Dunelm mill

Dunelm Group plc Annual report & accounts 2009

Simply value for money

Annual report & accounts 2009

Dunelm Group plc

Contents

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

Business strategy: These are our key areas of focus

Growing the store portfolio

We are ambitious to continue driving Dunelm's growth by rolling out the successful superstore format. Of the existing 85 superstores as of 15 September 2009, the majority are located in the Midlands or the North West of England and coverage of many parts of the UK is limited. The opportunity for geographic expansion is therefore very significant.

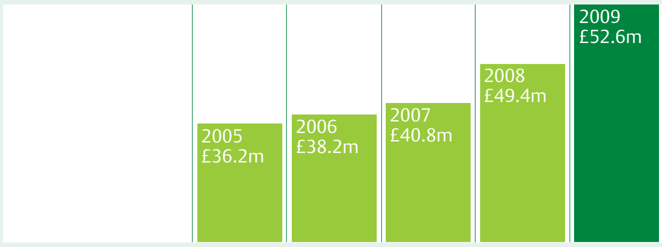
Developing the customer offer

We intend to continue to focus on homewares and our 'Simply Value for Money' proposition – deep ranges of quality products at keen prices, with high availability and supported by friendly service. We want to keep strengthening each element of the offer.

Highlights

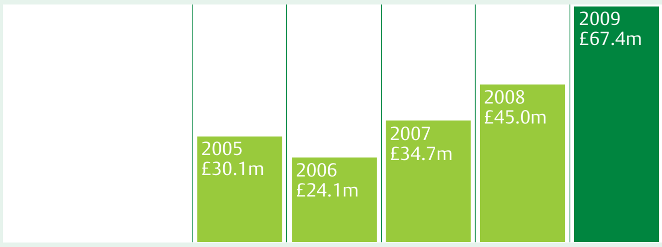
Revenue

Operating profit*†



Profit before tax*†

Net cash from operations



Operational

94 stores at 4 July 2009 (82 superstores)

6 new superstores opened in the year

Average superstore selling area of 28,000 square feet

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

Financial

Revenue increase 8.2% in FY 2008/09

Operating margin 12.4%

Operating cash flow £68m after interest and tax

* The 2007 figures for operating profit and profit before tax included non-recurring items in respect of IPO and warehouse relocation as well as a non-recurring gain on a property disposal. The combined effect of these was to reduce operating profit by £3.2m and profit before tax by £3.0m.

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

Growing Dunelm Direct

We have had a transactional website since 2006. We see significant opportunity to grow our overall business by further developing direct channels in conjunction with expanding our store base.

Exploiting our infrastructure

We are in a strong position to exploit further our increasing scale, as well as to benefit from the significant infrastructure investments made in recent years, particularly in IT systems.

Chairman's statement

Dunelm has demonstrated great resilience.

The last 12 months have been challenging for all retailers. The number of business failures has increased significantly, and has included some well known names with involvement in the homewares market. Against this difficult background, Dunelm has demonstrated great resilience as customers have continued to buy into our 'Simply Value For Money' proposition.

We expect that the retail environment will remain challenging for some time, reflecting the depth of the background difficulties in the UK economy. In this scenario, consumers' continual search for better value, together with a trend towards switching of expenditure into home improvements, leaves us well positioned to make further progress.

After the end of the financial year we welcomed a new Non-Executive Director to the Board, appointing Nick Wharton, Finance Director of Halfords Group plc. His wealth of experience and knowledge of the retail sector will be a great asset to the Board as we continue to pursue our growth strategy.

The business celebrates its 30th year of operations with another year of increase in sales and profits. In addition, there was strong positive cash generation and we ended the year with significant cash surplus. This strong performance has enabled the Board to recommend a 9.1% increase in the dividend, broadly in line with the growth in earnings per share. The Group remains in a very strong position to continue our strategy of investing in organic growth in the coming years.

Geoff Cooper
Chairman
15 September 2009

Focusing on developing the customer offer

20,000

Product lines available in superstores

Chief Executive's review

We see an increasing number of opportunities to grow the superstore portfolio without compromising our long-term financial returns.

Trading

I am delighted to report continued successful growth of the Group during the last financial year. Our overall sales increased by 8.2% over the financial year, or 6.3% on a comparable 52 week basis. Like-for-like sales (calculated by comparing stores which have traded throughout the last two financial years) recovered from a decline of 5.6% in the first half to end the year just 0.5% down – significantly beating the overall homewares market.

I firmly believe that Dunelm remains the leading multiple homewares specialist in the UK. We intend to maintain our success by pursuing the four priorities which have constituted our strategy since flotation.

Priority 1 – growing the store portfolio

We opened six new superstores in the year, at Huddersfield, Newtownabbey, Plymouth, Worcester, Workington and Llanelli. We continue to receive very favourable customer reaction to all of our new openings and are pleased with trading in all of these locations. Altogether the chain of 82 superstores as at the year-end provided 2.4m square feet of selling space.

We see an increasing number of opportunities to grow the superstore portfolio without compromising our long-term financial returns. We have opened three further stores since the year-end in Norwich, Londonderry and Broadstairs and we are contractually committed to nine more units which are due to open over the next twelve months. We also have numerous further opportunities under negotiation. With little occupier demand for 'big box' retail warehousing space, we believe that we are well positioned to continue our store roll-out programme over the next few years whilst maintaining our disciplined and demanding approach to return on investment.

Whilst expanding our superstore chain towards our medium-term target of at least 150 superstores, we continue to look for opportunities to relocate our older high street shops. The superstore opening in Worcester replaced our high street store there, leaving us with 12 high street stores.

Priority 2 – developing the customer offer

We know that it is essential for us to continue improving our retail proposition. We are as passionate as ever about giving 'Simply Value For Money' to all our customers – a combination of price, choice, quality, product availability and friendly service.

We have introduced a number of developments in our offer over the past

Chief Executive's review continued

year. For example, we have launched an arts & crafts section in a number of stores, and have grouped together various existing ranges to create a new laundry & cleaning section. We now also offer add-on services in many stores – for example, we deliver products to customers' homes and fit them when required.

We have responded to the difficult economic environment by increasing the proportion of special buys available for customers, and have introduced some additional short-term product promotions under the banner of 'Miss It Miss Out'.

In our new and refitted stores, we now include a dedicated Dorma area, following our acquisition of rights to the Dorma brand in July 2008 (Dorma is a high-end home textiles brand with strong heritage in bed linen particularly). We have successfully retained Dorma's royal warrants following the acquisition, have refined the branding and have developed an exciting new range of Dorma bed linen designs exclusive to Dunelm. We have also begun to apply the Dorma name to other product categories such as bathroom and table linen.

We have continued investing to improve the shopping environment in our older stores. We completed six refits in the last financial year and intend to continue our refit programme at the rate of 5–10 stores per year. To date the cost has been approximately £0.5m per store, with payback anticipated in approximately 3–5 years. We have received a good response to these refitted stores both from customers and from our store teams.

Priority 3 – growing Dunelm Direct

Dunelm Direct is the name we give to our multi-channel strategy. Sales from our website (www.dunelm-mill.com) have grown well over the last financial year. We expect this to continue in the coming year as we are about to relaunch the site on a new technology platform which will improve the shopping experience and give us a much stronger technological base to build upon.

Also on this new technology platform will be a new website for Dorma (www.dorma.co.uk) which will act as a showcase for the Dorma brand, stocking all Dorma products, whether Dunelm exclusive designs or products distributed under licence by our third party partner.

Whilst it is still early days for our Dunelm Direct growth strategy we think the investment we have made over the last financial year will give us a strong and scalable platform on which to build.

Priority 4 – exploiting our infrastructure

We continue to extract further benefits from our past investment in IT systems, enabling us to improve stock control and make in-store processes more efficient. We are also seeing improvements to our customer offer directly supported by IT, for example the forthcoming launch of a gift card.

We are taking steps to underpin our medium term expansion plans by securing additional leasehold space at our central warehouse in Stoke, where we have an option over 100,000 square feet of warehousing to supplement the 250,000 square feet we currently occupy. We anticipate moving operations into this additional space during 2010. Our capital expenditure to fit out new warehousing space is not expected to exceed £2m.

As our business grows, we will also need to expand our head office facility. We are investigating the possible purchase of freehold land in the neighbourhood of our existing base in Syston, Leicester. This is a long-term project and any new building is unlikely to be ready for occupation until 2011.

Outlook

For the first 10 weeks of our financial year, to 12 September, total sales growth has been 26.5% and like-for-like sales have grown by 16.1%. Gross margin has remained strong, with an increase of 180bps year-on-year.

We are very pleased with the start to our new financial year. We are confident

Focused on growing Dunelm Direct

11,000+

Our webstore has been relaunched with over 11,000 products that our 'Simply Value For Money' proposition will continue to appeal to customers in the current economic climate. Our product ranges are suitable for all budgets and tastes. Our business is not significantly reliant on big-ticket purchases – our average basket remains below £30. In addition, the relatively weak state of the commercial property market gives us good opportunities to roll out our offer to more locations. Having said all this, we recognise that it will be very challenging to maintain our recent trading performance as like-for-like sales comparatives start to strengthen, and economic factors (including the planned increase in VAT and anticipations of public spending reductions and rising unemployment) potentially subdue consumer spending. Nonetheless, the business is in excellent health, we are confident of continuing to grow our market share and we remain excited about our growth prospects in the medium term.

Will Adderley
Chief Executive
15 September 2009

Focusing on growing our store portfolio

85

Superstores located throughout the UK

Finance Director's review

Our scale, buying power and mix of special buys have continued to deliver gross margin growth

53 Weeks

Dunelm's financial years are determined by reference to 'Mean Accounting Dates' and therefore every few years the Group reports a 53 week financial period. The year ended 4 July 2009 was a 53 week year. Unless otherwise stated, throughout the Finance Director's Review references to 'the financial year' or to 2009 relate to the 53 weeks ended 4 July 2009 and for 2008, to the 52 weeks ended 28 June 2008. The 53rd week represented £6.7m of revenue and £1.0m of operating profit.

Operating result

Group revenues in the financial year were £423.8m (2008: £391.8m), an increase of 8.2% (6.3% on a 52 week basis). Like-for-like sales (calculated by comparing stores which have traded throughout the last two financial years) witnessed a decline of 0.5% on a 52 week basis, although H2 like-for-like sales at + 5.0% showed a strong recovery from a H1 decline of 5.6%.

Our scale, buying power and mix of special buys have continued to deliver gross margin growth, achieving a 120 basis point improvement to 45.8% in 2009 (2008: 44.6%). Taking into account all charges for inventory write-downs, gross margin was 44.9% (2008: 43.1%) and we will report gross margin on this basis in the future.

Operating costs remained tightly controlled, with an overall 4.7% increase in operating costs in like-for-like stores. Property rents increased by 5.6% reflecting an unusually high number of rent reviews falling due in the period. Utility costs increased by 29.9%, reflecting higher tariffs in the first part of the year. Non-store costs grew by £3.7m, including additional logistics costs to support the increase in special buy merchandise as well as further investment in advertising and Head Office support infrastructure.

Operating profit for the 53 weeks to 4 July 2009 was £52.6m. On a 52 week basis operating profit was £51.6m, an increase of £2.2m (4.5%) on the previous year's £49.4m.

EBITDA

Earnings before interest, tax, depreciation and amortisation were £63.2m. This has been calculated as operating profit (£52.6m) plus depreciation and amortisation (£10.6m) and represented a 7.3% increase on the previous year. The EBITDA margin achieved was 14.9% of sales (2008: 15.0%).

Financial items and PBT

The net interest charge for the year ended 4 July 2009 was £0.1m (2008: £0.3m). This reduction is a direct result of the Group's strong cash generation enabling elimination of the prior year net debt.

A foreign exchange gain of £1.0m arose in the year in respect of US dollar holdings within the Group. At the year end, the Group held no forward contracts for the purchase of foreign currency but did hold $2.2m in cash.

Finance Director's review continued

After accounting for interest and foreign exchange impacts, profit before tax for the year amounted to £53.5m (2008: £49.1m), an increase of 8.9%.

Tax, PAT and EPS

The tax charge for the year was 29.7% of PBT (2008: 31.5%), benefiting year-on-year from the reduction in the headline rate of corporation tax to 28.0%.

Basic EPS for the year ended 4 July 2009 was 18.8p (2008: 16.8p), an increase of 11.9%. Fully diluted EPS increased by 12.0% to 18.6p (2008: 16.6p); this would have been approximately 18.3p (10.2% increase) on a 52 week basis.

Capital expenditure

Gross capital expenditure in the financial year was £25.9m, up from £18.0m last year. The Group took advantage of market conditions to acquire two freehold stores at attractive yields as well as funding fit-out costs for six new stores opened in the year and six store refits. Rights to the Dorma brand name were acquired during the period at a cost of £5.0m.

Working capital

The Group reduced working capital in the year by £14.8m. Investment in inventories was £57.9m at the year end, a reduction of £2.8m compared with last year despite the addition of six new stores – reflecting specific management focus on this area. Trade and other payables generated a positive cash movement of £11.1m, although some of this benefit is attributable to the 53 week accounting period and is expected to reverse.

