



Annual report
& accounts 2008

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.

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Annual General Meeting

Our business at a glance

Dunelm's specialist homewares offering has powerful customer appeal and is clearly differentiated from other retailers. This has enabled the chain to expand at a rapid rate. Today the major focus is out-of-town retailing – and we now have 77 superstores located throughout the UK.

Total number of superstores*

77

Total selling space

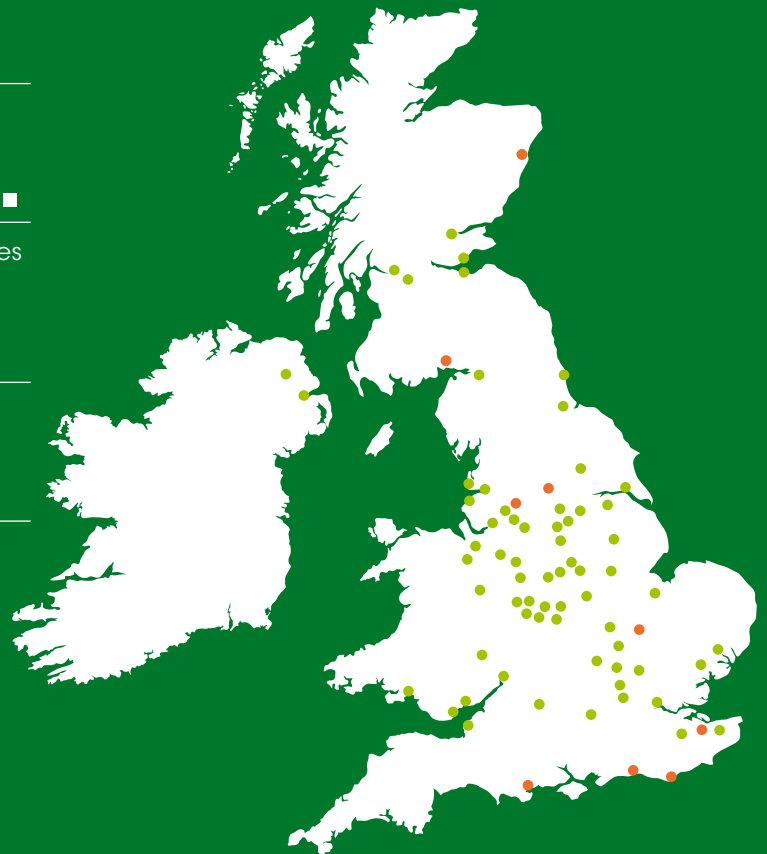
2.2m sq. ft.

Product lines available in superstores
(Broad and deep ranges)

> 20,000

Number of employees

> 5,000



● = Superstores open as at 30 June 2007
● = Superstores opened since 1 July 2007

* As at 11 September 2008

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 77 superstores as of 11 September 2008, 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.

> **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.

> **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.

Highlights

£392m Revenue

2008	£391.8m
2007	£354.7m
2006	£315.2m
2005	£282.5m

£49.4m Operating profit*

2008	£49.4m
2007	£40.8m
2006	£38.2m
2005	£36.2m

£49.1m Profit before tax*

2008	£49.1m
2007	£37.8m
2006	£38.0m
2005	£37.6m

£45.0m Net cash from operations

2008	£45.0m
2007	£34.7m
2006	£24.1m
2005	£30.1m

* 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.

Operational

89 stores at 28 June 2008
(76 superstores)

8 new superstores opened in the year

Average superstore selling area of 28,000 sq. ft.

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

Expansion of webstore to offer in excess of 9,000 lines

Financial

Revenue increase 10.5% in FY 2007/08

Operating margin 12.6%

Operating cash flow £45m after interest and tax

Chairman's statement



Geoff Cooper Chairman

We continue to have great faith in our 'Simply value for money' proposition.

Once again Dunelm has delivered record sales and profits, despite the difficult conditions in which the business has had to operate.

Tough trading conditions allow strong companies to prosper at the expense of weaker competitors. I believe that this will be the case for Dunelm. We continue to have great faith in our 'simply value for money' proposition and we expect customers to become increasingly aware of the value we offer.

I am pleased to report that we have converted profits into cash very successfully. As a result we have been able to reduce net debt significantly during the period so that the balance sheet is now substantially unleveraged. This means we have the financial strength to face difficult times with confidence, and the flexibility to take advantage of opportunities as they arise – such as the acquisition of the Dorma brand which we announced shortly after the year-end, as well as the ongoing expansion of the store portfolio.

The business has enjoyed a high level of stability in terms of Board membership for a number of years. However, during the year Bill Adderley has stepped down from his position as Non-Executive Director after reaching his 60th birthday. I am delighted we are able to recognise his role in establishing Dunelm by confirming his honorary position of Founder and Life President.

Geoff Cooper
Chairman

11 September 2008



Simply value for money...



Chief Executive's review



Will Adderley Chief Executive

We remain as committed as ever to growing the superstore portfolio as rapidly as we can towards our medium term target of 150 superstores.

Trading

I am delighted to report continued successful growth of the Group during the last financial year. Our overall sales increased by 10.5%, including growth of 2.5% in like-for-like sales (calculated by comparing stores which have traded throughout the last two financial years).

The market environment became increasingly difficult during the year.

I firmly believe that Dunelm remains the leading multiple homewares specialist in the UK. This has been recognised in surveys by Verdict, the specialist market research agency. In December 2007, they reported that Dunelm is Britain's third favourite shop behind only John Lewis and Waitrose. More recently, their research identified Dunelm as one of the four retailers which engender the highest levels of customer loyalty. We intend to maintain this success by pursuing the four strategic priorities which we outlined two years ago at the time of our flotation.

Priority 1 – growing the store portfolio

We opened eight new superstores in the year, at Aberdeen, Shoreham, Peterborough, Dumfries, Eastbourne, Leeds, Bournemouth and Sittingbourne. We continue to receive strongly positive customer reaction to all of our new openings and are pleased with trading in all of these locations. Altogether the chain of 76 superstores as at the year-end provided over 2.2m square feet of selling space.

We remain as committed as ever to growing the superstore portfolio as rapidly as we can towards our medium-term target of 150 superstores, without compromising our long-term financial returns. We have opened a further store since the year-end in Huddersfield and are contractually committed to six more units which are due to open this financial year or early next. We also have numerous further opportunities under negotiation. With few out-of-town retailers currently in the market for adding space, we believe that we are well positioned to achieve a solid pipeline of openings in the next few years.

Whilst expanding our superstore chain, we continue to look for opportunities to relocate our older high street shops. The superstore opening in Peterborough replaced our high street shop there, leaving us with 13 high street stores; we will be relocating our Worcester high street store early in 2009.

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 great prices, unrivalled choice, excellent quality, great product availability and friendly service.

One of the ways in which we are able to demonstrate the quality of the ranges we offer is through branding. We recently announced the acquisition of worldwide rights to Dorma, the internationally recognised bedlinen brand, from Dawson International for a consideration of £5m. We see this as a great way to underline the quality of our merchandise, as well as providing a strong point of difference compared with other home textiles retailers.



We have commenced a significant investment programme to improve the shopping environment in our older stores. We have completed three refits so far 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.

Priority 3 – exploiting our infrastructure

Following the roll-out of SAP stock management to all of our stores in the last twelve months we have had full visibility of all stock throughout the chain. We have used this to develop a chain-wide focus on the availability of key lines and we have seen a noticeable improvement in availability as a result.

Looking ahead we will continue to exploit our enhanced systems and information in various ways, for example in the areas of range management and simplification of in-store tasks.

Priority 4 – growing Dunelm Direct

Our webstore has been expanded to offer over 9,000 products. Whilst this channel remains small relative to the business as a whole, sales are growing and we see an important future here. We are therefore investing in a new software platform for the on-line business which should be implemented during the current financial year, and which will offer a big improvement in the on-line shopping experience.

Outlook

In the early weeks of our new financial year, we have continued to face difficult trading conditions. For the 10 weeks to 6 September, total sales growth has been 3.1% and like-for-like sales have declined by 5.7%; last year's equivalent figures were +12.6% and +7.2% respectively. Gross margin has remained strong, with an increase of 140 bps year on year driven by higher levels of promotional product and earlier introduction of new lines after our summer sale.

Against a very challenging market background, we are satisfied with these figures and believe that we continue to gain market share on a like-for-like basis. We naturally remain cautious about the medium-term outlook, but the current market conditions provide us with clear opportunities to grow and strengthen our business relative to the competition.

Will Adderley
Chief Executive
11 September 2008

Simply focused

Finance Director's review



David Stead Finance Director

Net debt at the year-end was just £7.2m. This is an excellent position from which to fund future growth.

Operating result

Sales in the financial year were £391.8m, an increase of 10.5%. Like-for-like growth was 2.5%.

We continued to benefit from our increased scale and buying power allowing us to achieve a 60 basis points improvement in buying margin.

