Dunelm

There's no place like Dunelm

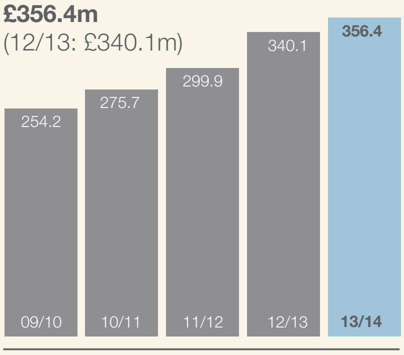
Dunelm Group plc Interim report 2013/2014

Contents

Highlights

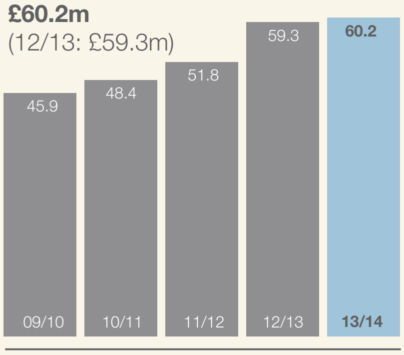
Revenue
£m

£356.4m
(12/13: £340.1m)



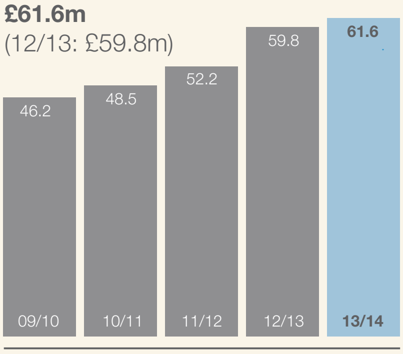
Operating profit
£m

£60.2m
(12/13: £59.3m)



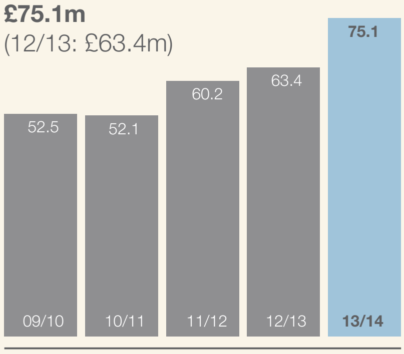
Profit before tax
£m

£61.6m
(12/13: £59.8m)



Net cash from operations
£m

£75.1m
(12/13: £63.4m)



Chairman's statement

Geoff Cooper Chairman

The Group has continued to make good progress during the 26 weeks to 28 December 2013, reflecting the success of our clear and consistent growth strategy. The Group has maintained its consistent track record over a number of years, delivering:

- Ongoing space expansion
- Strong growth in multi-channel trading
- Gains in gross margin
- Growth in profit before tax and earnings per share
- Strong levels of cash flow

Our continued strong cash flow allowed us to pay a special dividend of 25.0p per share (£50.7m) in October, making a total of over £150m returned to shareholders over and above ordinary dividends since March 2010. In addition, we have declared a further 11.1% increase in the interim dividend to 5.0p (FY13: 4.5p).

The Board continues to have a high level of confidence in the Group's business model and strategy, and its capacity for further profitable growth. We look forward to further progress in the period ahead.

Geoff Cooper
Chairman

11 February 2014

Business review

Nick Wharton Chief Executive

Overview

Dunelm has continued to make good trading and strategic progress over the first half of the financial year, despite a challenging consumer environment and unfavourable weather patterns. The development of the business has remained clearly focused on our four strategic priorities: continually strengthening our customer offer and improving and leveraging our infrastructure while increasing scale through new stores and multi-channel expansion.

During the period, the opening of six new stores, including the relocation of a previously under-spaced superstore, contributed to overall revenue growth of 4.8%. Within this, the small like-for-like ('LFL') revenue decline of 0.9% reflected the marked reduction in footfall during the unusually warm summer weather, consistent with Dunelm's status as a destination visit for discretionary homewares shopping.