Cash position

The Group continues to generate extremely strong cash flows. Net cash from operations, after interest and tax, amounted to £67.4m (2008: £45.0m) in the last financial year. As at 4 July 2009 the Group had net cash resources of £24.0m (2008: net debt of £7.2m). Together with committed undrawn revolving loan facilities of £40.0m this puts us in an excellent position to fund future growth.

Dividend

An interim dividend of 2.0p was paid in April 2009 (2008: 2.0p). It is proposed to pay a final dividend of 4.0p per share (2008: 3.5p). The total dividend of 6.0p represents a 9.1% increase over last year.

Key performance indicators

In addition to the traditional accounting measures of sales and profits, the Directors review business performance each month using a range of other KPIs. These include:

	FY09	FY08
Like-for-like sales growth	–0.5%	+2.5%
Change in gross margin	+120bp	+60bp
Number of new store openings	6	8

Key risks

The Directors also consider key risks to the business in the areas of strategic, operational and financial risks.

Strategic risks

New entrants to and/or formats within the homewares market could materially alter the competitive environment. We will continue to monitor competitor activity and to modify our proposition if necessary.

The outlook for consumer expenditure growth is uncertain and a prolonged downturn could have a significant effect on our business, as well as on many other retailers. We mitigate this risk by retaining the ability to react quickly to changes in customer demand and to adjust our offer accordingly. We have the ability to flex our offer in response to customer demand as evidenced by the increased proportion of 'special buy' merchandise in the business. Our focus on a low cost base also enables us to maintain our 'Simply Value For Money' proposition.

Like all businesses, we face the risk of increased costs from compliance with new laws and regulations. In addition, any changes to property regulation could have a particular impact on our opportunities for opening new stores. At present we are not aware of any significant forthcoming changes in the regulatory environment.

Our growth plans rely heavily on our being able to gain access to additional trading

Focusing on exploiting our infrastructure

2.4m sq. ft.

Total selling space

Business review
Governance
Financial statements
Annual General Meeting

locations. If for any reason the supply of vacant retail warehouse space declines significantly, we will be forced to accept a lower pace of expansion. However, in view of the economic pressures on both retailers and landlords we anticipate good availability of space over the next few years.

Operational risks
As with most major retailers, the business is heavily reliant on information systems and technology.

A major IT incident could constitute a significant threat to the business, at least in the short-term. Dunelm maintains a disaster recovery plan to provide business continuity in the event of such an occurrence.

Similarly, the business could suffer disruption in the event of a major incident within the supply chain, e.g. loss of our central warehouse or a major supplier. However, our use of a wide supply base, active management of key supplier relationships, high stock service levels and a high proportion of direct-to-store deliveries mitigate this risk.

Dunelm has a number of staff members in specialist positions whose expertise is important to operations and who could not easily be replaced. Additional strengthening of the operating management team over the past 12 months has given greater depth and coverage in a number of areas.

Financial risks
The Group has a committed bank facility under a revolving loan agreement with Lloyds Banking Group plc of £40m expiring in September 2011. This facility, together with existing cash resources, is considered to provide sufficient funding for the Group's operations.

We do not consider our direct exposure to interest rate fluctuations to generate any significant downside risk and we will be well placed to take advantage of upside potential.

Surplus funds are placed on deposit in a range of overnight and fixed term facilities with counter parties approved by the Board. The Group actively manages counter party risk. A credit rating of at least an 'A' is required.

David Stead
Finance Director
15 September 2009

Directors

Bill Adderley
Founder and Life President

Bill Adderley founded Dunelm along with his wife Jean in 1979. He led the development of the business successfully for many years, then took a non-executive role before retiring in February 2008. He and Jean remain passionate Dunelm supporters and major shareholders.

Geoff Cooper
Non-Executive Chairman
Geoff Cooper, joined the Board in November 2004. Chairman of the Audit Committee and Member of the Remuneration and Nominations Committees. He is currently Chief Executive of Travis Perkins plc, and is a former Director of Gateway (now Somerfield plc) and has also been Finance Director and then Deputy Chief Executive of Alliance UniChem plc.

Marion Sears
Senior Independent Non-Executive Director
Marion Sears, joined the Board in July 2004. Chairman of the Remuneration and Nominations Committees and Member of the Audit Committee. She is also a Non-Executive Director of Zetar Plc.

Will Adderley
Chief Executive
Will Adderley, joined the business in 1992. He has worked in and is familiar with all major areas of the business and took over the day-to-day running of the Group from his father in 1996.

Focused on leadership

David Stead
Finance Director
David Stead, joined the Group in 2003. Previously he spent 14 years at Boots where he was Finance Director of Boots The Chemists and Finance Director of Boots Healthcare International.

Simon Emeny
Independent Non-Executive Director
Simon Emeny, joined the Board in June 2007. Member of the Audit, Remuneration and Nominations Committees. Simon is an Executive Director of Fuller Smith and Turner P.L.C. where he is responsible for the Fuller's Inns division.

Nick Wharton
Independent Non-Executive Director
Nick Wharton, joined the Board in August 2009. Member of the Remuneration and Nominations Committees and will become Chairman of the Audit Committee. Nick is Finance Director of Halfords Group plc.

Corporate governance report

The Board is committed to high standards of corporate governance. This report explains how the Group has applied the principles of good governance and code of best practice set out in the Combined Code dated 2008.

Throughout the financial year the Group has complied with the Combined Code except that Geoff Cooper, Group Chairman, is also Chairman of the Audit Committee. Given the balance of other independent Non-Executive Directors who sit on the committee this is not considered to result in the Chairman exercising undue influence over the committee.

Going forward, the committee will be chaired by Nick Wharton. The Board considers that Nick Wharton has recent and relevant financial experience by virtue of his professional qualification and his current role as Finance Director of Halfords Group plc.

The Board

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

The Board has 10 scheduled meetings per annum, including one strategy meeting. There was full attendance at all Board and Committee meetings during the year except that Geoff Cooper was absent from one Board meeting.

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 Group-wide policies.

At each meeting, the Chief Executive reports on operational performance (including health and safety) and the Finance Director reports on financial performance. Other matters are discussed by the Board as required, supported by a briefing paper where a decision is to be made by the Board.

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

The Chairman and the other Non-Executive Directors meet from time to time without Executive Directors being present, and regularly have individual meetings with other senior managers in the business. In addition the Non-Executive Directors have the opportunity to meet at least once a year without the Chairman present as part of the appraisal process.

Directors

The Non-Executive Chairman is Geoff Cooper and the Chief Executive is Will Adderley. The Board has adopted a written statement setting out their respective responsibilities. In general terms, the Chairman is responsible for running the Board and the Chief Executive is responsible for running the Group's business.

The other Non-Executive Directors are Marion Sears, Simon Emeny and Nick Wharton (appointed on 14 August 2009). David Stead is an Executive Director.

The Senior Independent Director is Marion Sears.

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

Directors are required to retire from the Board by rotation and offer themselves for re-election at least every three years.

Board committees

The **Audit Committee** was chaired during the year by Geoff Cooper, the other members being Marion Sears and Simon Emeny. The Board considers that Geoff Cooper has recent and relevant financial experience by virtue of his professional qualification and his current executive role with Travis Perkins plc.

The committee has adopted terms of reference which are available on the Group's website or from the Company Secretary.

The committee is scheduled to meet at least three times a year, to coincide with key dates in the Group's financial reporting and audit cycle. During the period under review it met in September, February and May with full attendance. The Finance Director usually attends meetings by invitation, along with a representative from the external auditors.

The principal responsibilities of the committee are to:
- monitor the integrity of the Group's financial statements and public announcements relating to financial performance;
- oversee the external audit process, including the appointment of the auditors, their objectiveness and independence and the scope and effectiveness of the audit;
- monitor the effectiveness of internal controls and consider annually the need for an internal audit function; and
- review the process for identifying and managing risk throughout the Group.

During the year the committee:
- approved the interim results issued in February;
- decided that an internal audit function was not required in view of the adequacy of financial controls in place;
- confirmed the Group's policy for use of the auditors for non-audit advice;
- verified the independence of the auditors, and approved the scope of the audit plan and the audit fee; and
- reviewed the business continuity plans in place.

The committee met privately with the auditors in the course of each meeting during the period.

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

The committee has also approved a policy that the auditors should only be used for non-audit work if they offer demonstrably better capability than alternative providers and there is no potential conflict with the independence of the audit.

The **Remuneration Committee** is chaired by Marion Sears, the other members are Geoff Cooper, Simon Emeny and with effect from 14 August 2009, Nick Wharton. The Chief Executive normally attends by invitation.

The committee has adopted terms of reference which are available on the Group's website or from the Company Secretary.

The committee's responsibilities include:

- recommending to the Board the specific pay and benefits packages for the Executive Directors, including pensions and any compensation payments;
- recommending and monitoring the level and structure of pay and benefits for senior management; and
- implementing any awards made under share incentive schemes.

During the year the committee met three times with full attendance and:

- determined the pay reviews and incentive arrangements for Executive Directors;
- determined the annual bonus payable to Executive Directors in respect of the year ending 28 June 2008; and
- approved conditional share awards to be made to Executive Directors under the Group's Long-Term Incentive Plan.

Further details of the committee's activities are set out in the Remuneration Report on page 15.

The **Nominations Committee** is chaired by Marion Sears, the other members are Geoff Cooper, Simon Emeny and with effect from 14 August 2009, Nick Wharton.

The committee has adopted terms of reference which are available on the Group's website or from the Company Secretary.

The committee's responsibilities include:

- reviewing the composition and balance of the Board;
- Board succession planning; and
- making recommendations on appointments to the Board (including reappointments at Annual General Meeting).

During the year the committee met three times with full attendance.

Appointment and removal of Directors

The Articles of Association of the Company provide that a Director may be appointed by ordinary resolution of the Company's shareholders in general meeting, or by the Board so long as the Director stands down and offers himself for election at the next Annual General Meeting of the Company. The Articles also provide that each Director must stand down and offer him or herself for re-election by shareholders at the Annual General Meeting at least every three years.

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

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

Powers of Directors

In accordance with the Companies Act 2006 and the Articles of Association, the business of the Company is managed by the Board, which may exercise all of the powers of the Company, subject to the requirements of the Companies Acts, the Memorandum and 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 Combined Code, and these set out matters which are reserved to the Board or Committees and the powers and duties of the Chairman and Chief Executive respectively.

At the Annual General Meetings of the Company in 2007 and 2008 the Board sought and was given authority to issue shares and to buy back and reissue shares, subject to the limits imposed by law and those set out in the text of the resolution. Similar resolutions are being tabled at the 2009 Annual General Meeting. For further details see pages 20 and 21 of the Directors' Report and Business Review, and the Notice of Annual General Meeting on pages 53 and 54.

Advice and insurance

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

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

Training

Upon joining the Board, any new Director is offered a comprehensive induction programme with visits to key sites and meetings with senior managers and other staff members. Throughout the year all Directors have maintained a regular series of visits to stores and meetings with members of the senior management team. The Board has also received presentations from independent advisers on financial policy, IT developments and on retail sector trends.

Evaluation

The Chairman appraises the performance of the Chief Executive with regard to personal objectives agreed at the start of each financial year. The Chief Executive similarly appraises the performance of the Finance Director.

There is a well established process for evaluating the performance of the Chairman, the other Non-Executive Directors, the Board Committees and the Board as a whole. This takes the form of a Board meeting convened solely for the purpose of such review. During the course of this meeting there is the opportunity for the Chairman or other individual Directors to be asked to leave the discussion whilst their performance is assessed.

Corporate governance report
continued

Conflicts of interest
The Companies Act 2006 allows the Board of public companies to authorise conflicts and potential conflicts of interest of individual directors where the Articles of Association contain a provision to that effect. At the 2008 Annual General Meeting, new Articles of Association were adopted which 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 and 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.

Following the adoption of the Articles of Association, all Directors were requested to disclose any actual or potential conflicts to the Board and the following matters were considered and approved:
- Will Adderley is a major shareholder and connected to other major shareholders. Authorised on the basis that Mr Adderley continues to abide by the terms of the relationship Agreement entered into between himself, other major shareholders and the Company on flotation of the Company in 2006.
- Geoff Cooper is a director of Travis Perkins plc; and Nick Wharton is a director of Halfords Group Plc, each of which potentially competes with the Company for retail property. Authorised on the basis that Mr Cooper is not involved in day to day decisions in relation to the property portfolio in either company; and Mr Wharton to absent himself from any meeting of the Company in which property matters are to be discussed and a conflict of interest might arise.

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

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

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

Significant shareholders
The Group's significant shareholders are listed in the Directors' report on page 19 voting rights are stated on page 18.

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

Risk management and internal control
Throughout the year and up to the date of approval of this Annual Report there has been in place an established, ongoing process for identifying, evaluating and managing the significant risks faced by the Group which has been regularly reviewed by the Audit Committee and the Board and is in accordance with the Turnbull Guidance on Internal Control for Directors on the Combined Code (revised June 2008).

A register of strategic and operational risks is maintained and reviewed quarterly by the Board, who also monitor the status of agreed actions to mitigate key risks.

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

The Group maintains a well established control framework comprising clear structures and accountabilities, well understood policies and procedures and budgeting and review processes.