Operating costs remained well controlled, with an overall 0.2% reduction in costs in like-for-like stores. Non-store costs grew by £2.1m, including additional investment in advertising during the peak winter trading period.

During the year, we completed the roll-out of our new stock system to all stores, giving us for the first time full visibility of all stock in the business at an item level. On the basis of this new information, various actions have been taken to clear old and excess stocks. The total charge for stock write-downs in the year was £5.9m.

Operating profit was £49.4m, an increase of 12.4% on an underlying basis (i.e. after adjusting last year's comparative figure to add back non-recurring items, primarily IPO costs).

EBITDA

Earnings before interest, tax, depreciation and amortisation were £58.9m. This has been calculated as operating profit (£49.4m) plus depreciation and amortisation (£9.5m) and represented a 10.1% increase on the previous year on an underlying basis. The EBITDA margin achieved, at 15.0% of sales, demonstrates the continuing strength of Dunelm's business model.

Financial items and PBT

The net interest charge for the year was £0.3m compared with £3.0m in the prior year, reflecting the Group's strong cash generation.

In the year to June 2007, the Group suffered foreign exchange losses in respect of US dollar holdings and forward exchange contracts which amounted to £1.4m. We stated at this time last year that we would no longer take out forward exchange contracts and that we would reduce our US dollar holdings. With this reduced exposure and a relatively consistent exchange rate (\$2.00 at last year-end, \$1.99 this), foreign exchange losses in the most recent financial year amounted to £0.1m.

After accounting for interest and foreign exchange impacts, profit before tax for the year amounted to £49.1m, an increase of 19.8% on an underlying basis (29.9% on a statutory basis).

Tax, PAT and EPS

The tax charge for the year was 31.5% of PBT.

Basic EPS on an underlying basis (i.e. excluding non-recurring items from last year's calculation) shows a rise of 21.7% to 16.8p, with fully diluted EPS increasing 21.3% to 16.6p; these figures are respectively 36.6% and 36.1% above last year's statutory figures.

Implementation of IFRS

IFRS was fully implemented at Group level prior to our IPO in 2006. In addition we have now incorporated IFRS into the accounts of each member Company in the Group. The impact of IFRS conversion on the Parent Company accounts is shown on pages 54 to 55 of this report.

Factors affecting FY09

The current financial year will end on 4 July 2009, giving a 53 week period. We will present results for the year on both a 52 week and 53 week basis.

Twenty four stores are scheduled to have a rent review in the coming year.

Major IT systems investments will become fully amortised by April 2009; the related amortisation charge of £2.0m per year will cease at that date.

The recent investment of £5.0m to acquire the rights to the Dorma brand will be amortised against profits over five years, beginning with financial year 2009.

The headline rate of corporation tax will reduce by 1.5 percentage points.

Capital expenditure

Gross capital expenditure in the most recent financial year was £18.0m, up from £15.1m last year. This included one significant freehold store acquisition as well as the fit-out costs for the other new stores opened in the year, and one store refit.

Working capital

Stocks increased by just £0.1m during the financial year, despite the new store openings. Net working capital was reduced by £0.7m compared with the start of the year (net working capital consisting of stocks; trade and other receivables; and current liabilities (excluding interest and current tax)).



Simply delivering

Finance Director's review continued

Cash position

The Group's profile of strong cash generation continued in the last financial year. Net cash generated from operations, after interest and tax, was £45.0m (an increase of 29.4%) and net debt at the year-end was just £7.2m. This is an excellent position from which to fund future growth.

Dividend

Our policy is to pay dividends such that dividend cover is in the range 2.5x to 3.0x.

An interim dividend of 2.0p was paid in April 2008. It is proposed to pay a final dividend of 3.5p per share. The total dividend of 5.5p gives dividend cover of 3.0x.

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:

	FY08	FY07
Like-for-like sales growth	+2.5%	+6.1%
Change in gross margin	+60bp	+40bp
Number of new store openings	8	4

Key risks

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

Strategic risks

Competition in the homewares market has strengthened in recent years. Further new entrants and/or new formats are anticipated. 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. For example, we have recently increased the proportion of 'special buy' merchandise in the business.



Like all businesses, we face the risk of increased costs from compliance with new laws and regulations. In addition, 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 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, with increasing pressures on retailers we anticipate greater availability of space in 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 would constitute a significant threat to the business, at least in the short-term. We have a disaster recovery plan in place 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 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.

Financial risks

The Group has a committed bank facility under a revolving loan agreement with Lloyds TSB Bank plc of £50m expiring in September 2011, and an uncommitted overdraft facility of £3m with Barclays Bank Plc. These facilities are considered to provide sufficient funding for the Group's operations. As at 28 June 2008, the total of committed bank facilities exceeded net debt by £42.8m.

With net debt of £7.2m at the year-end and on a declining trend, we do not consider our direct exposure to interest rate fluctuations to be significant.

Surplus funds are placed on deposit with counter parties approved by the Board. A credit rating of at least AAA is required.



David Stead

Finance Director

11 September 2008



Founder and life President



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.

Directors



1. Geoff Cooper

Non-Executive Chairman

Geoff Cooper, aged 54, joined the Group 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.

2. Marion Sears

Senior Independent Non-Executive Director

Marion Sears, aged 45, joined the Group in July 2004. Chairman of the Remuneration and Nominations Committees and Member of the Audit Committee. She is Non-Executive Director of Zetar plc and is a member of PricewaterhouseCoopers Advisory Panel.

3. Will Adderley

Chief Executive

Will Adderley, aged 36, 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.

4. David Stead

Finance Director

David Stead, aged 50, 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..

5. Simon Emeny

Independent Non-Executive Director

Simon Emeny, aged 42, joined the Group in June 2007. He is a 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.

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 2006.

Throughout the financial year the Group has complied with the Combined Code except that Geoff Cooper, Company 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.

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 Bill Adderley was absent from two Board meetings prior to his retirement and Simon Emeny was absent from one 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. 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 and Simon Emeny. 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 and Simon Emeny 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** is chaired by Geoff Cooper, the other members are 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 April 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 March;
- > 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 and Simon Emeny. 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 twice with full attendance and:

- > determined the pay reviews and incentive arrangements for Executive Directors; 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 14.

The **Nominations Committee** is chaired by Marion Sears, the other members are Geoff Cooper and Simon Emeny.

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 AGM).

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

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 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.

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 October 2005).

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 AGM to meet with shareholders and answer their questions.

Remuneration report

The Directors present their Remuneration Report for the period ended 28 June 2008.

Introduction

The Remuneration Committee has prepared this report in accordance with the requirements of Schedule 7A to the Companies Act 1985, 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 24.

Non-audited information

Remuneration committee and advisers

During the year ended 28 June 2008, 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 28 June 2008, EPS performance exceeded budget and, taking into account Executive Directors' performance against job objectives, the committee awarded an annual bonus to Will Adderley of £118,950 and to David Stead of £79,950.

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 2007. These will vest to the extent that the performance targets are met based on the Group's results for the years ending 30 June 2009 and 2010 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 the 3 year plan period results are available to determine whether performance conditions have been satisfied. In respect of awards made to date, 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%. The award will vest on a straight-line basis between those two points. There will be no retesting.

As explained at IPO, the Remuneration Committee reviews the LTIP targets annually. In the light of current economic conditions, the Committee has chosen to amend the EPS targets used in the 2008 LTIP which will vest in 2011. This is because the UK retail market in which the Group is operating has changed significantly and the Committee believes that a corresponding change in LTIP hurdles is therefore also appropriate.

The target set for maximum vesting of shares under the 2006 and 2007 LTIPs requires EPS growth of RPI + 20% annually. The Committee believes this is one of the most demanding targets in the UK market and will scale this back to RPI + 12% for the 2008 LTIP. Nevertheless, it remains the Committee's intention that targets should remain demanding when compared with competitors.

Other share options

In 2003 and 2004 David Stead was granted options over a total of 600,000 shares under the Approved and Executive share option schemes. In December 2006 David exercised 400,000 options including all those held under the Approved scheme. He exercised the remaining 200,000 options in March 2008. The Remuneration Committee does not intend to make any further option grants to Executive Directors under these schemes.