While always maintaining a disciplined approach to the management of costs, we continue to invest in the growth of the business. Investments during the period include costs associated with new stores and our first significant television advertising campaign. Accordingly operating profit increased by 4.5% year-on-year to £62.0m (FY13: £59.3m).

The Dunelm business model remains highly cash generative, allowing us to readily fund our continuing organic growth from internal resources. Our strategy remains to return excess capital to shareholders periodically, while retaining cash flexibility. During the period we made our third such return via a special dividend of 25.0p per share, totalling £50.7m, in addition to our ordinary dividend payment.

Financial performance

Total revenues during the period were £356.4m (FY13: £340.1m).

The gross margin percentage increased by 90 basis points year-on-year. Positive drivers included a further increase in direct sourcing activity, and continuing growth in our buying scale; both of these benefits are expected to continue. In addition, year-on-year margin growth in the period reflected the impact of clearing slow-moving special buys in the prior year; this effect is not expected to be significant going forward.

Business review continued

Operating costs increased by 8.1% (£8.8m) in aggregate with the majority of the increase relating to new space. Our store opening programme was heavily weighted to the second quarter providing a limited trading window in which to recover costs associated with establishing these new stores. With the exception of investments related to development of multi-channel (described further below), costs in LFL stores were broadly flat year-on-year. Non-store costs increased due to our planned step change in advertising investment to drive brand awareness, as well as the additional costs required to support the greater range of products we source directly from factory.

As a consequence of reduced interest income year-on-year following the special dividend and revaluation adjustments arising from the appreciation of sterling over the period, the net finance expense was £0.4m, compared with net finance income of £0.5m in the prior year.

Profit before tax grew by 2.9% to £61.6m (FY13: £59.8m).

Profit after tax of £47.2m (FY13: £45.0m) reflects the projected full year effective tax rate of 23.4% (FY13: 24.8%). The effective rate has reduced substantially compared with last year primarily due to the lowering of the headline rate of corporation tax.

Fully diluted earnings per share were 23.1p (FY13: 22.1p), an increase of 4.5%.

The Group continues to be strongly cash generative even after ongoing investment in the growth and capabilities of the business. Cash generated from operations, after interest and tax, was £75.1m (FY13: £63.4m) and represents 121% of operating profit (FY13: 107%); this includes the normal seasonal reduction in working capital, a proportion of which is expected to reverse in the second half of the financial year. Capital investment of £12.4m over the period (FY13: £14.9m) mainly represents fit-out costs for new stores and store refits, together with costs associated with the upgrade of our core ERP system that was successfully completed during the period. Finally, cash outflows include £6.9m (FY13: nil) relating to the purchase of own shares into treasury, to cover share option entitlements.

Dividend

An interim dividend of 5.0p per Ordinary Share, an increase of 11.1% on the prior year interim dividend of 4.5p, will be paid on 11 April 2014 to shareholders on the register at 21 March 2014.

The Group's financial position remains robust with closing net cash of £26.4m (FY13: £27.4m) after investments made in the business outlined in this report and cash returns to shareholders in the period totalling £74.0m.

Strategy development

We continue to make good progress against each of the four elements of our business strategy:

1. Develop our specialist proposition

We continue to invest in our market leading proposition, seeking to build on our core competitive advantages of choice and value with the addition of friendly, knowledgeable customer service and differentiating services. Our unique broad range of prices is applied to each of our core categories and has helped us retain existing customers and attract new customers during the period. At one end, our entry price position competes with grocers and discount multiples but at higher quality whilst at the other, our ranges of premium products, including those under our Dorma brand, compete with department stores and higher end independent retailers but at keener prices.