Each store manager has clear responsibilities and operates within defined policies and procedures covering such areas as financial targets, human resources management, customer service, health and safety etc. The Executive Directors monitor compliance with these policies and procedures in the course of regular reviews.

Investor relations
There is a formal investor relations programme based around results presentations and trading statements. In addition analyst/shareholder visits are arranged. All of the Non-Executive Directors are available to attend meetings at shareholder request. The Chairman and Executive Directors feed back any investor comments to the Board.

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

Remuneration report

The Directors present their Remuneration Report for the period ended 4 July 2009.

Introduction

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

The disclosures that the Group's auditors are required to audit within the Remuneration Report are contained in the section headed 'Audited Information'. The auditors' opinion is included in their report on page 23.

Non-audited information

Remuneration committee and advisers

During the year ended 4 July 2009, the Remuneration Committee was made up of three members, Marion Sears, Simon Emeny and Geoff Cooper. Marion Sears, who is the Senior Independent Non-Executive Director, chairs the committee and also acts as Secretary. The committee determines the Executive Directors' annual remuneration packages and provides guidance on the remuneration packages of members of senior management. No Director determines their own pay.

Changes in policy during the year

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

Executive remuneration policy

The Remuneration Committee's policy is to provide an executive remuneration structure that will attract, motivate and retain the high quality individuals who are essential for the successful development of the business over the long term. Executive remuneration aims to ensure that the Executive Directors are fairly rewarded for their success measured by the Group's performance and are incentivised to enhance value for shareholders on a continuing and long-term basis.

There are three main elements of the remuneration package for Executive Directors:

- base annual salary including benefits;
- annual bonus; and
- Long-Term Incentive Plan.

Two of these main elements are performance based, which means that there is significant emphasis in the Group's executive remuneration policy on its performance.

The Remuneration Committee oversees two performance-based plans: an annual bonus plan and a Long-Term Incentive Plan (LTIP). In accordance with governance guidelines and the requirements of the Combined Code, the Remuneration Committee implemented these two performance based plans to align the interests of investors and senior management. The annual bonus plan is short-term and cash based. The LTIP is long-term and share-based.

Base salary and benefits

Prior to the beginning of each financial year the Remuneration Committee sets the base salaries of Executive Directors. The committee examines the salaries of Directors in a comparator group of public companies with similar market capitalisation. It also reviews published research and surveys, and considers the wage increases across the Group as a whole. The committee aims to set salaries at around the median level provided by similar companies. In addition to base salary, the Executive Directors are entitled to benefits comprising a car allowance, a contribution to a personal pension, private medical insurance and life insurance.

Annual bonus

The Group operates a discretionary cash bonus plan. Any bonus amounts determined to be payable are paid annually after the year-end results are finalised. The Remuneration Committee has established bonus objectives that are principally financial but also include personal objectives for the year relevant to each Director. The maximum bonus payable is 60% of base salary. 24% of base salary is paid for achieving on-target EPS, subject to satisfactory performance against personal objectives. For the year ended 4 July 2009, EPS performance exceeded budget and, taking into account Executive Directors' performance against job objectives, the committee awarded an annual bonus to Will Adderley of £150,000 and to David Stead of £100,000.

Long-Term Incentive Plan

Participants in the LTIP are awarded nominal cost options at the start of the performance period. At the end of the three-year performance period, the awards will vest to the extent that the applicable performance targets are met. Grants will be made annually under the LTIP. Awards cannot be granted under the LTIP over ordinary shares in excess of 5% of the issued ordinary share capital in any rolling 10 year period. Awards of ordinary shares worth 120% of base salary were made to Will Adderley and David Stead in March and September 2008 and in September 2009. These will vest to the extent that the performance targets are met based on the Group's results for the years ending 4 July 2009, 3 July 2010 and 2 July 2011 respectively.

The Remuneration Committee has chosen growth in fully diluted EPS as the performance target for the awards under the LTIP. The committee believes that this measure is closely aligned to the drivers of growth of the business, and that in the long term, EPS performance will be reflected in shareholder value. The committee will meet after each 3 year plan period results are available to determine whether performance conditions have been satisfied. In respect of awards made for the performing periods 2009 and 2010, no ordinary shares will vest if the compound annual growth in fully diluted EPS is less than RPI + 5% and all of the ordinary shares subject to an award will vest if the compound annual growth in fully diluted EPS reaches RPI + 20%. In respect of awards made for the performance period to 2011, no ordinary shares will vest if the compound annual growth in fully diluted EPS is less than RPI +3.6% and all of the ordinary shares subject to an award will vest if the compound annual growth in fully diluted EPS reaches RPI +12.6%. The award will vest on a straight-line basis between the respective two points. There will be no retesting.

Other share options

The Group operates an all-employee SAYE scheme in which Executive Directors are also entitled to participate.

Non-executive remuneration policy

Non-Executive Directors' remuneration is determined by the Board as a whole. The Non-Executive Directors do not receive bonuses or participate in any incentive plans. They are paid annual fees but do not receive additional fees for time spent on a committee of the Board. All Non-Executives have letters of appointment, detailed in the table below.

Service contracts

It is the Group's policy that service contracts for Executive Directors have no fixed term, that the notice period for termination is not

Remuneration report
continued

greater than 12 months and that payments on termination are restricted to a maximum of the value of salary for the notice period.

The notice period to terminate Will Adderley's and David Stead's service contract is 12 months from either party. In accordance with the Group's policy, payments on termination are restricted to the value of salary for the notice period.

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.

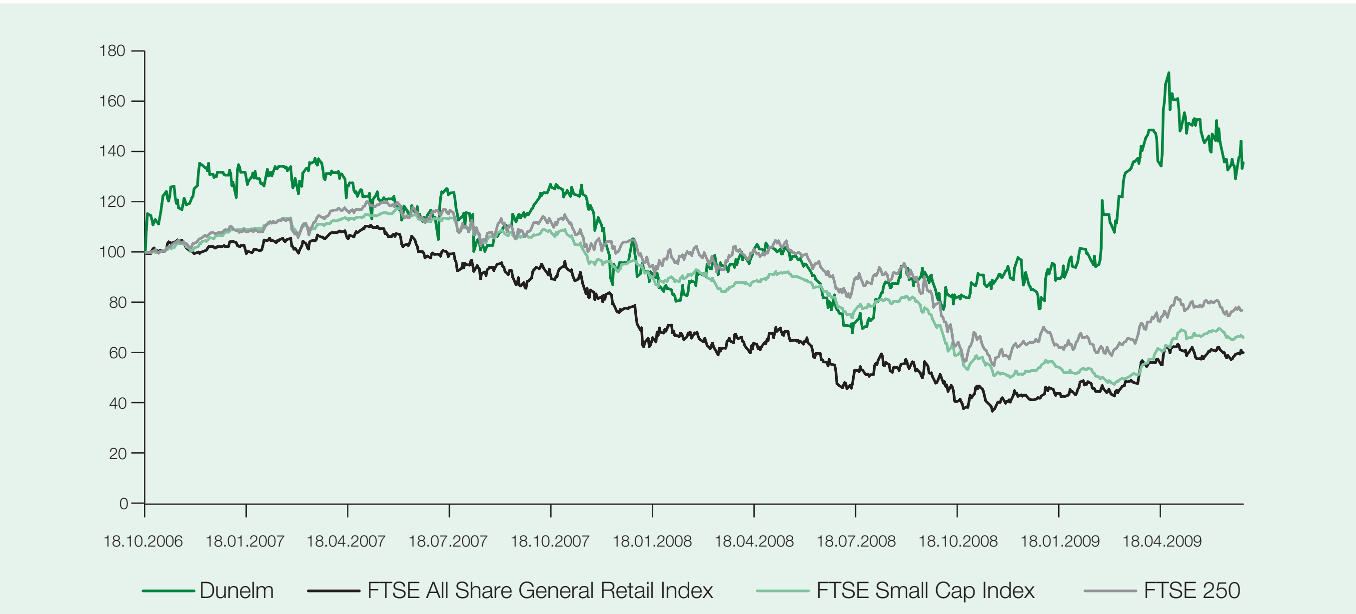
	Date of contract	Unexpired term	Notice period
Will Adderley	28.09.06	n/a	12 months
David Stead	15.09.03	n/a	12 months
Geoff Cooper	08.10.04	13 months	3 months
Marion Sears	22.07.04	10 months	1 month
Simon Emeny	25.06.07	11 months	1 month
Nick Wharton	10.08.09	2 years 11 months	1 month

Retirement plans

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

Performance graph

The graph below shows the Group's performance since flotation, measured by total shareholder return, compared with the FTSE General Retail Index, the FTSE SmallCap 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.



The shares traded in the range 112.25p to 273.25p during the year, and stood at 216.25p at 4 July 2009.

Audited information

Details of Directors' remuneration

Details of individual Directors' remuneration in respect of the year ended 4 July 2009 are as follows:

	Base salary or fees £'000	Vehicle allowance £'000	Taxable benefits £'000	Contribution to personal pension £'000	Annual bonus £'000	**2009 Total £'000**	2008 Total £'000
Executive Directors							
Will Adderley	320	10	1	waived	150	**481**	435
David Stead	220	10	waived	18	100	**348**	313
Non-Executive Directors							
Geoff Cooper	84	–	–	–	–	**84**	80
Marion Sears	32	–	–	–	–	**32**	30
Simon Emeny	26	–	–	–	–	**26**	25
Total	682	20	1	18	250	**971**	883

Will Adderley waived pension contributions totalling £17,850 and David Stead waived other taxable benefits totalling approximately £1,000.

Directors' interests in share options

The Directors' beneficial interests in options granted under the Long-Term Incentive Plan, all of which will vest only if EPS performance conditions are met, are as follows:

Director	Date of award	**Share options at 4 July 2009**	End of performance period	Market Price of Shares at date of award
Will Adderley	March 2007	**151,304**	June 2009	227p
	Sept 2007	**190,130**	June 2010	193p
	Sept 2008	**259,459**	June 2011	148p
David Stead	March 2007	**99,130**	June 2009	227p
	Sept 2007	**127,792**	June 2010	193p
	Sept 2008	**178,378**	June 2011	148p

The Remuneration Committee has reviewed the Company's EPS record over the three year performance period which ended on 4 July 2009. Reported EPS, adjusted to reflect the 53-week trading period in the last financial year, grew at a compound annual rate of 14.8%. This is 12.4% above RPI over the same period. Accordingly, 62% of the March 2007 LTIP award will vest in March 2010, representing 93,809 shares in favour of Will Adderley and 61,461 shares in favour of David Stead.

The Directors' beneficial interests in options granted under other schemes are as follows:

Director	Type of option	Shares under option at 1 July 2008	**Shares under option at 4 July 2009**	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
Will Adderley	SAYE	6,114	**7,710**	7,710	–	(6,114)	124p	–	Jan 2012	June 2012
David Stead	SAYE	6,176	**7,710**	7,710	–	(6,176)	124p	–	Jan 2012	June 2012

Approval

This report was approved by the Board of Directors on 15 September 2009 and signed on its behalf by:

Marion Sears
Chairman of Remuneration Committee
15 September 2009

Directors' report and business review

The Directors present their report together with the audited financial statements for the year ended 4 July 2009. Together with certain information in the reports from the Chief Executive and the Finance Director on pages 3 to 9 above which are incorporated into this report by reference, this report satisfies the requirements of the Companies Act 2006 to produce a Business Review.

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

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

Review of business and future developments
A review of the business and future developments of the Group is given in the Chief Executive's Review on pages 3 to 5.

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

On 2 October 2006, Jean Adderley, Bill Adderley and Will Adderley (all shareholders) entered into a Relationship Agreement with the Company, pursuant to which each of Jean Adderley, Bill Adderley and Will Adderley undertook to the Company that, for so long as, individually or together, they are entitled to exercise, or to control the exercise of, 30 per cent or more of the rights to vote at general meetings of the Company or they are able to control the appointment of directors who are able to exercise a majority of votes at Board meetings of the Company, they will:
(a) conduct all transactions and relationships with any member of the Group on arms length terms and on a normal commercial basis;
(b) not take any action which precludes or inhibits any member of the Group from carrying on its business independently of Jean and Bill Adderley and their associates (as defined in the Listing Rules);
(c) not exercise any of their voting rights or other powers to procure any amendment to the Articles of Association of the Company which would be inconsistent with or undermine any of the provisions of the Relationship Agreement;
(d) abstain from voting on any resolution to which LR11.7.R(4) of the Listing Rules applies involving Jean Adderley, Bill Adderley or Will Adderley or any of their associates as the related party;
(e) not carry on (other than through their holding of securities of the Company) or have any financial interest (other than a financial interest in securities which are held for investment purposes only) in any person who carries on a business as a homewares retailer, to the extent that it would be inconsistent with or undermine any provisions of the Relationship Agreement: and
(f) only enter into, amend or terminate any transaction, agreement or relationship between themselves or any of their associates and any member of the Group with the approval of a majority of the independent Non-Executive Directors.

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

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

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

Results and dividends
The consolidated profit for the year after taxation was £37.6m (2008: £33.7m). The results are discussed in greater detail in the Finance Director's review on pages 7 to 9.