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 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 service contract is 12 months from either party. The notice period to terminate David Stead's service contract is six months from either party, with the notice period increasing by one month for each year of employment in excess of one year, up to a maximum of 12 months notice (which will be reached in September 2009). 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	11 months
Geoff Cooper	08.10.04	25 months	3 months
Marion Sears	22.07.04	22 months	1 month
Simon Emery	25.06.07	23 months	1 month

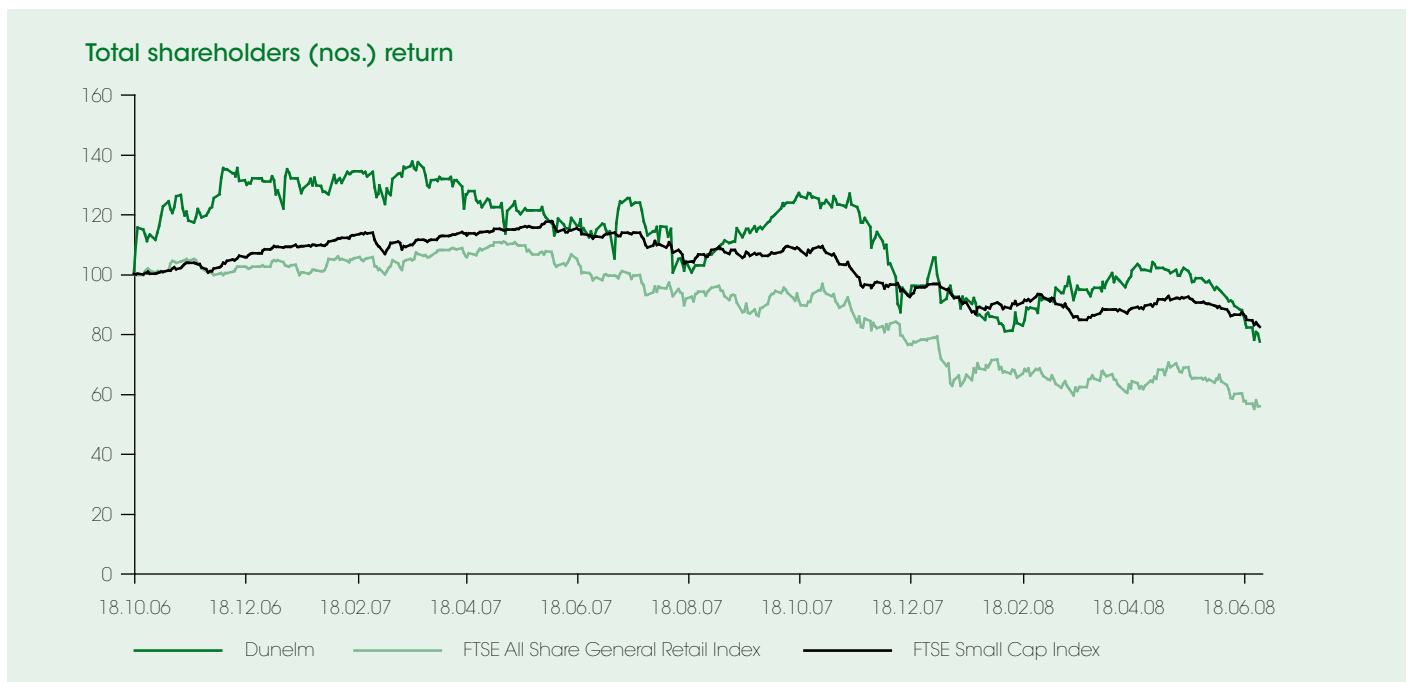
Remuneration report continued

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 and FTSE SmallCap Index. The Remuneration Committee has chosen these two 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 127.25p to 215p during the year, and stood at 127.25p at 28 June 2008.

Audited information

Details of Directors' remuneration

Details of individual Directors' remuneration in respect of the year ended 28 June 2008 are as follows:

	Base salary or fees £'000	Vehicle allowance £'000	Taxable benefits £'000	Contribution to personal pension £'000	Annual Bonus £'000	2008 Total £'000	2007 Total £'000
Executive Directors							
Will Adderley	305	10	1	waived	119	435	388
David Stead	205	10	waived	18	80	313	304
Non-Executive Directors							
Bill Adderley	3	–	–	–	–	3	3
Geoff Cooper	80	–	–	–	–	80	75
Marion Sears	30	–	–	–	–	30	25
Simon Emeny	25	–	–	–	–	25	–
Total	648	20	1	18	199	886	795

Bill Adderley's remuneration has been donated to charity at his direction by the Group.

Will Adderley has waived pension contributions totalling £17,850 and David Stead has 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 28 June 2008	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
David Stead	March 2007	99,130	June 2009	227p
	Sept 2007	127,792	June 2010	193p

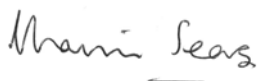
The Directors' beneficial interests in options granted under other schemes are as follows:

Director	Type of option	Shares under option at 1 July 2007	Shares under option at 28 June 2008	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	6,114	–	–	157p	–	Jan 2011	June 2011
David Stead	Executive	200,000	–	–	200,000	–	46p	156p	–	–
	SAYE	6,176	6,176	–	–	–	153p	–	Jan 2010	June 2010

The gain made on exercise of options during the year by David Stead was £220,500.

Approval

This report was approved by the Board of Directors on 11 September 2008 and signed on its behalf by:



Marion Sears

Chairman of Remuneration Committee
11 September 2008

Directors' report and business review

The Directors present their report together with the audited financial statements for the year ended 28 June 2008. Together with certain information in the reports from the Chief Executive and the Finance Director on pages 4 to 9 above which are incorporated into this report by reference, this report satisfies the requirements of the Companies Act 1985 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 4 to 5 and the Finance Director's Review on pages 6 to 9.

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 arm's 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 or other rights and 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 LR 11.1.7R(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 any 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 of the 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 upon 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 £33.7m (2007: £24.6m). The results are discussed in greater detail in the Finance Director's review on pages 6 to 9.

A final dividend of 3.5p per share (2007: 3.0p) is proposed in respect of the year ended 28 June 2008 to add to an interim dividend of 2.0p per share paid on 23 April 2008 (2007: 0.8p per share reflecting post flotation period only). The final dividend will be paid on 5 December 2008 to shareholders on the register at 21 November 2008.

Directors

Details of the Directors in office at the year end are set out on page 11. Bill Adderley resigned from the Board with effect from 29 February 2008.

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

	At 28 June 2008 1p ordinary shares	At 30 June 2007 1p Ordinary shares
WL Adderley	50,000,000	50,000,000
D Stead	430,085	230,085
G Cooper	181,611	181,611
M Sears	100,000	100,000
S Emery	5,000	5,000

There were no changes in the Directors' shareholdings between the year end and 11 September 2008.

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

Will Adderley and Marion Sears are retiring by rotation at the 2008 Annual General Meeting and will be offering themselves for re-election. Biographical details of these Directors are set out on page 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 increased during the period due to the exercise of share options by employees. Details are set out in the Remuneration Report on page 15 and in notes 18 and 20 to the financial statements.

During the period the Company purchased 1,195,000 ordinary shares and held them in treasury. 243,500 shares were transferred to Directors and employees on the exercise of share options. The remaining shares are held by the Company for the purpose of delivery to employees under employee share schemes. At 28 June 2008 the Company held 951,500 shares in treasury.

Substantial shareholders

At 11 September 2008 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

Employee involvement

The Group is an equal opportunities employer. It recognises the social and statutory duties to employ disabled persons and pursues a policy of providing, wherever possible, the same employment opportunities to all persons regardless of disability, race, religion, gender, colour, nationality, sex, sexual orientation 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.

Disabled employees

The Group recognises its obligations towards disabled people and endeavours to provide employment where possible having regard to the physical demands of the Group's operations and the abilities of the disabled persons. In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the Group may continue. It is the policy of the Group that training, career development and promotion opportunities should be available to all employees and this is reflected in its Equal Opportunities Policy.

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 28 June 2008 was 27 days (2007: 26 days).

Corporate social responsibility

The Group recognises its duty to behave responsibly to all stakeholders. The Board places particular emphasis on the health and safety of customers and employees; on ethical sourcing; on environmental issues; and on charitable contributions.

The Chief Executive is required to report at each Board meeting on health and safety matters. All serious accidents (i.e. those which are reportable under legislation) are investigated and corrective action taken, e.g. additional training, where necessary. The Group's Health and Safety Officer also plays a key role in ensuring that stores and other business premises remain safe places of work for staff, and safe places for customers to visit.

Directors' report and business review continued

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.

The Group has an Environmental Committee, comprising a number of senior managers, which reviews the environmental impact of business activities and sets targets for improvement. These cover the following specific areas:

- > increasing the proportion of waste which is recycled;
- > reducing the plastic element of product packaging;
- > reducing fuel consumption per carton delivered to stores;
- > reducing the volume of carrier bags used; and
- > reducing energy consumption across all locations.

During the year good progress was made in all of the above areas, ahead of our internal target of a 10% improvement on all measures.

The Group's charity of the year in the last financial year was Kids Kidney Research. 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 28 June 2008 was £46,000 (2007: £32,000). The Group made no donations to political parties in either financial year.