We continually develop our ranges to deliver innovative products and designs, ensuring that our offer remains contemporary and fresh with on average around 25% of ranged lines being less than 12 months old at any given time. For example, launches during the period included the introduction of our exclusive *Click'n'Clean* modular cleaning range and the extension of our contemporary *Hotel* brand to curtains. Miss It Miss Out ('MIMO') promotions and special buys emphasise Dunelm's value proposition and provide a seasonally relevant feel to our stores. Building on the established trust in the Dunelm brand we continue to expand our offer beyond our core £11bn homewares market. Recently this has centred on progressive increases in the ranges of furniture available both in our stores and on-line. This will continue together with some managed expansion into other home-related markets not currently served.

Independent recognition of our offer continues to grow and during the period we were delighted to be voted as the 'Homewares Retailer of the Year' for the third year in succession by the readers of *House Beautiful* magazine, who also voted us 'On-line Homewares Retailer of the Year' for the first time.

With strong acceptance and loyalty to the brand amongst existing customers, we see it as a clear priority to create more widespread understanding and awareness of the Dunelm proposition. To achieve this objective, the period saw significant investment, led by the repositioning of the Dunelm brand, to better communicate the points of differentiation highlighted above. This brand evolution involved the introduction of a new primary strapline of 'There's no place like Dunelm', the migration of our website to a more user-friendly domain name of www.dunelm.com and the removal of our traditional 'Mill' suffix.

The revised brand positioning was re-enforced and introduced to a wider group of homewares shoppers through an expanded marketing campaign including an increased autumn/winter catalogue circulation, concerted press presence and a new TV advertising campaign, initially piloted across catchments covering approximately half our stores. While representing a long-term investment, we are pleased with the initial results seen from our first campaign, in the form of improvements to footfall and brand awareness, and we will continue the trial with a larger advertising burst this spring.

Business review continued

Improved customer service, in-store experience and differentiating services are all important in ensuring that our overall customer experience meets the promise of the 'There's no place like Dunelm' campaign. We remain encouraged by progress within our customer service programme (labelled internally as Customer First), which has included training for 7,000 colleagues across the business during the last 12 months. This programme is largely funded by the removal or centralisation of non-customer benefiting task in stores. As a result of the Customer First training, we continue to see improvement in our net promoter score, particularly at times of peak footfall, and increased external recognition of our service credentials, including Dunelm ranking very positively in the most recent annual survey of customer service undertaken by *Which?*. Our Dunelm At Home service, through which customers can select bespoke, made to measure curtains, blinds and accessories via a free home consultation, deepens the customer relationship with Dunelm and seeks to differentiate the overall Dunelm proposition compared to more mainstream competition. The service is now available in 45 stores.

2. Develop the store portfolio

The Group's store portfolio mainly comprises our preferred edge of town superstore format, averaging 30,000 square feet. This size of unit allows us to showcase the full depth and breadth of our market leading range. Following a detailed catchment analysis process, which sought to incorporate the impact of the anticipated growth of our multi-channel sales, we remain committed to achieving a mature UK superstore portfolio of approximately 200 stores. After opening six superstores in the period, including the relocation of one store, the Group ended the period with 131 superstores, providing 4.0m square feet of retail space, as well as nine high street stores.

Our forward property pipeline includes 10 legally committed stores, of which we anticipate five will open in the current financial year (including a further two relocations) giving an anticipated full year store opening programme totalling 11 stores.

Our recent openings continue to trade well and deliver strong returns on invested capital, with expected paybacks averaging approximately 26 months for stores opened during the last three financial years. We believe our stated financial hurdles remain appropriate, targeting a maximum 36 month payback period for new stores in larger catchments (which we expect to represent the majority of future opportunities) and a maximum 48 month period for the balance. The strength of our current performance allows us to acquire new space with confidence and provides capacity to absorb potential cannibalisation of revenue in future openings while delivering our targeted returns.

We continue to invest in a programme of store refits, such that 50% of the superstore chain is either new or has benefited from a significant refit over the past three years. The programme is designed to improve the shopping environment in our existing stores, create a consistent customer experience under the Dunelm brand and ensure that our portfolio remains contemporary.