A final dividend of 4.0p per share (2008: 3.5p) is proposed in respect of the year ended 4 July 2009 to add to an interim dividend of 2.0p per share paid on 1 May 2009 (2008: 2.0p per share). The final dividend will be paid on 11 December 2009 to shareholders on the register at 27 November 2009.

Directors
Details of the Directors in office at the year end are set out on page 10 and 11.

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

	At 4 July 2009 1p ordinary shares	At 29 June 2008 1p ordinary shares
WL Adderley	**50,000,000**	50,000,000
D Stead	**430,085**	430,085
G Cooper	**181,611**	181,611
M Sears	**100,000**	100,000
S Emeny	**19,000**	5,000

On 14 August 2009, Nick Wharton was appointed as a Director of the Company.

There were no changes in the Directors' shareholdings between the year end and 15 September 2009.

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

Geoff Cooper and David Stead are retiring by rotation at the 2009 Annual General Meeting and will be offering themselves for re-election. Nick Wharton is retiring in accordance with the Articles of Association of the Company and is offering himself for election. Biographical details of these Directors are set out on pages 10 and 11 and details of their service contracts are in the Remuneration Report on page 15.

Share capital and treasury shares
The Company has only one class of shares, ordinary shares of 1p each.

The issued share capital of the Company has not changed during the period.

At 4 July 2009 the Company held 837,135 shares in treasury. During the period the Company purchased 127,000 ordinary shares into treasury and 241,365 shares were transferred to employees on the exercise of share options. Details of option exercises are set out in note 11 to the Parent Company accounts on page 50.

The remaining shares in treasury are held by the Company for the purpose of delivery to employees under employee share schemes.

Substantial shareholders
At 15 September 2009 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
W Adderley	83,670,000	41.7
WL Adderley	50,000,000	24.9

Powers of Directors
Specific powers of Directors in relation to shares and the Company's Articles of Association are referred to in the Corporate Governance Report at page 12.

Corporate Social Responsibility
The Group recognises its duty to behave responsibly to all stakeholders. The Board places particular emphasis on maintaining good relationships with its customers, employees and suppliers; on ethical sourcing; on environmental issues; and on charitable contributions.

The Chief Executive reports regularly to the Board on all of these issues.

Customers
The Group is committed to delivering consistently high standards of customer service and satisfaction. We constantly strive to provide high quality, safe products at a fair price supported by our 'Simply Value For Money' ethos.

The Group aims to ensure that it complies fully with relevant legislation in all areas affecting its customers including marketing, product quality, the environment and customer data.

The Group has a dedicated Customer Service team that deals with customer contact whether it is by letter, e-mail, fax or phone and supports the store teams in delivering a strong customer experience.

Weekly communications are sent to all stores highlighting areas of good customer service and also areas where we can improve.

Employees
Dunelm employs 5,414 staff engaged throughout the Group's stores, distribution and head office locations and in a range of disciplines including Buying, Marketing, Warehousing, IT, Finance, HR as well as many customer facing roles.

The Group is a growing business and offers competitive benefits as well as personal and career enhancement opportunities. We have recently launched our 'Dunelm Directions' programme to support the development of talented staff and management. We also offer further support for employees to obtain relevant professional skills and qualifications.

The Group is an equal opportunities employer. We are committed to recruit, develop, promote and retain skilled and motivated people regardless of disability, race, religion, gender, colour, nationality, sex, sexual orientation, marital status or age.

The Group places considerable value on the involvement of its employees and continues its practice of consulting with employees on matters likely to affect their interests, through its partners' council.

Information on matters of concern to employees is also given through bulletins, reports and an in-house newsletter.

Health and safety
Dunelm is responsible for the health and safety of our employees, contractors, customers and any other visitors to our premises.

The Group recognises that a high standard of health and safety management is fundamental to a successful business and has created the post of Health and Safety Manager to safeguard these high standards.

During the past year the number of reported accidents was 56 (2008: 49).

The Group has engaged with our risk management partners to identify further areas where it can focus on improved health and safety management. We employ a rigorous self-auditing programme to enforce our policies and identify any weakness in compliance and implementation.

Suppliers
Dunelm seeks to encourage contractors and suppliers to manage the environmental impact of their activities and to support the Group's environmental policy.

The Group has a firm policy on ethical sourcing which all suppliers are required to sign up to. Independent audits of suppliers' facilities, particularly in the Far East are carried out on a regular basis.

Payment policy and average payment period
Whilst it does not follow any published code or standard, the Group's and Company's policy concerning the payment of suppliers is to agree terms of payment at the start of business with each supplier or to ensure the supplier is made aware of the Group's standard payment terms. The number of days' purchases outstanding for payment at 4 July 2009 was 33 days (2008: 27 days). This increase stems from the additional week's liabilities in the 53 weeks of 2009 against 52 weeks in 2008.

Directors' report and business review
continued

Environment
Dunelm recognises that the world in which we do business is changing. We have a responsibility to ensure that our actions as a business always have a consideration for the environment and that we enable our customers to do the same when it comes to buying our products for their home.

Dunelm is therefore committed to achieving high standards of environmental performance in all aspects of its business activities, including complying with all relevant legislation.

The Group has an Environmental Committee chaired by Tim Slade (Central Operations Director), comprising a number of senior managers. This committee reviews the environmental impact of business activities in all areas and sets targets for improvement. These cover the following specific areas:

1. Increasing the proportion of waste which is recycled
All Dunelm operations are required to separate plastic and paper materials for recycling. Collections are co-ordinated nationally. We have a desire to minimise the consumption of raw materials and promote the use of recycled materials or material from sustainable sources.

Our target for the forthcoming year is to reduce the cube volume of waste sent to landfill by 10%.

2. Reducing the level of product packaging
The Group is constantly working with suppliers to reduce the level of packaging in its products. A trial has recently been launched to introduce reusable delivery totes into our supply chain to eliminate the need for external product packaging and improve vehicle fill levels.

In addition we have introduced eco-bags in prominent positions in our stores to promote reusable customer packaging and reduce the number of carrier bags consumed. The number of carrier bags used during the Financial year declined by 16%, despite the increase in business.

Our target for the forthcoming year is to reduce the number of carrier bags used per store by a further 10%.

3. Reducing energy consumption across all locations
Dunelm is focused on minimising the consumption of energy through detailed monitoring and targeting of investment throughout the estate. We have invested in new electricity meters at all stores to provide detailed, half-hourly consumption data to help us challenge and reduce high usage. This programme will be extended to gas meters in the forthcoming year.

Our target for the forthcoming year is to reduce electricity and gas usage by 10% on a like-for-like basis.

4. Carbon Reduction (CO_2)
Dunelm's energy carbon footprint for the period ended 4 July 2009 was 21,537 tonnes of CO_2 (Company's Independent energy advisers). We are constantly looking at ways to reduce our carbon footprint.

This year we have sourced some of our energy from 'Green Energy' supplies such as combined heat and power sources where CO_2 emissions are 30% lower than the national average. We have also opened all new stores with low energy lighting and look at our route planning and vehicle fill levels in our transport fleet to reduce emissions from transport.

This year we will look to re-lamp our Distribution Centre and will survey our stores to identify facilities that can be targeted to reduce energy.

Dunelm will be one of 5,000 companies reporting under the new Carbon Reduction Commitment ('CRC') legislation.

Our target for the forthcoming year is to reduce absolute CO_2 levels year on year.

Charitable donations
The Group's charity of the year in the last financial year was Children's Hospices UK. Collections are made in stores for the nominated charity throughout the financial year, specific fund-raising events are organised and the Group makes its own donations. The total value of donations made by the Group in the year ended 4 July 2009 was £49,000 (2008: £46,000).

The Group made no donations to political parties in either financial year.

Dunelm will continue to work towards improving the social, environmental and economic issues within our direct or indirect control.

Treasury and risk management
The Group's approach to treasury and financial risk management is explained in the Finance Director's Review.

Going concern
The Directors have considered the principal strategic, operational and financial risks to the business in the context of the Group's expected future results and various scenarios have been modelled to determine the likely impact on both profitability and cash flow.

As a consequence the Directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Group had 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.

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

Disclaimer

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

Annual General Meeting

The Annual General Meeting will be held on Thursday 12 November 2009 at 10.30 am at The Hilton Hotel, Leicester. Special business at the Annual General Meeting will be:

- Requesting authority pursuant to section 551 of the Companies Act 2006, to issue shares to the value of one third of the issued ordinary share capital of the Company. The nominal amount of shares covered by this authority is £666,514 (66,651,421 ordinary shares, 33.3% of the issued share capital at 15 September 2009). At that date the Company also held 837,135 ordinary shares in treasury, which represents approximately 0.41% of the total ordinary share capital. This authority will lapse at the 2010 Annual General Meeting or, if earlier, on 29 December 2010. The Directors have no present intention to exercise this authority except to issue shares pursuant to the Group's employee share schemes.
- Requesting authority pursuant to section 561 of the Companies Act 2006 to distribute ordinary shares to the value of £100,395 (10,039,570 ordinary shares), which constitutes 5% of the Company's issued share capital (excluding treasury shares) at 15 September 2009, without offering them to existing shareholders. This authority will lapse at the 2010 Annual General Meeting or, if earlier, on 29 December 2010. The Directors do not intend to issue more than 7.5% of the issued share capital of the Company for cash on a non pre-emptive basis in any rolling three year period without prior consultation with the Investment Committees of the Association of British Insurers and the National Association of Pension Funds.
- Requesting that the Directors be authorised pursuant to section 701 of the Companies Act 2006 to buy up to 19,000,000, approximately 10% of issued ordinary share capital (excluding treasury shares) in the Company, less the number of shares held in treasury at the date of this report. The Directors will only exercise this authority if it enhances earnings per share and is in the interests of shareholders generally. Shares purchased may be cancelled or held in treasury. If held in treasury and used to satisfy share options, the NAPF's (National Association of Pension Funds) guidelines would be complied with.
- Authorising the Board to convene a general meeting other than an Annual General Meeting on at least 14 days' notice. The Companies (Shareholders' Rights) Regulations require that all meetings other than an Annual General Meeting must be held on at least 21 days' notice unless shareholders agree to a shorter period. Under the Companies Act 2006 and the Company's Articles of Association, the Company can call meetings other than an Annual General Meeting on 14 days' notice. This resolution will allow the Company to continue to do so, and will be effective until the next Annual General Meeting when it is intended that a similar resolution will be proposed. The Company will also need to meet the requirements for electronic voting under the Regulations before it can call a meeting on 14 days' notice.

The Notice of Annual General Meeting is set out on pages 53 to 55.

Auditors

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

By order of the Board

David Stead
Company Secretary
15 September 2009

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

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

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

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

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

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

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

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

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

Responsibility Statement

We confirm that to the best of our knowledge:

(a) The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

(b) The management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

G. J. Cooper

Geoff Cooper
Chairman
15 September 2009

W. Adderley

Will Adderley
Chief Executive

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

We have audited the financial statements of Dunelm Group plc for the financial year ended 4 July 2009 set out on pages 24 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with sections 495, 496 and 497 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 22, 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 4 July 2009 and of the Group's profit for the financial year;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the corporate governance statement pursuant to rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 20, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

MJD Lane
(Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Leicester
15 September 2009

Consolidated income statement

For the 53 weeks ended 4 July 2009

	Note	53 weeks 2009 £'000	52 weeks 2008 £'000
Revenue	1	**423,783**	391,795
Cost of sales		**(229,701)**	(217,018)
Gross profit		**194,082**	174,777
Operating costs	3	**(141,487)**	(125,346)
Operating profit	2	**52,595**	49,431
Financial income	5	**1,563**	1,075
Financial expenses	5	**(667)**	(1,365)
Profit before taxation		**53,491**	49,141
Taxation	6	**(15,870)**	(15,470)
Profit for the period		**37,621**	33,671
Earnings per ordinary share – basic	8	**18.8p**	16.8p
Earnings per ordinary share – diluted	8	**18.6p**	16.6p
Dividend proposed per ordinary share	7	**4.0p**	3.5p
Dividend paid per ordinary share	7	**2.0p**	2.0p

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

There were no gains or losses for the current or comparative periods other than those reported above.

