	962	889	47	8	3	15

As at 28 June 2014, the analysis of trade payables that were past due 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
29 June 2013	30,249	28,512	725	195	133	684
28 June 2014	39,817	37,973	977	679	117	71

18 Share capital

	Number of Ordinary Shares of 1p each 2014	Number of Ordinary Shares of 1p each 2013
In issue at the start of the period	202,830,188	202,255,248
Issued during the period in respect of share option schemes	3,743	574,940
In issue at the end of the period	202,833,931	202,830,188

Proceeds received in relation to shares issued during the period were £12,000 (2013: £589,000).

	2014 Number of shares	2014 £'000	2013 Number of shares	2013 £'000
Ordinary Shares of 1p each:				
Authorised	500,000,000	5,000	500,000,000	5,000
Allotted, called up and fully paid	202,833,931	2,028	202,830,188	2,028

19 Treasury shares

	2014 Number of shares	2014 £'000	2013 Number of shares	2013 £'000
Outstanding at the beginning of the period	-	-	-	-
Purchased during the period	(1,706,154)	(15,404)	-	-
Reissued during the period in respect of share option schemes	769,656	6,781	-	-
Outstanding at the end of the period	(936,498)	(8,623)	-	-

The Group acquired 1,706,154 of its own shares through purchases on the London Stock Exchange (2013: nil). These shares are held by the Group for the purpose of delivery to employees under the employee share schemes. The total amount, including fees, paid to acquire the shares was £15,404,000 (2013: nil). The consideration has been deducted from retained earnings within shareholders equity. The proceeds from the issue of treasury shares included in the consolidated statement of cash flows of £1,278,000 is the amount employees contributed.

The Group re-issued 769,656 (2013: nil) treasury shares during the period for a total value of £6,781,000 (2013: nil).

The Group has the right to re-issue the remaining treasury shares at a later date.

20 Share-based payments

As at 28 June 2014, 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 2,844 exercisable options in total under these schemes as at 28 June 2014 (2013: nil).

The fair value of options granted during the period was determined using the Black-Scholes valuation model. The significant inputs into the model are detailed below. The volatility is measured at the standard deviation of share returns based on the daily share price over the twenty days prior to the grant date.

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 grants have an exercise price equal to market price at date of grant. These grants are dependent on the level of growth in the Group's EPS relative to RPI as well as continuing employment with the Group.

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

	October 2013	November 2012
Exercise price	876.5p	641.5p
Volatility	40%	29%
Dividend yield	4.0%	2.5%
Option life	3 years	3 years
Risk-free interest rate	1.4%	0.8%
Fair value at measurement date	253.9p	151.7p

The number and weighted average exercise price of options under the GSOP at 28 June 2014 were as follows:

	Weighted average exercise price 2014	Number of shares under option 2014	Weighted average exercise price 2013	Number of shares under option 2013
Outstanding at beginning of the period	497.3p	153,565	420.0p	100,000
Granted during the period	876.5p	115,377	641.5p	53,565
Exercised during the period	420.0p	(100,000)	-	-
Lapsed during the period	741.2p	(29,042)	-	-
Outstanding at end of the period	814.6p	139,900	497.3p	153,565

The weighted average share price at the time of exercise was 848.1p

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. Grants are made under the scheme annually. Options may be exercised under the scheme within six months of the completion of each three year savings contract. 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:

	January 2014	November 2012	November 2011	November 2010
Share price at date of grant	900.0p	674.5p	503.5p	497.5p
Exercise price	702.0p	545.0p	361.0p	337.0p
Volatility	38%	32%	31%	43%
Dividend yield	4.0%	2.5%	2.5%	2.5%
Option life	3 years	3.5 years	3.5 years	3.5 years
Risk-free interest rate	1.6%	0.8%	1.1%	1.7%
Fair value at measurement date	263.0p	158.8p	160.2p	192.8p

20 Share-based payments continued

The number and weighted average exercise price of options outstanding under the Sharesave at 28 June 2014 was as follows:

	Weighted average exercise price 2014	Number of shares under option 2014	Weighted average exercise price 2013	Number of shares under option 2013
Outstanding at beginning of the period	413.0p	778,585	321.5p	820,753
Granted during the period	702.0p	322,740	545.0p	272,662
Exercised during the period	337.1p	(258,175)	254.6p	(231,548)
Lapsed during the period	510.0p	(85,487)	384.1p	(83,282)
Outstanding at end of the period	551.0p	757,663	413.0p	778,585

The weighted average share price at the time of exercise was 923.3p.

