Dunelm

There's no place like Dunelm

Dunelm Group plc Annual report and accounts 2013

Welcome to the UK's number one homewares retailer

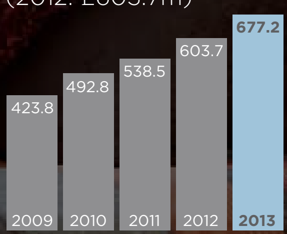
Contents

Financial Highlights

Revenue increase	**12.2%**
Operating margin	**15.7%**
Net cash generated from operations	**£100.4m**

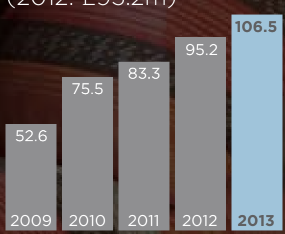
Revenue† £m

£677.2m
(2012: £603.7m)



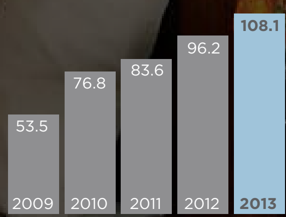
Operating Profit† £m

£106.5m +11.9%
(2012: £95.2m)



Profit before tax† £m

£108.1m
(2012: £96.2m)



Net cash from operations† £m

£100.4m
(2012: £91.9m)

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

In 2013 we opened over 400,000 square feet of selling space, taking our superstore chain to 126 stores at year end

New superstores opened in Financial year 2013

- Barnstaple
- Cambridge
- Coventry (reopening)
- Halifax
- Hartlepool
- Hastings
- Inverness
- Kettering
- Kilmarnock
- Lincoln (relocation)
- Mansfield
- Oxford
- Telford (relocation)
- Thurrock

Superstore locations

Superstores as at 1 July 2012
Superstores opened since 1 July 2012

See page 94 for a full store list

Our strategic priorities continue to be:

- Develop our specialist proposition
- Expand our store portfolio
- Grow multi-channel
- Develop and exploit our infrastructure

Market overview

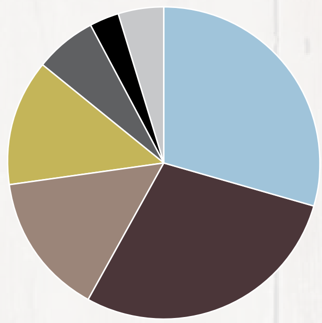
Market share*

	2008	2012
Dunelm	4.0	6.9
John Lewis	5.1	6.8
Argos	5.3	4.9

Split of £10.7bn UK homewares market*

Textiles & Soft Furnishings	46%
Household, hardware & lighting	54%

Customer drivers*



Customer loyalty in the homewares market is driven primarily by range, price and convenience. Dunelm's customer proposition allows us to differentiate in this sector by providing industry leading choice, the broadest price spectrum and convenient locations across the whole of the UK.

* Source: Verdict Research

Strategic priorities

1 Develop our specialist proposition

We must continue to evolve our offer so that we maintain and grow our competitive advantage in choice and price, supported by quality, service and availability. Increasing awareness of the Dunelm brand is a clear priority.

Our current focus

> Continuously evolve product ranges
> Develop knowledge-based customer service as a point of differentiation
> Develop value-added services such as 'made to measure' and 'Dunelm At Home'

2 Expand our store portfolio

We aim to grow market share and reach more customers by opening more superstores across the UK. We expect to grow our portfolio to 200 superstores in the medium term.

Our current focus

> Continue new store opening programme
> Consider freehold property deals as appropriate
> Target payback of 36 months for larger catchments and 48 months for smaller catchments

3 Grow multi-channel

www.dunelm.com accounts for c. 4% of revenue. We plan to increase customer engagement, develop new customer touch points and grow our multi-channel participation further.

Our current focus

> Make all products available for home delivery
> Improve delivery options
> Further develop collect-in-store service

4 Develop and exploit our infrastructure

We have a well-invested infrastructure. Our aim is to ensure that we continue to develop this ahead of our growth curve, so that it is an enabler and never a constraint.

Our current focus

> Exploit IT systems to release time for customer service
> Enhance IT infrastructure to support further growth

20,000 homewares products provide market leading choice and value

38m ft²

Industry leading choice across 38m ft² of selling space

Our business model

Dunelm is the UK's No.1 Homewares retailer offering over 20,000 quality products from a national portfolio of 135 stores as well as online. Our aim is to deliver an industry leading customer proposition by providing the biggest range, strong availability, knowledgeable and helpful staff all underpinned by exceptional value for money.

Develop
Specialist proposition to deliver more range & choice to consumers

Buy
Expert sourcing of quality products in-line with specialist proposition

Ship
Efficient distribution of products to nationwide stores chain

Sell
'Customer First' approach offering friendly advice and guidance when required

Our key strengths

Range & Choice

Dunelm's proposition provides industry leading choice and availability across all key homewares categories.

Consistent Value

Our broad price architecture ensures that our products are exceptional value for money and remain attractive to a wide customer set.

Financial Strength

Dunelm is a highly cash generative business with no debt. Cash generated from operating activities was 93% of profits in 2013 and with daily average funds of £66.2m in 2013 the business is very well placed to invest in its future.

Size & Scale – Market Leader

Dunelm is market leader in a large fragmented market with room for growth. The business operates from 135 stores as well as online.

Low Cost Operating Model

The business is highly focused on tight cost management and operates from a relatively low fixed cost base.

We will materially improve the speed and choice of our home delivery offering through a new dedicated fulfilment centre

Multi-channel Growth - Fulfilment

We have seen further progress in our multi-channel business with continuing revenue growth during the period. Over the financial year as a whole, multi-channel revenues amounted to 4.1% of total sales increasing to 4.5% in the final quarter.

Natural growth in this area will be supplemented by a significant increase in the number of lines offered for home delivery, enabled by a larger, dedicated fulfilment centre.

4%

of revenues were multi-channel in 2013

Specialist Proposition – Dunelm at Home

We continue to invest in our customer proposition, for example through the extension of our 'Dunelm at Home' (home consultation) service.

This service transfers our in-store specialism for creating 'custom-made' curtains and blinds to our customers home where we can advise and consult on the best products, colours and styles. The offer includes consultation, measurement, manufacture (through our in-house workshop), delivery and fit.

This offer is now live in 30 stores and will be rolled out to give national coverage through 2013/14.

Strategic Objectives	2013 Progress	Future Plans
Enhance		
Develop our specialist proposition	Launch of our first full catalogue in Autumn 2012 followed by Spring 2013 Nationwide customer service training 'Customer First' Developed and piloted a new Window Treatments offer for custom-made and 'made-to-measure' curtains and blinds Expanded our Dunelm at Home, home consultation service to 30 stores	Evolution of Dunelm brand to emphasise our range authority, value, convenience and service Expand the 'Dunelm at Home' service to give nationwide coverage
Expand		
Expand our store portfolio	In 2012/13 we opened over 400,000 ft^2 of retail selling space New stores deliver strong returns with average discounted paybacks consistently better than 30 months We completed 14 refits in the year, 4 of which were 'major' refits	We will continue to open retail space We have 10 stores in the pipeline legally committed We will target new stores to achieve a discounted payback of 36 months (48 months in smaller catchments)
Grow		
Grow multi-channel	The range of lines offered online was increased to 16,000 with availability check features added Same day collection was rolled out to all 'reserve and collect' lines We redesigned our homepage along with other key product pages prioritised by customer search and land behaviours	We will open a new, dedicated fulfilment operation Standard deliveries will be cut to three to five days and next day delivery will be offered on all products for the first time Improvements are planned to our website to enhance navigation, speed and checkout
Develop		
Develop and exploit our infrastructure	We have upgraded our till systems improving time at checkout Investment in the calibre and capability of store support teams particularly in our Buying and Supply functions	We will further develop our range management and space planning capabilities We will complete the upgrade of our enterprise wide SAP system

Chairman's statement

"Dunelm has posted good growth in revenue and profits in the latest financial year."

Highlights

> Consistent strategy
> Strong cash generation
> Dividend growth
> Stable Board, with one new Non-Executive Director

14.3%

Increase in full year dividend to 16p per share

Geoff Cooper Chairman

I am pleased to report another year of strong progress. The management team has continued to focus on our well-established strategy for developing the business, as well as keeping tight control on day to day operations. As a result, Dunelm has posted good growth in revenue and profits in the latest financial year, accompanied by further strong cash generation. More details are given by Nick Wharton, our Chief Executive, in his report.

Given the continuing strong business performance, the Board is able to recommend a 15% increase in the final dividend to 11.5p per share (2012: 10.0p), bringing the total ordinary dividends for the year to 16.0p (2012: 14.0p). We have also announced a special dividend of 25p per share, returning a further £50.7m of excess cash to shareholders.

The Board has continued to evolve over the last financial year with the appointment of a new Non-Executive Director, Liz Doherty. Liz joined the Board in May, bringing a wealth of experience across large retail and consumer businesses.

Looking ahead, we have a range of exciting development initiatives and in particular continue to see significant potential to expand our store portfolio further within the UK. We remain confident in the Dunelm proposition and look forward to further profitable growth.

Geoff Cooper
Chairman

12 September 2013

Chief Executive's review

"We remain focused on close operational management, while investing confidently in the future growth of the business."

Highlights

- Continued market share growth – now market leader
- 14 new superstore openings (including two relocations and one reopening)
- 80% growth in multi-channel revenue
- Continuing investment in infrastructure to underpin future growth
- Evolution of Dunelm brand 'There's no place like Dunelm'

6.9%

Market leading share of the UK homewares market

Nick Wharton Chief Executive

Overview
Against the background of continued pressures on the consumer throughout the last financial year, the business delivered a robust trading performance and made good progress against both its operational and strategic objectives.

We remain focused on close operational management and on enhancing our customer experience, while investing confidently in the future growth of the business. This investment, consistent with our four strategic priorities, centres on the further strengthening of our specialist proposition, while at the same time increasing scale through store portfolio and multi-channel expansion.

Reflecting the benefit of a particularly strong store opening programme over the last two financial years, our total revenue for the year increased by 12.2%. Within this, like-for-like sales (calculated by comparing stores which have traded throughout the last two financial years) grew by 1.7% as we continue to gain share in a market which we believe to be broadly flat. During the year we opened 14 new superstores, including 2 relocations and the reopening of our Coventry store after a major fire in 2011.

Our growth has meant that during the past year we have become, according to Verdict Research, market leader for the first time with a share of 6.9% of the UK homewares market.

Disciplined inventory management and continued progress with direct sourcing delivered a 40 basis points expansion in gross margin year on year. With operating costs growing slightly ahead of sales, reflecting our ongoing investment in the customer proposition as well as building capability across the business for longer-term growth, our operating margin remained at a similar level to the previous year, at 15.7%.

The business remains highly cash generative, readily funding the capital requirements associated with our growth as well as allowing a 14% year on year increase in the level of the ordinary dividend for the year. In addition we have been able to announce a special dividend totalling £50.7m to be distributed to shareholders in October 2013. This reflects our ongoing approach of periodically distributing surplus cash to shareholders.

Strategy development
We have continued to make good progress with our four strategic priorities.

Priority 1 – develop our specialist proposition
The UK homewares market is estimated by Verdict Research to be worth approximately £11bn. As market leaders, our key differentiator is industry-leading choice, offering quality products over the broadest price spectrum. This is supported by strong availability, customer convenience through an established multi-channel proposition and friendly knowledgeable service.

Our range and choice are complemented by exceptional value for money at all price points together with strong brand representation. The Dunelm brand, with its core attributes of trust and value, is applied to the majority of products across the proposition. In addition we stock a number of key owned brands including Dorma, Hotel and Spectrum alongside major proprietary brands such as Fogarty, Tempur, Kenwood and Brabantia.

Our broad price architecture is mirrored across each of our core categories and creates a proposition that is attractive to a very wide customer set. This positioning has continued to help preserve existing footfall and attract new customers during the past financial year. The Dunelm offer ranges from our entry price position, which competes with products offered by grocers and discount multiples but at a higher quality, through a number of mid-market options, to our highest quality products which are comparable with offerings in department stores and higher-end independent retailers but at keener prices.

We continue constantly to evolve our offer to ensure it remains contemporary, fresh and relevant. Through two seasonal refreshes we change approximately 25% of our ranges each year; while Special Buys and Miss It Miss Out (‘MIMO’) promotions emphasise Dunelm’s value credentials and provide a seasonal feel to the store.

We have a clear opportunity to build further awareness of the Dunelm brand. During the year, in addition to increasing our presence in the national press and growing our social media activity, we invested in our first full catalogue. Our initial 200 page edition was distributed to 700,000 people in autumn 2012 and proved extremely effective in showcasing the breadth and authority of the Dunelm product offer. We followed this with a spring catalogue and plan to build on these successful investments with a larger autumn 2013 catalogue which will have a distribution of one million copies.

Chief Executive's review continued

Our next phase of investment in brand awareness incorporates an evolution of the current Dunelm branding. This evolution aims to communicate Dunelm's range authority across all homewares categories and to highlight our strengths in value, convenience and service. We are introducing a new primary strapline of 'There's no place like Dunelm', migrating to the more user-friendly domain name of www.dunelm.com and will remove our traditional 'Mill' suffix from across the business. Research has shown that these changes will be positively received by both existing and new customer groups. The new strapline in particular is seen as a better reflection of our customers' emotional connection with the home. We will use this evolution in our branding to increase brand awareness and introduce Dunelm to a wider group of homewares shoppers through our first significant TV advertising campaign. Subject to performance in pilot, our planned investment in this campaign will amount to approximately £3m over the current financial year.

Excellent customer service, a high quality in-store experience and differentiating services are all important in ensuring that our overall customer experience meets the promise of the 'There's no place like Dunelm' campaign. During the last financial year, we invested across each of these dimensions, foremost of which was a significant customer service training programme for store colleagues – 'Customer First'. This has been funded largely by reassigning colleague time in-store from non-customer facing tasks which we have been able to eliminate or reduce through better processes and systems. Initial results are pleasing in terms of both customer satisfaction, where our net promoter score hit new heights after the completion of the training and external recognition where Dunelm ranked very positively in the most recent annual survey of customer service undertaken by Which? magazine.

Our Window Treatments offer spanning fabrics, ready-made and made to measure curtains and blinds is a category that relies on high levels of expertise, service and customer interaction. During the year we have successfully developed and piloted a new, more intuitive and interactive system, to support our made to measure service and this will be introduced to all stores this autumn ahead of our peak window treatments season.

Our Dunelm At Home service, through which customers can select bespoke, made to measure curtains and other window treatments via a free home consultation, is now available from 30 stores, with a further phased roll-out planned over the current financial year. Customers of this service are rightly demanding and we invest significantly in the training and development of our home consultants to ensure good levels of customer satisfaction.

Priority 2 – expand our store portfolio

Dunelm trades from two store formats. The bulk of the portfolio comprises out-of-town superstores, with our average new store footprint now targeted towards 30,000 square feet of retail space. This space enables us to offer over 20,000 homewares products with the depth of range and availability that customers expect from a specialist retailer. It also accommodates a Pausa coffee shop, now present in 92 stores, providing an additional reason for customers to visit and increasing their engagement and dwell time. In addition to superstores, we also trade profitably from nine smaller high street locations where there are currently no suitable out-of-town alternatives.

In the last financial year we again opened over 400,000 square feet of selling space through 14 new superstores (two being relocations and one a reopening) taking our superstore chain to 126 stores at the year end, providing 3.8 million square feet of selling space in total. A further 10 new stores are contractually committed. Following a detailed catchment analysis process completed in 2011, which sought to incorporate the impact of the anticipated growth of our multi-channel sales, we believe our mature UK superstore portfolio will consist of approximately 200 stores.

Our new stores continue to deliver strong returns on invested capital with the average expected discounted payback for stores opened in the last three financial years being approximately 28 months. We will continue to target the majority of our new store openings to achieve discounted cash flow payback of 36 months. However, as our portfolio becomes more mature our investment criteria will need to reflect some cannibalisation of revenues from existing stores and going forward we anticipate that a proportion of new stores (perhaps up to 30%) will be targeted to achieve payback in up to 48 months.

Our refit programme covered 14 superstores this year, of which 4 were 'major' refits. The programme is designed to improve the shopping environment in our existing stores and to create a more consistent customer experience in terms of space allocation and department layouts.

As a result of this continued investment our portfolio is highly contemporary with 42% of the superstore chain either new or having benefited from a major refit over the past three years.

Priority 3 – grow multi-channel
In common with trends elsewhere in UK retail, Dunelm customers are embracing the convenience and value of multi-channel shopping with a significant proportion of shopping journeys now involving some element of online activity (browsing, research or purchasing) through our website, www.dunelm.com.

The last financial year saw continued investment in both website development, to enhance the customer experience, and in digital marketing where returns remain attractive. Our 'Reserve and Collect' ('R&C') proposition, which links our store stock files to the web in real time, enables our customers to check availability and order from over 16,000 products. This was further enhanced during the year to provide for same day collection. R&C customers, who represent approximately a third of multi-channel revenues, pay for their reserved products on collection in store creating a clear opportunity for add-on or incremental sales in store.

Development of the core website included the redesign of our homepage as well as key product pages where customers 'land' following an internet search. We have also introduced Paypal as a payment alternative and optimised our site for tablet users in response to the rapid increase in the number of customers accessing our site from these devices. Developments such as expert guides, better recommendations for complementary products and enhanced alternative images also ensure that our website stimulates interest, communicates our expertise and provides added value.

As a consequence of all of the above, our multi-channel revenues continued to grow strongly, representing over 4% of revenues over the full financial year and approximately 4.5% in the final quarter.

Our next targeted development will materially improve speed and choice within our home delivery offering where, despite strong progress elsewhere, our proposition remains below benchmark and therefore provides a clear opportunity for further improvement and revenue growth. The transfer of our fulfilment operation to a scalable facility that will enable us to hold stock of approximately 20,000 lines, each available for next day delivery, is progressing well and is anticipated to be fully operational prior to peak winter trading.

While, as outlined above, significant enhancement of our multi-channel model has been possible on our existing web technology platform, our pace of development is restricted due to the configuration of the current software. Accordingly, we have initiated a programme to upgrade the platform and expect this to be completed during the second half of the current financial year, representing a capital investment of £4–5m. This replatforming will deliver a more customer-friendly website as well as allowing future developments to be achieved over shorter lead times, thus enabling more frequent introductions of improved functionality to our customers.

Following a successful trial of extended inventory within furniture, we are targeting further web exclusive ranges and will apply our enhanced e:marketing and promotional capability to drive awareness of both core and extended ranges.