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

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 6 November 2008 at 10.30 am at The Hilton Hotel, Leicester. Special business at the Annual General Meeting will be:

- > requesting authority, pursuant to article 6 of the Company's Articles of Association, to issue shares to the value of the lesser of the unissued ordinary share capital of the Company, and one third of the issued ordinary share capital of the Company. The nominal amount of shares covered by this authority is £665,466 (66,546,686 ordinary shares), 33.3% of the issued share capital at 11 September 2008. At that date the Company also held 951,000 ordinary shares in treasury, which represents approximately 0.48% of the total ordinary share capital. This authority will lapse at the 2009 Annual General Meeting or, if earlier, on 29 December 2009. The Directors have no present intention to exercise this authority except to issue shares pursuant to the Group's employee share schemes;
- > requesting authority to distribute ordinary shares to the value of £100,308 (10,030,870 ordinary shares), which constitutes 5% of the Company's issued share capital (excluding treasury shares) at 11 September 2008, without offering them to existing shareholders. This authority will lapse at the 2009 Annual General Meeting or, if earlier, on 29 December 2009. 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 to buy up to 19,000,000 shares, 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; and
- > adopting new Articles of Association. Details of the proposals are set out below.

Proposed changes to the Articles of Association

The proposed new articles (**New Articles**) update the Company's current Articles of Association (**Current**

Articles) primarily to take account of changes in English Company law brought about by certain provisions of the Companies Act 2006 (**CA 2006**) that are in force by or on 1 October 2008.

The principal changes introduced in the New Articles are set out below. Other changes, which are of a minor, technical or clarifying nature have not been noted.

Articles which duplicate statutory provisions

Provisions in the Current Articles which replicate provisions contained in the CA 2006 are in the main amended to bring them into line with the CA 2006.

Extraordinary resolutions

The Current Articles contain a provision that, where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective and that, where an extraordinary resolution is required, a special resolution is also effective. This provision is being amended as the concept of extraordinary resolutions has not been retained under the CA 2006.

Convening and notice of general meetings

It is proposed that the provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings be amended to conform to the new provisions in the CA 2006. In particular, a general meeting (other than an Annual General Meeting) to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required.

Quorum at a general meeting

The CA 2006 provides that in general terms the quorum for a general meeting be calculated by reference to the numbers of 'qualifying persons' who are present at the meeting, which includes an individual who is a member of the Company, a person authorised under section 323 of the CA 2006 to act as the representative of a corporation, and a person appointed as proxy of a member. As before, it is proposed that the quorum for a general meeting will be two but, in line with the CA 2006, the New Articles make clear that there will be no double counting for qualifying persons who are representatives of the same corporation or proxies of the same member.

Proxies

Under the CA 2006, proxies are entitled to speak at general meetings and to vote on a show of hands. The CA 2006 allows multiple proxies to be appointed provided that each proxy is appointed to exercise the rights attached to a different share or shares held by the shareholder. The New Articles reflect these new rules.

Vacation of office of Director

The New Articles tighten up the circumstances in which a Director must vacate office where the Director has become physically or mentally ill. The changes apply a test of whether in the opinion of a medical practitioner the Director is rendered incapable by his illness of acting as a Director for more than three months or is personally prevented from exercising any powers or rights by a court order.

Directors' interests

The CA 2006 sets out Directors' general duties. The provisions largely codify the pre-existing law, but with some changes. Under the CA 2006, a Director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. The requirement is very broad and could apply, for example, if a Director becomes a Director of another Company or a trustee of another organisation. The CA 2006 allows Directors of public Companies to authorise conflicts and potential conflicts where the Articles of Association contain a provision to this effect. The CA 2006 also allows the Articles of Association to contain other provisions for dealing with Directors' conflicts of interest to avoid a breach of duty. The New Articles give the Directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

The CA 2006 and the New Articles contain safeguards which will apply when Directors decide whether to authorise a conflict or potential conflict. These include, first, only independent Directors (i.e. those who have no interest in the matter being considered) will be able to take the relevant decision, and second, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will be able to impose limits or conditions when giving authorisation or subsequently if they think this is appropriate.

The New Articles include provisions relating to confidential information, attendance at Board meetings and availability of Board papers to protect a Director from being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the Directors.

One of the Company's Directors, Will Adderley, is also a major shareholder of the Company and connected to other major shareholders. Subject to approval of the New Articles by shareholders, the independent Directors intend to authorise this conflict provided that Will Adderley continues to abide by the Relationship Agreement between himself, other major shareholders and the Company which was entered into on flotation of the Company.

Directors' report and business review continued

It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers of authorisation of conflicts are operated effectively and that the procedures have been followed.

Electronic and web communications

A resolution was passed at the Company's AGM in 2007 enabling the Company to take advantage of provisions in the CA 2006 to communicate with members by electronic and/or website communications. The relevant provisions are incorporated into the New Articles. So far the Company has not implemented this. If it decides to do so, each member must be asked individually to agree that the Company may send or supply documents or information to him by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on a website and a member can always request a hard copy version of the document or information.

Directors' indemnities

The CA 2006 has widened the powers of a company to indemnify Directors. A company can now indemnify a Director of a company that is a trustee of an occupational pension scheme against liability incurred in connection with the Company's activities as trustee of that scheme. This is reflected in the New Articles. The opportunity is also being

taken to clarify that, subject to the applicable legislation, the Company may grant indemnities to Directors of associated companies.

Copies of the New Articles and the Relationship Agreement will be available for inspection:

- > during normal business hours at the Company's registered office and at the offices of Allen & Overy LLP, One Bishops Square, London, E1 6AD, from the date of this circular until the close of the AGM; and
- > at the AGM for at least 15 minutes before and during the meeting.

The Notice of the Annual General Meeting is set out on pages 56 to 58.

Auditors

KPMG Audit Plc offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

By order of the Board




David Stead
Company Secretary
11 September 2008

Statement of Directors' responsibilities in respect of 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 also in accordance with IFRSs as adopted by the EU.

The Group and Parent Company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 proper accounting records that 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 1985. 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.

The Directors confirm that to the best of their knowledge:

- > 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
- > the report of the Directors 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.

Independent Auditors' report to the members of Dunelm Group plc

We have audited the Group and Parent Company financial statements ('financial statements') of Dunelm Group plc for the 52 week period ended 28 June 2008 which comprise a Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow, the Consolidated and Parent Company Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report, Directors Remuneration Report and the Group and Parent Company financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), are set out in the Statement of Directors' Responsibilities on page 23.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985, and as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, the Chief Executive's Review and the Finance

Director's Review that is cross referred from the Business Review section of the Directors' Report. In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- > the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 28 June 2008 and of its profit for the year then ended;
- > the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 28 June 2008;
- > the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- > the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc

Chartered Accountants
Registered Auditor
Leicester LE1 6LP
11 September 2008

Consolidated income statement

For the 52 weeks ended 28 June 2008

	Note	2008 £'000	2007 £'000
Revenue	1	391,795	354,721
Cost of sales		(217,018)	(198,537)
Gross profit		174,777	156,184
Operating costs	3	(125,346)	(115,369)
Operating profit	2	49,431	40,815
Financial income	5	1,075	503
Financial expenses	5	(1,365)	(3,492)
Profit before taxation		49,141	37,826
Taxation	6	(15,470)	(13,198)
Profit for the period		33,671	24,628
Earnings per ordinary share – basic	8	16.8p	12.3p
Earnings per ordinary share – diluted	8	16.6p	12.2p
Dividend proposed per ordinary share	7	3.5p	3.0p
Dividend paid per ordinary share	7	2.0p	25.8p

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

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

Consolidated balance sheet

As at 28 June 2008

	Note	28 June 2008 £'000	30 June 2007 £'000
Non-current assets			
Intangible assets	9	2,097	3,668
Property, plant and equipment	10	77,157	67,064
Deferred tax asset	11	-	3,276
Total non-current assets		79,254	74,008
Current assets			
Inventories	12	60,710	60,657
Trade and other receivables	13	11,636	8,996
Cash and cash equivalents	14	2,853	17,368
Total current assets		75,199	87,021
Total assets		154,453	161,029
Current liabilities			
Trade and other payables	15	(54,570)	(51,464)
Liability for current tax		(3,840)	(6,310)
Interest-bearing loans and borrowings	16	(20)	(21)
Total current liabilities		(58,430)	(57,795)
Non-current liabilities			
Deferred tax liability	11	(634)	-
Interest-bearing loans and borrowings	16	(10,000)	(40,000)
Total non-current liabilities		(10,634)	(40,000)
Total liabilities		(69,064)	(97,795)
Net assets		85,389	63,234
Equity			
Issued capital	18	2,008	2,006
Share premium		345	267
Retained earnings		83,036	60,961
Total equity attributable to equity holders of the Parent		85,389	63,234

The financial statements on pages 26 to 45 were approved by the Board of Directors on 11 September 2008 and were signed on its behalf by:



Will Adderley
Chief Executive

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Consolidated cash flow statement