Consolidated balance sheet

As at 4 July 2009

	Note	4 July 2009 £'000	28 June 2008 £'000
Non-current assets			
Intangible assets	9	**5,843**	2,097
Property, plant and equipment	10	**88,771**	77,157
Total non-current assets		**94,614**	79,254
Current assets			
Inventories	12	**57,895**	60,710
Trade and other receivables	13	**10,739**	11,636
Cash and cash equivalents	14	**24,016**	2,853
Total current assets		**92,650**	75,199
Total assets		**187,264**	154,453
Current liabilities			
Trade and other payables	15	**(65,550)**	(54,570)
Liability for current tax		**(8,797)**	(3,840)
Interest-bearing loans and borrowings	16	**(18)**	(20)
Total current liabilities		**(74,365)**	(58,430)
Non-current liabilities			
Deferred tax liability	11	**(127)**	(634)
Interest-bearing loans and borrowings	16	**–**	(10,000)
Total non-current liabilities		**(127)**	(10,634)
Total liabilities		**(74,492)**	(69,064)
Net assets		**112,772**	85,389
Equity			
Issued capital	18	**2,008**	2,008
Share premium		**345**	345
Retained earnings		**110,419**	83,036
Total equity attributable to equity holders of the Parent		**112,772**	85,389

The financial statements on pages 24 to 43 were approved by the Board of Directors on 15 September 2009 and were signed on its behalf by:

Will Adderley
Chief Executive

Consolidated cash flow statement

For the 53 weeks ended 4 July 2009

	Note	53 weeks 2009 £'000	52 weeks 2008 £'000
Profit before taxation		**53,491**	49,141
Adjustment for Net financing costs		**(896)**	290
Operating profit		**52,595**	49,431
Depreciation and amortisation		**10,555**	9,457
Loss/(profit) on disposal of property, plant and equipment		**26**	(278)
Operating cash flows before movements in working capital		**63,176**	58,610
Decrease/(increase) in inventories		**2,815**	(53)
Decrease/(increase) in debtors		**897**	(2,640)
Increase in creditors		**11,132**	3,460
Net movement in working capital		**14,844**	767
Share-based payments expense		**599**	286
Foreign exchange gains/(losses)		**323**	(49)
Cash flows from operating activities		**78,942**	59,614
Interest paid		**(821)**	(1,642)
Interest received		**523**	1,075
Tax paid		**(11,200)**	(14,093)
Net cash generated from operating activities		**67,444**	44,954
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment		**1**	303
Acquisition of property, plant and equipment		**(19,647)**	(17,466)
Acquisition of intangible assets		**(6,295)**	(538)
Net cash utilised in investing activities		**(25,941)**	(17,701)
Cash flows from financing activities			
Proceeds from issue of share capital		**–**	80
Purchase of treasury shares		**(186)**	(1,900)
Proceeds from issue of treasury shares		**124**	112
Repayment of bank loan		**(10,000)**	(30,000)
Dividends paid		**(10,993)**	(10,020)
Net cash flows utilised in financing activities		**(21,055)**	(41,728)
Net increase/(decrease) in cash and cash equivalents		**20,448**	(14,475)
Foreign exchange revaluations		**717**	(39)
Cash and cash equivalents at the beginning of the period		**2,833**	17,347
Cash and cash equivalents at the end of the period	14, 21	**23,998**	2,833

Consolidated statement of changes in equity

For the 53 weeks ended 4 July 2009

	Issued share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
As at 1 July 2007	2,006	267	60,961	63,234
Profit for the financial year	–	–	33,671	33,671
Issue of share capital	2	78	–	80
Purchase of treasury shares	–	–	(1,900)	(1,900)
Treasury shares reissued in respect of share option schemes	–	–	112	112
Share-based payments	–	–	286	286
Deferred tax on share-based payments	–	–	(230)	(230)
Current corporation tax on share options exercised	–	–	156	156
Dividends	–	–	(10,020)	(10,020)
As at 28 June 2008	2,008	345	83,036	85,389
Profit for the financial year	–	–	37,621	37,621
Purchase of treasury shares	–	–	(186)	(186)
Treasury shares reissued in respect of share option schemes	–	–	123	123
Share-based payments	–	–	599	599
Deferred tax on share-based payments	–	–	139	139
Current corporation tax on share options exercised	–	–	80	80
Dividends	–	–	(10,993)	(10,993)
As at 4 July 2009	**2,008**	**345**	**110,419**	**112,772**

2008 financial year was 52 weeks.

Accounting policies

Basis of preparation

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

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'). The Company has prepared it's Parent Company statements under Adopted IFRSs as applied in accordance with the provisions of the Companies Act 2006 and these are presented on pages 44 to 52.

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. The financial statements are prepared in pounds sterling, rounded to the nearest thousand.

The Group has considerable financial resources together with long standing relationships with a number of key suppliers and an established reputation in the retail sector across different geographic areas. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current economic outlook. After making enquiries, 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 Business Review on pages 18 to 21. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Director's review on pages 7 to 9. In addition note 17 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk.

Use of estimates and judgements

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

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

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

Inventory provisions

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

Dilapidations

The Group provides for the full estimated costs of any dilapidations on stores with a lease renewal date falling due within three years of the balance sheet date.

Taxation

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

Basis of consolidation

Subsidiaries

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

Transactions eliminated on consolidation

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

Revenue

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

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

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

Amortisation
Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of the asset. These are as follows:
- software development 3 years
- trademarks 5 years

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

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

Depreciation
Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:
- computer equipment 3 years
- freehold buildings 50 years
- fixtures and fittings 4 years
- motor vehicles 4 years
- office equipment 5 years
- plant and machinery 4 years
- leasehold improvements over the period of the lease

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

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

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

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

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

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

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

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.

Accounting policies
continued

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Adopted IFRS and IFRIC not yet applied

In the current year the Group adopted:

IFRS 2	Amended IFRS 2 – Share-Based Payment: Vesting Conditions and Cancellations

This did not have any significant impact on the financial statements of the Group or Company.

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

IFRS 3	Revised IFRS 3 – Business Combinations
IFRS 8	Operating Segments
IAS 1	Revised IAS 1 – Presentation of Financial Statements
IAS 23	Revised IAS 23 – Borrowing costs
IAS 27	Revised IAS 27 – Consolidated and Separate Financial Statements
IAS 32	Revised IAS 32 – Financial Instruments: Presentation
IAS 39/IFRS 7	Revised IAS 39 – Financial Instrument: Recognition & Measurement and IFRS 7 – Reclassification of Financial Instruments
IFRIC 13	Customer Loyalty Programmes

The above will be adopted in the Group and Company's financial statements when they become effective. Revised IFRS 3 will require the recognition of subsequent changes in the fair value of contingent consideration in the income statement rather than against goodwill, and transaction costs will be required to be recognised immediately in the income statement. IFRS 8 requires segment information to be based on the same basis as information reported to management for decision making purposes. Revised IAS 23 requires borrowing costs attributable to the acquisition or construction of certain assets to be capitalised.

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

Notes to the annual financial statements

1 Segmental reporting

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

2 Operating profit

	2009 £'000	2008 £'000
Operating profit is stated after charging/(crediting) the following items:		
Inventories		
Cost of inventories included in cost of sales	**229,701**	217,018
Write down of inventories	**2,758**	5,867
Amortisation of intangible assets	**2,550**	2,134
Depreciation of property, plant and equipment		
Owned	**8,005**	7,323
Operating lease rentals		
Land and buildings	**21,683**	19,140
Plant and machinery	**1,151**	937
Loss/(profit) on disposal of property, plant and equipment and intangible assets	**26**	(278)

The analysis of auditors' remuneration is as follows:

	2009 £'000	2008 £'000
Fees payable to the Company's auditors for the audit of the Parent and consolidated annual accounts	**15**	15
Fees payable to the Company's auditors and their associates for other services to the Group		
– the audit of the Company's subsidiaries pursuant to legislation	**52**	67
– tax compliance	**29**	29
– other tax services	**8**	9
– all other services	**–**	34

3 Operating costs

	2009 £'000	2008 £'000
Selling and Distribution	**121,860**	108,051
Administrative	**19,601**	17,573
Loss/(profit) on disposal of property, plant and equipment and intangible assets	**26**	(278)
	141,487	125,346

4 Employee numbers and costs

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

	2009 Number of heads	**2009 Full time equivalents**	2008 Number of heads	2008 Full time equivalents
Selling	**5,003**	**3,302**	4,875	3,254
Distribution	**250**	**240**	217	210
Administration	**161**	**158**	144	142
	5,414	**3,700**	5,236	3,606

4 Employee numbers and costs continued

The aggregate remuneration of all employees including Directors comprises:

	2009 £'000	2008 £'000
Wages and salaries including bonuses and termination benefits	**52,696**	47,775
Social security costs	**3,429**	3,187
Share-based payment expense (note 20)	**599**	286
Defined contribution pension costs	**206**	172
	56,930	51,420

Details of Directors' remuneration, share options, long-term incentive schemes and pension entitlements are disclosed in the Directors' Remuneration Report on pages 15 to 17.

5 Financial income and expense

	2009 £'000	2008 £'000
Finance income		
Interest on bank deposits	**523**	1,075
Foreign exchange gains	**1,040**	–
	1,563	1,075
Finance expenses		
Interest on bank borrowings and overdraft	**(667)**	(1,278)
Foreign exchange losses	**–**	(87)
	(667)	(1,365)
Net finance income/(expense)	**896**	(290)

6 Taxation

	2009 £'000	2008 £'000
Current taxation		
UK corporation tax charge for the period	**16,143**	12,045
Adjustments in respect of prior periods	**94**	(255)
	16,237	11,790
Deferred taxation		
Origination of temporary differences	**(332)**	3,293
Adjustment in respect of prior periods	**(35)**	554
Tax rate differential	**–**	(167)
	(367)	3,680
Total taxation expense in the income statement	**15,870**	15,470

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

	2009 £'000	2008 £'000
Profit before tax	**53,491**	49,141
UK corporation tax at standard rate of 28.0% (2008: 29.5%)	**14,977**	14,496
Factors affecting the charge in the period:		
Non-deductible expenses	**7**	128
Ineligible depreciation	**947**	918
Lease incentive deductions	**(125)**	(128)
Adjustments to tax charge in respect of prior years	**59**	299
Profit on disposal in excess of capital gain	**5**	(76)
Tax rate differential	**–**	(167)
	15,870	15,470

The taxation charge for the period as a percentage of profit before tax is 29.7% (2008: 31.5%).

Notes to the annual financial statements
continued

7 Dividends
All dividends relate to the 1p ordinary shares.

	2009 £'000	2008 £'000
Final for the period ended 30 June 2007 – paid 3.0p	**–**	(6,024)
Interim for the period ended 28 June 2008 – paid 2.0p	**–**	(3,996)
Final for the period ended 28 June 2008 – paid 3.5p	**(6,994)**	–
Interim for the period ended 4 July 2009 – paid 2.0p	**(3,999)**	–
	(10,993)	(10,020)

The Directors are proposing a final dividend of 4.0p per ordinary share for the period ended 4 July 2009 which equates to £8.0m. The dividend will be paid on 11 December 2009 to shareholders on the register at the close of business on 27 November 2009.

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

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

Weighted average numbers of shares:

	53 weeks ended 4 July 2009 '000	52 weeks ended 28 June 2008 '000
Weighted average number of shares in issue during the period	**199,874**	200,446
Impact of share options	**2,559**	2,180
Number of shares for diluted earnings per share	**202,433**	202,626

9 Intangible assets

	Software development and licences £'000	Rights to Dorma brand £'000	Total £'000
Cost			
At 30 June 2007	5,921	–	5,921
Additions	538	–	538
Disposals	(208)	–	(208)
Transfers from property, plant and equipment	362	–	362
At 28 June 2008	6,613	–	6,613
Additions	1,237	5,036	6,273
Disposals	(153)	–	(153)
Transfers from property, plant and equipment	41	–	41
At 4 July 2009	**7,738**	**5,036**	**12,774**
Amortisation			
At 30 June 2007	2,253	–	2,253
Charge for the financial period	2,134	–	2,134
Disposals	(208)	–	(208)
Transfers from property, plant and equipment	337	–	337
At 28 June 2008	4,516	–	4,516
Charge for the financial period	1,627	923	2,550
Disposals	(135)	–	(135)
At 4 July 2009	**6,008**	**923**	**6,931**
Net book value			
At 4 July 2009	**1,730**	**4,113**	**5,843**
At 28 June 2008	2,097	–	2,097
At 30 June 2007	3,668	–	3,668

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

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

Notes to the annual financial statements
continued

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 2007	36,503	33,035	87	121	26,160	95,906
Additions	5,410	7,601	15	–	4,440	17,466
Transfers to intangible assets	5	(5)	–	–	(362)	(362)
Disposals	(149)	(385)	–	(22)	(1,146)	(1,702)
At 28 June 2008	**41,769**	**40,246**	**102**	**99**	**29,092**	**111,308**
Additions	6,969	7,179	93	–	5,428	19,669
Transfers to intangible assets	–	(10)	–	–	(31)	(41)
Disposals	–	(7)	–	(13)	(151)	(171)
At 4 July 2009	**48,738**	**47,408**	**195**	**86**	**34,338**	**130,765**
Depreciation						
At 30 June 2007	1,672	7,101	29	121	19,919	28,842
Charge for financial period	552	3,125	23	–	3,623	7,323
Transfers to intangible assets	–	–	–	–	(337)	(337)
On disposals	(170)	(355)	–	(22)	(1,130)	(1,677)
At 28 June 2008	2,054	9,871	52	99	22,075	34,151
Charge for financial period	661	3,405	44	–	3,895	8,005
On disposals	–	(4)	–	(13)	(145)	(162)
At 4 July 2009	**2,715**	**13,272**	**96**	**86**	**25,825**	**41,994**
Net book value						
At 4 July 2009	**46,023**	**34,136**	**99**	**–**	**8,513**	**88,771**
At 28 June 2008	39,715	30,375	50	–	7,017	77,157
At 30 June 2007	34,831	25,934	58	–	6,241	67,064