Priority 4 – develop and exploit our infrastructure
Focused investment in our business infrastructure across IT systems, distribution facilities and people resources is a key contributor to Dunelm's continued success and this continued in the past year.

Investment in our IT systems has enabled us to improve stock control, make in-store processes more efficient and, through the upgrade during the year of our till systems, has enabled a better customer experience when they pay for their goods. The project to upgrade our enterprise wide SAP system is progressing well and is expected to be completed this calendar year.

The capacity and capability of the Group has been further strengthened by targeted recruitment including a Chief Information Officer who joined the business at the start of the current financial year. Meaningful headcount increases made in our buying, supply and space management teams have enabled us to develop product range options such that the best performing products within each category can be matched to each individual store based on their overall space and configuration. This development will continue in the current financial year, helping to create a more consistent shopping experience for our customers and reducing our lifecycle exposure to discontinued inventory.

Summary and outlook
Dunelm delivered robust trading results over the year, in a demanding retail environment. We have strengthened our specialist proposition, improved customer service in-store and increased the profile of our brand. Each of these, together with our traditional product strength, has enabled us to increase sales on a like-for-like basis. We have also made good strategic progress scaling our business through new stores and multi-channel and strengthening our infrastructure. I would like to thank all my colleagues for their hard work and commitment in achieving this.

While recent economic data, particularly the volume of housing transactions, may suggest some improvement in consumer confidence, a degree of caution in relation to the broader UK economic environment remains appropriate. Furthermore, the unusually warm summer weather has had a temporary dampening effect on recent trading.

With strong plans in place to improve brand awareness and to grow Dunelm further through new stores and multi-channel expansion, we remain confident in the future prospects for the business. Combined with our very strong financial position, this enables us to pay a special dividend equal to 25p per share as well as proposing an increase in the ordinary dividend in line with earnings.

Nick Wharton
Chief Executive

12 September 2013

Finance Director's review

"The Group generated £100.4m net cash from operating activities in the last financial year, an increase of 9.2%."

Financial Highlights

- > 12.2% increase in overall revenues
- > Gross margin change +40 bps
- > Operating profit £106.5m (11.9% increase)
- > Earnings per share (diluted) 40.0p (14.0% increase)
- > Ordinary dividends per share 16.0p (14.3% increase)
- > Announcement of special dividend of 25.0p per share

1.7%
growth in like-for-like sales

David Stead Finance Director

Operating result
The '2013' accounting period represents trading for the 52 weeks to 29 June 2013 and the comparative period '2012' represents trading for the 52 weeks to 30 June 2012.

Group revenue for 2013 was £677.2m (2012: £603.7m), an increase of 12.2%. This increase in revenue was achieved through growth in like-for-like sales of 1.7% and contribution from net new space amounting to 10.5%, the latter reflecting the strong store opening programme over the past two years including 14 new openings in 2013 (of which two were relocations and one a reopening). Like-for-like sales performance was positive in both the first half (+2.2%) and second half (+1.2%) despite very strong comparative sales in the last quarter of 2012.

Gross margin increased by 40 basis points to 48.7% (2012: 48.3%) primarily reflecting benefits from direct sourcing initiatives. We will continue to pursue opportunities to drive margin benefits from direct sourcing and from challenging our UK based suppliers to achieve cost efficiencies.

Operating costs grew by 13.6% compared with last year. Expansion of the store portfolio was the largest driver of this, but we also made important increases to our investment in customer service, the in-store shopping environment, multi-channel operations, marketing and our overall business infrastructure:

- *Customer service.* Thanks to various operational efficiency initiatives, we were able to reduce the time spent in stores on handling stock. We reinvested significantly in colleague hours to provide improved customer service, supported by a major training initiative under the banner of 'Customer First'.
- *In-store environment*. We introduced improved product display mechanics (such as plastic pallets for walkway displays) and new point-of-sale materials across the estate.
- *Multi-channel operations*. As well as bearing the costs of a much higher volume of home-delivered orders than previously, we also invested in developing the website itself and in preparing the ground for transfer of our fulfilment operation to a third party provider this autumn.
- *Marketing.* We continued to increase our marketing investment with the launch of the Dunelm catalogue and further focus on digital marketing activities.
- *Business infrastructure*. We expanded our capabilities in a number of areas, including functions required to support our increasing focus on direct sourcing.

Group operating profit for the financial year was £106.5m (2012: £95.2m), an increase of £11.3m (11.9%).

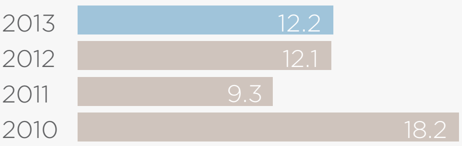
EBITDA
Earnings before interest, tax, depreciation and amortisation were £127.1m (2012: £113.9m). This has been calculated as operating profit (£106.5m) plus depreciation and amortisation (£20.6m) and represents an increase of 11.6% on the previous year. The EBITDA margin achieved was 18.8% of sales (2012: 18.9%).

Financial items and PBT
The Group generated £1.5m net financial income for the year (2012: £1.0m). Financial items include interest earned on surplus cash deposits of £0.9m (2012: £0.8m) and foreign exchange gains arising from the translation of dollar denominated assets and liabilities at the end of the period, worth £0.6m (2012: £0.2m). As at 29 June 2013 the Group held $4.8m in US dollar cash deposits and additional forward contracts for $45.9m representing approximately 50% of the anticipated US dollar spend over the next 12 months.

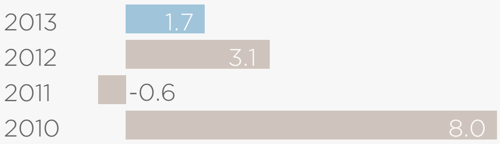
After accounting for interest and foreign exchange impacts, profit before tax for the year amounted to £108.1m (2012: £96.2m), an increase of 12.3%.

Key performance indicators

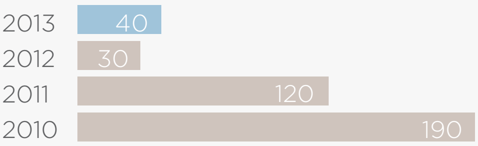
Sales growth – %



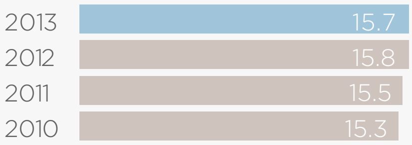
Like for like sales growth – %



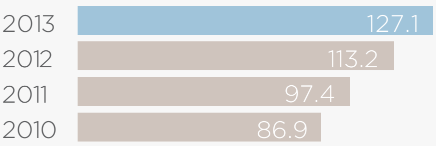
Gross margin change – basis points



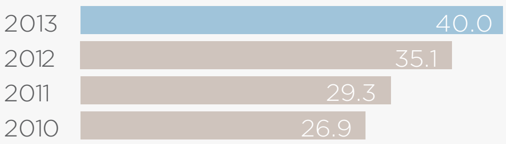
Operating margin – %



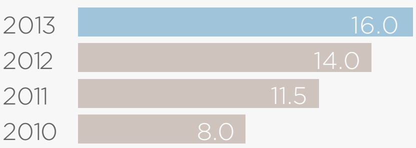
EBITDA – £m



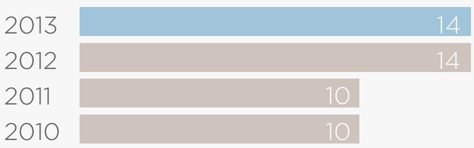
Earnings per share (diluted) – p



Ordinary dividend per share – p

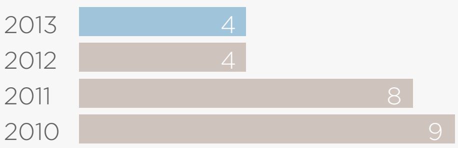


New superstore openings*



* Including relocations.

Major refits



Tax, PAT and EPS

The tax charge for the year was 24.6% of profit before tax compared with 26.0% in the prior year. This reflects the reduction in the headline rate of corporation tax to 23.75% (2012: 25.50%) as well as a one-off benefit received in 2012 as a result of a project that increased the level of assets qualifying for capital allowances. We expect the tax charge to trend approximately 100 bps above of the headline Corporation Tax rate going forward. This difference is mainly due to depreciation charged on non-qualifying capital expenditure.

Profit after tax was £81.5m (2012: £71.2m), an increase of 14.4%.

Basic earnings per share for the year ended 29 June 2013 was 40.2p (2012: 35.3p), an increase of 13.9%. Fully diluted EPS increased by 14.0% to 40.0p (2012: 35.1p).

Capital expenditure

Gross capital expenditure in the financial year was £26.5m compared with £38.6m last year. Significant investments were made in order to support continued growth and development of the Superstore portfolio with the addition of 14 new stores (58% of capital expenditure) and 14 refits. The remaining investment related mainly to IT activities, including a refresh of till systems, initial work on upgrading our core enterprise system ('SAP') due to be completed this autumn and initial work on implementing a new technology platform for our multi-channel offer.

Working capital

Investment in working capital increased by £3.4m over the year, primarily as a result of additional stock to support the expansion in the store estate, partially offset by lower average inventories per store.

Cash position and dividend

Dunelm remains a highly cash generative business. In 2013 the Group generated £100.4m (2012: £91.9m) of net cash from operating activities, an increase of 9.2%. Net cash resources at the end of the year were £44.7m (2012: £65.2m) with daily average cleared funds over the course of the financial year £66.2m (2012: £57.6m).

An interim dividend of 4.5p was paid in April 2013 (2012: 4.0p). It is proposed to pay a final dividend of 11.5p per share (2012: 10.0p). The total dividend of 16.0p represents a 14.3% increase over last year reflecting the Group's strong financial performance and leaves dividend cover of 2.5x, in line with our target. This dividend will be paid on 20 December 2013 to shareholders on the register at the close of business on 29 November 2013.

The Board reviews the Group's funding position on a regular basis and has concluded that access to committed lines of external funding is not required in the short term. Dunelm continues to maintain uncommitted lines of funding with partner banks whilst trading with a positive net cash position.

Additional returns to shareholders

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

During the year, the Group returned excess capital of £65.8m (32.5p per share) to shareholders via a B/C share scheme.

In keeping with its capital policy and taking into account the Group's current financial strength; anticipated trading performance; its known and anticipated investment plans; and the level of cash available, the Board has also announced that surplus cash amounting to £50.7m (25.0p per share) will be returned to shareholders in the form of a special dividend. This will be paid on 11 October 2013 to shareholders on the register at the close of business on 20 September 2013.

Share buyback

The Board has decided to commence the purchase of shares to hold in treasury in order to satisfy future exercises of options granted under incentive plans and other share schemes. This will avoid issuing new shares, which has been our general practice historically. This programme will commence in October 2013 and over time we expect to build a holding equivalent to approximately 60% of outstanding options at any time (currently 2.3m options).

Financial risk and treasury management

The Group Board has established an overall Treasury Policy, day-to-day management of which is delegated to the Finance Director. This policy ensures the following;

- Effective management of all Clearing Bank operations.
- Access to appropriate levels of funding and liquidity.
- Optimal investment of surplus cash within approved risk/return profile.
- Appropriate management of foreign exchange exposures and cash flows.

Key performance indicators

In addition to the traditional financial measures of sales and profits, the Directors review business performance each month using a range of other KPIs. These include measures shown on page 18, opposite.

David Stead
Finance Director

12 September 2013

Key risks and uncertainties

In common with all businesses, Dunelm faces risks and uncertainties, the effective management of which is necessary to enable us to achieve our strategic objectives and to secure our business for the long term.

Our risk management process aims to ensure that the business balances both risk and reward and makes sound judgements as to likelihood and impact.

Periodic risk identification and assessment workshops are in place involving senior management representing all parts of the business to review the risk profile of the organisation and to assess the potential likelihood and impact of those risks. The Group's Risk Register, which lists and ranks the risks in terms of both potential impact as well as relative importance, is updated following these workshops.

Quarterly reviews of these risks and the controls in place to address them are undertaken by management and the Board gains assurance through twice yearly reviews, as well as by regular challenge to the executive team.

Further details of our governance and risk framework is set out in the Corporate Governance report on pages 36 to 42.

Our assessment of the principal risks facing the business are set out below:

The Board has overall responsibility for risk management, internal control and business continuity and determines the nature and extent of the risks it is willing to take

Key – Link to strategy

- Develop our specialist proposition
- Expand our store portfolio
- Grow multi-channel
- Develop and exploit our infrastructure

Brand reputation, product and service quality

Performance Indicator:
Product complaints and recalls

Executive responsibility:
Nick Wharton, Chief Executive

Impact compared to 2011/12:
Increasing

Description

The quality and safety of our stores products and services (including coffee shops) is essential to the business. If our specialist proposition fails to deliver this there is a risk that individuals could be harmed and that reputational damage could lead to consumers, colleagues and other stakeholders losing confidence in the brand.

Mitigation

- We have a range of policies specifying the quality of products and production processes that are signed up to by suppliers.
- We operate a full test schedule for all new products and on a sample basis for ongoing lines, overseen by our specialist Technology team. This also covers human rights concerns.
- Food hygiene is maintained through the adoption of clear operating guidelines contained in the Groups 'Food Safety Manual'. Staff certification is compulsory and risk assessments, equipment inspections and compliance audits are in constant use to ensure standards are maintained.
- We continue to invest in a re-fit programme to ensure stores remain contemporary and provide a high quality shopping environment.
- All our operating locations are subject to regular health and safety compliance audits to ensure they provide a safe and secure environment.

Progress in 2012/13

- Our policies and procedures have been reviewed and updated.
- Our product recall procedure has been reviewed.

Competition

Performance Indicator:
Market share

Executive responsibility:
Nick Wharton, Chief Executive

Impact compared to 2011/12:
Same

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

Mitigation
- The Board continually monitors Group performance within the Homewares market and against specific competitive threats.
- Continuous brand tracking also operates to gauge relative customer perception and experience.
- We have a strong focus on new product development, both in existing and new homewares categories, to strengthen our specialist proposition.
- We are investing significant resource to develop and enhance our multi-channel customer offer.

Progress in 2012/13
- We are now the UK's leading homewares retailer with a market share of 6.9%.
- We have redirected the tasks of our colleagues in-store towards activities which enhance the customer experience.
- We have Introduced a new customer feedback system which enables us to react quickly to both positive and negative feedback.
- Increased marketing expenditure has helped raise awareness of our brand.
- Our online sales now account for 4.1% of total sales (up from 2.5% in 2011/12).

Compliance

Performance Indicator:
Prosecution and other regulatory action

Executive responsibility:
Nick Wharton, Chief Executive

Impact compared to 2011/12:
Same

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

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

Progress in 2012/13
- Training on the requirements of the Bribery Act and on competition law has been extended to relevant colleagues.
- Human Resources policies and health and safety policies and procedures are kept under constant review. For further details please see our Corporate social responsibility report on pages 24 to 32.

Information technology

Performance Indicator:
Number of major incidents

Executive responsibility:
Nick Wharton, Chief Executive

Impact compared to 2011/12:
Increasing

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

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

Progress in 2012/13
- We have recruited a Chief Information Officer and we have increased investment in our IT function.
- We have commenced a major upgrade of our core SAP system which should be completed in 2013.
- We have commenced the upgrade of our multi-channel platform due to be completed in 2013/14.
- Disaster recovery plans have been reviewed in 2012/13 and all have been tested.

Key risks and uncertainties continued

Economic uncertainty

Performance Indicator:
Financial performance relative to competitors

Executive responsibility:
Nick Wharton, Chief Executive

Impact compared to 2011/12:
Same

Description
Consumer confidence remains relatively low. This may result in difficult trading conditions in the retail sector as a whole limiting profitability and growth opportunities.

Mitigation
- We offer goods across a range of price points, enabling customers to trade up or down as they wish.
- Our focus on maintaining a low cost base enables us to keep prices competitive.
- We monitor competitor pricing and consumer behaviour to enable us to adjust our offer quickly where needed.

Progress in 2012/13
- We continue to offer a range of targeted promotions both on our regular range and 'one off' products.
- Permanent price reductions have been made in certain core ranges.
- Our range of own brand products at lower prices has been expanded.

Commodity prices

Performance Indicator:
Gross margin

Executive responsibility:
David Stead, Finance Director

Impact compared to 2011/12:
Reducing

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

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

Progress in 2012/13
- 16.2% of our products are now sourced directly from the Far East (14.3% 2011/12).
- Foreign currency hedging has been increased to provide a greater level of certainty in commercial decision making.

Portfolio expansion

Performance Indicator:
Number of new store openings and pipeline

Executive responsibility:
Nick Wharton, Chief Executive

Impact compared to 2011/12:
Increasing

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

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

Progress in 2012/13
- Our strategy for the acquisition of sites in key catchment areas remains under regular review.
- We have legally completed on 10 new stores due to open in 2013/14 and beyond.

Infrastructure

Performance Indicator:
n/a

Executive responsibility:
Nick Wharton,
Chief Executive

Impact compared to 2011/12:
Increasing

Description

The Group could suffer the loss of a major facility with a consequent impact on short-term trading or diversion of focus from longer-term strategy and planning. This could materially affect the profitability of the business.

The Group could suffer the loss of a major supply partner also impacting short-term trading.

Mitigation

- Physical infrastructure – Head office, workroom, multi-channel and distribution centre activities are all subject to disaster recovery plans and could all operate from fall back facilities.
- Suppliers – The Group seeks to mitigate this risk by limiting the dependency on individual suppliers and by actively managing key supplier relationships. High stock service levels and a high proportion of direct-to-store deliveries further mitigate supply chain risk.

Progress in 2012/13

- We have carried out desk-top simulations of disaster scenarios affecting our major facilities.
- We have moved away from UK supplies to direct sourcing from factories in cases where supplier capability issues were identified.

Finance and treasury

Performance Indicator:
Available funds

Executive responsibility:
David Stead,
Finance Director

Impact compared to 2011/12:
Same

Description

Lack of appropriate levels of cash resources or exposure to significant variations in interest rates or exchange rates could have an impact on the Group's operations and growth plans.

Mitigation

- We have significant cash surpluses and further uncommitted borrowing facilities with partner banks to fund growth plans. In addition, cash flows are monitored weekly against agreed budgets.
- A Group Treasury Policy is in place to govern cash management strategies and to control foreign exchange exposures.

Progress in 2012/13

- We returned £65.8m of cash to shareholders in November 2012, in addition to our ordinary dividend.
- Net cash reserves at the end of the year were £44.7m.
- We have announced a further special dividend worth £50.7m to be paid on 11 October 2013.