For the 52 weeks ended 28 June 2008

	Note	2008 £'000	2007 £'000
Profit before tax		49,141	37,826
Adjusted for:			
Net financing costs		290	2,989
Operating profit		49,431	40,815
Depreciation and amortisation		9,457	9,529
(Profit) on disposal of property, plant and equipment		(278)	(1,130)
Operating cash flows before movements in working capital		58,610	49,214
(Increase) in inventories		(53)	(4,312)
(Increase)/decrease in debtors		(2,640)	1,028
Increase in creditors		3,460	4,480
Net movement in working capital		767	1,196
(Decrease) in provisions		-	(58)
Share based payments expense		286	234
Foreign exchange losses		(49)	(1,286)
Cash flows from operating activities		59,614	49,300
Interest paid		(1,642)	(1,536)
Interest received		1,075	451
Tax paid		(14,093)	(13,468)
Net cash generated from operating activities		44,954	34,747
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment		303	7,200
Acquisition of property, plant and equipment		(17,466)	(14,130)
Acquisition of intangible assets		(538)	(996)
Net cash utilised in investing activities		(17,701)	(7,926)
Cash flows from financing activities			
Proceeds from issue of share capital		80	273
Purchase of treasury shares		(1,900)	-
Proceeds from issue of treasury shares		112	-
Net funds raised from bank loan		-	40,000
Repayment of bank loan		(30,000)	-
Repayment of finance lease liability		-	(150)
Dividends paid		(10,020)	(51,605)
Net cash flows utilised in financing activities		(41,728)	(11,482)
Net increase/(decrease) in cash and cash equivalents		(14,475)	15,339
Foreign exchange revaluations		(39)	(956)
Cash and cash equivalents at the beginning of the period		17,347	2,964
Cash and cash equivalents at the end of the period	14, 21	2,833	17,347

Consolidated statement of changes in equity

For the 52 weeks ended 28 June 2008

	Issued share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
As at 2 July 2006	2,000	–	87,066	89,066
Profit for the financial year	–	–	24,628	24,628
Issue of share capital	6	267	–	273
Share based payments	–	–	234	234
Deferred tax on share based payments	–	–	327	327
Current corporation tax on share options exercised	–	–	311	311
Dividends	–	–	(51,605)	(51,605)
As at 30 June 2007	2,006	267	60,961	63,234
	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

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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 its Parent Company statements under IFRS and these are presented on pages 46 to 55.

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.

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 are stated at cost less amortisation which is charged on a straight-line basis over three 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 5 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.

Accounting policies continued

Impairment

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

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

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

Share capital

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

Provisions

A provision is recognised in the balance sheet when the Group has a current legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision for onerous contracts is 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, and gains and losses on forward exchange contracts.

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.

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.

New accounting standards

The Group has adopted the disclosure requirements of IFRS 7 Financial instruments: disclosures and the related amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures in the current year. Full comparative figures are presented. The adoption of these standards has not led to any changes in the Group's accounting policies.

Adopted IFRS and IFRIC not yet applied

The following adopted IFRSs and International Financial Reporting Interpretations Committee ('IFRIC') were available for early application but have not been applied by the Group in these financial statements:

IFRS 8 Operating Segments is effective for the Group's financial statements from the year ending June 2010 and requires a management approach to segmental information presentation. The adoption is not expected to have any impact on the Balance Sheet or Income Statement as the standard is concerned only with disclosures.

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

	2008 £'000	2007 £'000
Operating profit is stated after charging/(crediting) the following items:		
Inventories		
Cost of inventories included in cost of sales	217,018	198,537
Write down of inventories	5,867	2,228
Amortisation of intangible assets	2,134	1,742
Depreciation of property, plant and equipment		
Owned	7,323	7,543
Leased	-	243
Operating lease rentals		
Land and buildings	19,140	16,785
Plant and machinery	937	1,061
(Profit) on disposal of property, plant and equipment	(278)	(1,130)

The analysis of auditors' remuneration is as follows:

	2008 £'000	2007 £'000
Fees payable to the Company's auditors for the audit of the Parent and consolidated annual accounts	15	17
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	67	58
- tax compliance	29	15
- other tax services	9	16
- corporate finance transaction services	-	416
- all other services	34	18

3 Operating costs

	2008 £'000	2007 £'000
Selling and Distribution	108,051	98,944
Administrative	17,573	17,555
(Profit) on disposal of property, plant and equipment	(278)	(1,130)
	125,346	115,369

4 Employee numbers and costs

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

	2008 Number of heads	2008 Full time equivalents	2007 Number of heads	2007 Full time equivalents
Selling	4,875	3,254	4,637	3,069
Distribution	217	210	207	198
Administration	144	142	127	125
	5,236	3,606	4,971	3,392

The aggregate remuneration of all employees including Directors comprises:

	2008 £'000	2007 £'000
Wages and salaries including bonuses and termination benefits	47,775	42,323
Social security costs	3,187	2,766
Share-based payment expense (note 20)	286	234
Defined contribution pension costs	172	114
	51,420	45,437

Details of Directors' remuneration, share options, long-term incentive schemes and pension entitlements are disclosed in the Directors' Remuneration Report on pages 14 to 17.

5 Financial income and expense

	2008 £'000	2007 £'000
Finance income		
Interest on bank deposits	1,075	503
Finance expenses		
Interest on bank borrowings and overdraft	(1,278)	(2,113)
Foreign exchange losses	(87)	(1,379)
	(1,365)	(3,492)
Net finance expense	(290)	(2,989)

6 Taxation

	2008 £'000	2007 £'000
Current taxation		
UK corporation tax charge for the period	12,045	12,957
Adjustments in respect of prior periods	(255)	918
	11,790	13,875
Deferred taxation		
Origination of temporary differences	3,293	26
Adjustment in respect of prior periods	554	(914)
Tax rate differential	(167)	211
	3,680	(677)
Total taxation expense in the income statement	15,470	13,198

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

	2008 £'000	2007 £'000
Profit before tax	49,141	37,826
UK corporation tax at standard rate of 29.5% (2007: 30%)	14,496	11,348
Factors affecting the charge in the period:		
Non-deductible expenses	128	953
Ineligible depreciation	918	845
Lease incentive deductions	(128)	(184)
Adjustments to tax charge in respect of prior years	299	4
Profit on disposal in excess of capital gain	(76)	21
Tax rate differential	(167)	211
	15,470	13,198

The taxation charge for the period as a percentage of profit before tax is 31.5%.

Notes to the annual financial statements continued

7 Dividends

All dividends relate to the 1p ordinary shares.

	2008 £'000	2007 £'000
Interim for the period ended 30 June 2007 – paid 25.0p	-	(50,000)
Interim for the period ended 30 June 2007 – paid 0.8p	-	(1,605)
Final for the period ended 30 June 2007 – paid 3.0p	(6,024)	-
Interim for the period ended 28 June 2008 – paid 2.0p	(3,996)	-
	(10,020)	(51,605)

The Directors are proposing a final dividend of 3.5p per ordinary share for the period ended 28 June 2008 which equates to £7.0m. The dividend will be paid on 5 December 2008 to shareholders on the register at the close of business on 21 November 2008.

8 Earnings per share

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

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

Weighted average numbers of shares:

	52 weeks ended 28 June 2008 '000	52 weeks ended 30 June 2007 '000
Weighted average number of shares in issue during the period	200,446	200,363
Impact of share options	2,180	2,324
Number of shares for diluted earnings per share	202,626	202,687

In addition to standard earnings per share, an underlying earnings per share calculation is provided below which excludes non-recurring costs and income (net of tax). The earnings used for the standard and underlying calculations, together with the resultant earnings per share, are shown below:

	52 weeks ended 28 June 2008 £'000	52 weeks ended 30 June 2007 £'000
Profit for the period	33,671	24,628
Non-recurring items (net of tax)	-	3,109
Profit for the period excluding non-recurring items	33,671	27,737
Basic earnings per share – standard	16.8p	12.3p
Basic earnings per share – underlying	16.8p	13.8p
Fully diluted earnings per share – standard	16.6p	12.2p
Fully diluted earnings per share – underlying	16.6p	13.7p

The interest rate risk profile of the Company's financial assets and liabilities is set out in note 16 of the Group financial statements.