3. Grow multi-channel

Enhancing our on-line offer and extending our multi-channel presence allows our customers to shop at Dunelm how and when they wish, extends our geographic reach and creates our biggest shop window, allowing our ranges to be viewed and researched by new and existing customers. Customer preference for this shopping experience is clear with over 26 million visits to www.dunelm.com during the period and on-line sales growing by over 50% year on year to represent approximately 6% of revenues in the second quarter. Further profitable expansion of our multi-channel operation is therefore an investment priority.

The period has seen us strengthen both our Reserve & Collect ('R&C') and home delivery propositions. R&C, which links in real time our store stock files to the web enabling our customers to check availability of products in local stores and then reserve them, is the most profitable element of multi-channel and importantly represents approximately a third of our multi-channel revenues. To further enhance convenience, the lead time between order and collection has been reduced to three hours.

The successful introduction of a new specialist fulfillment facility during the period materially improved speed and choice within our home delivery offering. The operation houses approximately 14,500 SKU's each available for next day delivery if required by the customer and on far more competitive standard delivery lead-times. The operation allowed us to trade on-line far closer to Christmas, and is scalable for our multi-channel ambition.

As discussed previously, we believe the next phase of multi-channel growth will demand the development of a new web-site and associated systems to deliver a smoother, more integrated multi-channel experience for our customers. This replatforming is under way and is anticipated to be launched in the first quarter of the next financial year. This development will enhance the front end customer journey and will allow future web-site developments to be achieved over shorter lead-times. Complementary investments to be made at the same time to key back end processes such as customer service and handling systems will further enhance customers' end-to end experience. The total investment associated with this series of developments is expected to be approximately £7m (of which £2m had been incurred by the end of the period).

4. Infrastructure

The Group's continued success is reliant upon a resilient, functionally rich and flexible business infrastructure encompassing capability across physical, systems and people resources. Key upgrades to our core systems platform (SAP) and our in-store POS system were completed during 2013, enabling us to improve stock control and make in-store processes more efficient.

The capacity and capability of the Group has been further strengthened by targeted recruitment, including the recent addition to the senior management team of a high calibre Commercial Director to lead our buying, supply and marketing functions. We have increased headcount in our buying and supply teams to support direct sourcing, to enable us to better manage discontinued inventory and to develop product range options by which the best performing products within each category can be matched to each individual store based on their overall space and configuration.

Business review continued

We are confident about our future growth opportunities, and are now working on the next phase of infrastructure investments which will be required. These will include the addition of further central warehousing capacity in due course, as we increase store numbers as well as the proportion of merchandise sourced directly. In addition, we will look at expanding our made to measure curtain manufacturing capacity to accommodate our increasing scale. Consistent with our approach to these types of investments in the past, we will seek to put in place new infrastructure ahead of any critical need and accordingly envisage that each of these developments will commence during the next financial year.

Risks and uncertainties
There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. The Board does not consider that the principal risks and uncertainties have changed since the publication of the annual report for the year ended 29 June 2013. These comprise:

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

A detailed explanation of these risks can be found on pages 20 to 23 of the 2013 Annual Report which is available at www.dunelm.com.

Outlook
We have clear plans in place to continue the progress we have made over recent periods and to further differentiate our specialist proposition. In particular we expect to deliver even better customer service, to drive greater brand awareness and to strengthen further our on-line proposition.

Whilst we are cautious about consumer spending trends overall, the combination of a customer offer that continues to appeal to a broad spread of consumers, a significant new store growth opportunity and an exciting multi-channel agenda gives the Board a high degree of confidence in Dunelm's future growth prospects.

Our next scheduled update on trading will be the release of an Interim Management Statement on 3 April 2014.