Key personnel

Performance Indicator:
Colleague retention

Executive responsibility:
Nick Wharton,
Chief Executive

Impact compared to 2011/12:
Reducing

Description

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

Mitigation

- The composition of the Executive team is kept under constant review by the Board to ensure that it is appropriate to deliver the growth plans of the business.
- Succession plans and annual appraisals are in place across the Group.
- The Executive Board seeks to develop high calibre individuals through sponsored talent management and succession planning.
- The Group's remuneration policy detailed on page 48 is designed to ensure that high calibre executives are attracted and retained. Lock-in of senior management is supported by awards under the Long-Term Incentive Plan and Company Share Option Plan.

Progress in 2012/13

- In 2012/13 a Chief Information Officer was appointed at Executive Board level to support the future growth needs of the business.
- No members of the Executive Board or Leadership Group have left the business in 2012/13.

Nick Wharton
Chief Executive

David Stead
Finance Director

12 September 2013

Corporate Social Responsibility report (CSR)

We take CSR seriously because it matters to our customers and our colleagues, it affects profitability and it is important for our reputation

Highlights

- Zero waste to landfill achieved in December 2012
- 'Customer First' programme focuses colleague time on customer facing activities
- Colleague engagement survey completed and colleague council relaunched
- New combined supplier technical and ethical audit standard introduced

Our key CSR considerations

Customers	Colleagues	Health and Safety	Suppliers	Environment	Community

CSR Consideration	Why it matters to Dunelm
Customers	The success and future growth of our business depends on us being able to deliver a wide choice of products and services to our customers, that are great value, from a convenient location
Colleagues	We employ over 8,000 colleagues across our stores and in our distribution, manufacturing and store support centre locations. Without their hard work and dedication we would be unable to deliver great products and services to our customers and successfully grow and develop our business
Health and Safety	We recognise that we have a duty of care to ensure the health and safety of customers, colleagues, contractors and all other visitors to our premises. Health and safety risk management is an integral part of the core standards that we set for our business
Suppliers	We do not manufacture our own products, therefore we need to maintain relationships with suppliers and manufacturers worldwide who can meet our high standards for design, innovation, quality and value. These suppliers must also demonstrate that they operate in accordance with recognised standards that uphold human rights
Environment	We recognise that we have a responsibility to manage the impact of our business on the environment both now and in the future. The Group is committed to controlling and minimising the impact of its operations in the key areas of waste management, energy consumption and carbon (CO_2) emissions
Community	As a responsible retailer, we are committed to supporting charities, both on a national and a local basis

How do we manage CSR?

We do not treat CSR as a separate function: Ultimate accountability rests with the Board; individual Directors and senior managers have responsibility for CSR topics through their role accountabilities.

The diagram below sets out how we manage CSR matters:

Board	Overall responsibility for CSR	• *Approve policies* • *Executive members have line responsibility for managing specific CSR topics* • *Monitor KPIs through Board reports* • *Annual presentations on health and safety and suppliers (ethical trading)*
Executive Board	Members have line responsibility for managing specific CSR topics	• *KPIs monitored by the Executive Board*
Dialogue and Communication	• *Customers: through social media* • *Colleagues: In-house magazine and through Colleagues' Council* • *Suppliers: Annual conference and meetings throughout the year* • *Others: social media, corporate website*	

CSR Report continued

Customers

Champion: Chief Operating Officer

What do we do?

We aim to provide to our customers:

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

What have we achieved this year?

2012/13 objectives	Achievements
Continue to collect and act on feedback from our customers	Weekly survey measures customer satisfaction Quarterly survey covers a range of measures against our competitors Results fed back into our customer offer and the 'Customer First' programme
Refocus colleague tasks in-store	We rolled out our 'Customer First' training programme so colleagues now spend more time on customer-facing activities
Continue to improve our service to multi-channel customers	We launched our first catalogue in the autumn, followed by a spring version Same day service offered on 'Reserve and Collect' We upgraded our website to make it easier to navigate and to optimise performance for tablet users

Other achievements

Awards:

- UK's second favourite homewares retailer according to the 2013 Verdict survey (fourth in previous year).
- Readers of House Beautiful magazine voted us the Home Retailer of the year Gold Award for 2012 (second year running).

2013/14 objectives:

- Further development of our 'Customer First' initiative to enhance the customer experience in-store.
- A major upgrade of our online store to enable us to offer a far larger range of products for home delivery.
- Improved delivery service for online and catalogue orders from our new fulfilment centre.
- Roll out of our 'Dunelm at Home' bespoke curtain and window treatment service.

Colleagues

Champion: Finance Director

What do we do?

We are a growing business and we need to be able to attract and retain colleagues to help us deliver our development plans. We offer a competitive remuneration and benefits package, including our annual sharesave scheme which is open to all colleagues.

We are an equal opportunities employer; our policy is to recruit, develop, promote and retain skilled and motivated people regardless of disability, race, religion or belief, sex, sexual orientation, gender reassignment, marital status or age.

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

We offer a range of training and development opportunities to colleagues at all levels of the business. These include:

- Nationally accredited modern apprenticeships and NVQs.
- Our graduate programme, which leads to an Institute of Leadership and Management qualification.
- Support for colleagues studying for professional qualifications, such as in finance, HR and IT.
- A range of workshops in key management skills, such as leadership and communications.
- Interactive computer based product knowledge and other training.

What have we achieved this year?

2012/13 objectives	Achievements
Double the number of places on our graduate programme	We recruited 17 graduates in September 2012 (compared with 6 in 2011)
Conduct an employee engagement survey across the Group	Survey completed in September 2012 and a further survey planned for September 2013
Colleagues' Council will be relaunched	This was relaunched across the business with a set timetable for local and area meetings. Feedback and suggestions are put forward every six months to our Executive Board
Continue to improve our colleague training opportunities, through structured programmes and additional modules on the Dunelm Academy	Significant training programme launched for all store based colleagues under the 'Customer First' initiative. We continue to invest in training for all colleagues including product knowledge and management development programmes
Work with partners to provide opportunities to the unemployed	We have continued to provide work experience opportunities for the long-term unemployed this year and developed strong relationships with Job Centre Plus. We continue to offer enhanced support to job applicants who have been unemployed for six months or more

Other achievements

We launched the role of Team Leader across all stores with clear accountabilities and opportunities to develop into management.

A suite of management development workshops was launched to all Team Leaders across our stores and to first line managers within our Store Support Centre.

Successfully opened 14 new stores with fully recruited teams.

2013/14 objectives

- Review of our current careers website to be undertaken.
- Roll-out second module of our 'Customer First' programme to all retail colleagues.
- Roll-out a 'Customer First' Programme to all non-retail areas of the business.
- Continue to develop and deliver learning and development initiatives to meet the needs of the business.
- Respond to issues and opportunities identified from the engagement survey taking place in September.
- Continue to recruit and train colleagues in line with our new store opening programme.

CSR Report continued

Health and safety

Champion: Chief Operating Officer

What do we do?

The Board is ultimately responsible for the creation and implementation of our health and safety policy and procedures, which include an effective system of 'upward' and 'downward' communication, appropriate standards for monitoring performance and for ensuring that sufficient resources are available to support this activity.

Health and safety is a standard agenda item at every Board meeting and the Board receives a monthly report and a formal annual presentation from the Group's Health and Safety manager.

Regular Health and Safety review meetings held between the Group's Health and Safety Manager and senior management from key operational functions. These meetings ensure risks are understood and that relevant mitigating action has been taken to provide a safe environment.

Each store manager is responsible for ensuring the implementation of health and safety policy and procedures in his or her store, supported by the area manager and the Group Health and Safety Manager. Risk assessments are in place and updated as required.

We have an in-house health and safety audit document, which proactively addresses health and safety risk and is updated every six months. The audit covers stores, workplace transport, store development, warehousing and the store support centre. Our stores complete an online self audit monthly and area managers audit all of their stores at least once a year. This is backed up by our in-house operational audit team and followed up by the Group Health and Safety Manager.

We have an ongoing programme of education and training, including DVDs and interactive computer based learning.

What have we achieved this year?

2012/2013 Objectives	Achievements
Further utilise and develop the intranet and e-learning systems for training and central recording of site documentation	We have introduced a Training and Development team within the HR department to manage the training for all colleagues assisted through e-learning
Review and improve our key risk controls for:	
• Fire Safety	Annual extinguisher training introduced
• Work Related Road Safety	Driver guide fully reviewed
• Workplace Transport	Six monthly driver survey completed

Other achievements

By targeting high standards of compliance to Company procedures and using positive reinforcement of success achieved, we have been able to improve compliance against our internal audit to 89% for 2012/13 (82% 2011/12). We have seen an accident rate of 3.9 accidents for every 100,000 visits (up from 3.5 in 2011/12), which reflects our focus on ensuring that all accidents are recorded, however minor. The proportion of accidents involving very minor incidents (no treatment required) is high: 52% of customer accident reports and 42% of colleague reports.

Customer accidents

Actions taken to address two key areas for accidents to customers have seen excellent results:

- *Car Park trips* – six monthly inspection surveys with remedial repairs have been implemented which has resulted in a 50% reduction in reported accidents from this cause in January to June 2013 compared with the previous six months.
- *Falling canvasses* – Adjustments to our display stands have resulted in a 32% reduction in reported accidents from this cause in January to June 2013 compared with the previous six months.

Colleague accidents

The extended use of 'totes' for stock deliveries and the introduction of plastic pallets in place of wooden pallets has led to a reduction in colleague accidents:

- *Deliveries* – a reduction of 24% of accidents in January to June 2013 compared to the previous six months.
- *Replenishment* – a reduction of 38% of accidents in January to June 2013 compared with the previous six months.

2013/14 objectives

- Review and update Health and Safety training DVDs.
- Develop an online accident reporting system.
- Development of new claim handling procedures in line with requirements of legal reforms.

Suppliers

Champion: Buying Director

What do we do?
We work with our suppliers to ensure that our products are produced in clean and safe environments, that workers are treated with respect and earn a reasonable wage and that suppliers work within the relevant local laws and regulations. All direct suppliers are required to sign up to our 'Code of Conduct' enforced by a full programme of independent factory audits at least every three years, based on the Ethical Trading Initiative ('ETI') base code. Following the well publicised factory fire in Bangladesh (not a Dunelm supplier) we extended our audit to specifically cover building safety.

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

We aim to treat all of our suppliers fairly and consistently. We ask all of our suppliers to sign our standard terms and conditions. All new suppliers are made aware of the basis of trade with Dunelm and in particular our standard payment terms in advance of commencing trade. The number of days' purchases outstanding for payment at 29 June 2013 was 29 days (2012: 30 days).

What have we achieved this year?

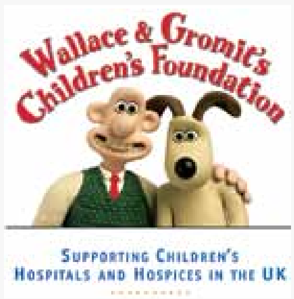
2012/13 objectives	Achievements
Work with partners to develop in-house ethical auditing expertise	New in-house combined technical and ethical audit implemented from December 2012– includes building safety
Upgrade supplier ethical audit database to give us greater visibility	Database cleansed and updated

Other achievements
We have formalised commercial arrangements with a small number of partners in the Far East – this will enable us to monitor adherence to our policies more closely.

2013/14 objectives
- Join SEDEX to gain better visibility of supply chain standards.
- Set targets for key suppliers to improve workplace conditions beyond the minimum.
- New sustainability standards to be introduced – to encourage better water usage, reduction of harmful effluents, use of recycled materials and energy efficiency.
- Procedure to be implemented to ensure full traceability for timber and paper products.

Community

Champion: Marketing Director



What do we do?
We adopt a 'charity of the year', for which collections are made in-store, specific fund-raising events are organised and the Group makes its own donations. Each store has a 'Charity Champion' and amounts raised by store are reported monthly, with the top three recognised in the Dunelm Gazette. We also support colleagues who are raising money for charities of their choice, often by matching the sums raised.

We have a monthly payroll lottery, half of the proceeds of this go to our chosen charity.

We do not make any political donations.

What have we achieved this year?

2012/13 objectives	Achievements
Support our Charity of the Year, Wallace and Gromit's children's charity whose objectives are to improve the quality of life of sick children in hospitals and hospices across the United Kingdom	Funds were raised through a variety of ways, including our payroll lottery, the annual Friends and Family night, (a themed fancy dress fundraising evening in store), through sale of pin badges, bake sales, fancy dress days, sample sales and the 'Wrong Trousers' day

The total value of donations made by the Group in the year ended 29 June 2013 was £80,000 (2012: £97,000). Total funds raised for charity by the Group and colleagues was £205,000 (2012: £192,000).

2013/14 objectives
- During 2013/14 our charity of the year will be Barnardo's.
- We will continue to support our colleagues in their charitable fundraising efforts.

CSR Report continued

Environment

Champion: Finance Director

Dunelm recognises that it has a responsibility to manage the impact of its business on the environment both now and in the future. The Group is committed to controlling and minimising the impact of its operations, directly and indirectly in the key areas of waste management, energy consumption and carbon (CO_2) emissions.

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

Our progress over the past financial year and our goals for the forthcoming year are detailed below:

1. Waste recycling

What do we do?

Dunelm is committed to increasing the volume of waste which is recycled and to reducing the volume of waste going to landfill. This commitment is championed by our National Recycling Manager.

During the year the company has continued to develop its 'Recycle at Work' initiative. This program ensures that colleagues are engaged and supported to deal appropriately with waste at a site-by-site level. All superstores and warehouses are equipped with balers to process waste at source, while colour coded bins and signage supports further grading and segregation of other waste streams. This initiative is underpinned by annual site audits to ensure ongoing compliance and improvement.

In the year we have invested in an industrial paper shredder. This adds to our capabilities and means that our national recycling centre can now recycle all of our cardboard, plastics, paper, confidential paper, bottles and cans. This investment, combined with our drive in stores has increased the level of recycled waste to 82% (2012: 76%)

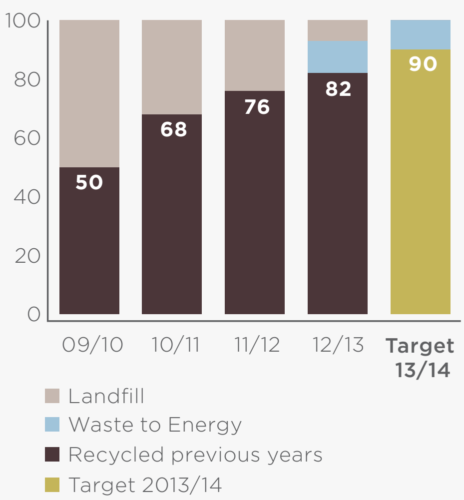
We have also engaged our suppliers to review the specification of packaging used to maximise recyclable content. All plastic packaging is now clear LDPE ('Low Density Polyethylene'), this product having a much greater recyclable content. The use of polystyrene has also been reduced.

This drive to improve our level of recycling has allowed us to divert all of our waste from landfill. Any waste that is not recycled within the business is sent offsite for further sortation, to extract other recyclable content, and the remaining 'general waste' is incinerated in a waste to energy plant with carbon capture technology.

What have we achieved this year?

2012/13 objectives	Achievements
Reduce all waste to landfill to zero	Dunelm achieved a 'Zero Waste to Landfill' status in December 2012.
Increase use of reusable totes in the supply chain	Deliveries in reusable totes now account for 17% of all supplier deliveries

Waste recycled (all stores) – %



2013-14 objectives

- To maintain 'zero waste to landfill'.
- To increase the recycled element of waste to over 90%.
- To reduce the level of polystyrene in packaging by 50%.

2. Energy usage

What do we do?

Energy reduction on a site-by-site basis has been a key focus for the Group in the last financial year.

Dunelm fit AMR ('Automatic Meter Reading') smart meters in all sites to monitor and control all electricity and gas supplies. Data on energy consumption is pulsed through on a half-hourly basis allowing us to profile high or unusual patterns, target specific sites and to monitor the success of our energy reduction initiatives.

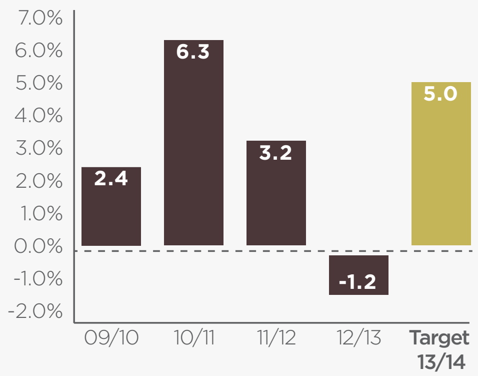
All investments in new and refitted stores now come with a Building Management System ('BMS') as standard. This BMS is designed to optimise energy usage across the site while maintaining an appropriate shopping environment for our customers and colleagues. At the end of the year we had 118 stores (2012: 101) with BMS.

As a result of these actions we have reduced electricity usage in like-for-like stores by over 8% during the past three years. Last year in isolation, however, saw an increase of 1.2% as a result of extended operating hours as well as very unseasonal weather through a wet summer and historically cold March.

What have we achieved this year?

2012/13 objectives	Achievements
To reduce electricity usage by 5% in LFL stores	Target missed, Electricity consumption increased by 1.2% (see above)

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



2013/14 objectives

- To reduce electricity by 5% in LFL stores.
- To reduce gas usage by 10% in LFL stores.
- Fully trial LED lighting technologies in new stores.

3. Carbon emissions (CO_2)

What do we do?

Dunelm participate in the Environment Agency's Carbon Reduction Commitment ('CRC') scheme and have submitted annual reports for the last three years. During this time we have reduced our CO_2 equivalent emissions per ft^2 of selling space by 13%. The Group's carbon footprint from these 'core' supplies was 26,747 tonnes of CO_2 (2012: 23,234 tonnes), a year-on-year increase of 9 tonnes per store.

Over the past year we have continued to source electricity from 'Green Energy' supplies such as combined heat and power sources where CO_2 emissions are 30% lower than the national average. We have also signed a new energy supply agreement which commits the business to this source of energy for the next two years.

We continue to reduce the emissions generated by our company car fleet. Average emissions were 114 CO_2 g/km (2012: 120 CO_2 g/km) driven by the many fuel efficient options that exist on our car schemes.

During the year Dunelm achieved reaccreditation with the Carbon Trust Standard ('CTS') recognising our success and commitment to reducing our carbon footprint. This certification lasts until December 2014 and underlines our continuing commitment in this area.

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

This year we will focus on building design, in-store environment and investments to reduce consumption further. Continued investment and optimisation of BMS will remain a strategic goal and we aim to complete a full 'store-wide' LED lighting trial.