9 Intangible assets

	Software development and licences £'000
Cost	
At 2 July 2006	4,176
Additions	996
Transfers from property, plant and equipment	749
At 30 June 2007	5,921
Additions	538
Disposals	(208)
Transfers from property, plant and equipment	362
At 28 June 2008	6,613
Amortisation	
At 2 July 2006	511
Charge for the financial period	1,742
At 30 June 2007	2,253
Charge for the financial period	2,134
Disposals	(208)
Transfers from property, plant and equipment	337
At 28 June 2008	4,516
Net book value	
At 28 June 2008	2,097
At 30 June 2007	3,668
At 2 July 2006	3,665

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

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

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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 2 July 2006	29,421	28,188	52	281	24,770	82,712
Additions	7,082	4,846	35	-	2,167	14,130
Transfers to intangible assets	-	11	-	-	(760)	(749)
Disposals	-	(10)	-	(160)	(17)	(187)
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
Depreciation						
At 2 July 2006	1,170	4,804	13	281	14,954	21,222
Charge for financial period	483	2,307	16	-	4,980	7,786
On disposals	19	(10)	-	(160)	(15)	(166)
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
Net book value						
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
At 2 July 2006	28,251	23,384	39	-	9,816	61,490

11 Deferred tax

Deferred tax is provided in full on temporary differences under the liability method using a taxation rate of 28% (2007: 28%).
Deferred taxation assets and liabilities are attributable to the following:

	Assets		liabilities		net	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Property, plant and equipment	-	-	(813)	(547)	(813)	(547)
Other temporary differences	-	3,441	(3)	-	(3)	3,441
Share based payments	182	382	-	-	182	382
	182	3,823	(816)	(547)	(634)	3,276

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

	Balance at 2 July 2006 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 30 June 2007 £'000
Property, plant and equipment	(543)	(4)	–	(547)
Employee benefits	–	55	327	382
Lease incentives	2,577	59	–	2,636
Short term temporary differences	238	567	–	805
	2,272	677	327	3,276

	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)

12 Inventories

	2008 £'000	2007 £'000
Goods for resale	60,710	60,657

13 Trade and other receivables

	2008 £'000	2007 £'000
Trade receivables	144	169
Other receivables	1,813	2,232
Prepayments and accrued income	9,679	6,595
	11,636	8,996

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

	2008 £'000	2007 £'000
Cash at bank and in hand	2,833	17,347
Cash and cash equivalents include the following for the purpose of the cash flow statement:		
Cash at bank and in hand	2,853	17,368
Bank overdraft	(20)	(21)
	2,833	17,347

15 Trade and other payables

	2008 £'000	2007 £'000
Trade payables	22,894	22,354
Accruals and deferred income	26,429	22,510
Other taxation and social security	4,351	6,468
Other creditors	896	132
	54,570	51,464

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16 Interest bearing loans and borrowings

	2008 £'000	2007 £'000
Bank overdraft	20	21
Bank loan	10,000	40,000
	10,020	40,021

The Group has a £3m bank overdraft facility which is repayable on demand.

On 26 September 2006 the Group 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. £10m of the £40m facility was drawn down as at 28 June 2008 whilst the £10m facility was not utilised at that date.

Interest is payable on funds utilised under the £40m facility at the rate of LIBOR plus 0.35% and on funds utilised under the £10m facility at a rate of LIBOR plus 0.45%. LIBOR is fixed for a given loan at the date of draw down.

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

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:

	2008 total £'000	2008 floating rate £'000	2008 fixed rate £'000	Effective interest rate %	2007 total £'000	2007 floating rate £'000	2007 fixed rate £'000	Effective interest rate %
Revolving bank loan	10,000	-	10,000	6.31	40,000	-	40,000	5.86
Overdraft	20	20	-	6.00	21	21	-	6.04
	10,020	20	10,000	6.31	40,021	21	40,000	5.86

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 28 June consisted of £2,853,000 (2007: £17,368,000) 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 cashflow 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 AAA credit rating.

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 7% of the total purchases in the year ended 28 June 2008. The outstanding US dollar liabilities at the year end were \$870,000 (2007: \$231,000).

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 28 June 2008 the Group held US dollar balances of \$7.0m (2007: \$22.1m), 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.

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 Risk Management Committee; the Group does not have a defined share buy-back plan.

18 Share capital

	Number of ordinary shares of 1p each	
	2008	2007
In issue at the start of the period	200,617,400	200,000,000
Issued during the period in respect of share option schemes	174,000	617,400
In issue at the end of the period	200,791,400	200,617,400

Proceeds received in relation to shares issued during the period were £80,000 (2007: £273,404).

	2008 number of shares	2008 £'000	2007 number of shares	2007 £'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	200,617,400	2,006

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

	2008 number of shares	2008 £'000	2007 number of shares	2007 £'000
Purchased during year	1,195,000	1,900	–	–
Reissued during the period in respect of share option schemes	(243,500)	(378)	–	–
Outstanding at end of year	951,500	1,522	–	–

The Company acquired 1,195,000 of its own shares through purchases on the London Stock Exchange over a period from 27 November 2007 to 20 March 2008. 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 £1,905,481. The consideration has been deducted from retained earnings within shareholders equity.

The Company reissued 243,500 treasury shares for a total consideration of £112,010 on 7 March 2008 and 11 June 2008.

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

20 Share based payments

As at 28 June 2008, the Group operated three share award plans:

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

There were 358,800 exercisable options in total under these schemes as at 28 June 2008.

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 ten 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:

	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 2008	Number of shares under option 2008	Weighted average exercise price 2007	Number of shares under option 2007
Outstanding at beginning of year	49.8p	1,028,000	46.1p	1,507,700
Granted during year	-	-	62.1p	225,400
Forfeited during year	-	-	57.0p	(87,700)
Exercised during year	46.0p	(417,500)	44.3p	(617,400)
Outstanding at end of year	52.4p	610,500	49.8p	1,028,000

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 2007. Options may be exercised under the scheme on completion of the three year savings contract and must be exercised within 6 months from that date. There is provision for early exercise in certain circumstances such as death, disability, redundancy and retirement.

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

	October 2007	November 2006
Fair value at measurement date	70.0p	69.0p
Share price	212.0p	202.0p
Exercise price	157.0p	153.0p
Expected volatility (weighted average volatility used in modelling – based on historical volatility of comparable quoted companies)	30%	30%
Option life (weighted average life used in modelling)	3.5 years	3.5 years
Expected dividends	2.5%	2.5%
Risk-free interest rate	4.8%	4.8%
Forfeiture rate	60%	50%

The forfeiture rate assumption has been increased significantly compared to 2007 due to the fall in the Group's share price which has occurred.

The number and weighted average exercise price of options outstanding under the Sharesave at 28 June 2008 is as follows:

	Weighted average exercise price 2008	Number of shares under option 2008	Weighted average exercise price 2007	Number of shares under option 2007
Outstanding at beginning of year	153.0p	1,045,846	-	-
Granted during year	157.0p	219,979	153.0p	1,169,448
Forfeited during year	153.0p	(264,552)	153.0p	(123,602)
Outstanding at end of year	154.0p	1,001,273	153.0p	1,045,846

c) Long-term Incentive Plan

The LTIP was approved by the Board in 2006 enabling the Group to award shares to particular individuals, normally in the form of nominal cost options. The LTIP is administered by the Remuneration Committee. One grant was made in the 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 the LTIP is ten 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

Notes to the annual financial statements continued

20 Share based payments

The number and weighted average exercise price of options under the LTIP at 28 June 2008 is as follows:

	Weighted average exercise price 2008	Number of shares under option 2008	Weighted average exercise price 2007	Number of shares under option 2007
Outstanding at beginning of year	-	250,434	-	-
Granted during year	-	317,922	-	250,434
Outstanding at end of year	-	568,356	-	250,434

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 2010, 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 2008) and the cost will be spread over the period from 1 July 2007 to 30 September 2010.

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

	2008 £'000	2007 £'000
GSOP	14	28
Sharesave	17	136
LTIP – Executive Directors	164	70
LTIP – Senior Managers share match	91	-
Total	286	234

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 1 July 2007 £'000	Cash flow £'000	Other non cash changes £'000	At 28 June 2008 £'000
Cash at bank and in hand	17,368	(14,515)	-	2,853
Bank overdrafts	(21)	1	-	(20)
	17,347	(14,514)	-	2,833
Debt due after one year	(40,000)	30,000	-	(10,000)
Net debt	(22,653)	15,486	-	(7,167)

22 Commitments

As at 28 June 2008 the Group had entered into capital contracts amounting to £2.3 million. The equivalent figure as at 30 June 2007 was £7.2m.

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

	2008 Motor vehicles £'000	2008 Land and buildings £'000	2008 Plant and machinery £'000	2007 Motor vehicles £'000	2007 Land and buildings £'000	2007 Plant and machinery £'000
Within one year	443	20,928	249	216	18,799	216
In the second to fifth year inclusive	226	77,861	540	78	71,092	454
After five years	-	108,924	-	-	107,966	-
	669	207,713	789	294	197,857	670

The Group has 77 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.

Disclosures relating to remuneration of Directors are set out in the Remuneration Report on pages 14 to 17. The remuneration of the key management personnel (executive team excluding Directors) of the Group is set out below:

	2008 £'000	2007 £'000
Salaries and other short term benefits	831	801
Post employment benefits	12	11
Share based payments	43	16
	886	828

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 is as below:

	2008 £'000	2007 £'000
Inventory purchases	-	13
Vehicle purchases – proceeds received	3	3

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

On 29 July 2008 Dunelm acquired for a consideration of £5.0m, ownership of the Dorma brand and trademarks on a worldwide basis, an extensive design library, and the Dorma domain name (www.dorma.co.uk).