Nick Wharton
Chief Executive

11 February 2014

Consolidated statement of comprehensive income (unaudited)

For the 26 weeks ended 28 December 2013

	Note	26 weeks ended 28 December 2013 £'000	26 weeks ended 29 December 2012 £'000	52 weeks ended 29 June 2013 £'000
Revenue	4	356,350	340,100	677,192
Cost of sales		(176,651)	(171,920)	(347,448)
Gross profit		179,699	168,180	329,744
Operating costs		(117,724)	(108,878)	(223,206)
Operating profit		61,975	59,302	106,538
Finance income		251	572	1,518
Finance costs		(661)	(56)	(1)
Profit before income tax		61,565	59,818	108,055
Income tax expense	5	(14,406)	(14,835)	(26,601)
Profit for the period attributable to owners of the parent		47,159	44,983	81,454
Other comprehensive income				
Items that may be reclassified subsequently to income statement:				
Effective portion of movement in fair value of cash flow hedges		(2,849)	(382)	443
Deferred tax on hedging movements		605	87	(102)
Total items that may be reclassified subsequently to profit or loss		(2,244)	(295)	341
Total comprehensive income for the period attributable to equity shareholders		44,915	44,688	81,795
Earnings per share – basic	7	23.3p	22.2p	40.2p
Earnings per share – diluted	7	23.1p	22.1p	40.0p
Dividend proposed per share	8	5.0p	4.5p	11.5p
Dividend paid per share	8	11.5p	10.0p	4.5p
Special dividend paid per share	8	25.0p	–	–

All activities relate to continuing operations

Consolidated statement of financial position (unaudited)

As at 28 December 2013

	Note	28 December 2013 £'000	29 December 2012 (restated) £'000	29 June 2013 (restated) £'000
Non-current assets				
Intangible assets	9	5,935	2,604	4,262
Property, plant and equipment	9	151,133	152,463	151,060
Deferred tax asset		2,897	576	1,460
Total non-current assets		159,965	155,643	156,782
Current assets				
Inventories		102,238	94,309	92,940
Trade and other receivables		19,512	18,983	18,344
Cash and cash equivalents		26,423	27,427	44,740
Financial instruments		–	–	387
Total current assets		148,173	140,719	156,411
Total assets		308,138	296,362	313,193
Current liabilities				
Trade and other payables		(86,911)	(75,641)	(63,317)
Liability for current tax		(14,736)	(15,338)	(13,393)
Financial instruments		(2,461)	(438)	–
Total current liabilities		(104,108)	(91,417)	(76,710)
Non-current liabilities				
Other payables	1	(39,611)	(37,846)	(38,789)
Total non-current liabilities		(39,611)	(37,846)	(38,789)
Total liabilities		(143,719)	(129,263)	(115,499)
Net assets		164,419	167,099	197,694
Equity				
Issued capital		2,028	2,023	2,028
Share premium		1,624	1,025	1,612
Capital redemption reserve		43,157	43,157	43,157
Hedging reserve		(1,945)	(337)	299
Retained earnings		119,555	121,231	150,598
Total equity attributable to equity holders of the Parent		164,419	167,099	197,694

Prior periods have been restated due to the reclassification of certain liabilities from current to non-current (see note 1)

Consolidated statement of cash flows (unaudited)