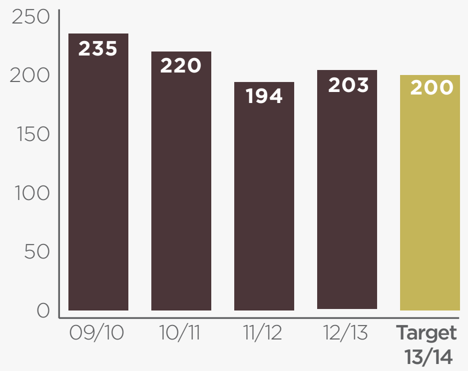
CSR Report continued

3. Carbon emissions (CO_2) *continued*

What have we achieved this year?

2012/13 objectives	Achievements
Work with partners to focus on carbon emissions	Achieved (See previous page)
Reduce relative CO_2 emissions per ft^2 year on year	Achieved

Carbon emissions – tonnes per store



2013/14 objectives

- To reduce relative CO_2 emissions year on year.
- To trial electricity generation from solar panels.

4. Product packaging

What do we do?

Dunelm continues to work with suppliers to reduce the absolute level of product packaging whilst at the same time improving its recyclable content.

In the year we have audited many of our waste streams to divert materials from landfill where possible. Most recently we have identified a particular specification of clear plastic or wrap that should be used by suppliers. This will be the standard for all suppliers going forward.

The Group is promoting a reduction in the use of 'single-use' carrier bags and has implemented a charge for these bags in all stores in Wales and Northern Ireland in line with legislation.

What have we achieved this year?

2012/13 objectives	Achievements
Reduce number of carrier bags per store by 10%	Achieved
Roll out use of totes	Achieved 17% of goods delivered to store via national carrier scheme in totes

2013/14 objectives:

- Eliminate polystyrene in all packaging.
- Increase recyclability of all product packaging.

Nick Wharton
Chief Executive

12 September 2013

Chairman's letter

Dear Shareholder
Governance has remained at the top of the external business agenda over the past year and we have continued to evolve our own arrangements in response.

In my letter last year I outlined our approach to governance, which is set out in detail in the corporate governance report which follows this letter. Put simply, we believe that sound governance is an essential requirement for long-term, sustainable growth and we apply regulatory guidelines in a pragmatic way that adds value to your Board and your Company.

Our appointment of Liz Doherty as an additional Non-Executive Director in May is part of our succession plan for the Board. Liz has broad operational and financial experience and a strong track record across a number of retail and consumer businesses, both here in the UK and abroad. Her experience of branding, marketing and multi-channel will be particularly valuable as the Dunelm business continues to grow.

In January we held our second Corporate Governance presentation, attended by a number of our major institutional shareholders and their representative bodies. We had an open discussion of a number of topics that are important to our shareholders and ourselves, including succession, remuneration and risk. Following on from this, we have made some changes to the performance-related remuneration of our Executive Directors, which Marion Sears, Chair of the Remuneration Committee, explains in her report.

In response to the increasing requirements of regulators and investors for us to focus more on risk, we have widened the terms of reference of our Audit Committee, which now becomes the Audit and Risk Committee. Notwithstanding the formal committee requirements, we see management of risk as a whole Board issue; we have also formally considered our 'risk appetite' in the context of our strategy discussions.

As required by the Corporate Governance Code, we appointed an independent third party to carry out our Board evaluation. The overall conclusion was that the Board is operating effectively and is closely aligned to the culture of the business. Further details are described in the Corporate Governance report.

In accordance with emerging best practice, we have defined and adopted an Investor Relations strategy, which includes our Corporate Governance presentation. Consequently, we have refreshed our investor relations website and included more content, particularly on Corporate Social Responsibility. We believe our Non-Executive Directors have more contact with institutional investors than our peers, through attendance at results presentations and a selection of the shareholder meetings which follow.

At our AGM this year we will again be seeking authority to buy back shares to satisfy employee share option entitlements. In view of Will Adderley's shareholding of 30.48% we will also need to request a waiver under the Takeover Code. We have listened to shareholder concerns about 'creeping control', and in the Corporate Governance report we have drawn more explicit attention to the safeguards against this, which we hope shareholders will consider in a positive light.

Yours sincerely

Geoff Cooper
Chairman

12 September 2013

Directors and officers

Committee memberships

Audit Committee member
Nominations Committee member
Remuneration Committee member

Bill Adderley Founder and Life President
Together with his wife Jean, founded the business in 1979. Although no longer on the Board or actively involved in management, Bill and Jean remain major shareholders.

1. Geoff Cooper
Non-Executive Chairman

Key strengths: A current CEO with extensive experience in international general management, the retail sector, finance and IT. Long-standing plc experience and shareholder understanding.

Dunelm role: Chairs the Board. Member of the Remuneration and Nominations Committees and attends Audit and Risk Committee meetings by invitation.

Regularly visits stores to meet store colleagues and members of the senior management team. Leads investor presentations and attends shareholder meetings.

Joined Dunelm Board: November 2004.

Previous Experience: Qualified accountant. Formerly a Director of Gateway (subsequently Somerfield plc). Then Finance Director and subsequently Deputy Chief Executive of Alliance UniChem plc.

Other Commitments: Chief Executive of Travis Perkins plc; Non-Executive Chairman of Bourne Leisure Holdings Limited.

2. Nick Wharton
Chief Executive Officer

Key strengths: Finance background, plc board experience and shareholder understanding, predominantly in retail. Strong process and operational focus. Knowledge and experience of e-commerce and Continental European retail markets.

Dunelm role: Leads the Group and chairs the Executive Board. In addition to his Board role, provides liaison with the Remuneration Committee for pay below Board level.

Joined Dunelm Board: August 2009 as an Independent Non-Executive Director. Appointed as CEO-designate in December 2010 and became CEO in February 2011.

Previous Experience: Qualified accountant. Early career in blue chip FMCG/retail businesses such as Cadbury and Boots. Formerly Finance Director of Halfords Group plc.

Other Commitments: None.

3. Will Adderley
Executive Deputy Chairman

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

Dunelm role: Member of the Nominations Committee and attends Remuneration Committee meetings by invitation. A major shareholder, who spends his time on strategic activities which protect and enhance shareholder value and embed the Group's culture and values.

Joined Dunelm Board: 1992, and has worked for Dunelm for his whole career. He took over the day-to-day running of the Group from his father in 1996. Remained as Chief Executive through the Group's IPO in 2006. Became Deputy Chairman in February 2011.

Previous Experience: All parts of Dunelm's business.

Other Commitments: None.

4. David Stead
Executive Finance Director

Key strengths: Finance background and extensive plc experience. Understanding of investor community and company secretarial matters. An experienced strategic and financial perspective across all Group functions.

Dunelm role: Leads the finance and HR departments, as well as taking responsibility for a number of cross-functional initiatives. Participates in Audit and Risk Committee meetings by invitation and sits on the Executive Board.

Joined Dunelm Board: September 2003.

Previous Experience: Qualified accountant. Formerly 14 years at Boots where he was Finance Director of Boots The Chemists and Finance Director of Boots Healthcare International.

Other Commitments: None.

5. Simon Emeny
Non-Executive Director

Key strengths: A current CEO with extensive general management experience in a retail model, customer service and hospitality expertise. Long-standing plc experience and shareholder understanding.

Dunelm role: Regularly visits stores to meet store colleagues and members of the senior management team. Attends investor presentations and shareholder meetings.

Joined Dunelm Board: June 2007.

Previous Experience: Sales and marketing, customer service and general management in the brewing and hospitality sector.

Other Commitments: Chief Executive of Fuller Smith and Turner plc.

6. Marion Sears
Non-Executive Senior Independent Director

Chair of Nominations and Remuneration Committees.

Key strengths: Extensive City, investor and banking experience including mergers and acquisitions. Customer focused and strategic. Long-standing plc experience and shareholder understanding.

Dunelm role: Regularly visits stores to meet store staff and members of the senior management team. Together with the Chairman, takes specific responsibility for co-ordinating the Board's corporate governance duties and for liaising with shareholders on corporate governance matters. Attends investor presentations and shareholder meetings.

Joined Dunelm Board: July 2004.

Previous Experience: Robert Fleming, JP Morgan Investment Banking.

Other Commitments: Non-Executive Director of Persimmon plc, Fidelity European Values plc and Octopus AIM and VCT plc.

7. Matt Davies
Non-Executive Director

Chair of Audit and Risk Committee.

Key strengths: A current CEO with extensive general management experience in retail with focus on HR, marketing, trading and customer service. A successful track record of building a branded out-of-town retail group nationwide in the UK with a strong service offer. Experience of the private equity industry and business model.

Dunelm role: Regularly visits stores to meet store colleagues and members of the senior management team. Attends investor presentations and shareholder meetings. Chairs the Audit and Risk Committee.

Joined Dunelm Board: February 2012.

Previous Experience: Qualified accountant. CEO of Pets at Home.

Other Commitments: Chief Executive Officer of Halfords Group plc

8. Liz Doherty
Non-Executive Director

Key strengths: A former CFO with extensive operational experience in international consumer and retail businesses, specifically with brands, marketing and online. Long-standing plc experience and shareholder understanding.

Dunelm role: Regularly visits stores to meet store colleagues and members of the senior management team. Attends investor presentations and shareholder meetings.

Joined Dunelm Board: May 2013.

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

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

9. Dawn Durrant
Company Secretary

Key strengths: Extensive plc company secretarial and legal experience including corporate governance, legal and regulatory compliance, mergers and acquisitions, company and commercial, retail and consumer law.

Dunelm role: Responsible for governance, legal and regulatory matters.

Joined Dunelm: November 2011

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

Other Commitments: None.

Corporate governance report

"We believe that sound Governance is an essential requirement for long-term sustainable growth."

2012/13 summary

Principal activities
- Full compliance with the Corporate Governance Code during the period
- Liz Doherty appointed to the Board as Non-Executive Director
- Corporate Governance presentation to investors held in January 2013
- Audit Committee becomes Audit and Risk Committee and specific Board consideration of risk appetite
- External Board evaluation conducted
- All Directors submitted for reappointment at the AGM
- Corporate website refreshed and content expanded
- Investor engagement policy formalised
- Further engagement with proxy advisers
- Rule 9 waiver approved to enable share buybacks; further approval sought at this year's AGM

Overview
Our approach to governance can be summarised as follows:

- We believe that good governance leads to stronger value creation and lower risks for shareholders.
- We support corporate governance guidelines and seek to apply them in a way that is meaningful to our business and consistent with our culture and values.
- If we decide that the interests of the Company and its shareholders can be better served by doing things in a different way, we will explain the reasons why.
- We believe that the Board's governance role includes to instil and maintain a culture of honesty, integrity and transparency throughout the business, through our policies, communications and by the way in which we act.

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

Code compliance
This report explains how we have applied the principles of good governance and code of best practice set out in the Corporate Governance Code (the 'Corporate Governance Code') published in June 2010.

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

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

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

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

The names and roles of each of the Directors are set out in the table below. Liz Doherty was appointed to the Board on 1 May 2013.

The Board considers that Geoff Cooper was independent on appointment and that Marion Sears, Simon Emeny, Matt

Geoff Cooper
Chair

Executives

Will Adderley
Deputy Chair

Nick Wharton
Chief Executive

David Stead
Finance Director

Independent Non-Executives

Marion Sears
Senior Independent Director

Matt Davies
Non-Executive Director

Simon Emeny
Non-Executive Director

Liz Doherty
Non-Executive Director

Davies and Liz Doherty are independent. Overall the Board considers that there is a good balance of Executive and Non-Executive Directors.

Two directors, Geoff Cooper and Marion Sears, will have served nine years on the Board during the 2013/14 financial year (seven years since flotation of the Company). The Board has specifically considered whether they continue to exhibit independence of character and judgement, and confirmed that they do. As noted in the report of the Nominations Committee, Board refreshment is a continued area of focus and the tenure of Directors is being considered as we manage succession over the next few years. Our policy on Board diversity is explained in the Nominations report.

The Board has adopted written statements setting out the respective responsibilities of the Chairman, Executive Deputy Chairman and the Chief Executive; these are available on the Group's website or from the Company Secretary. In general terms, the Chairman is responsible for running the Board and the Chief Executive is responsible for running the Group's business, supported by the Executive Deputy Chairman who focuses specifically on strategic activities which protect and enhance shareholder value and embed the Group's culture and values.

Board attendance

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

Director	Role	Meetings attended:
Geoff Cooper	Non-Executive Chairman	8
Marion Sears	Senior Independent Director and Chair of Remuneration and Nominations Committees	8
Will Adderley	Executive Deputy Chairman	7[2]
Simon Emeny	Independent Non-Executive Director	8
Nick Wharton	Chief Executive	8
David Stead	Finance Director	8
Matt Davies	Independent Non-Executive Director and Chair of Audit and Risk Committee	7[2]
Liz Doherty	Independent Non-Executive Director	2[1]

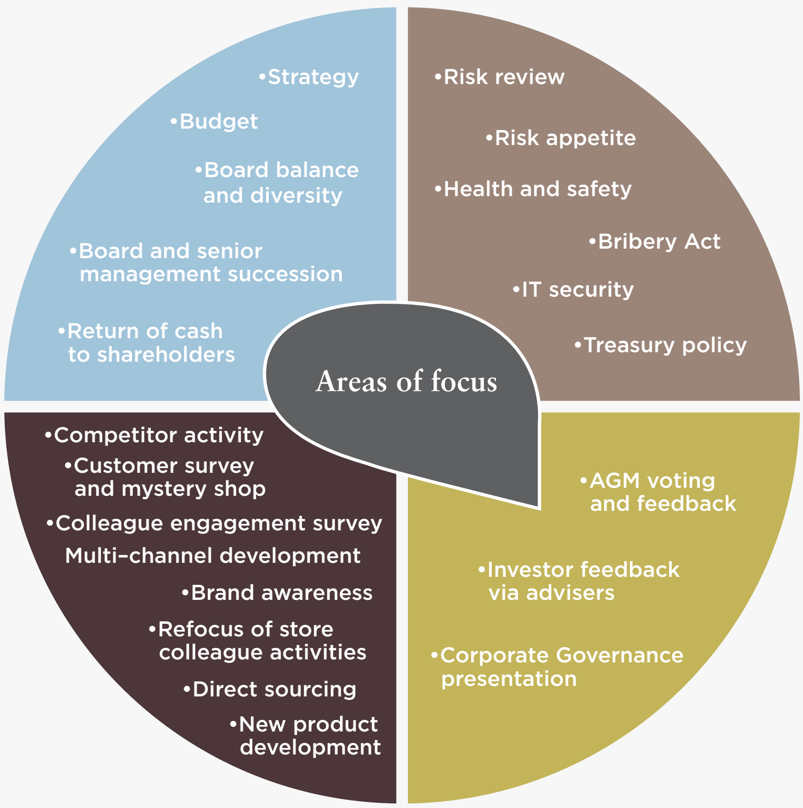
1 Liz Doherty attended all Board meetings since her appointment.

2 Directors make every effort to attend all meetings. A number of meetings needed to be rearranged during the year, and unfortunately Matt Davies and Will Adderley were each unable to attend one meeting. They still received the Board papers, and passed on comments in advance of the meeting via the Chairman.

Board activities

There is a schedule of matters reserved to the Board for decision or approval, which is available on the Group's website or from the Company Secretary. Examples of such matters include Group strategy and budget, Group capital structure, approval of financial results and report and accounts, significant capital or contractual commitments, maintaining internal control and risk management and approval of significant Group-wide policies.

At each meeting, the Chief Executive and the Finance Director report on operational performance (including health and safety) and the Finance Director reports on financial performance. There is a rolling agenda of other operational, strategic and risk topics which is regularly refreshed to reflect the most up to date strategy and 'live' issues in the business. The principal topics discussed by the Board in 2012/13 were:



Areas of Focus

- Strategic
- Risk
- Operational
- Assurance

Corporate governance report continued

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

Non-Executive Director Meetings
The Chairman and the other Non-Executive Directors met twice during the year without Executive Directors being present and regularly have informal individual meetings with the Executive Directors and other senior managers in the business, usually at a store location. In addition the Non-Executive Directors meet at least once a year without the Chairman present as part of the Board effectiveness review process, which includes a formal review of the Chairman's performance.

Board committees
The Board has appointed three committees, an Audit and Risk Committee, a Nominations Committee and a Remuneration Committee. The terms of reference of each of these committees can be found on the Group's website and are available from the Company Secretary.

During the period, the Audit Committee was renamed the Audit and Risk Committee and its terms of reference were widened, to reflect its increased focus on management of risk.

Details of the membership of the committees and of their activities during the past financial year can be found in the reports from the Chair of each of the committees on pages 43 to 59.

Training and induction
Upon joining the Board, any new Director is offered a comprehensive and tailored induction programme with visits to key sites and meetings with senior managers and other colleagues. For example, on appointment Liz Doherty was given access to recent Board and Committee papers, including strategy documentation. She met with each of the Executive Directors and the Company Secretary and visited a store with the Senior Independent Director. She toured the Group's warehouse with the Board in July, and will take part in the store visit programme described below.

As part of each Director's annual review any additional training or development needs are addressed. Please see the Directors' biographies on pages 34 and 35 for details of the specific skills and experience of each Director.

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

The Company Secretary reports monthly to the Board on new legal, regulatory and governance developments that affect the Group and actions are agreed where needed. The Board also received presentations from independent advisers on financial and governance issues. Directors attend seminars and tutorials provided by independent organisations which cover the whole range of governance topics.

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

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

Actions implemented during the period as a result of our 2012 evaluation included:

- Board agenda was refocused on significant strategic and decision items.
- We reviewed how the Board communicates with our stakeholders and considered it to be appropriate.
- Succession planning below Board level was considered.

This year Condign Board Consulting, an independent third party provider of Board evaluation services, was appointed to carry out our first external evaluation. Condign had no previous business relationship with the Group or any of the Directors and it is not intended that they be engaged to provide services of any other type to the Company in the future. The evaluation consisted of individual interviews with each Director and the Company Secretary, attendance at a Board meeting as an observer and review of Board packs.

The evaluation confirmed that:

- The Board is operating effectively and is closely aligned to the culture of the business.
- Appropriate balance is being achieved between governance, strategic and operational matters.
- NED succession planning is still an important area of focus.

Agreed actions planned as a result of the evaluation include:

- The Board succession plan will remain a regular Board agenda item (alongside formal Nominations Committee meetings).
- More time to be spent defining the Board's risk appetite.
- Contacts between NEDs and between NEDs and Executive Directors/Executive Board members, to be timetabled formally.

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

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

The Chief Executive and the Finance Director report back to the Board after the investor roadshows. The Group's brokers also provide a written feedback report and attend a Board meeting annually to discuss investor views.