Parent Company accounts

Balance sheet

As at 28 June 2008

	Note	2008 £'000	2007 £'000
Non-current assets			
Investment in subsidiaries	4	2,283	2,163
Deferred tax asset	5	43	98
Total non-current assets		2,326	2,261
Current assets			
Trade and other receivables	6	64,413	85,800
Total current assets		64,413	85,800
Total assets		66,739	88,061
Current liabilities			
Trade and other payables	7	(879)	(682)
Liability for current tax		89	(10)
Interest bearing loans and borrowings	8	(20)	(21)
Total current liabilities		(810)	(713)
Non-current liabilities			
Interest bearing loans and borrowings	8	(10,000)	(40,000)
Total non-current liabilities		(10,000)	(40,000)
Total Liabilities		(10,810)	(40,713)
Net assets		55,929	47,348
Capital and reserves			
Issued capital	9	2,008	2,006
Share premium		346	267
Non distributable reserves		283	163
Retained earnings		53,292	44,912
Equity shareholders' funds		55,929	47,348

The financial statements on pages 46 to 55 were approved by the Board of Directors on 11 September 2008 and were signed on its behalf by:



David Stead
Director
11 September 2008

Parent Company accounts

Cash flow statement

For the 52 weeks ended 28 June 2008

	2008 £'000	2007 £'000
Profit before tax	19,920	17,967
Adjusted for:		
Net financing costs	(1,826)	(1,994)
Operating profit	18,094	15,973
Operating cash flows before movements in working capital		
Decrease /(increase) in debtors	21,387	(6,894)
Increase in creditors	197	547
Net movement in working capital	21,584	(6,347)
Investment income	(20,097)	(20,000)
Share based payments expense	166	79
Cash flows from operating activities	19,747	(10,295)
Interest paid	(1,249)	(1,797)
Interest received	3,075	3,791
Tax received/(paid)	58	(388)
Net cash generated from operating activities	21,631	(8,689)
Cash flows from financing activities		
Proceeds from issue of share capital	81	273
Purchase of treasury shares	(1,900)	-
Proceeds from issue of treasury shares	112	-
Funds raised from bank loan	-	40,000
Repayment of bank loan	(30,000)	-
Dividends received	20,097	20,000
Dividends paid	(10,020)	(51,605)
Net cash flows utilised in financing activities	(21,630)	8,668
Net increase/(decrease) in cash and cash equivalents	1	(21)
Cash and cash equivalents at the beginning of the period	(21)	-
Cash and cash equivalents at the end of the period	(20)	(21)

Business review

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Parent Company accounts

Statement of changes in equity

For the 52 weeks ended 28 June 2008

	Issued share capital £'000	Share premium £'000	Non distributable £'000	Retained earnings £'000	Total £'000
As at 2 July 2006	2,000	-	8	78,431	80,439
Profit for the period	-	-	-	17,980	17,980
Issue of new share capital	6	267	-	-	273
Share based payments	-	-	155	79	234
Deferred tax on share based payments	-	-	-	27	27
Dividends	-	-	-	(51,605)	(51,605)
As at 30 June 2007	2,006	267	163	44,912	47,348
	Issued share capital £'000	Share premium £'000	Non distributable £'000	Retained earnings £'000	Total £'000
As at 1 July 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

The non distributable reserve's purpose is to reflect all movements in share based payments.

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').

The accounts of the Company are prepared under the historical cost convention, in accordance with the Companies Act 1985, applicable accounting standards and specifically in accordance with the accounting policies set out below.

Changes in accounting policies

The Company has adopted IFRS 1 from 2 July 2006. IFRS 1 'First Time Adoption of IFRS' establishes the transitional requirements for the preparation of financial information in accordance with IFRS for the first time. The general principle is to establish accounting policies under IFRS then to apply these retrospectively at the date of transition to determine the opening balance sheet. IFRS 1 permits a number of first time adoption exemptions, none of which are relevant to the Company.

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.

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.

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 £20,036,000 (2007: £17,980,000). The Directors have taken advantage of the exemption available under section 230 Companies Act 1985 and have not presented an income statement for the Company alone.

2 Employee costs

The Company has no employees other than the two Directors. Full details of the Directors' remuneration and interest are set out in the Directors' Remuneration Report on pages 14 to 17, and share based payments details in note 11 on pages 52 to 53.

3 Dividends

	2008 £'000	2007 £'000
Equity – 1p ordinary		
Interim for the period ended 30 June 2007 – paid 25.0p	-	(50,000)
Interim for the period ended 30 June 2007 – paid 0.8p	-	(1,605)
Final for the period ended 30 June 2007 – paid 3.0p	(6,024)	-
Interim for the period ended 28 July 2008 – paid 2.0p	(3,996)	-
	(10,020)	(51,605)

The Directors are proposing a final dividend of 3.5p per ordinary share for the period ended 28 June 2008 which equates to £7.0m. The dividend will be paid on 5 December 2008 to shareholders on the register at the close of business on 21 November 2008.

4 Investments

Shares in subsidiary undertakings.

	£'000
As at 2 July 2006	2,008
Share Based Payments	155
As at 30 June 2007	2,163
Share Based Payments	120
As at 28 June 2008	2,283

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 1 July 2006	51
Reserves credit	27
Income statement credit	20
As at 30 June 2007	98
Reserves debit	(76)
Income statement credit	21
As at 28 June 2008	43

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

6 Trade and other receivables

	2008 £'000	2007 £'000
Amounts owed by subsidiary undertakings	64,365	85,771
Prepayments and accrued income	30	29
Other taxation and social security	18	-
	64,413	85,800

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

	2008 £'000	2007 £'000
Trade payables	15	-
Accruals and deferred income	864	682
	879	682

8 Interest bearing loans and borrowings

	2008 £'000	2007 £'000
Bank loans	10,000	40,000
Bank overdraft	20	21
Total	10,020	40,021

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.

Interest is payable on the £40m facility at the rate of LIBOR plus 0.35% and on the £10m facility at a rate of LIBOR plus 0.45%.

The facility is guaranteed by the Company and its subsidiaries.

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

9 Share capital

	Number of ordinary shares of 1p each	
	2008	2007
In issue at the start of the period	200,617,400	200,000,000
Issued during the period in respect of share options	174,000	617,400
In issue at the end of the period	200,791,400	200,617,400

Proceeds received in relation to shares issued during the period were £80,000 (2007: £273,404).

	2008 Number of shares	2008 £'000	2007 Number of shares	2007 £'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	200,617,400	2,006

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

Notes to the Parent Company accounts continued

10 Treasury shares

	2008 £'000	2008 Number of shares	2007 £'000	2007 Number of shares
Purchased during year	1,900	1,195,000	–	–
Reissued during the period in respect of share option schemes	(378)	(243,500)	–	–
Outstanding at end of year	1,522	951,500	–	–

The Company acquired 1,195,000 of its own shares through purchases on the London Stock Exchange over a period from 27 November 2007 to 20 March 2008. 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 £1,905,481. The consideration has been deducted from retained earnings within shareholders equity. The Company reissued 243,500 treasury shares for a total consideration of £112,010 on 7 March 2008 and 11 June 2008.

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

11 Share based payments

As at 28 June 2008, the Company operated two share award plans:

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

There were no exercisable options as at 28 June 2008.

a) Dunelm Group Share Option Plan

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

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

	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 2008	Number of shares under option 2008	Weighted average exercise price 2007	Number of shares under option 2007
Outstanding at beginning of year	46.0p	200,000	44.7p	817,400
Exercised during year	46.0p	(200,000)	44.2p	(617,400)
Outstanding at end of year	–	–	46.0p	200,000

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 ten 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 28 June 2008 is:

	Weighted average exercise price 2008	Number of shares under option 2008	Weighted average exercise price 2007	Number of shares under option 2007
Outstanding at beginning of year	-	250,434	-	-
Granted during year	-	317,922	-	250,434
Outstanding at end of year	-	568,356	-	250,434

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

	2008 £'000	2007 £'000
GSOP	1	9
LTIP	165	70
Total	166	79

12 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.

13 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:

	2008 £'000	2007 £'000
Cash paid to group undertakings	(47,267)	(17,005)
Cash received from group undertakings	2,693	484
Dividends received	20,096	20,000
Net interest receivable	3,072	3,791

Notes to the Parent Company accounts continued

14 Explanation of transition to IFRS

This is the first year that the Company has presented its financial statements under IFRS.

The accounting policies set out on page 49 have been applied in preparing the financial statements for the year ended 28 June 2008, the comparative information presented in these financial statements for the year ended 30 June 2007 and in the preparation of the opening balance sheet at 2 July 2006 (the transition date).

In preparing its opening balance sheet, the Company has adjusted amounts previously reported in financial statements prepared in accordance with UK GAAP.

The most significant changes in the Company's accounting policies and presentation as a result of the adoption of IFRS are set out below:

a) Share-based payments (IFRS 2)

Under IFRS 2, the charge recognised in the income statement for share options, long-term incentive plans, and other share-based payments will be based on 'fair value' of the awards, calculated using an option pricing model. This contrasts to UK GAAP, where the charge recognised was based on the 'intrinsic value' of awards, being the difference between the market values of the shares at the date of the award and the option exercise price. Since this was typically nil the UK GAAP charge was nil.