For the 26 weeks ended 28 December 2013

	26 weeks ended 28 December 2013 £'000	26 weeks ended 29 December 2012 £'000	52 weeks ended 29 June 2013 £'000
Cash flows from operating activities			
Profit before taxation	61,565	59,818	108,055
Adjusted for:			
Net financing costs/(income)	410	(516)	(1,517)
Depreciation and amortisation	10,118	9,959	20,358
Impairment losses on non-current assets	–	–	166
Loss on disposal of property, plant and equipment and intangible assets	524	81	76
Operating cash flows before movement in working capital	72,617	69,342	127,138
(Increase) in inventories	(9,298)	(8,088)	(6,719)
(Increase) in trade and other receivables	(1,155)	(1,967)	(1,321)
Increase in trade and other payables	24,415	15,419	4,664
Net movement in working capital	13,962	5,364	(3,376)
Share-based payment expense	1,485	1,019	2,045
Foreign exchange (losses)/gains	(27)	83	451
Cash flows from operating activities	88,037	75,808	126,258
Interest paid	–	(1)	(1)
Interest received	238	610	937
Tax paid	(13,149)	(13,010)	(26,795)
Net cash generated from operating activities	75,126	63,407	100,399
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment	–	1	10
Acquisition of property plant and equipment	(9,379)	(14,490)	(23,382)
Acquisition of intangible assets	(3,009)	(442)	(3,000)
Net cash utilised in investing activities	(12,388)	(14,931)	(26,372)
Cash flows from financing activities			
Proceeds from issue of share capital	12	–	589
Proceeds from issue of treasury shares	427	–	–
Purchase of Treasury Shares	(6,865)	–	–
Return of capital to shareholders	–	(65,842)	(65,841)
Dividends paid	(73,995)	(20,259)	(29,386)
Net cash utilised in financing activities	(80,421)	(86,101)	(94,638)
Net (decrease) in cash and cash equivalents	(17,683)	(37,625)	(20,611)
Foreign exchange revaluations	(634)	(138)	161
Cash and cash equivalents at the beginning of the period	44,740	65,190	65,190
Cash and cash equivalents at the end of the period	26,423	27,427	44,740

Consolidated statement of changes in equity (unaudited)

For the 26 weeks ended 28 December 2013

	Issued share capital £'000	Share premium £'000	Capital redemption reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
As at 30 June 2012	2,023	1,025	43,155	(42)	160,865	207,026
Profit for the period	–	–	–	–	44,983	44,983
Movement in fair value of cash flow hedges	–	–	–	(382)	–	(382)
Deferred tax on hedging movements	–	–	–	87	–	87
Total comprehensive income for the financial year	–	–	–	(295)	44,983	44,688
Issue of share capital	–	–	2	–	(2)	–
Share-based payments	–	–	–	–	1,019	1,019
Deferred tax on share-based payments	–	–	–	–	177	177
Current corporation tax on share options exercised	–	–	–	–	290	290
Dividends	–	–	–	–	(20,259)	(20,259)
Return of capital to shareholders	–	–	–	–	(65,842)	(65,842)
Total transactions with owners, recorded directly in equity	–	–	2	–	(84,617)	(84,615)
As at 29 December 2012	2,023	1,025	43,157	(337)	121,231	167,099
Profit for the period	–	–	–	–	36,471	36,471
Movement in fair value of cash flow hedges	–	–	–	825	–	825
Deferred tax on hedging movements	–	–	–	(189)	–	(189)
Total comprehensive income for the financial year	–	–	–	636	36,471	37,107
Issue of share capital	5	587	–	–	(4)	588
Share-based payments	–	–	–	–	1,026	1,026
Deferred tax on share-based payments	–	–	–	–	829	829
Current corporation tax on share options exercised	–	–	–	–	172	172
Dividends	–	–	–	–	(9,127)	(9,127)
Total transactions with owners, recorded directly in equity	5	587	–	–	(7,104)	(6,512)
As at 29 June 2013	2,028	1,612	43,157	299	150,598	197,694
Profit for the period	–	–	–	–	47,159	47,159
Movement in fair value of cash flow hedges	–	–	–	(2,849)	–	(2,849)
Deferred tax on hedging movements	–	–	–	605	–	605
Total comprehensive income for the financial year	–	–	–	(2,244)	47,159	44,915
Issue of share capital	–	12	–	–	–	12
Purchase of treasury shares	–	–	–	–	(6,438)	(6,438)
Share-based payments	–	–	–	–	1,485	1,485
Deferred tax on share-based payments	–	–	–	–	274	274
Current corporation tax on share options exercised	–	–	–	–	472	472
Dividends	–	–	–	–	(73,995)	(73,995)
Total transactions with owners, recorded directly in equity	–	12	–	–	(78,202)	(78,190)
As at 28 December 2013	**2,028**	**1,624**	**43,157**	**(1,945)**	**119,555**	**164,419**

Notes to the interim results

For the 26 weeks ended 28 December 2013

1 Basis of preparation

These condensed interim financial statements for the six months ended 28 December 2013 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (previously the Financial Services Authority) and with IAS 34, 'Interim financial reporting', as adopted by the European Union.