The Corporate Governance presentation was hosted by Geoff Cooper, the Chairman and the other Non-Executive Directors in January 2013, with the Deputy Chairman Will Adderley representing the Adderley family shareholding. 14 institutional investors and investor representatives attended. The presentation covered our approach to corporate governance, risk, audit, remuneration, nominations, corporate social responsibility, changes since last year and live issues. We find this a useful way to communicate and exchange views outside the busy pre AGM period, and it has been well received by attendees.

We also offered to meet with the main proxy advisers and Marion Sears, the Senior Independent Director and Dawn Durrant, the Company Secretary, met with two of them separately to explain our governance approach.

We upgraded our corporate website in September, to make it more user-friendly and also to add information and policies in relation to governance and corporate social responsibility. Please see http://dunelm-mill.production.investis.com

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

Rule 9 waiver
We will be requesting authority to buy back up to 5m shares (2.5% of our share capital) at the AGM. As our Deputy Chairman, Will Adderley, has a beneficial interest in 30.48% of our share capital, in order to exercise this right we have to ask shareholders to approve a waiver of Rule 9 of the Takeover Code, which would otherwise require him to make an offer to buy all of the shares in the Company. We understand that a number of shareholders have concerns about Rule 9 waivers in general, as they can lead to major shareholders gaining 'creeping control'; as a result they automatically vote 'against' the resolution.

We would like to reassure shareholders that:

- Shares bought back by the Company would be held in treasury and used only to satisfy share option entitlements, and not cancelled.
- From 2012, Will Adderley no longer participates in the Long Term Incentive Plan and therefore his shareholding will not increase through that mechanism.
- Since flotation of the Company in 2006, the Adderley family has reduced its holding (from 67% to just over 54% currently).
- There has been a Relationship Agreement in place since flotation which provides safeguards to other shareholders – for details please see the Directors' Report on page 60.

We therefore request that shareholders take into account our specific circumstances when making their voting decision in relation to the waiver resolution.

Significant shareholders
The Group's significant shareholders are listed in the Directors' report on page 62 and voting rights are stated on page 60.

Corporate governance report continued

Conflicts of interest
The Companies Act 2006 allows the Board of a public company to authorise conflicts and potential conflicts of interest of individual Directors where the Articles of Association contain a provision to that effect. The Company's Articles of Association give the Board this authority subject to the following safeguards:

- Directors who have an interest in matters under discussion at a Board meeting must declare that interest and abstain from voting.
- Only Directors who have no interest in the matter being considered are able to approve a conflict of interest and, in taking that decision the Directors must act in a way they consider, in good faith, would be most likely to promote the success of the Company.

The Directors are able to impose limits or conditions when giving authorisation if they feel this is appropriate.

All Directors are required to disclose any actual or potential conflicts to the Board and the following existing conflicts have been considered and approved:

- Will Adderley is a major shareholder and connected to other major shareholders. Authorised on the basis that Mr Adderley continues to abide by the terms of the Relationship Agreement entered into between himself, other major shareholders and the Company on flotation of the Company in 2006.
- Geoff Cooper is a Director of Travis Perkins plc which potentially competes with the Company for retail property. Authorised on the basis that Mr Cooper is not involved in day to day decisions in relation to the property portfolio in either Company.

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

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

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

Appointment and removal of Directors
The Articles of Association of the Company provide that a Director may be appointed by ordinary resolution of the Company's shareholders in general meeting, or by the Board so long as the Director stands down and offers himself for election at the next Annual General Meeting of the Company. The Articles also provide that each Director must stand down and offer him or herself for re-election by shareholders at the Annual General Meeting at least every three years. The Board has decided to adopt the requirement of the Corporate Governance Code, that all Directors should stand down and offer themselves for re-election at each Annual General Meeting.

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

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

In accordance with the Corporate Governance Code, all Directors will retire from the Board and offer themselves for re-election at the Annual General Meeting.

Powers of Directors
The business of the Company is managed by the Board, which may exercise all of the powers of the Company, subject to the requirements of the Companies Act, the Articles of Association of the Company and any special resolution of the Company. As stated above, the Board has adopted internal delegations of authority in accordance with the Code and these set out matters which are reserved to the Board or committees and the powers and duties of the Chairman, the Executive Deputy Chairman and the Chief Executive respectively.

At the Annual General Meetings of the Company from 2007 onwards, the Board sought and was given authority to issue shares and to buy back and reissue shares. Similar resolutions are being tabled at the 2013 Annual General Meeting, together with a waiver of any obligation of Will Adderley under the City Code on Takeovers and Mergers to make an offer for all of the shares of the Company if the authority to buy back shares is used. Any shares bought back would be held in treasury for reissue to employees who exercise options under one of the Group's share incentive schemes. For further details see the Notice of Annual General Meeting which accompanies this report.

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

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

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

Governance and risk
- Risk is a 'whole Board' matter for Dunelm. We do not have a separate Risk Committee, although we have renamed our Audit Committee as the Audit and Risk Committee, to reflect the additional risk activities that it is undertaking.

We believe that risk is best managed by a combination of the following:

- Formal risk management processes as described in this report.
- The Board and senior management leading by example.
- Alignment through shareholding.
- Embedding our culture and ethics.

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

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

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

- Risk management is a collective Board responsibility. Risks are reviewed formally twice a year and separately management consider 'what keeps us awake at night'. Important risk topics are covered in-depth either by regular timetabled presentations (e.g. health and safety), by 'Deep Dive' discussions (e.g. supply chain security), or regularly as a standard agenda item (e.g. competitor activity). In addition, KPIs covering risk topics are contained in the standard reports presented at each meeting.
- The Audit and Risk Committee is responsible for overseeing the risk management framework. Risks are reviewed by the Committee formally twice a year. Risk topics selected by the Audit and Risk Committee are considered 'in-depth' at Board meetings, supported by a paper prepared by the relevant executive. In the period topics covered included IT disaster planning, cyber security and Bribery Act compliance.
- In February, we revised the terms of reference of the Audit Committee and renamed it the Audit and Risk Committee, to reflect the increasing onus on Boards to understand and manage risk. We did consider whether a separate risk committee should be formed, but decided against this in the light of the size of the Board and our belief that the Board as a whole is responsible for managing risk.
- A register of major strategic and operational risks is maintained. Each risk is documented, together with the mitigating factors and controls in place to manage it. Risks are assessed in terms of impact and likelihood and the 'top 10' risks are identified for specific focus. A member of the Executive Board is allocated responsibility for management of each risk.
- The Executive Board reviews the risk register periodically throughout the year. It is presented twice per annum to the Audit and Risk Committee and key risks and mitigating actions are taken on to the Board agenda for monitoring as appropriate.

Corporate governance report continued

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

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

The system of internal control comprises:

- A list of matters specifically reserved for Board approval, for example significant capital expenditure.
- A well-established control framework comprising clear structures and accountabilities for colleagues, well understood policies and procedures and budgeting and review processes.
- Each Head of Department and store manager has clear responsibilities and operates within defined policies and procedures covering such areas as financial targets, human resources management, customer service, health and safety.
- The Executive Directors and Executive Board monitor compliance with these policies and procedures in the course of regular reviews.
- In addition there is a rolling programme of review of store compliance by the operational audit team.

The Audit and Risk Committee has oversight of the system of internal controls and of the internal audit programme (see below) and receives the report of the external auditor following the annual statutory audit.

In February 2013, the Audit and Risk Committee reconsidered whether an internal audit function is required. In previous years the Committee has not considered this to be necessary in view of the adequacy of internal and risk management controls and reporting in place, the relatively low level of complexity in the business and the close involvement of the Executive Directors in the operation of the business. This assessment was supported by KPMG.

However, as the business grows in size and complexity, the Committee has decided that some internal audit activities should be undertaken. These could be carried out either by external or internal teams, reporting to the Audit and Risk Committee. The programme will be in place from 2013/14 and will initially cover topics including business continuity, compliance with delegated authorities and employment taxes.

Please note that internal control systems such as this are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute, assurance against material loss or accounting misstatement.

Bribery Act 2010
Following the coming into force of the Bribery Act in July 2011, we have reviewed the procedures in place to ensure that we are able to comply with its requirements. Actions taken include:

- Anti-corruption and anti-bribery policy implemented.
- The policy on acceptance of gifts and other privileges has been updated and a formal procedure has been implemented for signing off and logging hospitality.
- Executive Board members and Heads of Department have received training and also signed a declaration of compliance, which is an annual process.
- Standard terms and conditions for suppliers include a Bribery Act clause.
- The Whistleblowing Policy refers specifically to the Bribery Act.

Actions taken in the past financial year include:

- Training extended to the whole of the Buying, Merchandising and Quality teams.
- Formalising agreement terms with certain 'high risk' partners.
- Induction for relevant individuals to include a briefing on policy requirements.

Geoff Cooper
Chairman

12 September 2013.

Letter from the Chair of the Audit and Risk Committee

Matt Davies
Chair of the Audit and Risk Committee

"We have reflected the external focus on management of risk by widening the terms of reference of the Committee."

Dear Shareholder,

Much external discussion in relation to corporate governance in the past year has focused on management of risk and we have reflected this by renaming and widening the terms of reference of this Committee to encompass risk as well as audit. This change formalises activities already in place, with the Committee taking oversight of the processes for managing risk and its standing agenda items already including topics such as fraud and Bribery Act.

As in previous years, we have reviewed the need for an internal audit function. Recognising the increasing size and complexity of the business, we have decided that some element of assurance is now appropriate. We have identified a series of areas to be reviewed and on which reports will be provided to the Committee, with the reviews being carried out by a combination of internal and external expertise, depending on the subject matter. We consider that this approach will be both flexible and cost effective.

The Committee is aware of a growing trend towards rotation of external auditors. It is our intention to invite tenders for the 2013/14 audit.

Finally, shareholders will note that this year advisory fees paid by us to KPMG, our auditor, exceeded the audit fee. This was principally due to advice taken to help us structure and implement the B/C share scheme used to return capital to shareholders in November 2012. KPMG advised on the similar return of capital in 2010 and so were in the best position to help us. In addition, there was a specific project on capital allowances. The level of advisory fees paid to KPMG in the period was £154,917 versus the audit fee of £76,900. The committee considered that the independence of the audit was not affected, and I expect non-audit fees to return to a normal level from 2013/14.

I look forward to meeting shareholders at the AGM.

Yours sincerely,

Matt Davies
Chair of the Audit and Risk Committee

12 September 2013.

Audit and Risk Committee report

2012/13 summary

Principal activities
- Committee renamed Audit and Risk Committee and terms of reference widened
- Internal audit programme established
- Decision to tender statutory audit in 2013/14

This report provides details of the role of the Audit and Risk Committee and the work it has undertaken during the year.

The purpose of the Committee is to oversee the integrity of the Group's financial statements and public announcements relating to financial performance, to oversee the audit process, monitor the effectiveness of financial controls and the process for identifying and managing risk throughout the Group. In February 2013, the Committee was renamed the Audit and Risk Committee, and its terms of reference updated to include a formal review of the Board's risk appetite. These changes reflect the increasing role that the Committee is undertaking in the oversight of risk in the business.

The full terms of reference for the Committee can be found via the Group's website, www.dunelm.com.

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

The following Directors served on the Committee during the year:

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

The Company Secretary acts as secretary to the Committee.

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

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

Committee activities in 2012/13

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

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

1 There was no Committee meeting between the appointment of Liz Doherty on 1 May 2013 and the period end.

During the year the activities of the Committee included:

Routine items
- Approval of the full year results issued in September 2012 and the half year results issued in February 2013.
- Review of the process for identifying and managing risk within the business in September 2012, including a review of the risk register, and a mid year update of these in February 2013.
- Verification of the independence of the auditor and approval of the scope of the audit plan and the audit fee.
- Review and confirmation of the Group's policy for use of the auditors for non-audit work (please see below).
- Review of fraud and Bribery Act controls are standing agenda items for each meeting.

Specific topics
- Following our annual review of the requirement for an internal audit function, a programme of internal audit work has been agreed (please see below).
- The schedule of risk topics to be considered in-depth at Board meetings was updated, in the period they included cyber security, IT disaster planning and Bribery Act compliance.
- It was agreed that the Board should specifically consider the risk appetite of the Group – this happened as part of the Board's annual strategy review in May and will be monitored by the Committee.
- We considered the draft proposals by the United Kingdom Financial Reporting Council and by the European Union that would require companies to tender their external auditor and decided to tender the audit in 2013/14.

External auditor

The Group reappointed KPMG Audit plc as external auditor for the financial year ended 29 June 2013. The Group paid KPMG £76,900 in relation to the statutory audit of the Group and Company financial statements and the audit of Group subsidiaries pursuant to legislation.

The Committee had the opportunity to meet privately with the auditors during the period.

Use of auditors for non-audit work

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

Our policy is simple – we will only use auditors 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.

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

During the year, our audit fee was £76,900 and fees for work carried out by KPMG on other projects were £154,917 broken down as follows:

Project	Fee	Comment
Tax advice on return of capital via B/C share scheme	£65,000	KPMG advised on the previous return of cash in 2010 and therefore had the most relevant expertise of this specific structure
Capital Allowances Project	£51,567	KPMG have previous relevant experience of the business thereby providing demonstratively better value in a tender process
Tax Compliance	£29,600	KPMG have previous relevant experience of the business and so were the most appropriate partner
Miscellaneous Tax Advice	£5,000	KPMG have knowledge gained though previous tax projects and so were the most appropriate partner
Other	£3,750	KPMG have previous relevant experience of the business and so were the most appropriate partner

Fees for non-audit services therefore exceeded the audit fee, however this is mainly due to the use of KPMG to advise on our return of capital and the capital allowances project. Non-audit fees are expected to return to a normal level In 2013/14.

Tender of external audit

The Committee discussed the regulatory proposals that would require a compulsory tender of the statutory audit. Whilst compulsory tendering is not yet required, the Committee nevertheless decided to initiate a tender process in respect of the 2013/14 statutory audit. At least one firm outside the 'Big Four' will be invited to participate in the tender process.

Internal audit

Prior to 2013, the Committee considered that an internal audit function was not required in view of the adequacy of financial controls in place and the relatively low level of complexity in the business.

Given the continuing growth of the business in terms of both scale and complexity, in February 2013 the Committee agreed that a programme of internal audit work should be devised and implemented.

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

The initial areas to be covered are:

Review topic	Reviewed by
Processes for setting authority limits and ensuring adherence	Internal team working alongside of the external auditors
Adequacy of disaster planning and business continuity plans and procedures	Specialist external business continuity consultants
Ability to comply with mandatory carbon reporting requirements	External auditors
Compliance with PAYE, NI and other relevant employment taxes	External accountancy firm

This report was reviewed and approved by the Committee on 12 September 2013.

Matt Davies
Chair of the Audit and Risk Committee

12 September 2013

Letter from the Chair of the Remuneration Committee

Marion Sears
Chair of the Remuneration Committee

> "The majority of remuneration earned by the executives during the year was performance-based and resulted from strong operating performance."

Dear Shareholder,
In the year to 29 June 2013 there were no changes to executive remuneration policy other than the introduction of claw-back to unvested share options under performance-related pay. The majority of remuneration earned by the executives during the year was performance-based and resulted from strong operating performance, reflected in our share price, which increased by 89% to 947p during the year.

Dunelm again performed well in a difficult retail market. We exceeded budget EPS by 3.9% and the compound annual growth rate in EPS over the last three years has exceeded RPI by 10.4%. Accordingly, the Directors will receive a bonus award of 97% of salary, and 86.7% of the LTIP award made in 2010 will vest. Nick Wharton has been CEO since 2010 and this is the first LTIP to vest to him, making a significant increase in his total remuneration compared with previous years. He will retain these vesting LTIP shares (after sale of shares to cover his tax and national insurance liability) as he builds towards his target shareholding of two times salary after five years.

We are again being fully transparent and following best practice by publishing the single number for remuneration for each of the Executive Directors.

We are increasingly conscious that Dunelm's growth rate, which is faster than the market growth rate, means that our comparator peer group is changing significantly. We will keep this under review and will consult shareholders over the implications of this if appropriate.

Looking forward, in 2013/14 the Executive Directors will receive a 2% increase in base salary, in line with the Group average, although Will Adderley has again declined this increase and will be paid the same base salary as last year and the year before. The Non-Executive Directors' fees have been increased with effect from 1 July 2013, for the first time since 2010, following a bench marking exercise. We continue to position ourselves at 'median-or-below' levels; the Chairman's fee is now £120,000 per year and the standard Non-Executive fee is £40,000 per year with an additional £5,000 fee for committee chairmanship. Going forward, Non-Executive Director fees will increase annually in line with the Company average.

The Remuneration Committee has also introduced two refinements to executive performance related pay with effect from 1 July 2013 to ensure we remain in line with best practice. For annual bonus, the performance condition continues to be calculated according to the same formula as before, but progress on strategic development of the business will be used to inform the discretionary element relating to personal objectives. For the LTIP we have introduced a two year deferral period which will be added onto the (unchanged) three year performance testing period. The purpose of both of these changes is to focus management attention firmly on long-term strategy implementation and to align management with long-term shareholders' interests.

I look forward to meeting shareholders at the AGM in November.

Yours sincerely,

Marion Sears
Chair of the Remuneration Committee

12 September 2013

Remuneration report

Remuneration report
The Directors present their Remuneration Report for the period ended 29 June 2013.

2012/13 summary

Principal activities
- No change to remuneration policy in the year
- Nick Wharton and David Stead received an increase to base salary of 2% during the period, in line with Group-wide pay award (increase waived by Will Adderley)
- Strong operating performance and strategic progress gives rise to a cash bonus of 97% of salary payable in respect of the period to Nick Wharton, Will Adderley and David Stead
- LTIP awards from 2010 will vest to Nick Wharton, Will Adderley and David Stead
- Disclosure of single figure for the remuneration of each Executive Director; in 2012/13 total executive remuneration amounted to £3.11m
- Claw back introduced to cash bonus and unvested share awards from 2012/13

Looking forward

Principal activities
- Introduction of two year deferral period under LTIP awards from 2013
- Discretion on performance related elements of pay to be informed by KPIs linked to strategy as well as personal performance
- Executive Directors awarded 2% increase to basic salary from July 2013 in line with Group-wide pay award (waived by Will Adderley)
- Policy will remain structured around low fixed proportion (30%) and high performance-related proportion (70%) of maximum earnings opportunity
- Non-Executive Directors awarded increase in fees from 1 July 2013
- As a major shareholder, Will Adderley has indicated his wish not to participate in further conditional share awards under the LTIP scheme

Introduction
The Remuneration Committee has prepared this report in accordance with the requirements of Section 420 of the Companies Act 2006 and the Listing Rules. The report and the Group's remuneration policy comply with the UK Corporate Governance 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 64.