The Company has applied the fair value model to all grants of equity instruments that had not vested as at July 2005.

For equity-settled share-based payments, the fair value determined at the date of grant is expensed through the income statement on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest. Fair value is measured by use of a binomial model.

b) Cash flow statements (IAS 7)

Under IAS 7 the Company is required to prepare a cash flow statement. This contrasts to UK GAAP which provided an exemption from the requirement to provide a cash flow statement.

c) Income tax (IAS 12)

IAS 12 takes a balance sheet approach to deferred tax whereby deferred tax is recognised in the balance sheet by applying the appropriate tax rate to the temporary differences arising between the carrying value of assets and liabilities and their tax base. This contrasts to UK GAAP (FRS 19), which considers timing differences arising in the profit and loss account. Adjustments made to the financial statements on the transition to Adopted IFRS typically result in related adjustments to deferred tax.

In summary the impact of adopting IFRS on the financial statements previously reported under UK GAAP is set out below:

Profit for the period in 2007 increased by £9,000 from £17,971,000 to £17,980,000 due to the impact of deferred tax on share based payments.

Parent Company Balance Sheet

	As at 2 July 2006 previously reported under UK GAAP £'000	Share based payments £'000	As at 2 July 2006 IFRS £'000	As at 30 June 2007 previously reported under UK GAAP £'000	Share based payments £'000	As at 30 June 2007 IFRS £'000
Non-current assets						
Investment in subsidiary	2,008	-	2,008	2,163	-	2,163
Deferred tax asset	-	51	51	-	98	98
Total non-current assets	2,008	51	2,059	2,163	98	2,261
Current assets						
Deferred tax	12	(12)	-	23	(23)	-
Trade and other receivables	78,906	-	78,906	85,800	-	85,800
Total current assets	78,918	(12)	78,906	85,823	(23)	85,800
Total assets	80,926	39	80,965	87,986	75	88,061
Current liabilities						
Trade and other payables	(135)	-	(135)	(682)	-	(682)
Liability for current tax	(391)	-	(391)	(10)	-	(10)
Interest bearing loans and borrowings	-	-	-	(21)	-	(21)
Total current liabilities	(526)	-	(526)	(713)	-	(713)
Non-current liabilities						
Interest bearing loans and borrowings	-	-	-	(40,000)	-	(40,000)
Total non-current liabilities	-	-	-	(40,000)	-	(40,000)
Total liabilities	(526)	-	(526)	(40,713)	-	(40,713)
Net assets	80,400	39	80,439	47,273	75	47,348
Capital and reserves						
Issued capital	2,000	-	2,000	2,006	-	2,006
Share premium	-	-	-	267	-	267
Non distributable reserves	8	-	8	163	-	163
Retained earnings	78,392	39	78,431	44,837	75	44,912
Equity shareholders' funds	80,400	39	80,439	47,273	75	47,348

Business review

Governance

Financial statements

Annual General Meeting

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 6 November 2008 at 10.30am 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 28 June 2008 together with the Directors' Report, and the Auditors' Report on those accounts be received and adopted.
2. That Will Adderley, who is retiring in accordance with the Articles of Association of the Company, and being eligible, is offering himself for re-election, be re-appointed as an Executive Director of the Company.
3. That Marion Sears, who is retiring in accordance with the Articles of Association of the Company, and being eligible, is offering herself for re-election, be re-appointed as a Non-Executive Director of the Company.
4. To declare a final dividend on the ordinary shares of 3.5p per share in respect of the year ended 28 June 2008.
5. That KPMG Audit Plc be re-appointed as auditors to the Company and that the Directors be authorised to determine the auditors' remuneration.
6. That the Directors' Remuneration Report be approved.

Special business

To consider and if thought fit pass the following resolutions of which the resolution number 7 will be proposed as an ordinary resolution and the resolutions numbered 8, 9 and 10 will be proposed as a special resolution:

7. That:
 - (a) in accordance with article 6 of the Company's Articles of Association, the Directors be authorised to allot relevant securities up to a maximum nominal amount of £665,466;
 - (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 2009; 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).
8. That:
 - (a) in accordance with article 7 of the Company's Articles of Association, the Directors be given power to allot equity securities for cash;
 - (b) the powers under paragraph (a) above (other than in connection with article 7(a)(i) of the Company's Articles of Association) shall be limited to the allotment of equity securities 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 2009; and
 - (d) all previous unutilised authorities under section 95 of the Companies Act shall cease to have effect.

9. That, in accordance with article 11 of the Company's Articles of Association, the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of ordinary shares of 1p each in the capital of the Company ("ordinary shares") provided that:
- the maximum aggregate number of ordinary shares authorised to be purchased is the lesser of 19,000,000, being approximately 10% of issued ordinary share capital at 28 June 2008 (excluding treasury shares), and 10% of the Company's issued ordinary share capital at the date of passing of this resolution (excluding treasury shares);
 - 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
 - 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 2009, 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.

10. That the Articles of Association produced to the meeting and signed by the Chairman for the purposes of identification be approved and adopted as the Articles of Association of the Company in substitution for and to the exclusion of the Current Articles of Association of the Company.

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. Your Board will be voting in favour of them and unanimously recommends that you do so as well.

By Order of the Board

Signature



Date 3 October 2008

David Stead

Company Secretary

Fosse Way

Syston

Leicester

LE7 1NF

Notes

- The holders of the ordinary shares are entitled to attend and to speak at the Annual General Meeting and at any adjournment and to vote on all of the resolutions to be proposed at the meeting.
- A member is entitled to appoint a proxy to exercise all or any of his/her rights to attend, speak and vote instead of him/her. 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.
- 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.
- 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. A Form of Proxy is enclosed. Completion and return of a Form of Proxy will not preclude a member from attending and voting in person at the meeting.
- 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.
- 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 2, 4 and 5 does not apply to a Nominated Person. The

Notice of Annual General Meeting continued

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.

7. Pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995 or regulation 20 and schedule 4 of the Uncertificated Securities Regulations 2001, 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 6pm on the day which is two 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.
8. 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.
9. Copies of the proposed new articles of association will be available for inspection: (a) during normal business hours at the Company's registered office and at the offices of Allen & Overy LLP, One Bishops Square, London, E1 6AD, from the date of this circular until the close of the Annual General Meeting; and (b) at the Annual General Meeting for at least 15 minutes before and during the meeting. A summary of the principal changes introduced in the proposed new articles is set out in the Directors' Report above.
10. 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 7RA19) 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. 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.
11. 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.
12. As at 11 September 2008 the Company's issued share capital consists of 199,839,900 ordinary shares carrying one vote each (excluding treasury shares). Therefore, the total voting rights in the Company as at 11 September 2008 are 199,839,900.
13. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (a) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (b) if more than one corporate representative for the same shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative.

Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (<http://www.icsa.org.uk/>) for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (a) above.

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 6 November 2008 at 10.30 am and at any adjournment of the meeting.

This proxy is in respect of all 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 proxy 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 not to adjourn the meeting) the proxy will act at his or her discretion.

Signature Date 2008

Ordinary business

- To receive and approve the Directors' Report and the audited accounts for the period ended 28 June 2008 and the report of the auditors
- To re-elect Will Adderley as a Director
- To re-elect Marion Sears as a Director
- To declare a dividend on the ordinary shares of 3.5p per share
- To re-appoint KPMG Audit Plc as auditors of the Company and to authorise the Directors to fix their remuneration
- To approve the Directors' Remuneration report

	For	Vote Withheld	Against

Special business

- To authorise the Directors to allot relevant securities
- To authorise the Directors to allot equity securities for cash
- To authorise the Company to purchase its own ordinary shares
- To adopt new Articles of Association

Notes

- Every holder has the right to appoint some other person(s) of their choice, who need not be a shareholder as his/her proxy to exercise all or any of his/her 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 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 above 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).
- To appoint more than one proxy, you may photocopy this form. Please indicate in the box above the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided that the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
- Unless otherwise instructed above, the proxy will exercise his/her discretion both as to how he/she votes and as to whether or not he/she abstains from voting on any resolutions proposed at the meeting.
- 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.
- 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.
- 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.
- Any alterations to this form must be initialled.
- 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.
- 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.
- 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.
- 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

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First fold

Third fold and tuck in



Advisers

Corporate Brokers and Financial Advisers

UBS Investment Bank
1 Finsbury Avenue
London EC2M 2PP
Tel: 020 7567 8000

Landsbanki Securities (UK) Ltd
Beaufort House
15 St. Botolph Street
London EC3A 7QR
Tel: 020 7426 9000

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

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Midlands Corporate Banking
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Tel: 0845 755 5555

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Spencer Road
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Financial Public Relations

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