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

These condensed interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 29 June 2013 were approved by the board of directors on 12 September 2013 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006. These condensed interim financial statements have not been audited.

During the year the Directors have reassessed the liabilities of the group and have determined that £39.6m (£38.8m at 29 June 2013 and £37.8m at 28 December 2012) should be classified as non-current. These amounts represent accruals in respect of lease incentives received, and will be released to the income statement after more than one year.

2 Going concern basis

The Group has considerable financial resources together with long standing relationships with a number of key suppliers. The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Interim Report.

3 Accounting policies

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

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 29 June 2013, as described in those financial statements, except as described below:

- Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.
- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for the Group to combine items presented in 'other comprehensive income' on the basis of whether they potentially could subsequently be reclassified to the income statement.

The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 29 June 2013, which have been prepared in accordance with IFRSs as adopted by the European Union.

4 Segmental reporting

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

Notes to the interim results continued

For the 26 weeks ended 28 December 2013

5 Taxation

The taxation charge for the interim period has been calculated on the basis of the estimated effective tax rate for the full year of 23.4% (26 weeks ended 29 December 2012: 24.8%).

6 Financial risk management and financial instruments

Financial risk factors

The Group's activities expose it to a variety of financial risks including currency risk, fair value interest rate risk, credit risk and liquidity risk. The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 29 June 2013. There have been no changes in any risk management policies since the year end.

Fair value estimation

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

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

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

7 Earnings per share

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

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

Weighted average numbers of shares:

	26 weeks ended 28 December 2013 £'000	26 weeks ended 29 December 2012 £'000	52 weeks ended 29 June 2013 £'000
Weighted average number of shares in issue during the period	202,736	202,383	202,598
Impact of share options	1,805	1,086	1,291
Number of shares for diluted earnings per share	204,541	203,469	203,889

8 Dividends

		26 weeks ended 28 December 2013 £'000	26 weeks ended 29 December 2012 £'000	52 weeks ended 29 June 2013 £'000
Final for the period ended 30 June 2012	– paid 10.0p	–	(20,259)	(20,259)
Interim for the period ended 29 June 2013	– paid 4.5p	–	–	(9,127)
Special Dividend for the period ended 29 June 2013	– paid 25.0p	(50,708)		
Final for the period ended 29 June 2013	– paid 11.5p	(23,287)	–	–
		(73,995)	(20,259)	(29,386)

The Directors have declared an interim dividend of 5.0p per Ordinary Share for the period ended 28 December 2013 which equates to £10.1m. The dividend will be paid on 11 April 2014 to shareholders on the register at the close of business on 21 March 2014.

Notes to the interim results continued

For the 26 weeks ended 28 December 2013

9 Property, plant and equipment and intangible assets

	Intangible assets £'000	PPE £'000	Total £'000
Cost			
Balance at 29 June 2013	14,091	233,032	247,123
Additions	3,009	9,379	12,388
Disposals	(2,323)	(330)	(2,653)
Balance at 28 December 2013	14,777	242,081	256,858
Depreciation and amortisation			
Balance at 29 June 2013	9,829	81,972	91,801
Depreciation and amortisation for the period	830	9,288	10,118
Disposals	(1,817)	(312)	(2,129)
Balance at 28 December 2013	8,842	90,948	99,790
Net book value			
At 28 December 2013	5,935	151,133	157,068
At 29 June 2013	4,262	151,060	155,322

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

10 Commitments

As at 28 December 2013 the Group had entered into capital contracts amounting to £9.7m.