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. One grant was made in the period, to the Executive Directors and senior management. These grants are exercisable in November 2016, dependent on the level of growth in Group EPS relative to RPI, as well as continuing employment. 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 page 51.

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

	October 2013	November 2012	November 2011	October 2011	October 2011	December 2010
Share price at date of grant	876.5p	641.5p	431.0p	499.0p	451.0p	500.0p
Volatility	40.00%	29.23%	36.14%	43.54%	43.89%	40.00%
Dividend yield	4.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Option life	3 years	3 years	3 years	3 years	3 years	5 years
Risk-free interest rate	1.35%	0.84%	1.08%	1.08%	1.08%	1.70%
Discount factor, based on dividend yield to vesting date	0.670	0.779	0.928	0.927	0.905	0.881
Fair value of option	587.4p	499.5p	399.8p	462.9p	408.3p	440.6p

The number and weighted average exercise price of options under the LTIP at 28 June 2014 was as follows:

	Weighted average exercise price 2014	Number of shares under option 2014	Weighted average exercise price 2013	Number of shares under option 2013
Outstanding at beginning of the period	-	1,384,186	-	1,427,268
Granted during the period	-	252,953	-	300,905
Exercised during the period	-	(415,224)	-	(343,392)
Lapsed during the period	-	(22,583)	-	(595)
Outstanding at end of the period	-	1,199,332	-	1,384,186

The weighted average share price at the time of exercise was 886.9p.

d) Impact on income statement

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

	2014 £'000	2013 £'000
GSOP	96	63
Sharesave	488	342
LTIP	1,886	1,640
	2,470	2,045

21 Commitments
As at 28 June 2014 the Group had entered into capital contracts amounting to £2.5m (2013 £0.5m).

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

	2014 Motor vehicles £'000	2014 Land and buildings £'000	2014 Plant and machinery £'000	2013 Motor vehicles £'000	2013 Land and buildings £'000	2013 Plant and machinery £'000
Within one year	769	37,643	1,014	895	35,761	496
In the second to fifth year inclusive	1,439	140,422	3,181	2,354	131,337	2,158
After five years	-	173,495	720	-	175,052	964
	2,208	351,560	4,915	3,249	342,150	3,618

The Group has 122 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 Board.

Directors of the Company and their close relatives control 55.7% (2013: 55.3%) of the voting shares of the Company.

Disclosures relating to remuneration of Directors are set out in the Remuneration Report on pages 48 to 68. The remuneration of the key management personnel is set out below:

	2014 £'000	2013* £'000
Short-term benefits	3,294	3,163
Post-employment benefits	88	104
Share-based payments	1,305	1,247
	4,687	4,514

* prior year comparatives have been aligned to the current year definition of key management personnel

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 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
As described in the strategic and governance sections of this annual report, management of the business changed with effect from 11 September 2014 when Nick Wharton resigned as Chief Executive and was replaced by Will Adderley.

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

As at 28 June 2014

	Note	2014 £'000	2013 £'000
Non-current assets			
Investment in subsidiaries	4	49,899	48,466
Deferred tax asset	5	1,553	1,165
Total non-current assets		**51,452**	**49,631**
Current assets			
Trade and other receivables	6	149,314	146,201
Current tax asset		-	806
Total current assets		**149,314**	**147,007**
Total assets		**200,766**	**196,638**
Current liabilities			
Trade and other payables	7	(1,531)	(2,685)
Current tax liability		(190)	-
Total current liabilities		**(1,721)**	**(2,685)**
Total liabilities		**(1,721)**	**(2,685)**
Net assets		**199,045**	**193,953**
Equity			
Issued capital	10	2,028	2,028
Share premium		1,624	1,612
Non-distributable reserves		4,347	3,311
Capital redemption reserve		43,157	43,157
Retained earnings		147,889	143,845
Total equity attributable to equity holders of the Parent		**199,045**	**193,953**

The financial statements on pages 105 to 113 were approved by the Board of Directors on 11 September 2014 and were signed on its behalf by:

David Stead
Director

Company number 4708277

PARENT COMPANY STATEMENT OF CASH FLOWS

For the 52 weeks ended 28 June 2014

	Note	2014 £'000	2013 £'000
Profit before taxation		100,657	70,739
Adjustment for net financing costs		(4,737)	(6,189)
Operating cash flows before movements in working capital		95,920	64,550
(Increase)/decrease in receivables	6	(2,307)	22,748
(Decrease)/increase in payables	7	(1,153)	73
Net movement in working capital		(3,460)	22,821
Investment income	4	(100,000)	(70,000)
Share-based payments expense	12	1,036	1,079
Cash flows from operating activities		(6,504)	18,450
Dividend received	14	100,000	70,000
Net cash generated from operating activities		**93,496**	**88,450**
Cash flows from financing activities			
Interest received		4,737	6,189
Proceeds from issue of share capital	10	12	589
Proceeds from issue of treasury shares	11	1,278	-
Purchase of treasury shares	11	(15,404)	-
Return of Capital to Shareholders		-	(65,842)
Dividends paid	3	(84,119)	(29,386)
Net cash flows utilised in financing activities		**(93,496)**	**(88,450)**
Net (decrease)/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 28 June 2014

	Note	Issued share capital £'000	Share Premium £'000	Capital redemption reserve £'000	Non-distributable reserve £'000	Retained earnings £'000	Total equity £'000
As at 30 June 2012		**2,023**	**1,025**	**43,155**	**2,345**	**166,816**	**215,364**
Profit for the period		-	-	-	-	70,549	70,549
Total comprehensive income for the period		-	-	-	-	70,549	70,549
Issue of share capital	10	5	587	2	-	(6)	588
Share-based payments	12	-	-	-	966	1,079	2,045
Deferred tax on share-based payments	5	-	-	-	-	430	430
Current corporation tax on share options exercised		-	-	-	-	205	205
Dividends	3	-	-	-	-	(29,386)	(29,386)
Return of Capital to Shareholders		-	-	-	-	(65,842)	(65,842)
Total transactions with owners, recorded directly in equity		5	587	2	966	(93,520)	(91,960)
As at 29 June 2013		**2,028**	**1,612**	**43,157**	**3,311**	**143,845**	**193,953**
Profit for the period		-	-	-	-	100,369	100,369
Total comprehensive income for the period		-	-	-	-	100,369	100,369
Issue of share capital	10	-	12	-	-	-	12
Purchase of treasury shares	11	-	-	-	-	(15,404)	(15,404)
Issue of treasury shares	11	-	-	-	-	1,278	1,278
Share-based payments	12	-	-	-	1,036	1,434	2,470
Deferred tax on share-based payments	5	-	-	-	-	330	330
Current corporation tax on share options exercised		-	-	-	-	156	156
Dividends	3	-	-	-	-	(84,119)	(84,119)
Total transactions with owners, recorded directly in equity		-	12	-	1,036	(96,325)	(95,277)
As at 28 June 2014		**2,028**	**1,624**	**43,157**	**4,347**	**147,889**	**199,045**

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.

PARENT COMPANY 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, IFRS 2 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 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, if any, are recorded at their fair value.

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

Borrowings are classed as current liabilities unless the Company 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 Company'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 transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Share-based payments
The Company operates one equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions; (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the company either issues new shares, or uses treasury shares purchased for this purpose. For issued new share, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

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 period 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 period, using tax rates enacted or substantively enacted at the balance sheet date, together with any adjustment to tax payable in respect of previous periods.

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.

New Standards and interpretations
The following standards have been adopted by the Company for the first time:

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for the Company to combine items presented in 'other comprehensive income' on the basis of whether they potentially could subsequently be reclassified to the income statement.

IFRS 13, 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend to the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

At the date of approval of these financial statements, the following relevant standards were endorsed by the EU, but not yet adopted by the Company:

IFRS 9, 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. This standard is effective for accounting periods commencing on or after 1 January 2015 and therefore the Company has not commenced its evaluation of the impact on the Financial Statements.

The above will be adopted in the Company 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 Company.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

For the 52 weeks ended 28 June 2014

1 Income statement

The Company made a profit after tax of £100,369,000 (2013: £70,549,000). 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 interests are set out in the Remuneration Report on pages 48 to 68. Share-based payments details are given in note 12 on page 112.

3 Dividends

All dividends relate to the 1p Ordinary Shares.

		2014 £'000	2013 £'000
Final for the period ended 30 June 2012	– paid 10.0p	-	(20,259)
Interim for the period ended 29 June 2013	– paid 4.5p	-	(9,127)
Special dividend for the period ended 29 June 2013	– paid 25.0p	(50,708)	-
Final for the period ended 29 June 2013	– paid 11.5p	(23,287)	-
Interim for the period ended 28 June 2014	– paid 5.0p	(10,124)	-
		(84,119)	(29,386)

The Directors are proposing a final dividend of 15p per Ordinary Share for the period ended 28 June 2014 which equates to £30.4m. The dividend will be paid on 19 December 2014 to shareholders on the register at the close of business on 28 November 2014.