Non-audited information
Remuneration Committee duties
The purpose of the Committee is to assist the Board by:

- Recommending to the Board the specific pay and benefits packages for the Executive Directors.
- Recommending and monitoring the structure and level of pay and benefits for senior management below Board level.
- Approving any awards made under share incentive schemes.

The Remuneration Committee is committed to principles of accountability and transparency to ensure that remuneration arrangements demonstrate a clear link between performance and reward. The Committee considers fully the principles and provisions of the UK Corporate Governance Code. The full terms of reference for the Committee can be found on the Company's website.

The remuneration of the Non-Executive Directors is determined by the Board as a whole.

Remuneration report continued

Committee membership and meetings
The following Directors served on the committee during the year:

Table 1 – Committee membership

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

1 Liz Doherty was appointed to the Board on 1 May 2013.

Marion Sears acts as Secretary to the Committee.

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

Table 2 – Attendance at committee meetings

Member	Meetings attended:
Marion Sears (Chair)	2
Geoff Cooper	2
Simon Emeny	2
Matt Davies	2
Liz Doherty[1]	1[1]

1 Liz Doherty has attended all Committee meetings since her appointment.

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

Advisers
During the year, the Committee took advice from Deloitte (Birmingham office) in respect of the remuneration of the Executive Directors. Deloitte (London office) also provided tax advice to the Company in relation to capital allowances.

Remuneration policy
Executive remuneration policy and alignment with strategy
The Remuneration Committee's policy is to provide an executive remuneration structure that will pay fairly for the roles and responsibilities of each Director and incentivise strongly for value creation, with an emphasis on the long term. This is in keeping with the family origin of the business and is important to the Adderley family who remain our majority shareholders.

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

- To reward performance.
- To be focused on long term value creation.
- To align executives with shareholders through share ownership.

Our policy is consistent with delivery of the objectives set out in our corporate strategy, which are all long term in nature; namely the growth and development of our specialist product offer, our stores portfolio, our multi-channel capability and our infrastructure.

It is our intention to maintain a simple and transparent remuneration structure that does not frequently change.

Structure of executive remuneration
(i) Base salary
Base salaries are set at, or below, the median for comparable companies and increases are expected to be in line with Group-wide awards unless merited by specific circumstances. In setting base salaries a retail peer group is considered within the FTSE 250 as well as industry wide surveys which cover the FTSE 250 and small-cap sector. In addition the operational scale and complexity of the role each Director performs is discussed and adjustments are applied to reflect these. It is our policy that base salary should comprise a minority of the total remuneration that an Executive Director can earn.

(ii) Pension
The Remuneration Committee has decided not to use final salary pension plans as a way of remunerating its Executive Directors. Instead the Group contributes 10% of base salary 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 overall remuneration levels for an Executive, the Remuneration Committee takes account of contributions to pension plans.

(iii) Performance related pay

The Remuneration Committee's policy is that a substantial proportion of the Executive Directors' remuneration should be variable and performance-related in order to encourage and reward superior business performance and shareholder return.

Constituents

Performance related pay consists of:

- An annual cash bonus of up to 100% of salary.
- An annual award of share options to the value of 150% of salary under the Long-Term Incentive Plan ('LTIP'), exercisable after three years, subject to performance criteria being met (and from 2013 following a two year deferral).

This is set at the median for the annual cash bonus but in the upper quartile for the LTIP in order to incentivise consistent above market average growth.

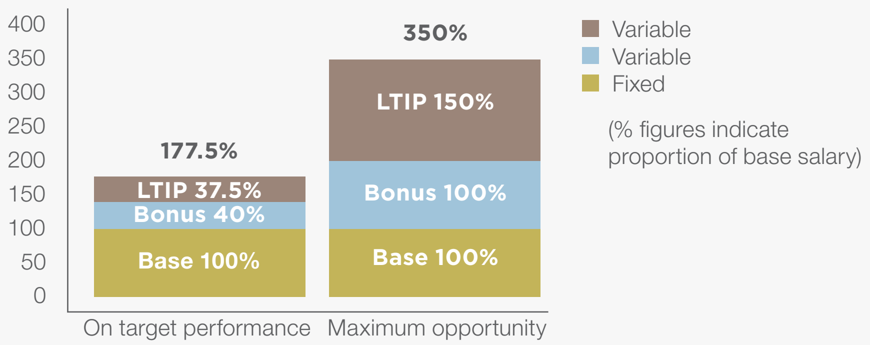
Nick Wharton, our Chief Executive, has an additional one-off five year LTIP award, approved by shareholders in 2010, which runs until 2015, and which aligns his interests to share price performance over and above the regular three year LTIP.

Balance of fixed and variable remuneration

Potential performance pay currently comprises just over two thirds of maximum potential earnings at up to 250% of base salary; the annual cash bonus entitlement is up to 100% of base salary and the three year LTIP is up to 150% of salary.

On an annual basis, around 70% of the maximum earnings opportunity is performance-related and over 40% is measured on a three year cumulative performance. The following illustrates the balance between fixed and variable remuneration during the year for the Executive Directors:

Table 3 – Balance of fixed and variable remuneration



The breakdown does not include any share price growth or other benefits (e.g. cash car allowance, value of private medical insurance, pension contribution or all employee share ownership plans).

Performance measures – financial

The Remuneration Committee selects performance measures that it believes are:

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

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

The Remuneration Committee considered the use of EPS as a performance measure carefully when the Company was floated in 2007 and has discussed it with shareholders on a number of occasions. EPS is believed to be closely aligned to the drivers of growth for the business and in the long-term, EPS performance is expected to be reflected in shareholder value. As discussed with institutional shareholders at the recent Corporate Governance presentation, EPS is a more suitable performance measure for Dunelm than for many other companies and it is therefore considered appropriate to use it as a single measure, supplemented by discretion reflecting non-financial performance measures as described below. The use of EPS for Dunelm specifically is considered appropriate because of the absence of leverage in the business and because the capital expenditure controls exercised by the Board are sufficiently rigorous to avoid EPS accretion by means of ineffective investment of capital. Should this change the Committee would review whether an additional financial underpin would be appropriate. In the event of a major capital transaction the Committee reserves the right to adjust the target or change the performance conditions.

Remuneration report continued

Performance measures – non-financial
Payment of the annual cash bonus may be adjusted based on personal, non-financial job objectives linked to delivery of the strategy, set at the commencement of the year and assessed by the Remuneration Committee. With effect from 1 July 2013, in addition to personal job objectives, the Committee will refer to certain strategic KPIs and share price performance to inform its discretion over the bonus awarded, although there will not be a formulaic link.

Each Director's remuneration is therefore linked to both personal performance and Group strategy and performance.

Future LTIP participation by Will Adderley
With effect from 1 January 2012, and in response to shareholder concerns about Will Adderley obtaining 'creeping control' of the company through vesting of share incentive awards, Will Adderley has indicated that he no longer wishes to receive further awards under the LTIP. He will be entitled to receive shares under existing awards, subject to performance criteria being met.

Claw back
From 2012 the Committee decided to introduce a claw back provision under which cash bonus entitlements and unvested LTIP awards made from 2012 onwards will not be paid in certain circumstances. Claw back will take place at the Remuneration Committee's discretion if:

- performance to which a bonus or LTIP award relates proves to have been misstated; or
- there has been a miscalculation in the extent to which performance conditions have been met in respect of previous awards made to the individual that have vested and been exercised; or
- there has been gross misconduct on the part of an individual.

Change of control
If there is a change of control of the Company, any awards under the LTIP that have not yet vested will be exercisable at the discretion of the Remuneration Committee taking into account the period of time that has elapsed since grant of the award, and the extent that any performance target has been met.

Share options and dilution
It is Group policy to comply with the provisions of the Association of British Insurers' Guidelines on Executive Remuneration when determining the number of shares over which share scheme incentive awards may be made. At the date of this report options have been granted over 2.3% of the Company's issued share capital. The Group does not hold any shares in an employee benefit trust.

(iv) Shareholding requirements
To strengthen the alignment between management and long-term business success, executive Directors and other senior managers in receipt of discretionary share awards are required to build a shareholding as follows:

Table 4 – shareholding requirements

	Required holding	Period of time to build holding
Executive Directors	2 x base salary	1 x salary after 3 years 2 x salary after 5 years
Executives receiving LTIP Options	1 x base salary	5 years
Executives receiving market priced options	0.5 x base salary	Over time

These required Director shareholdings are set at above market levels.

In addition, from 2013 awards made to Executive Directors under the LTIP will be subject to an additional two year deferral after the end of the performance period. Dividend entitlement will accrue during this period, and the Executive will be entitled to exercise his option over the shares at the end of the two year period, whether or not they are still employed. This is intended to focus management attention firmly on long-term strategy implementation and to align management with long-term shareholders' interests.

Directors' shareholdings are disclosed in the Directors' Report on page 61.

Summary of Remuneration
Table 5 – Summary of Remuneration

Element	Purpose and link to remuneration policy	Maximum award	Key features
Base salary	• Reflects at or below median market salary for the individual and their role	n/a	• Paid monthly in cash • Reviewed annually – any increase in context of Group wide review
Annual bonus	• Rewards the achievement of annual budget measured by EPS and progress against strategic objectives	100% of base salary	• Paid in cash after year end results are audited • No bonus paid if EPS is less than 95% of budget; maximum paid if EPS is 105% of budget • Payment conditional on satisfactory performance against personal job objectives, and delivery of strategic KPIs, as judged by the Remuneration Committee, subject to claw back
LTIP	• Aligns with shareholder interests through the delivery of shares • Rewards growth in long–term earnings and increase in shareholder value • Executive Directors required to build a holding equal to twice base salary over time	150% of base salary	• Based on EPS performance • Vests based on a three year performance period • Shares vesting may contribute to minimum shareholding requirement • Awards subject to claw back from 2012 two year deferral period for awards made from 2013

Non-Executive Directors
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 based on the market rate, which reflect any additional responsibilities taken when chairing a committee of the Board.

Senior Executive remuneration
The Remuneration Committee provides oversight and guidance on the remuneration structure for below Board senior executives. The package for new appointments is formally presented to the committee for approval. In conducting its assessment of senior executive remuneration the committee pays particular regard to whether any individual is incentivised to take risks inappropriate to their role and responsibilities. For example, in the finance function, managers are not remunerated against individual financial performance, but against corporate performance and personal qualitative objectives.

Sharesave scheme
An annual invitation is made to all employees under our savings related share option scheme, or 'Sharesave'. Options are granted at the maximum 20% discount to the market price at the date of invitation, exercisable after three years. Last year we were pleased that 9% of colleagues applied to join, compared with 7% in previous years. We will continue to offer Sharesave as a way of encouraging colleague engagement through share ownership.

Implementation of remuneration policy during the period
Executive Directors
(i) 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 retail peer group of public companies and also considers all industry surveys for the FTSE 250 and small cap sectors. In addition the operational scale and complexity of the role each Director performs is discussed and adjustments are applied to reflect these. In setting base salaries any increase for Executive Directors is expected to be in line with Group-wide salary increases unless specific circumstances merit a different approach. Base salary comprises just under one third of the total potential remuneration that an Executive Director can earn.

In addition to base salary, the Executive Directors are entitled to benefits comprising a car allowance, a contribution of 10% of base salary to a personal pension, private medical insurance and life insurance.

In June 2012, the base salary review resulted in a 2% increase for all Executive Directors from 1 July 2012, in line with the Group wide award, which was waived by Will Adderley.

Following the review in May 2013, Executive Directors have been awarded a 2% increase in basic salary from July 2013, again in line with the Group-wide award. Will Adderley has waived this increase.

Remuneration report continued

Table 6 – Base salaries

	2012/13 salary	% increase on 2011/12	2013/14 salary	% increase on 2012/13
Nick Wharton	£408,000	2%	£416,160	2%
Will Adderley	£265,000	0%	£265,000	0%
David Stead	£264,000	2%	£269,300	2%

(ii) Annual cash bonus
Executive Directors are awarded a performance-related cash bonus, at the discretion of the Remuneration Committee. Performance criteria are based on growth in earnings per share against budget, and personal non-financial objectives relevant to each Director, linked to delivery of strategy. Any bonus amounts determined to be payable are paid after the year-end results are finalised.

For Nick Wharton and David Stead 100% of the annual bonus is calculated according to performance against budget but may be adjusted at the discretion of the committee, depending on an individual's performance against personal objectives. For Will Adderley, 50% of the annual bonus is calculated according to the performance against budget and 50% is awarded for performance on strategic projects which are an important focus of his time.

The prospects for the market and the Group are considered when setting the budget EPS target for the year. In addition we have regard to both market consensus expectations for EPS and individual broker forecasts. The bonus parameters are described below:

Table 7 – Bonus parameters for financial target

	EPS performance (percentage of target)	Percentage of maximum bonus payable
Threshold	95%	5%
Target	100%	40%
Maximum	105%	100%

For the year ended 29 June 2013, budget EPS was 38.5p. Accordingly the target set was that no bonus would be paid until EPS reached 36.5p and at 40.4p maximum bonus would be paid. Market consensus for 2012/13 EPS at the date the target was set was 37.6p.

Reported EPS of 40.0p was 3.9 % above target. After due consideration of job performance progress against strategic objectives and achievement of non-financial performance targets, the committee awarded a discretionary element of bonus as shown below. This was equivalent to 10% of salary bringing the total award to 97%. Will Adderley was awarded a bonus of £257,050 and choose to waive 50% of this award and requested the other 50% to be donated to the Group's charity of the year.

Table 8 – Annual cash bonus earned

	Bonus earned	Percentage of base salary
Nick Wharton	£395,760	97%
Will Adderley	n/a	n/a
David Stead	£256,080	97%

(iii) Long-Term Incentive Plan ('LTIP')
Under the LTIP, Executive Directors are awarded nominal cost share options annually. These awards vest three years after date of grant, to the extent that the applicable performance target is met.

The Remuneration Committee has chosen growth in fully diluted EPS over each three-year performance period 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 is satisfied that capital expenditure controls exercised by the Board are sufficiently rigorous to avoid EPS accretion by means of ineffective investment of capital and in any event reserves the right to adjust the target in the event of a major capital transaction.

The LTIP is structured as follows (awards vest on a straight-line basis between the threshold and maximum points):

Table 9 – LTIP performance parameters

Compound Annual Growth in EPS	Plan period 2010-2013	Plan period 2011-2014 onwards	Amount of award to vest
Threshold	RPI + 3%	RPI + 3%	25%
Maximum	RPI + 12%	RPI + 15%	100%

The maximum point was increased for awards made from 2011 onwards, in line with the increase in maximum annual award from 120% to 150% of base salary. This was part of an overall review of Executive Directors' remuneration. It was explained fully in the 2011 annual report and approved by shareholders at the AGM in November 2011.

The Committee meets after the results for each three-year performance period are available to determine the extent to which performance conditions have been satisfied. There is no retesting.

Awards cannot be granted to Executive Directors under the LTIP over Ordinary Shares in excess of 5% of the issued Ordinary Share capital in any rolling 10 year period.

Details of outstanding awards made to Executive Directors under the LTIP and awards made and exercised during the financial year are set out in tables 15 to 17 of this report.

The Remuneration Committee has reviewed the Company's EPS record over the three-year performance period which ended on 29 June 2013. Reported fully diluted EPS grew at a compound annual rate of 14.1%. This is 10.4% above the compound annual growth in RPI over the same period. Accordingly, 86.7% of the December 2010 LTIP award will vest in December 2013 as follows:

Table 10 – LTIP awards vesting in respect of 2010/13

	Shares vesting	Percentage of maximum award
Nick Wharton	48,262	86.7%
Will Adderley	62,956	86.7%
David Stead	52,744	86.7%

The 2010 LTIP awards which vested in favour of Nick Wharton, Will Adderley and David Stead as described above are included in the single number for total remuneration for 2012/13 set out in table 14. Their value has been calculated using the average share price over the three months preceding the end of the performance period on 29 June 2013, which is 866.45p.

Non-Executive Directors

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 which reflect additional responsibilities taken when chairing a committee of the Board.

Fees were reviewed in April 2013 for the first time in three years, and it was found that they are now significantly out of line with the norm for a company of our size. Fees will therefore be increased from 1 July 2013 as set out below:

Table 11 – Non-Executive Director Fees

	Fee between July 2010 and June 2013 (per annum)	Fee from July 2013	Comment
Geoff Cooper – Chairman	£100k	£120k	
Marion Sears – SID	£40k	£50k	Fee from 2013 includes SID and Remuneration/ Nominations Committee Chair fees of £10k
Matt Davies – Audit and Risk Committee Chair	£30k	£45k	Fee from 2013 includes Audit and Risk Committee Chair fee of £5k
Simon Emeny	£30k	£40k	
Liz Doherty	£40k from appointment on 1 May 2013	£40k	

Going forward, rather than reviewing fees every three years, fees for the Non-Executive Directors will increase annually in line with the Company average.

Service contracts

In accordance with the Group's policy, the service contracts of the Executive Directors have no fixed-term, the notice period for termination is 12 months from either party and payments on termination are restricted to a maximum of the value of salary for the notice period. The Remuneration Committee will apply mitigation rigorously in respect of any post remuneration payment.

The Non-Executive Directors have letters of appointment for an initial period of three years with a provision for termination of one month's notice from either party, or three months' notice from either party in the case of Geoff Cooper, the Chairman.