11 Announcement

The interim report was approved by the Board on 11 February 2014 and copies are available from the website at www.dunelm.com.

Statement of Directors' responsibilities

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

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

By order of the Board

Nick Wharton
Chief Executive

11 February 2014

David Stead
Finance Director

11 February 2014

Advisers and contacts

Corporate Brokers and Financial Advisers	**UBS Investment Bank** 1 Finsbury Avenue London EC2M 2PP Tel: 020 7567 8000 **Oriel Securities Limited** 150 Cheapside London EC2V 6ET Tel: 020 7710 7600
Legal Advisers	**Allen & Overy LLP** One Bishops Square London E1 6AO Tel: 020 3088 0000
Auditor	**PricewaterhouseCoopers LLP** Donington Court, Pegasus Business Park Castle Donington, DE74 2UZ Tel: 01509 604000
Principal Bankers	**Barclays Bank plc** Midlands Corporate Banking PO Box 333 15 Colmore Row Birmingham B3 2WN Tel: 0845 755 5555
Registrars	**Equiniti** Aspect House Spencer Road Lancing West Sussex BN99 6DA Tel: 0871 384 2030[1]
Financial Public Relations	**MHP Communications** 60 Great Portland Street London W1W 7RT Tel: 020 3128 8100
Registered Office	**Store Support Centre** Watermead Business Park Syston Leicestershire LE7 1AD Company Registration No: 4708277
Investor Relations	investorrelations@dunelm.com Tel: 0116 2644356

[1] Calls to this number are charged at 8p per minute from a BT landline. Charges from other telephone providers may vary or, if dialling internationally, on +44 (0)121 415 7047. The helpline is open Monday to Friday 8.30am to 5.30pm, excluding bank holidays

Dunelm store listing

Superstores

Aberdeen
Ashton under Lyne
Ballymena
Banbury
Bangor
Barnsley
Barnstaple
Barrow in Furness
Basingstoke
Bedford
Belfast
Birmingham
Blackpool
Bolton
Bournemouth
Bradford
Bridgend
Broadstairs
Burton
Bury St Edmunds
Cambridge
Canterbury
Cardiff
Carlisle
Cheltenham
Chester
Chesterfield
Clydebank
Colchester
Coleraine
Coventry
Cramlington
Crewe
Dartford
Derby
Doncaster
Dumfries
Dundee
Dunstable
Eastbourne
Edinburgh
Enfield
Erdington
Exeter
Falkirk
Fareham
Fenton
Garston
Gloucester
Grantham
Greenford
Grimsby
Halifax
Harrow
Hartlepool
Hastings
Hemel Hempstead
Hereford
Huddersfield
Hull
Huntingdon
Ilkeston
Inverness
Ipswich
Isle of White
Kettering
Kidderminster
Kilmarnock
Kirkcaldy
Lancaster
Leeds
Lincoln
Liverpool
Llanelli
Londonderry
Maidstone
Mansfield
Milton Keynes
Newbury
Newport
Newtownabbey
Northampton
Norwich
Nottingham
Nuneaton
Oldbury
Oxford
Perth
Peterborough
Plymouth
Preston
Radcliffe
Reading
Rochdale
Romford
Rotherham
Rugby
Scarborough
Scunthorpe
Sheffield
Shoreham
Shrewsbury
Sittingbourne
Southport
St Albans
St Helens
Stafford
Stevenage
Stockport
Stockton
Sunderland
Swansea
Swindon
Taunton
Telford
Thurmaston
Thurrock
Torquay
Trafford
Truro
Uddingston
Walsall
Warrington
Wellingborough
Weston-Super-Mare
Wisbech
Wolverhampton
Worcester
Workington
Wrexham
York

High Street

Boston (2 stores)
Cannock (2 stores)
Coalville
Hillsborough
Hinckley
Loughborough
Newcastle

Tel: 0116 264 4356
Email: investorrelations@dunelm.com

www.dunelm.com