11 Deferred tax

Deferred tax is provided in full on temporary differences under the liability method using a taxation rate of 28% (2008: 28%). Deferred taxation assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2009 £'000	2008 £'000	**2009 £'000**	2008 £'000	**2009 £'000**	2008 £'000
Property, plant and equipment	**–**	–	**(634)**	(813)	**(634)**	(813)
Other temporary differences	**–**	–	**(51)**	(3)	**(51)**	(3)
Share-based payments	**558**	182	**–**	–	**558**	182
	558	182	**(685)**	(816)	**(127)**	(634)

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

	Balance at 1 July 2007 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 28 June 2008 £'000
Property, plant and equipment	(547)	(266)	–	(813)
Employee benefits	382	30	(230)	182
Lease incentives	2,636	(2,636)	–	–
Short-term temporary differences	805	(808)	–	(3)
	3,276	(3,680)	(230)	(634)

	Balance at 29 June 2008 £'000	Recognised in income £'000	Recognised in equity £'000	**Balance at 4 July 2009 £'000**
Property, plant and equipment	(813)	179	–	**(634)**
Employee benefits	182	236	140	**558**
Short-term temporary differences	(3)	(48)	–	**(51)**
	(634)	367	140	**(127)**

12 Inventories

	2009 £'000	2008 £'000
Goods for resale	**57,895**	60,710

13 Trade and other receivables

	2009 £'000	2008 £'000
Trade receivables	**463**	144
Other receivables	**1,113**	1,813
Prepayments and accrued income	**9,163**	9,679
	10,739	11,636

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

14 Cash and cash equivalents

	2009 £'000	2008 £'000
Cash at bank and in hand	**23,998**	2,833
Cash and cash equivalents include the following for the purpose of the cash flow statement:		
Cash at bank and in hand	**24,016**	2,853
Bank overdraft	**(18)**	(20)
	23,998	2,833

15 Trade and other payables

	2009 £'000	2008 £'000
Trade payables	**28,850**	22,894
Accruals and deferred income	**31,462**	26,429
Other taxation and social security	**3,971**	4,351
Other creditors	**1,267**	896
	65,550	54,570

16 Interest bearing loans and borrowings

	2009 £'000	2008 £'000
Bank overdraft	**18**	20
Bank loan	**–**	10,000
	18	10,020

On 26 September 2006 the Group entered into a £50m revolving credit facility, repayable in full on 26 September 2011 and sub-divided into two elements: a £40m facility and a £10m facility. The £10m facility was cancelled on 26 May 2009. The £40m facility was not utilised at the balance sheet date.

Interest is payable on funds utilised under the £40m facility at the rate of LIBOR plus 0.35%. LIBOR is fixed for a given loan at the date of draw down.

The facility is guaranteed by the Parent Company and its subsidiaries.

Notes to the annual financial statements
continued

16 Interest bearing loans and borrowings continued
Interest rate risk profile of financial assets and liabilities
The interest rate profile of the Group's financial liabilities as at the period end was:

	2009 Total £'000	2009 Floating rate £'000	2009 Fixed rate £'000	Effective interest rate %	2008 Total £'000	2008 Floating rate £'000	2008 Fixed rate £'000	Effective interest rate %
Revolving bank loan	–	–	–	–	10,000	–	10,000	6.31
Overdraft	18	18	–	2.00	20	20	–	6.00
	18	18	–	2.00	10,020	20	10,000	6.31

All liabilities are denominated in sterling.

The floating rate on the overdraft is linked to Barclays Bank Base Rate and the Group believes that an increase in the rate of 1% would not have had a material impact on profit before tax for the period

Financial assets at 4 July 2009 consisted of £24,016,000 (2008: £2,853,000) cash at bank; interest earned is at normal commercial rates.

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

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

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

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

Group policy is that surplus funds are placed on deposit with counterparties approved by the Board, with a minimum of 'A' credit rating.

Subsequent to the year end the Group has capped credit limits with approved counterparties at £20m.

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

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

Foreign currency risk
The Group is exposed to foreign currency risk on purchases denominated in US dollars. These amounted to approximately 10% of the total purchases in the year ended 4 July 2009. The outstanding US dollar liabilities at the year end were $400,000 (2008: $870,000).

The Group manages its exposure to exchange rate fluctuations by purchasing US dollars on the 'spot' market at levels required to meet medium-term purchases. As at 4 July 2009 the Group held US dollar balances of $2.2m (2008: $7.0m), in order to protect itself against short-term fluctuations in the US dollar rate. This was expected to cover purchases in US dollars for approximately two months.

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

Fair values
The fair value of the Group's financial assets and liabilities is not materially different from their carrying value.

17 Financial risk management continued

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

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

The following table is a comparison by category of the carrying amounts and fair values of the Group's financial assets and liabilities at 4 July 2009 and 29 June 2008.

	2009 Carrying value £'000	**2009 Fair value £'000**	2008 Carrying value £'000	2008 Fair value £'000
Cash and cash equivalents	**23,998**	**23,998**	2,833	2,833
Trade receivables	**463**	**463**	144	144
Total financial assets	**24,461**	**24,461**	2,997	2,997
Trade payables	**(28,850)**	**(28,850)**	(22,894)	(22,894)
Long-term borrowings	**–**	**–**	(10,000)	(10,000)
Total financial liabilities	**(28,850)**	**(28,850)**	(32,894)	(32,894)
Net financial liabilities	**(4,389)**	**(4,389)**	(29,897)	(29,897)

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

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

	2009 £'000	2008 £'000
Sterling	**22,669**	(688)
US dollar	**1,329**	3,521
	23,998	2,833

As at 4 July 2009, 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
4 July 2009	463	43	407	7	4	2
28 June 2008	144	36	85	3	20	–

18 Share capital

	Number of ordinary shares of 1p each **2009**	2008
In issue at the start of the period	**200,791,400**	200,617,400
Issued during the period in respect of share option schemes	**–**	174,000
In issue at the end of the period	**200,791,400**	200,791,400

Proceeds received in relation to shares issued during the period were £nil (2008: £80,000).

	2009 number of shares	**2009 £'000**	2008 number of shares	2008 £'000
Ordinary shares of 1p each:				
Authorised	**500,000,000**	**5,000**	500,000,000	5,000
Allotted, called up and fully paid	**200,791,400**	**2,008**	200,791,400	2,008

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

Notes to the annual financial statements
continued

19 Treasury shares

	2009 number of shares	2009 £'000	2008 number of shares	2008 £'000
Outstanding at beginning of year	**951,500**	**1,522**	–	–
Purchased during year	**127,000**	**186**	1,195,000	1,900
Reissued during the period in respect of share option schemes	**(241,365)**	**(407)**	(243,500)	(378)
Outstanding at end of year	**837,135**	**1,301**	951,500	1,522

The Company acquired 127,000 of its own shares through purchases on the London Stock Exchange (2008: 1,195,000). These shares are held by the Company for the purpose of delivery to employees under employee share schemes. The total amount including fees paid to acquire the shares was £186,210 (2008: £1,905,481). The consideration has been deducted from retained earnings within shareholders equity.

The Company reissued 241,365 (2008: 243,500) treasury shares for a total consideration of £124,453 (2008: £112,010).

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

20 Share-based payments
As at 4 July 2009, 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 245,935 exercisable options in total under these schemes as at 4 July 2009.

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

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

	June 2008 grant	August 2006 grant	September 2005 grant	December 2004 grant	September 2004 grant
Fair value at measurement date	65.6p	7.0p	6.3p	6.0p	6.2p
Share price	220.5p	n/a	n/a	n/a	n/a
Exercise price	137.0p	62.1p	57.0p	46.0p	46.0p
Expected volatility (weighted average volatility used in modelling – based on historical volatility of comparable quoted companies)	35%	35%	35%	35%	35%
Option life (weighted average life used in modelling)	3 years	3 years	3 years	3 years	3 years
Expected dividends	8.7%	8.7%	8.7%	8.7%	8.7%
Risk-free interest rate	4.8%	4.8%	4.8%	4.8%	4.8%

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

	Weighted average exercise price 2009	Number of shares under option 2009	Weighted average exercise price 2008	Number of shares under option 2008
Outstanding at beginning of year	**52.4p**	**610,500**	49.8p	1,028,000
Granted during year	**137.0p**	**36,496**	–	–
Retrospective adjustment to prior year	**46.0p**	**21,700**	–	–
Exercised during year	**56.1p**	**(241,365)**	46.0p	(417,500)
Outstanding at end of year	**60.5p**	**427,331**	52.4p	610,500

b) Dunelm Group Savings Related Share Option Plan
The Sharesave scheme was established in 2006 and is open to all staff with eligible length of service. One grant was made under the scheme during the year, in October 2008. Options may be exercised under the scheme on completion of the three year savings contract and must be exercised within six months from that date. There is provision for early exercise in certain circumstances such as death, disability, redundancy and retirement.

20 Share-based payments continued

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

	October 2008	October 2007	November 2006
Fair value at measurement date	47.0p	70.0p	69.0p
Share price	125.0p	212.0p	202.0p
Exercise price	124.5p	157.0p	153.0p
Expected volatility (weighted average volatility used in modelling – based on historical volatility of comparable quoted companies)	58%	30%	30%
Option life (weighted average life used in modelling)	3.5 years	3.5 years	3.5 years
Expected dividends	2.5%	2.5%	2.5%
Risk-free interest rate	3.0%	4.8%	4.8%
Forfeiture rate	48%	36%	8%

The number and weighted average exercise price of options outstanding under the Sharesave at 4 July 2009 is as follows:

	Weighted average exercise price 2009	**Number of shares under option 2009**	Weighted average exercise price 2008	Number of shares under option 2008
Outstanding at beginning of year	**154.0p**	**1,001,273**	153.0p	1,045,846
Granted during year	**124.5p**	**362,125**	157.0p	219,979
Forfeited during year	**151.4p**	**(495,426)**	153.0p	(264,552)
Outstanding at end of year	**142.9p**	**867,972**	154.0p	1,001,273

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. Two grants were made in the year, to the Executive Directors and senior management. The Executive Directors' grant in September 2008 is exercisable in September 2011 and the senior management grant in July 2008 is exercisable in July 2010. The grant to the Executive Directors is dependent on the level of growth in Group EPS relative to RPI. The grant to senior management is dependent on continuing employment within the Group. The maximum life of options under the LTIP is 10 years from the date of grant.

The fair value of services received in return for share options granted is measured by reference to the fair value of the options. This has been calculated as follows:

	September 2008	September 2007	March 2007
Share price at date of grant	149.0p	196.0p	229.0p
Discount factor, based on dividend yield of 3.0% to vesting date	0.889	0.913	0.913
Fair value of option	132.5p	178.9p	209.0p

The number and weighted average exercise price of options under the LTIP at 4 July 2009 is as follows:

	Weighted average exercise price 2009	**Number of shares under option 2009**	Weighted average exercise price 2008	Number of shares under option 2008
Outstanding at beginning of year	**–**	**568,356**	–	250,434
Granted during year	**–**	**713,554**	–	317,922
Forfeited during year	**–**	**(18,339)**	–	–
Outstanding at end of year	**–**	**1,263,571**	–	568,356

In addition, bonuses earned during the year by a number of senior managers will be paid in the form of nil cost share options, exercisable in September 2011, provided the individuals remain in employment with the Group at that date. The value of these options has been estimated on the basis of the assumed share price at the date of grant (September 2009) and the cost will be spread over the period from 29 June 2008 to 30 September 2011.

Notes to the annual financial statements
continued

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

	2009 £'000	2008 £'000
GSOP	**6**	14
Sharesave	**128**	17
LTIP – Executive Directors	**266**	164
LTIP – Senior Managers	**199**	91
	599	286

21 Analysis of movement in net debt
IAS 7 'Cash Flow Statements' does not require the disclosure of a net debt reconciliation. The Group has shown this reconciliation to assist in the interpretation of the financial statements. Net debt is defined as cash at bank less loan and overdraft balances.

	At 4 July 2009 £'000	Cash flow £'000	At 28 June 2008 £'000
Cash at bank and in hand	**24,016**	21,163	2,853
Bank overdrafts	**(18)**	2	(20)
	23,998	21,165	2,833
Debt due after one year	**–**	10,000	(10,000)
Net (debt)/cash	**23,998**	31,165	(7,167)

22 Commitments
As at 4 July 2009 the Group had entered into capital contracts amounting to £2.0m. The equivalent figure as at 28 June 2008 was £2.3m.

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

	2009 Motor vehicles £'000	2009 Land and buildings £'000	2009 Plant and machinery £'000	2008 Motor vehicles £'000	2008 Land and buildings £'000	2008 Plant and machinery £'000
Within one year	**368**	**20,852**	**280**	443	20,928	249
In the second to fifth year inclusive	**398**	**76,915**	**578**	226	77,861	540
After five years	**–**	**103,199**	**–**	–	108,924	–
	766	**200,966**	**858**	669	207,713	789

The Group has 82 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.

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

24 Related parties
Identity of related parties

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

Key management personnel

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

Directors of the Company and their immediate relatives control 66.8% of the voting shares of the Company.