Remuneration report continued

Table 12 – Directors' service contracts

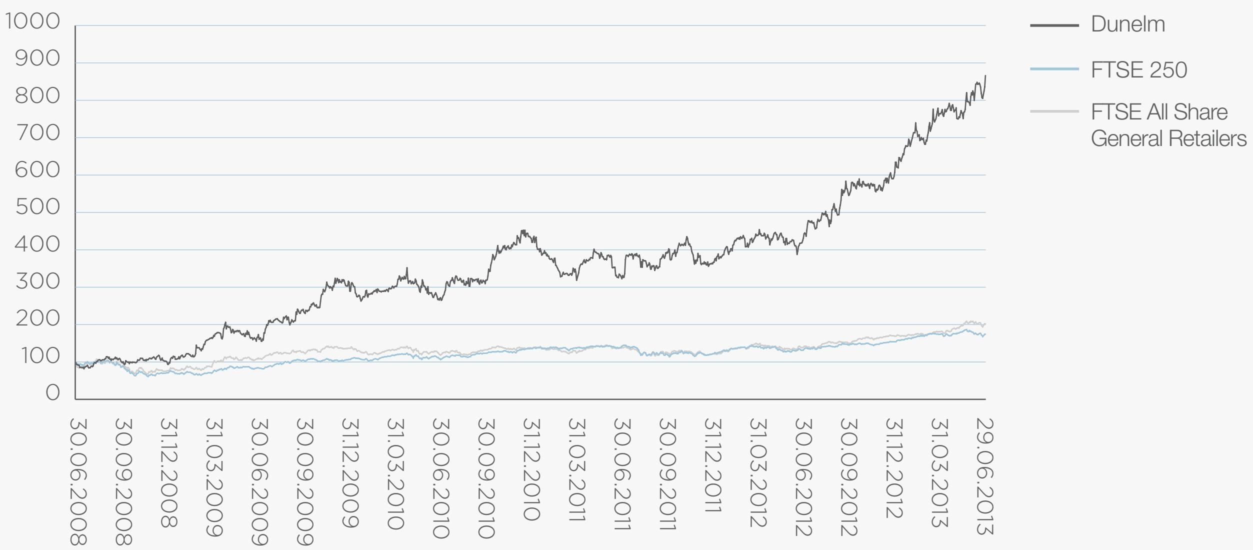
	Date of contract	Unexpired term	Notice period
Nick Wharton	15 September 2010	n/a	12 months
Will Adderley	28 September 2006	n/a	12 months
David Stead	15 September 2003	n/a	12 months
Geoff Cooper	8 October 2004	1 month	3 months
Marion Sears	22 July 2004	10 months	1 month
Simon Emeny	25 June 2007	33 months	1 month
Matt Davies	8 February 2012	18 months	1 month
Liz Doherty	1 May 2013	31 months	1 month

Note: Marion Sears has now served nine years on the Board (seven of which are post flotation of the Company in 2006). Her contract will be renewed for one year terms going forward (with the notice period referred to above). The same will apply to Geoff Cooper who will have served nine years on the Board (seven of which are post flotation) on 1 November 2013.

Relative TSR performance

The graph below shows the Group's performance over five years, measured by total shareholder return, compared with the FTSE General Retail Index and the FTSE 250. The Remuneration Committee has chosen these indices for comparison because they provide a range of comparator companies which have similar market capitalisation, which are in the same sector and which face similar market and economic challenges in the long term.

Table 13 – Total shareholder return performance graph (rebased to 29 June 2008 = 100)



The shares traded in the range 501p to 947p during the year and stood at 947p at 29 June 2013.

Audited information

Details of Directors' remuneration

Details of individual Directors' remuneration in respect of the year ended 29 June 2013 are as follows:

Table 14 – Directors' remuneration

	Base salary or fees £'000	Vehicle allowance £'000	Taxable benefits £'000	Contribution to personal pension £'000	Annual bonus £'000	Actual gain on SAYE exercise £'000	Realisable gain on share incentives vesting in 2013 (table 17)	2013 Total £'000	Realisable gain on share incentives vesting in 2012 (table 16)	2012 Total £'000
Executive Directors										
Nick Wharton	408	12	1	41	396	–	418	1,276	–	853
Will Adderley	265	12	1	–	n/a	–	545	823	621	1,187
David Stead	264	12	–	26	256	–	457	1,015	427	1,010
Non–Executive Directors										
Geoff Cooper	100	–	–	–	–	–	–	100	–	100
Marion Sears	40	–	–	–	–	–	–	40	–	40
Simon Emeny	30	–	–	–	–	–	–	30	–	30
Matt Davies	30	–	–	–	–	–	–	30	–	12
Liz Doherty[1]	7	–	–	–	–	–	–	7	–	
Total	1,144	36	2	67	652	–	1,420	3,321	1,048	3,232

1 Reflects fees since appointment on 1 May 2013.

Will Adderley was awarded a bonus of £257,050 and chose to waive the element of this award that relates to achievement of personal objectives (50%) and requested the other 50% to be donated to the Group's charity of the year.

David Stead waived taxable benefits totalling approximately £1,000.

The realisable gain on LTIP awards vesting in the relevant financial period is calculated using the LTIP award whose performance period ends on the last day of the financial period being reported on (so for 2012/13, the LTIP award used is the 2010 award, with a performance period of July 2010 to June 2013 inclusive). The realisable value of the award is then calculated by multiplying the number of shares which will vest after applying the performance criteria, by the average share price for the three months ended on the last day of the performance period.

Nick Wharton's 2012/13 remuneration includes the realisable gain in respect of the first LTIP award made to him that has matured since his appointment on 1 December 2010. This accounts for the large increase in his total remuneration for 2012/13 compared with the previous year.

Directors' interests in share options

Long-Term Incentive Plan ('LTIP')

As at 29 June 2013, the Directors' beneficial interests in options granted under the LTIP, which (unless otherwise noted) will vest only if EPS performance conditions are met, are as follows:

Table 15 – Directors' interests in LTIP

Director	Date of award	Nature of award	Share options at 29 June 2013	End of performance period	Market price of shares at date of award
Nick Wharton	Dec 2010	One–off joining award	198,807	Nov 2015[1]	503p
	Dec 2010	2010/13 LTIP – 120% quantum (pro rata to time served)	55,666	June 2013	503p
	Nov 2011	2011/14 LTIP – 150% quantum	139,211	June 2014	431p
	Nov 2012	2012/15 LTIP – 150% quantum	95,401	June 2015	642p
Will Adderley	Dec 2010	2010/13 LTIP – 120% quantum (pro rata salary 2010/11)	72,614	June 2013	503p
	Nov 2011	2011/14 LTIP – 150% quantum	92,227	June 2013	431p
David Stead	Dec 2010	2010/13 LTIP – 120% quantum	60,835	June 2013	503p
	Nov 2011	2011/14 LTIP – 150% quantum	90,070	June 2014	431p
	Nov 2012	2012/15 LTIP – 150% quantum	61,730	June 2015	642p

1 The nominal cost options over 198,807 shares made to Nick Wharton on 1 December 2010 can only vest if he remains an employee for five years. There is no vesting entitlement if Nick leaves the Company, for any reason, before 1 December 2015. This award was made in compensation for LTIP benefits left behind with Nick's previous employer and there are no other performance conditions attached to it.

Remuneration report continued

LTIP options exercised during the period
The September 2009 award was in respect of the three-year performance period to 30 June 2012, over which the compound annual fully diluted growth in EPS was 23.6% (19.3% above RPI). Accordingly, 100% of the conditional nominal cost options awarded in September 2009 vested in September 2012. The entitlements were exercised by both Will Adderley and David Stead and details are set out below (the realisable gain shown in last year's Remuneration Report is included for information):

Table 16 – LTIP options exercised during 2012/13

	No of shares vested	Date of vesting	3 month average share price to 30 June 2012	Realisable gain at 30 June 2012 (end of performance period) £	Exercise date	Share price on exercise date	Actual gain on exercise date £
Will Adderley	123,949	24 Sep 2012	501p	620,984	18 Oct 2012	679p	841,614
David Stead	85,215	24 Sep 2012	501p	426,927	18 Oct 2012	679p	578,610

LTIP options to vest in 2013/14
The Remuneration Committee has reviewed the Company's EPS record over the three-year performance period which ended on 29 June 2013. Reported fully diluted EPS grew at a compound annual rate of 14.1%. This is 10.4% above RPI over the same period. Accordingly, 86.7% of the December 2010 LTIP award will vest in December 2013 and details are set out below:

Table 17 – Directors' LTIP options vesting in 2013/14

	No of shares to vest	Date of vesting	3 month average share price to 29 June 2013	Realisable gain on 29 June 2013 (end of performance period)
Nick Wharton	48,262	1 Dec 2013	866p	418,166
Will Adderley	62,956	1 Dec 2013	866p	545,482
David Stead	52,744	1 Dec 2013	866p	457,000

Other options
The Directors' beneficial interests in options granted under the savings related share plan (Sharesave) plan are as follows:

Table 18 – Directors' options under Sharesave

	Shares under option at 29 June 2013	Shares under option at 30 June 2012	Granted during period	Exercised during period	Lapsed during period	Exercise price per share	Market price of shares at date of exercise	Vesting date	Expiry date
Nick Wharton	2,493	2,493	–	–	–	361p	–	Jan 2015	Jun 2015
David Stead	2,493	2,493	–	–	–	361p	–	Jan 2015	Jun 2015

The Directors do not have entitlements under any other share-based incentive plan.

Total remuneration figure
In line with developing requirements to set out total remuneration in a transparent way as a 'single number' we have included a Total Remuneration figure for each Executive Director in Table 14. This total includes all rewards that the Director received or will receive pertaining to the year being reported.

In the case of Dunelm our simple remuneration structure means that the total remuneration includes: base salary, value of benefits, pension contribution, cash bonus relating to the year, the actual value of SAYE options vesting and exercised in the year and the value of the (gross) LTIP shares vesting in respect of the performance period ended in the year, calculated using the average share price over the three months ended on the last day of the performance period (which we refer to in the tables as 'realisable value').

Total remuneration earned by the Executive Directors in 2012/13 was £3.11m and by the Non-Executive Directors was £0.21m . The total remuneration of all Directors was £3.32m.

Approval
This report was approved by the Board of Directors on 12 September 2013 and signed on its behalf by:

Marion Sears
Chair, Remuneration Committee

12 September 2013

Letter from the Chair of the Nominations Committee

Marion Sears
Chair of the Remuneration Committee

"We have continued to focus on Board composition and refreshment during the year."

Dear Shareholder,
We have continued to focus on Board composition and refreshment during the year with the aim of creating the right diversity of skills and mix of tenure amongst the Non-Executive Directors. This means that, for a while, we will have a larger Board due to overlap of tenure as we seek to maintain continuity whilst managing succession.

We were pleased to appoint Liz Doherty as a new Non-Executive Director in May. Liz brings a broad range of operational and financial experience to the Board and she is also an experienced Non-Executive Director.

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

The executives have made some important senior management appointments during the year to support these ambitions and all senior positions have well developed succession plans in place. Store management teams have been reorganised in a clear and transparent way to ensure all colleagues have the opportunity to see a path for internal promotion.

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

Yours sincerely,

Marion Sears
Chair of the Nominations Committee

12 September 2013

Nominations Committee report

2012/13 summary

Principal activities
- Appointment of Liz Doherty as Non-Executive Director
- Detailed review of Board skills and experience repeated
- Update of Board succession plan
- Evaluation conducted as part of our first external Board Evaluation

This report provides details of the role of the Nominations Committee and the work it has undertaken during the year.

The purpose of the Committee is to assist the Board by keeping the composition of the Board under review and conducting a rigorous and transparent process when new appointments to the Board are made. The full terms of reference for the Committee can be found on the Company's website.

The following Directors served on the Committee during the year:

Member	Period from:	To:
Marion Sears (Chair)	18 January 2005	To date
Geoff Cooper	18 January 2005	To date
Simon Emeny	25 June 2007	To date
Will Adderley	17 February 2011	To date
Matt Davies	8 February 2012	To date
Liz Doherty	1 May 2013	To date

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

Member	Meetings attended:
Marion Sears (Chair)	2
Geoff Cooper	2
Simon Emeny	2
Will Adderley	2
Matt Davies	2
Liz Doherty	0[1]

1 There were no meetings between 1 May (when Liz Doherty joined the Board) and the year end.

General succession planning

The Committee keeps under review the balance of skills on the Board as a whole and the knowledge, experience, length of service and performance of the Directors. On at least an annual basis each Director's intentions are discussed with regard to serving on the Board and their succession is considered in the context of the shape of the overall Board and the corporate governance guidance on Non-Executive Director tenure. This transparency amongst a small and collegiate Board allows for an open discussion about succession for each individual, both for short-term emergency purposes as well as longer-term plans.

While all Board appointment processes and succession discussions are led by the Nominations Committee these are viewed as important whole-Board topics and no appointment will be made to the Board without agreement of all Directors.

Committee activities in 2012/13

NED search

With three of our Non-Executives completing six years on the Board since IPO in 2012/3, as stated last year the Committee has been mindful of the need to keep the Board composition fresh. Much of the Committee's activities during the year were therefore focused on our search for a new Non-Executive Director.

Following our detailed review of the skills and balance on the Board, and our likely needs in the context of our strategy going forward, we drew up a role and person specification for which the main requirements were;

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

We also had regard to the requirement to achieve a diversity of characters, backgrounds and experiences amongst Board members. In particular, we prioritised the appointment of a female candidate.

We decided not to appoint a single search firm to assist us as we were not under time pressure to make an appointment quickly and we believe there is value in searching widely through a variety of intermediaries without a preset timetable. Instead we applied the requirements of best practice for 'open advertising' by talking to a large number of contacts who know Dunelm and who understand our culture and ambitions. These included several search agents, our advisers and some of our shareholders and we also asked our own networks for candidate suggestions. As a result we held informal meetings with a very large number of people over the course of more than a year and we also screened existing Directors of FTSE 100 companies ourselves as a desk exercise to ensure that our search was sufficiently comprehensive and representative.

In April 2013 we were pleased to announce the appointment of Liz Doherty as an additional Non-Executive Director. Liz was introduced to us by the search firm CT Partners Augmentum with whom Dunelm has no other relationship.

Liz has held a number of senior finance roles within significant international businesses. Most recently, she was Finance Director of Reckitt Benckiser plc. Prior to this, she was Finance Director of Brambles Limited (Australia) and Group International Finance Director of Tesco plc. She started her career at Unilever plc, where she held a number of finance roles in the UK and Europe. Liz is also a Non-Executive Director of Nokia Corporation and Delhaize Group and is a fellow of the Chartered Institute of Management Accountants.

Board succession

As stated last year, we have a formal plan for how Board membership should develop over the coming years and we are taking actions to implement this.

Skills balance and Directors' performance evaluation

The Nominations Committee reviews Board composition and the balance of skills provided by the Directors in a whole Board session each year, in the light of the most recent strategy discussions. In 2012/3 we repeated the detailed review conducted during 2011/12, and this has also been addressed in our external Board evaluation which is described in the Corporate Governance Report. The outcome of this has been incorporated into our Board succession plan which will be discussed again by the Board in autumn 2013.

In addition to the external Board evaluation, the performance of all of the Directors has been assessed individually. The Chairman of the Board led a process of collecting feedback on each Director's performance and provided them with a one-to-one evaluation and discussion of training needs. As Senior Independent Director I collected feedback about the Chairman and provided him with an evaluation of his performance.

Diversity

In 2011 we set out the Board's policy on diversity which we believe remains appropriate for Dunelm. It can be summarised as follows:

- Whilst confirming that our overriding concern is to ensure the Board comprises outstanding individuals who can lead the Group, we also believe the Group's best interests are served by ensuring that these individuals represent a range of skills, experiences, backgrounds and perspectives, including gender.
- Accordingly, it is our policy that the Board should always be of mixed gender.
- Quotas are not appropriate as a target for female representation on company Boards, since they are likely to lead to compromised decisions on Board membership, quality and size.
- We will seek to ensure that specific effort is made to bring forward female candidates for Board appointments.
- We will monitor the Group's approach to people development to ensure that it continues to enable talented individuals, both male and female, to enjoy career progression activities within Dunelm.

Tenure and Re-election of Directors

In accordance with the UK Corporate Governance Code, all Directors will seek re-election at the 2013 AGM.

Given that Geoff Cooper and I have been Board members since 2004, we have served nine years on the Board, seven of these following the Company's flotation in 2006. In accordance with best practice, in 2013, our contracts will be renewed for a one year term, subject to earlier termination by notice and reappointment at the AGM. Simon Emeny has entered a third term as Non-Executive Director which takes his tenure to 2016, and Matt Davies and Liz Doherty both remain within their first term. Our main priority during this succession phase is to balance the changes with a period of time in between each appointment and departure.

This report was reviewed and approved by the Board on 12 September 2013.

Marion Sears
Chair of the Nominations Committee

12 September 2013

Directors' report and business review

The Directors present their report together with the audited financial statements for the year ended 29 June 2013. Together with certain information in the reports from the Chief Executive and the Finance Director on pages 12 to 19, the Risks and Uncertainties on pages 20 to 23 and the Corporate Social Responsibility review on pages 24 to 32, which are incorporated into this report by reference, this report satisfies the requirements of the Companies Act 2006 to produce a Business Review.

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

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

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 12 to 15.

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

On 2 October 2006, Jean Adderley, Bill Adderley and Will Adderley (all shareholders) entered into a Relationship Agreement with the Company, pursuant to which each of Jean Adderley, Bill Adderley and Will Adderley undertook to the Company that, for so long as, individually or together, they are entitled to exercise, or to control the exercise of, 30% or more of the rights to vote at general meetings of the Company or they are able to control the appointment of directors who are able to exercise a majority of votes at Board meetings of the Company, they will:

a) conduct all transactions and relationships with any member of the Group on arms length terms and on a normal commercial basis;
b) not take any action which precludes or inhibits any member of the Group from carrying on its business independently of Jean and Bill Adderley and their associates (as defined in the Listing Rules);
c) not exercise any of their voting rights or other powers to procure any amendment to the Articles of Association of the Company which would be inconsistent with or undermine any of the provisions of the Relationship Agreement;
d) abstain from voting on any resolution to which LR11.7.R(4) of the Listing Rules applies involving Jean Adderley, Bill Adderley or Will Adderley or any of their associates as the related party;
e) not carry on (other than through their holding of securities of the Company) or have any financial interest (other than a financial interest in securities which are held for investment purposes only) in any person who carries on a business as a homewares retailer, to the extent that it would be inconsistent with or undermine any provisions of the Relationship Agreement; and
f) only enter into, amend or terminate any transaction, agreement or relationship between themselves or any of their associates and any member of the Group with the approval of a majority of the independent Non-Executive Directors.

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

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

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

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

Results and dividends
The consolidated profit for the year after taxation was £81.5m (2012: £71.2m). The results are discussed in greater detail in the Finance Director's review on pages 16 to 19.

A final dividend of 11.5p per share (2012: 10.0p) is proposed in respect of the year ended 29 June 2013 to add to an interim dividend of 4.5p per share paid on 12 April 2013 (2012: 4.0p). The final dividend will be paid on 20 December 2013 to shareholders on the register at 29 November 2013.

Special Dividend
The Board has also announced that surplus cash amounting to £50.7m (25.0p per share) will be returned to shareholders in the form of a special dividend. This will be paid on 11 October 2013 to shareholders on the register at 20 September 2013.

Return of capital
On 30 November 2012, 32.5p per Ordinary Share was returned to shareholders by way of a B/C share scheme. For further information please see the circular to shareholders dated 15 October 2012, which is available on our website www.dunelm.com.

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

	At 29 June 2013 1p Ordinary Shares	At 30 June 2012 1p Ordinary Shares
WL Adderley	61,827,347	61,703,398
D Stead	667,181	625,426
G Cooper	181,611	181,611
M Sears	101,313	101,313
N Wharton	39,500	39,500
S Emeny	26,400	26,400
M Davies	4,500	4,500
L Doherty	0	0

Liz Doherty was appointed on 1 May 2013.