4 Investments

Shares in subsidiary undertakings.

	£'000
As at 30 June 2012	47,500
Share-based payments	966
As at 29 June 2013	48,466
Share-based payments	1,433
As at 28 June 2014	49,899

The following were subsidiaries as at 28 June 2014:

Subsidiary	Proportion of Ordinary Shares held	Nature of business
Dunelm (Soft Furnishings) Ltd	100%	Retailer of soft furnishings
Dunelm Estates Limited	100%	Property holding company
Dunelm Limited	100%	Dormant
Ensco 735 Limited*	100%	Property holding company
Zoncolan Limited*	100%	Property holding company

* Share Capital held by subsidising undertakings

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

5 Deferred tax assets

	Assets 2014 £'000	Assets 2013 £'000
Employee benefits	1,553	1,165

The movement in deferred tax assets is as follows:

	Balance at 30 June 2012 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 29 June 2013 £'000
Employee benefits	611	124	430	1,165

	Balance at 29 June 2013 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 28 June 2014 £'000
Employee benefits	1,165	58	330	1,553

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

	2014 £'000	2013 £'000
Amounts owed by subsidiary undertakings	149,296	146,174
Prepayments and accrued income	18	27
	149,314	146,201

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

	2014 £'000	2013 £'000
Trade payables	10	72
Accruals and deferred income	904	2,469
Other taxation and social security	597	124
Other payables	20	20
	1,531	2,685

8 Interest bearing loans and borrowings

The Company has no committed borrowing facilities because of its strong cash position. It has an uncommitted overdraft facility of £10m.

9 Financial risk management

Capital management

The Board's objective with respect to capital management is to ensure the Company 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.

10 Share capital

	Number of Ordinary Shares of 1p each 2014	Number of Ordinary Shares of 1p each 2013
In issue at the start of the period	202,830,188	202,255,248
Issued during the period in respect of share option schemes	3,743	574,940
In issue at the end of the period	202,833,931	202,830,188

Proceeds received in relation to shares issued during the period were £12,000 (2013: £589,000).

	2014 Number of shares	2014 £'000	2013 Number of shares	2013 £'000
Ordinary shares of 1p each:				
Authorised	500,000,000	5,000	500,000,000	5,000
Allotted, called up and fully paid	202,833,931	2,028	202,830,188	2,028

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

11 Treasury shares

	2014 Number of shares	2014 £'000	2013 Number of shares	2013 £'000
Outstanding at the beginning of the period	-	-	-	-
Purchased during the period	(1,706,154)	(15,404)	-	-
Reissued during the period in respect of share option schemes	769,656	6,781	-	-
Outstanding at the end of the period	(936,498)	(8,623)	-	-

The Company acquired 1,706,154 of its own shares through purchases on the London Stock Exchange (2013: nil). These shares are held by the Company for the purpose of delivery to employees under the employee share schemes. The total amount, including fees, paid to acquire the shares was £15,404,000 (2013: nil). The consideration has been deducted from the retain earnings within shareholders equity.

The Company re-issued 769,656 (2013: nil) treasury shares during the period for a total value of £6,781,000 (2013: nil).

The Company has the right to re-issue the remaining treasury shares at a later date.

12 Share-based payments

As at 28 June 2014, the Company operated one share award plan:

Long-Term Incentive Plan ('LTIP')

There were no exercisable options under this scheme as at 28 June 2014 (2013: nil).

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. One grant was made in the period, to the Executive Directors and senior management. These grants are exercisable in November 2016, dependent on the level of growth in Group EPS relative to RPI, as well as continuing employment. 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 page 51.

The fair value of options granted during the period was determined using the Black-Scholes valuation model. The significant inputs into the model are detailed below. The volatility is measured at the standard deviation of share returns based on the daily share price over the twenty days prior to the grant date.