24 Related parties continued

Disclosures relating to remuneration of Directors are set out in the Remuneration Report on pages 15 to 17. The remuneration of the key management personnel (executive team excluding Directors) of the Group is set out below:

	2009 £'000	2008 £'000
Salaries and other short-term benefits	**637**	831
Post employment benefits	**13**	12
Share-based payments	**45**	43
	695	886

From time to time the Group makes purchases on behalf of a major shareholder, Bill Adderley, and sells vehicles to him that the Group no longer requires. These amounts are billed based on normal market rates for such supplies and payable under normal payment terms. No balances remained unsettled at either period end. The aggregate value of these transactions was £1,000 (2008: £3,000).

All vehicles sold to Bill Adderley during the period were fully depreciated.

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

25 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.

26 Subsequent events

There are no material post balance sheet events.

Parent Company accounts balance sheet

As at 4 July 2009

	Note	2009 £'000	2008 £'000
Non-current assets			
Investment in subsidiaries	4	**2,616**	2,283
Deferred tax asset	5	**202**	43
Total non-current assets		**2,818**	2,326
Current assets			
Trade and other receivables	6	**64,107**	64,413
Total current assets		**64,107**	64,413
Total assets		**66,925**	66,739
Current liabilities			
Trade and other payables	7	**(591)**	(879)
Liability for current tax		**(278)**	89
Interest bearing loans and borrowings	8	**(18)**	(20)
Total current liabilities		**(887)**	(810)
Non-current liabilities			
Interest bearing loans and borrowings	8	**–**	(10,000)
Total non-current liabilities		**–**	(10,000)
Total Liabilities		**(887)**	(10,810)
Net assets		**66,038**	55,929
Capital and reserves			
Issued capital	10	**2,008**	2,008
Share premium		**346**	346
Non-distributable reserves		**616**	283
Retained earnings		**63,068**	53,292
Equity shareholders' funds		**66,038**	55,929

The financial statements on pages 44 to 52 were approved by the Board of Directors on 15 September 2009 and were signed on its behalf by:

David Stead
Director
15 September 2009

Parent Company accounts cash flow statement
For the 53 weeks ended 4 July 2009

	53 weeks 2009 £'000	52 weeks 2008 £'000
Profit before tax	**20,773**	19,920
Adjusted for:		
Net financing costs	**(2,550)**	(1,826)
Operating profit	**18,223**	18,094
Operating cash flows before movements in working capital		
Decrease in debtors	**306**	21,387
(Decrease)/increase in creditors	**(134)**	197
Net movement in working capital	**172**	21,584
Investment income	**(20,000)**	(20,097)
Share-based payments expense	**266**	166
Cash flows from operating activities	**(1,339)**	19,747
Interest paid	**(870)**	(1,249)
Interest received	**3,266**	3,075
Tax received	**–**	58
Net cash generated from operating activities	**1,057**	21,631
Cash flows from financing activities		
Proceeds from issue of share capital	**–**	81
Purchase of treasury shares	**(186)**	(1,900)
Proceeds from issue of treasury shares	**124**	112
Repayment of bank loan	**(10,000)**	(30,000)
Dividends received	**20,000**	20,097
Dividends paid	**(10,993)**	(10,020)
Net cash flows utilised in financing activities	**(1,055)**	(21,630)
Net increase in cash and cash equivalents	**2**	1
Cash and cash equivalents at the beginning of the period	**(20)**	(21)
Cash and cash equivalents at the end of the period	**(18)**	(20)

Parent Company accounts statement of changes in equity

For the 53 weeks ended 4 July 2009

	Issued share capital £'000	Share premium £'000	Non distributable £'000	Retained earnings £'000	Total £'000
As at 30 June 2007	2,006	267	163	44,912	47,348
Profit for the period	–	–	–	20,036	20,036
Issue of new share capital	2	79	–	–	81
Purchase of treasury shares	–	–	–	(1,900)	(1,900)
Treasury shares reissued in respect of share option schemes	–	–	–	112	112
Share-based payments	–	–	120	166	286
Deferred tax on share-based payments	–	–	–	(76)	(76)
Corporation tax on share options exercised	–	–	–	62	62
Dividends	–	–	–	(10,020)	(10,020)
As at 28 June 2008	2,008	346	283	53,292	55,929
Profit for the period	–	–	–	20,545	20,545
Purchase of treasury shares	–	–	–	(186)	(186)
Treasury shares reissued in respect of share option schemes	–	–	–	123	123
Share-based payments	–	–	333	266	599
Deferred tax on share-based payments	–	–	–	21	21
Dividends	–	–	–	(10,993)	(10,993)
As at 4 July 2009	**2,008**	**346**	**616**	**63,068**	**66,038**

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.

2008 financial year was 52 weeks.

Accounting policies – Parent Company accounts

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 have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

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

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

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

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

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

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

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

Share-based payments
The Company operates two share options schemes details of which are set out in note 11.

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

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

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

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

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

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

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

Notes to the Parent Company accounts

1 Income statement
The Company made a profit after tax of £20,544,000 (2008: £20,036,000). 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 two Executive Directors. Full details of the Directors' remuneration and interest are set out in the Directors' Remuneration Report on pages 15 to 17, and share-based payments details in note 12 on pages 50 to 51.

3 Dividends
All dividends relate to the 1p ordinary shares.

	2009 £'000	2008 £'000
Final for the period ended 30 June 2007 – paid 3.0p	**–**	(6,024)
Interim for the period ended 28 June 2008 – paid 2.0p	**–**	(3,996)
Final for the period ended 28 June 2008 – paid 3.5p	**(6,994)**	–
Interim for the period ended 4 July 2009 – paid 2.0p	**(3,999)**	–
	(10,993)	(10,020)

The Directors are proposing a final dividend of 4.0p per ordinary share for the period ended 4 July 2009 which equates to £8.0m. The dividend will be paid on 11 December 2009 to shareholders on the register at the close of business on 27 November 2009.

4 Investments
Shares in subsidiary undertakings.

	£'000
As at 30 June 2007	2,163
Share-Based Payments	120
As at 28 June 2008	2,283
Share-Based Payments	333
As at 4 July 2009	**2,616**

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

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

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

5 Deferred tax assets

	Other temporary differences £'000
As at 30 June 2007	98
Reserves debit	(76)
Income statement credit	21
As at 28 June 2008	43
Reserves credit	21
Income statement credit	138
As at 4 July 2009	**202**

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.

Business review
Governance
Financial statements
Annual General Meeting

6 Trade and other receivables

	2009 £'000	2008 £'000
Amounts owed by subsidiary undertakings	**64,071**	64,365
Prepayments and accrued income	**30**	30
Other taxation and social security	**6**	18
	64,107	64,413

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

	2009 £'000	2008 £'000
Trade payables	**14**	15
Accruals and deferred income	**557**	864
Other creditors	**20**	–
	591	879

8 Interest bearing loans and borrowings

	2009 £'000	2008 £'000
Bank loans	**–**	10,000
Bank overdraft	**18**	20
	18	10,020

On 26 September 2006 the Company entered into a £50m revolving credit facility which is repayable in full on 26 September 2011. The facility is sub divided into two elements: a £40m facility and a £10m facility. The £10m facility was cancelled on 26 May 2009. The £40m facility was not utilised at the balance sheet date.

Interest is payable on the £40m facility at the rate of LIBOR plus 0.35%.

The facility is guaranteed by the Company and its subsidiaries.

9 Financial risk management

Capital management

The following table is a comparison by category of the carrying amounts and fair values of the Company's financial assets and liabilities at 4 July 2009 and 29 June 2008.

	2009 Carrying value £'000	2009 Fair value £'000	2008 Carrying value £'000	2008 Fair value £'000
Subsidiary loans	**64,071**	**64,071**	64,365	64,365
Total financial assets	**64,071**	**64,071**	64,365	64,365
Short-term borrowings	**(18)**	**(18)**	(20)	(20)
Trade payables	**(14)**	**(14)**	(15)	(15)
Long-term borrowings	**–**	**–**	(10,000)	(10,000)
Total financial liabilities	**(32)**	**(32)**	(10,035)	(10,035)
Net financial liabilities	**64,039**	**64,039**	54,330	54,330

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

Notes to the Parent Company accounts
continued

9 Financial risk management continued

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

	2009 £m	2008 £m
Sterling	(18)	(20)
	(18)	(20)

10 Share capital

	Number of ordinary shares of 1p each 2009	2008
In issue at the start of the period	200,791,400	200,617,400
Issued during the period in respect of share options	–	174,000
In issue at the end of the period	200,791,400	200,791,400

Proceeds received in relation to shares issued during the period were £nil (2008: £80,000).

	2009 Number of shares	2009 £'000	2008 Number of shares	2008 £'000
Ordinary shares of 1p each				
Authorised	500,000,000	5,000	500,000,000	5,000
Allotted, called up and fully paid	200,791,400	2,008	200,791,400	2,008

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

11 Treasury shares

	2009 Number of shares	2009 £'000	2008 Number of shares	2008 £'000
Outstanding at beginning of year	951,500	1,522	–	–
Purchased during year	127,000	186	1,195,000	1,900
Reissued during the period in respect of share option schemes	(241,365)	(407)	(243,500)	(378)
Outstanding at end of year	837,135	1,301	951,500	1,522

The Company acquired 127,000 of its own shares through purchases on the London Stock Exchange (2008: 1,195,000). These shares are held by the Company for the purpose of delivery to employees under employee share schemes. The total amount including fees paid to acquire the shares was £186,210 (2008: £1,905,481). The consideration has been deducted from retained earnings within shareholders equity.

The Company reissued 241,365 (2008: 243,500) treasury shares for a total consideration of £124,453 (2008: £112,010).

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

12 Share-based payments

As at 4 July 2009, the Company operated two share award plans:
a) Dunelm Group Share Option Plan ('GSOP')
b) Long-Term Incentive Plan ('LTIP')

There were no exercisable options as at 4 July 2009.

a) Dunelm Group Share Option Plan

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

12 Share-based payments continued

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

	August 2006 grant	September 2005 grant	December 2004 grant	September 2004 grant
Fair value at measurement date	7.0p	6.3p	6.0p	6.2p
Share price	n/a	n/a	n/a	n/a
Exercise price	62.1p	57.0p	46.0p	46.0p
Expected volatility (weighted average volatility used in modelling – based on historical volatility of comparable quoted companies)	35%	35%	35%	35%
Option life (weighted average life used in modelling)	3 years	3 years	3 years	3 years
Expected dividends	8.7%	8.7%	8.7%	8.7%
Risk-free interest rate	4.8%	4.8%	4.8%	4.8%

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

	Weighted average exercise price 2009	**Number of shares under option 2009**	Weighted average exercise price 2008	Number of shares under option 2008
Outstanding at beginning of year	**–**	**–**	46.0p	200,000
Exercised during year	**–**	**–**	46.0p	(200,000)
Outstanding at end of year	**–**	**–**	–	–

b) Long-term Incentive Plan

The LTIP was approved by the Board prior to IPO enabling the Company to award shares to particular individuals, normally in the form of nominal cost options. The LTIP is administered by the Remuneration Committee. One grant has been made in the year, to the Executive Directors only, and is exercisable in September 2010 depending on the level of growth in Group EPS relative to RPI. The maximum life of options under LTIP is 10 years from the date of grant.

The fair value of services received in return for share options granted is measured by reference to the fair value of the options. This has been calculated as follows:

	September 2007	March 2007
Share price at date of grant	**196.0p**	229.0p
Discount factor, based on dividend yield of 3.0% to vesting date	**0.913**	0.913
Fair value of option	**178.9p**	209.0p

The number and weighted average exercise price of options under the LTIP at 4 July 2009 is:

	Weighted average exercise price 2009	**Number of shares under option 2009**	Weighted average exercise price 2008	Number of shares under option 2008
Outstanding at beginning of year	**–**	**568,356**	–	250,434
Granted during year	**–**	**437,837**	–	317,922
Outstanding at end of year	**–**	**1,006,193**	–	568,356

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

	2009 £'000	2008 £'000
GSOP	**–**	1
LTIP	**266**	165
	266	166

Notes to the Parent Company accounts
continued

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:

	2009 £'000	2008 £'000
Cash paid to Group undertakings	**(56,759)**	(47,267)
Cash received from Group undertakings	**33,199**	2,693
Dividends received	**20,000**	20,096
Net interest receivable	**3,266**	3,072

Notice of Annual General Meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the proposals referred to in the document or as to the action you should take, you should seek your own advice from a stockbroker, solicitor, accountant or other professional adviser.

If you have sold or otherwise transferred all of your shares, please pass this document together with the accompanying documents to the purchaser or transferee, or to the person who arranged the sale or transfer, so that they can pass them to the person who now holds the shares.

Notice is hereby given that an Annual General Meeting of the Company will be held at The Hilton Hotel, Leicester on Thursday 12 November 2009 at 10:30 am at which the following matters will be dealt with:

Ordinary business

To consider and if thought fit pass the following resolutions as ordinary resolutions:

1. That the Company's annual accounts for the financial year ended 4 July 2009 together with the Directors' Report, and the Auditors' Report on those accounts be received and adopted.
2. That Geoff Cooper, who is retiring in accordance with the Articles of Association of the Company, and being eligible, is offering himself for re-election, be reappointed as a Non-Executive Director of the Company.
3. That David Stead who is retiring in accordance with the Articles of Association of the Company, and being eligible, is offering himself for re-election, be reappointed as an Executive Director of the Company.
4. That Nick Wharton, who is retiring in accordance with the Articles of Association of the Company, and being eligible, is offering himself for election, be appointed as a Non-Executive Director of the Company.
5. To declare a final dividend on the ordinary shares of 4.0p per share in respect of the year ended 4 July 2009.
6. That KPMG Audit Plc be reappointed as auditors to the Company and that the Directors be authorised to determine the auditors' remuneration.
7. That the Directors' Remuneration Report be approved.

Special business

To consider and if thought fit pass the following resolutions of which the resolution number 8 will be proposed as an ordinary resolution and the resolutions numbered 9, 10 and 11 will be proposed as a special resolution:

8. That:
   (a) in accordance with section 551 of the Companies Act 2006, the Directors be authorised to allot ordinary shares in the Company or grant rights to subscribe for ordinary shares or to convert any securities into shares in the Company up to a maximum nominal amount of £665,466 to such persons and on such terms as the Directors may determine; and
   (b) this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, or, if earlier, on 29 December 2010 unless previously renewed, varied or revoked although the Directors may exercise this authority after this date in respect of an offer or agreement made while this authority was in force; and
   (c) all previous unutilised authorities under section 80 of the Companies Act 1985 shall cease to have effect (save to the extent that the same are exercisable pursuant to section 80(7) of the Companies Act 1985 by reason of any offer or agreement made prior to the date of this resolution which would or might require relevant securities to be allotted on or after that date).

9. That:
   (a) Subject to the passing of resolution 8 above, and in accordance with section 570 of the Companies Act 2006, the Directors be given power to allot equity securities for cash or by way of a sale of treasury shares pursuant to the previous resolution as if section 561(1) Companies Act 2006 does not apply to the allotment;
   (b) the powers under paragraph (a) shall be limited to the allotment of equity securities:
      (i) where securities have been offered to holders of ordinary shares in the capital of the Company in proportion (as nearly as may be) to their existing holdings of ordinary shares subject to any exclusions or other arrangements that the Directors consider necessary or expedient to deal with fractional entitlements and legal or practical problems under the law of, or the requirements of any recognised regulatory body or stock exchange in any territory; and
      (ii) having a nominal amount not exceeding in aggregate £100,000;
   (c) this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or, if earlier, on 29 December 2010 although the Directors may exercise this authority after this date in respect of an offer or agreement made while this authority was in force; and
   (d) all previous unutilised authorities under section 95 of the Companies Act shall cease to have effect.

Notice of Annual General Meeting
continued

10. That, in accordance with section 701 of the Companies Act 2006, the Company be generally and unconditionally authorised to make market purchases (within the meaning of that section 701) of ordinary shares of 1p each in the capital of the Company ('ordinary shares') provided that:
    (a) the maximum aggregate number of ordinary shares authorised to be purchased is the lesser of 19,000,000, being approximately 10% of the issued ordinary share capital at 4 July 2009 (excluding treasury shares), and 10% of the Company's issued ordinary share capital at the date of passing of this resolution (excluding treasury shares);
    (b) the maximum price (not including expenses) which may be paid for each ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share, as derived from the London Stock Exchange Daily Official List, for the five business days immediately before the day on which the purchase is made and the amount stipulated in the Buy-Back and Stabilisation Regulation 2003; and
    (c) the minimum price (not including expenses) which may be paid for each ordinary share is 1p per share.

    This authority shall, unless previously varied, revoked or renewed, expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, on 29 December 2010, except in relation to a purchase of ordinary shares the contract for which was concluded before such time and which will or may be executed wholly or partly after such time.

11. That a general meeting of the Company other than the Annual General Meeting may be called on not less than 14 clear days' notice.

Biographies of the Directors who are standing for appointment are set out on page 10 and further explanation in relation to the resolutions proposed as Special Business are set out in the Directors' Report on page 20.

The Directors consider that all the resolutions put to the meeting are in the best interests of the Company and its shareholders as a whole and are most likely to promote the success of the Company and its shareholders as a whole. Your Board will be voting in favour of them and unanimously recommends that you do so as well.

By Order of the Board

David Stead
Company Secretary
Fosse Way
Syston
Leicester
LE7 1NF
9 October 2009

Notes

1. Information regarding the meeting, including the information required by section 311A of the Companies Act 2006, is available from the Investor Information section of our corporate website http://production.investis.com/dnlm/investorinfo/agm/
2. Pursuant to section 319A of the Companies Act 2006, the Company must cause to be answered at the Annual General Meeting any question relating to the business being dealt with at the meeting which is put by a member attending the meeting, except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the meeting that the question be answered or if to do so would involve the disclosure of confidential information.
3. A member is entitled to appoint a proxy to exercise all or any of his rights to attend, speak and vote instead of him, using the form in this report. Only the procedures set out in these notes and the note to the proxy form can be used to appoint a proxy. A proxy need not be a member of the Company. A member may appoint more than one proxy to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
4. The 'vote withheld' option is to enable shareholders to abstain on any particular resolution. This is not a vote in law and will not be counted in the votes 'for' or 'against' any resolution.
5. To be valid, a duly completed Form of Proxy must be sent by post, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy), to Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6ZX so as to arrive not later than 48 hours before the time fixed for the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) for the taking of the poll at which it is to be used. Completion and return of a Form of Proxy will not preclude a member from attending and voting in person at the meeting.
6. To change your proxy instructions please submit a new proxy appointment in accordance with the instructions above. The appointment received last before the cut-off time and date specified above will take precedence.
7. A person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

   The statement of the rights of members in relation to the appointment of proxies in paragraphs 3, 5 and 6 does not apply to a Nominated Person. The rights described in these paragraphs can only be exercised by registered members of the Company.

   Nominated Persons are reminded that they should contact the registered holder of their shares (and not the Company) on matters relating to their investments in the Company.
8. The time by which a person must be entered on the register of members of the Company in order to have the right to attend or vote at the meeting is 6 pm on the day which is two days (excluding any non-working days) before the time fixed for the meeting or the adjourned meeting. Changes to entries on the register of members after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.
9. To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent (ID RA19) by 48 working hours before the time fixed for the Annual General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means.

   CREST Personal Members or other CREST sponsored members and those CREST Members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST.

   For further information on CREST procedures, limitations and system timings, please refer to the CREST manual at www.euroclear.com/CREST. We may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
10. You may not use any electronic address provided either in this notice of Annual General Meeting or any related documents to communicate with the Company for any purpose other than those expressly stated.
11. Copies of the Executive Directors' service agreements with the Company, the Non-Executive Directors' terms of appointment and the register of Directors' interests will be available for inspection during normal business hours on each business day at the registered office of the Company from the date of this notice until the date of the meeting and also at the place of the meeting for 15 minutes prior to and during the meeting.
12. As at 15 September 2009 the Company's issued share capital (excluding treasury shares) consists of 19,954,265 ordinary shares carrying one vote each. Therefore, the total voting rights in the Company as at 15 September 2009 are 19,954,265.
13. Pursuant to Chapter 5 of Part 16 of the Companies Act 2006 (sections 527 to 531), where requested by either:
    - a member or members having a right to vote at the meeting and holding at least 5% of total voting rights of the Company; or
    - at least 100 members have a right to vote at the meeting and holding, on average, at least £100 of paid up share capital,

    the Company must publish on its website, a statement setting out any matter that such members propose to raise at the meeting relating to the audit of the Company's accounts (including the Auditor's Report and the conduct of the audit) that are to be laid before the meeting.

    Where the Company is required to publish such a statement on its website:
    - it may not require the members making the request to pay any expenses incurred by the Company in complying with the request;
    - it must forward the statement to the Company's auditors no later than the time the statement is made available on the Company's website; and
    - the statement may be dealt with as part of the business of the meeting.

    A member wishing to request publication of such a statement on the Company's website must send the request to the Company using one of the following methods:
    - in hard copy form to David Stead, Company Secretary at the Company's registered office;
    - by e-mail to david.stead@dunelm-mill.co.uk and be confirmed in writing to the registered office address; or
    - by fax to 0116 2644490 marked for the attention of David Stead and confirmed in writing to the registered office address.

    Whichever form of communication is chosen, the request must:
    - either set out the statement in full or, if supporting a statement sent by another member, clearly identify the statement which is being supported; and
    - be received by the Company at least one week before the meeting.

Notes

Notes

Notes

Form of proxy – Dunelm Group plc

I/We ....

(FULL NAME(S) IN BLOCK CAPITALS)

of..

....

(ADDRESS IN BLOCK CAPITALS)

being member(s) of the above named Company, hereby appoint

....or failing him the Chairman of the meeting as my/our proxy to exercise all or any of my/our rights to attend, speak and vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at The Hilton Hotel, Leicester on Thursday 12 November 2009 at 10.30 am and at any adjournment of the meeting.

This proxy is in respect of all of the shares registered in my name unless I/We have indicated a smaller number of shares in the box below,

☐ Please tick here if this appointment is one of multiple appointments being made. For the appointment of more than one proxy please refer to Explanatory Note 2.

Please indicate with an 'X' in the space below how you wish your vote to be cast. If the form is returned without any indication as to how the proxy shall vote on any particular matter the proxy will vote as he or she thinks fit or abstains from voting at his or her discretion. On any other business arising at the meeting (including any motion to amend a resolution or to adjourn the meeting) the proxy will act at his or her discretion.

Signature ....Date 2009

	For	Vote Withheld	Against
Ordinary business			
1. To receive and approve the Directors' Report and the audited accounts for the period ended 4 July 2009 and the report of the auditors			
2. To re-elect Geoff Cooper as a Director			
3. To re-elect David Stead as a Director			
4. To elect Nick Wharton as a Director			
5. To declare a dividend on the ordinary shares of 4.0p per share			
6. To reappoint KPMG Audit Plc as auditors of the Company and to authorise the Directors to fix their remuneration			
7. To approve the Directors' Remuneration Report			
Special business			
8. To authorise the Directors to allot relevant securities			
9. To authorise the Directors to allot equity securities for cash			
10. To authorise the Company to purchase its own ordinary shares			
11 To hold general meetings on 14 days' notice.			

Notes

1. Every holder has the right to appoint some other person(s) of their choice, who need not be a shareholder as his proxy to exercise all or any of his rights, to attend, speak and vote on their behalf at the meeting. If you wish to appoint a person other than the Chairman, please insert the name and address of your chosen proxy holder in the space provided. If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account).
2. To appoint more than one proxy, (an) additional proxy form(s) may be obtained by contacting the Registrars helpline on 0871 384 2030 or you may photocopy this form. Please indicate in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
3. Unless otherwise instructed above, the proxy will exercise his or her discretion both as to how he or she votes and as to whether or not he or she abstains from voting on any resolutions proposed at the meeting.
4. The 'vote withheld' option is to enable you to abstain on any particular resolution. This is not a vote in law and will not be counted in the votes 'for' and 'against' a particular resolution.
5. To be valid this form duly signed, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy of such power or authority) must be deposited at the offices of the registrars no later than 48 hours before the time for holding the meeting.
6. In the case of a corporation this form must be under its Common Seal or otherwise executed in accordance with Section 36A Companies Act 1985 as amended or it must be signed by an officer or attorney duly authorised in writing.
7. Any alterations to this form must be initialled.
8. In the case of joint holders only one need sign but the names of all joint holders must be stated. The vote of the senior holder who tenders a vote shall be accepted to the exclusion of the votes of the other joint holders. For this purpose seniority shall be determined by the order in which names stand in the register of members.
9. For details of how to change your proxy instructions or revoke your proxy appointment please see the notice of meeting. If you submit more than one valid proxy appointment, the appointment received last before the latest time for receipt of proxies will take precedence.
10. Shares held in uncertificated form (i.e. in CREST) may be voted through the CREST Proxy Voting Service in accordance with the procedures set out in the CREST manual.
11. You may not use any electronic address provided in this proxy form to communicate with the Company for any purposes other than those expressly stated.

Second fold

BUSINESS REPLY SERVICE
Licence No. SEA 10855

Do not affix Postage Stamps if posting in
Gt. Britain, Channel Islands, or Northern Ireland.

2

First fold

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6ZX

Third fold and tuck in

Advisers

Corporate Brokers and Financial Advisers	UBS Investment Bank 1 Finsbury Avenue London EC2M 2PP Tel: 020 7567 8000
	Oriel Securities Limited 125 Wood Street London EC2V 7AN Tel: 020 7710 7600
Legal Advisers	Allen & Overy LLP One Bishops Square London E1 6AO Tel: 020 3088 0000
Auditors	KPMG Audit Plc 1 Waterloo Way Leicester LE1 6LP Tel: 0116 256 6000
Principal Bankers	Barclays Bank plc Midlands Corporate Banking PO Box 333 15 Colmore Row Birmingham B3 2WN Tel: 0845 755 5555
Registrars	Equiniti Aspect House Spencer Road Lancing West Sussex BN99 6DA Tel: 0871 384 2030
Financial Public Relations	Hogarth Partnership Limited No. 1 London Bridge London SE1 9BG Tel: 020 7357 9477

www.dunelm-mill.com

Dunelm Group plc
Fosse Way
Syston
LE7 1NF
Tel: 0116 264 4356

Email: investorrelations@dunelm-mill.co.uk