12 Share-based payments continued

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

	October 2013	November 2012	November 2011	December 2010
Share price at date of grant	876.5p	641.5p	431.0p	500.0p
Volatility	40.00%	29.23%	36.14%	40.00%
Dividend yield	4.0%	2.5%	2.5%	2.5%
Option life	3 years	3 years	3 years	5 years
Risk-free interest rate	1.35%	0.84%	1.08%	1.70%
Discount factor, based on dividend yield to vesting date	0.670	0.779	0.928	0.881
Fair value of option	587.4p	499.5p	399.8p	440.6p

The number and weighted average exercise price of options under the LTIP at 28 June 2014 is:

	Weighted average exercise price 2014	Number of shares under option 2014	Weighted average exercise price 2013	Number of shares under option 2013
Outstanding at beginning of the period	-	866,561	-	918,594
Granted during the period	-	117,307	-	157,131
Exercised during the period	-	(163,962)	-	(209,164)
Lapsed during the period	-	(25,153)	-	-
Outstanding at end of the period	-	794,753	-	866,561

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

	2014 £'000	2013 £'000
LTIP	1,036	1,079

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:

	2014 £'000	2013 £'000
Cash paid to Group undertakings	3,167	827
Cash received from Group undertakings	(104,782)	(99,755)
Dividends received	100,000	70,000
Net interest receivable	4,737	6,189

Key management personnel

All employees of the Company are key management personnel.

Directors of the Company and their close relatives control 55.7% (2013: 55.3%) of the voting shares of the Company.

Disclosures relating to remuneration of Directors are set out in the Remuneration Report on pages 48 to 68.

ADVISERS AND CONTACTS

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	**PricewaterhouseCoopers LLP** Cornwall Court 19 Cornwall Street Birmingham B3 2DT Tel: 0121 265 5000
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[1]
Financial Public Relations	**MHP Communications** 60 Great Portland Street London W1W 7RT Tel: 020 3128 8100
Registered Office	**Store Support Centre** Watermead Business Park Syston Leicestershire LE7 1AD Company Registration No: 4708277
Investor Relations	investorrelations@dunelm.com Tel: 0116 264 4356

[1] Calls to this number are charged at 8p per minute plus network extras or, if dialling internationally, on +44 (0) 121 415 7047. The helpline is open Monday to Friday 8.30am to 5.30pm, excluding bank holidays

STORE LISTING

Superstores

Aberdeen
Ashford
Ashton Under Lyne
Ballymena
Banbury
Bangor
Barnsley
Barnstaple
Barrow In Furness
Basingstoke
Bedford
Belfast
Birmingham
Blackpool
Bolton
Bournemouth
Bradford
Bridgend
Broadstairs
Burton
Bury St Edmunds
Cambridge
Cannock
Canterbury
Cardiff
Carlisle
Cheltenham
Chester
Chesterfield
Clydebank
Colchester
Coleraine
Coventry
Cramlington
Crewe
Croydon
Dartford
Derby
Doncaster
Dumfries
Dundee
Dunstable
Eastbourne
Edinburgh
Enfield
Erdington
Exeter
Falkirk
Fareham
Fenton
Gloucester
Grantham
Greenford
Grimsby
Halifax
Harrow
Hartlepool
Hastings
Hemel Hempstead
Hereford
Huddersfield
Hull
Huntingdon
Ilkeston
Inverness
Ipswich
Isle Of Wight
Keighley
Kettering
Kidderminster
Kilmarnock
Kirkcaldy
Lancaster
Leeds
Lincoln
Liverpool Garston
Liverpool Sefton
Llanelli
Londonderry
Maidstone
Mansfield
Milton Keynes
Newbury
Newport
Newtownabbey
Northampton
Norwich
Nottingham
Nuneaton
Oldbury
Oxford
Paisley
Perth
Peterborough
Plymouth
Preston
Radcliffe
Reading
Rochdale
Romford
Rotherham
Rugby
Rustington
Scarborough
Scunthorpe
Sheffield
Shoreham
Shrewsbury Sundorne
Sittingbourne
Southport
St Albans
St Helens
Stafford
Stevenage
Stockport
Stockton
Sunderland
Swansea
Swindon
Taunton
Telford
Thurmaston
Thurrock
Torquay
Trafford
Truro
Uddingston
Walsall
Warrington
Wellingborough
Weston-Super-Mare
Wisbech
Wolverhampton
Worcester
Workington
Wrexham
York

High Street

Boston (2 stores)
Coalville
Hillsborough
Hinckley
Loughborough
Newcastle-Under-Lyme

Online

www.dunelm.com

NOTES

Designed and produced by Emperor
www.emperordesign.co.uk +44 (0)121 262 3830

Dunelm

Tel: 0116 264 4356
Email: investorrelations@dunelm.com

www.dunelm.com