During the period there were the following changes to Will Adderley's shareholding:

15 October 2012	Transfer to Nadine Adderley (his wife)	–123,949
18 October 2012	Exercise of nil cost options under LTIP	123,949
6 November 2012	Transfer to Nadine Adderley	–2,000,000

At the period end Will Adderley's beneficial shareholding is held as follows:

Will Adderley	9,103,398
Nadine Adderley	2,123,949
WA Capital Limited[1]	50,600,000
Total	61,827,347

1 WA Capital Limited is a company established by Will Adderley to act as a long-term holding company for his Dunelm shareholding. It is a United Kingdom limited company of which he is the sole director and shareholder, and is UK resident for tax purposes. Shares held by WA Capital Limited and by Nadine Adderley are included in the total beneficial interest of Will Adderley in the table above.

Will Adderley is deemed to retain a legal interest in shares held by two trusts, the Leicester Foundation and the Paddocks Discretionary Trust, by virtue of the fact that he and his wife are trustees, although not beneficiaries, of those trusts. At the period end the shareholdings of these trusts were: Leicester Foundation: 1,167,250 Ordinary Shares (2012: 1, 167,250), Paddocks Trust: 172,750 Ordinary Shares (2012: 172,750). These interests are not included in the table above. In total therefore, Will Adderley's legal and beneficial interest in Ordinary Shares totals 63,167,347 representing 31.1% of the issued Ordinary Share Capital.

David Stead exercised nil cost options over 85,215 shares under the Long-Term Incentive Plan on 18 October 2012. On the same day he sold 43,460 Ordinary Shares at a price of 679.4p per share to cover his income tax and national insurance liability, the balance of 41,755 shares were transferred to his wife Jane Stead. Shares held by David's wife are included in his beneficial interest in the table above.

On 17 October 2012 Simon Emeny transferred 26,400 Ordinary Shares of 1p each to his wife, Selina Emeny, for nil consideration. Following this transfer Mr Emeny's beneficial holding in the Company was unchanged.

There were no changes in the Directors' shareholdings between the year end and 12 September 2013.

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

All Directors will be retiring at the 2013 Annual General Meeting and will be offering themselves for re-election. Biographical details of the Directors are set out on page 34 and 35 and details of their service contracts are in the Remuneration Report on page 53.

Directors' report and business review continued

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

The issued Ordinary Share capital of the Company has increased by 574,940 Ordinary Shares during the period due to the exercise of share options. Details of option exercises by Directors are set out above.

At 29 June 2013 the Company did not hold any Ordinary Shares in treasury (2012: nil). There were no movements of shares in or out of treasury during the period and there have been no movements of shares in or out of treasury since the period end.

Substantial shareholders
At 12 September 2013 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
WL Adderley	61,827,347	30.5
W Adderley	48,070,000	23.7
Kames Capital	8,409,701	4.2

WL Adderley is also deemed to hold a legal interest in 1,167,250 Ordinary Shares held by The Leicester Foundation and 172,750 Ordinary Shares held by the Paddocks Discretionary Trust, by virtue of the fact that he is a trustee of those trusts.

Powers of Directors
Specific powers of the Directors in relation to shares and the Company's Articles of Association are referred to in the Corporate Governance report on page 40.

Treasury and risk management
The Group's approach to treasury and financial risk management is explained in the Key Risks and Uncertainties section on page 23.

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

Auditor
Due to an internal reorganisation, the Group's auditor, KPMG Audit plc, has decided to wind down its audit business and transfer it to KPMG LLP.

As a consequence, KPMG Audit plc has notified the Group that it is not seeking reappointment at the forthcoming AGM and KPMG LLP has agreed to be appointed in its place. The statement of circumstances required under section 519 of the Companies Act 2006 is reproduced in part 5 of the Notice of AGM.

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

Disclosure of information to auditor
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 auditor is 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 auditor is 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 at 9.30 am on Tuesday 12 November 2013 at The Old Palace Hotel, Lincoln, LN2 1PU.

A formal notice of meeting, explanatory circular and a form of proxy will accompany this report and accounts.

By order of the Board

Dawn Durrant
Company Secretary

12 September 2013

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

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

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

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

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

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

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

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

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

Responsibility Statement
We confirm that to the best of our knowledge:

a) the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
b) the management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Geoff Cooper
Chairman

Nick Wharton
Chief Executive

12 September 2013

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

We have audited the financial statements of Dunelm Group plc for the financial year ended 29 June 2013 set out on pages 65 to 93. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the EU and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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

As explained more fully in the Directors' Responsibilities Statement set out on page 63, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ('APB's') Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 29 June 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the information given in the Corporate Governance report set out on pages 36 to 42 with respect to internal control; and
- risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 63, in relation to going concern;
- the part of the Corporate Governance report on pages 36 to 42 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Wayne Cox
(Senior Statutory Auditor)
for and on behalf of KPMG Audit plc, Statutory Auditor
Chartered Accountants
Leicester

12 September 2013

Consolidated income statement

For the 52 weeks ended 29 June 2013

	Note	2013 £'000	2012 £'000
Revenue	1	**677,192**	**603,729**
Cost of sales		(347,448)	(311,992)
Gross profit		**329,744**	**291,737**
Operating costs	3	(223,206)	(196,537)
Operating profit	2	**106,538**	**95,200**
Financial income	5	1,518	1,048
Financial expenses	5	(1)	–
Profit before taxation		**108,055**	**96,248**
Taxation	6	(26,601)	(25,026)
Profit for the period attributable to equity shareholders of the parent		**81,454**	**71,222**
Earnings per Ordinary Share – basic	8	40.2p	35.3p
Earnings per Ordinary Share – diluted	8	40.0p	35.1p
Dividend proposed per Ordinary Share	7	11.5p	10.0p
Dividend paid per Ordinary Share	7	4.5p	4.0p

All activities relate to continuing operations.

Consolidated statement of comprehensive income

For the 52 weeks ended 29 June 2013

	2013 £'000	2012 £'000
Profit for the period	81,454	71,222
Items that may be reclassified subsequently to profit or loss:		
Effective portion of movement in fair value of cash flow hedges	443	343
Deferred tax on hedging movements	(102)	(90)
Total comprehensive income for the period	**81,795**	**71,475**

Consolidated statement of financial position

As at 29 June 2013

	Note	29 June 2013 £'000	30 June 2012 £'000
Non-current assets			
Intangible assets	9	4,262	3,238
Property, plant and equipment	10	151,060	146,313
Deferred tax asset	11	1,460	–
Total non-current assets		**156,782**	**149,551**
Current assets			
Inventories	12	92,940	86,221
Trade and other receivables	13	18,344	17,054
Cash and cash equivalents	14	44,740	65,190
Financial instruments	17	387	–
Total current assets		**156,411**	**168,465**
Total assets		**313,193**	**318,016**
Current liabilities			
Trade and other payables	15	(102,106)	(97,442)
Liability for current tax		(13,393)	(13,195)
Financial instruments	17	–	(56)
Total current liabilities		**(115,499)**	**(110,693)**
Non-current liabilities			
Deferred tax liability	11	–	(297)
Total non-current liabilities		**–**	(297)
Total liabilities		**(115,499)**	(110,990)
Net assets		**197,694**	**207,026**
Equity			
Issued capital	18	2,028	2,023
Share premium		1,612	1,025
Capital redemption reserve		43,157	43,155
Hedging reserve		299	(42)
Retained earnings		150,598	160,865
Total equity attributable to equity holders of the Parent		**197,694**	**207,026**

The financial statements on pages 65 to 83 were approved by the Board of Directors on 12 September 2013 and were signed on its behalf by:

Nick Wharton
Chief Executive

Consolidated statement of cash flows

For the 52 weeks ended 29 June 2013

	Note	2013 £'000	2012 £'000
Profit before taxation		108,055	96,248
Adjustment for net financing costs		(1,517)	(1,048)
Operating profit		106,538	95,200
Depreciation and amortisation		20,358	18,678
Impairment losses on non-current assets		166	–
Loss/(profit) on disposal of property, plant and equipment		76	(15)
Operating cash flows before movements in working capital		127,138	113,863
(Increase) in inventories		(6,719)	(9,766)
(Increase) in receivables		(1,321)	(2,465)
Increase in payables		4,664	11,955
Net movement in working capital		(3,376)	(276)
Share-based payments expense		2,045	1,803
Foreign exchange gains		451	218
		126,258	115,608
Interest paid		(1)	–
Interest received		937	756
Tax paid		(26,795)	(24,473)
Net cash generated from operating activities		**100,399**	**91,891**
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment		10	634
Acquisition of property, plant and equipment		(23,382)	(37,030)
Acquisition of intangible assets		(3,000)	(1,594)
Net cash utilised in investing activities		**(26,372)**	**(37,990)**
Cash flows from financing activities			
Proceeds from issue of share capital		589	346
Return of Capital to Shareholders		(65,841)	–
Dividends paid		(29,386)	(24,248)
Net cash flows utilised in financing activities		**(94,638)**	**(23,902)**
Net (decrease)/increase in cash and cash equivalents		(20,611)	29,999
Foreign exchange revaluations		161	52
Cash and cash equivalents at the beginning of the period		65,190	35,139
Cash and cash equivalents at the end of the period	14	**44,740**	**65,190**

Consolidated statement of changes in equity

For the 52 weeks ended 29 June 2013

	Issued share capital £'000	Share premium £'000	Capital redemption reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
As at 2 July 2011	**2,015**	**681**	**43,155**	**(295)**	**111,662**	**157,218**
Profit for the financial year	–	–	–	–	71,222	71,222
Movement in fair value of cash flow hedges	–	–	–	343	–	343
Deferred tax on hedging movements	–	–	–	(90)	–	(90)
Total comprehensive income for the financial year	–	–	–	253	71,222	71,475
Issue of share capital	8	344	–	–	(6)	346
Share-based payments	–	–	–	–	1,803	1,803
Deferred tax on share-based payments	–	–	–	–	(199)	(199)
Current corporation tax on share options exercised	–	–	–	–	631	631
Dividends	–	–	–	–	(24,248)	(24,248)
Total transactions with owners, recorded directly in equity	8	344	–	–	(22,019)	(21,667)
As at 30 June 2012	**2,023**	**1,025**	**43,155**	**(42)**	**160,865**	**207,026**
Profit for the financial year	–	–	–	–	81,454	81,454
Movement in fair value of cash flow hedges	–	–	–	443	–	443
Deferred tax on hedging movements	–	–	–	(102)	–	(102)
Total comprehensive income for the financial year	–	–	–	341	81,454	81,795
Issue of share capital	5	587	2	–	(6)	588
Share-based payments	–	–	–	–	2,045	2,045
Deferred tax on share-based payments	–	–	–	–	1,006	1,006
Current corporation tax on share options exercised	–	–	–	–	461	461
Dividends	–	–	–	–	(29,386)	(29,386)
Return of Capital to Shareholders	–	–	–	–	(65,841)	(65,841)
Total transactions with owners, recorded directly in equity	5	587	2	–	(91,721)	(91,127)
As at 29 June 2013	**2,028**	**1,612**	**43,157**	**299**	**150,598**	**197,694**

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') and in accordance with the provisions of the Companies Act 2006 and these are presented on pages 64 to 84.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

The annual financial statements are prepared under the historical cost convention except for financial instruments, which have been stated at fair value. The financial statements are prepared in pounds sterling, rounded to the nearest thousand.

Going concern
The Group has considerable financial resources together with long standing relationships with a number of key suppliers and an established reputation in the retail sector across different geographic areas. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully. The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and financial statements.

Further information regarding the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Directors' Report and Business Review on pages 60 to 62. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Director's review on pages 16 to 19. In addition note 17 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk.

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

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

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

Inventory provisions
The Group provides against the carrying value of inventories held, based upon average losses incurred to clear old and discounted lines. Sensitivities to the assumptions for specific product lines are not expected by management to result in a material change in the overall provisions.

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.

Equity-settled share-based payments
Certain employees and Directors of the Group receive equity-settled remuneration in the form of equity-settled share-based payment transactions, whereby employees render services in exchange for shares or rights over shares. The cost of equity-settled transactions with employees is measured by reference to the fair value, determined using an appropriate pricing model, at the date at which they are granted. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the non-market vesting conditions are expected to be fulfilled, ending on the relevant vesting date. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date is adjusted to reflect the Directors' best available estimate of the number of equity instruments that will ultimately vest based upon non-market conditions.

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

Basis of consolidation

Subsidiaries

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

Transactions eliminated on consolidation

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

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 custom made products, where revenue is recognised at the point that the goods are collected, and gift vouchers, where revenue is recognised when the vouchers are redeemed.

Foreign currencies

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

Intangible assets

These comprise software development and implementation costs and trademarks and are stated at cost less amortisation (see below). Costs incurred on the Group's own brand are expensed as incurred.

Amortisation

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

- software development 3 years
- trademarks 5 years

Property, plant and equipment

Owned assets

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

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

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- computer equipment 3 years
- freehold buildings 50 years
- fixtures and fittings 4 years
- motor vehicles 4 years
- office equipment 5 years
- plant and machinery 4 years
- leasehold improvements over the period of the lease

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

Current assets

Trade and other receivables

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

Inventories

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

Cash and cash equivalents

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

Accounting policies continued

Bank borrowings and borrowing costs
Interest-bearing bank loans and overdrafts are recorded at their fair value.

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

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

Derivative financial instruments
Derivative financial instruments used are forward exchange contracts and are measured at fair value. The fair values are determined by reference to the market prices available from the market on which the instruments involved are traded.

Certain derivative financial instruments are designated as hedges in line with the Group's treasury policy. Cash flow hedges are instruments that hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecasted transaction.

For cash flow hedges that proportion of the gain or loss on the hedging instrument that is determined to be an effective hedge, as defined by IAS 39 'Financial Instruments: Recognition and Measurement', is recognised in equity, directly in the hedge reserve with any ineffective portion recognised in the income statement. Such hedges are tested, both at inception to ensure they are expected to be effective and periodically throughout their duration to assess continuing effectiveness. When the forecast transaction results in the recognition of a non-financial asset or liability, the associated gains or losses previously recognised in equity are included in the initial measurement of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedge cash flows affect the income statement.

Any gains or losses arising from changes in fair value derivative financial instruments not designated as hedges are recognised in the income statement.

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

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

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

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

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

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

Where leases for land and buildings provide for fixed rent review dates and amounts, the Group 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 and foreign exchange gains and losses.

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

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

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

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

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

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

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

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

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

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

New Standards and interpretations
In the current year there were no new standards adopted that had a material impact on the Group or Company results.

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

IFRS 10 – Consolidated Financial Statements
IFRS 13 – Fair Value Measurement

The above will be adopted in the Group and Company financial statements when they become effective. When adopted, none of the above standards or amendments are expected to have any significant impact on the financial statements of the Group or Company.

Notes to the annual financial statements

For the 52 weeks ended 29 June 2013

1 Segmental reporting

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

The Chief Operating Decision Maker is the Board of Directors of Dunelm Group plc. Internal management reports are reviewed by them on a monthly basis. Performance of the segment is assessed based on a number of financial and non-financial KPI's as well as on profit before taxation.

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

All material operations of the reportable segment are carried out in the UK. The Group's revenue is driven by the consolidation of individual small value transactions and as a result Group revenue is not reliant on a major customer or group of customers.

2 Operating profit

Operating profit is stated after charging the following items:

	2013 £'000	2012 £'000
Inventories		
Cost of inventories included in cost of sales	341,545	310,971
Movement on provisions for write down of inventories	666	1,021
Amortisation of intangible assets	2,125	2,445
Depreciation of owned property, plant and equipment	18,233	16,233
Impairment losses on non-current assets	166	–
Operating lease rentals		
Land and buildings	30,690	28,287
Plant and machinery	1,354	1,310
Loss/(profit) on disposal of property, plant and equipment and intangible assets	76	(15)

The analysis of auditors' remuneration is as follows:

	2013 £'000	2012 £'000
Fees payable to the Company's auditors for the audit of the Parent and consolidated annual accounts	19	17
Fees payable to the Company's auditors and their associates for other services to the Group		
– audit of the Company's subsidiaries pursuant to legislation	58	58
– tax compliance	30	28
– other tax services (See Audit and Risk Committee Report on page 45 for further information)	125	46

Total audit fees amounted to £76,900, fees for non-audit services amounted to £155,000.

3 Operating costs

	2013 £'000	2012 £'000
Selling and Distribution	183,926	162,097
Administrative	39,037	34,455
Loss/(profit) on disposal of property, plant and equipment and intangible assets	243	(15)
	223,206	196,537

4 Employee numbers and costs

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

	2013 Number of heads	2013 Full time equivalents	2012 Number of heads	2012 Full time equivalents
Selling	7,429	4,238	6,380	3,823
Distribution	289	284	290	283
Administration	259	252	241	235
	7,977	4,774	6,911	4,341

4 Employee numbers and costs *continued*

The aggregate remuneration of all employees including Directors comprises:

	2013 £'000	2012 £'000
Wages and salaries including bonuses and termination benefits	87,534	77,248
Social security costs	5,748	5,370
Share-based payment expense (note 20)	1,798	1,803
Defined contribution pension costs	375	426
	95,455	84,847

Details of Directors' remuneration, share options, long-term incentive schemes and pension entitlements are disclosed in the Remuneration Report on pages 47 to 56.

5 Financial income and expense

	2013 £'000	2012 £'000
Finance income		
Interest on bank deposits	906	778
Foreign exchange gains (net)	612	270
	1,518	1,048
Finance expenses		
Interest on bank borrowings and overdraft	(1)	–
	(1)	–
Net finance income	1,517	1,048

6 Taxation

	2013 £'000	2012 £'000
Current taxation		
UK corporation tax charge for the period	27,715	26,342
Adjustments in respect of prior periods	(261)	(679)
	27,454	25,663
Deferred taxation		
Origination of temporary differences	(1,018)	(768)
Adjustment in respect of prior periods	165	131
	(853)	(637)
Total taxation expense in the income statement	26,601	25,026

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

	2013 £'000	2012 £'000
Profit before taxation	108,055	96,248
UK corporation tax at standard rate of 23.75% (2012: 25.5%)	25,663	24,543
Factors affecting the charge in the period:		
Non-deductible expenses	27	78
Ineligible depreciation	1,108	1,206
Lease incentive deductions	(96)	(109)
Adjustments to tax charge in respect of prior years	(96)	(548)
Effect of standard rate of corporation tax change	9	(63)
(Profit) on disposal of ineligible assets	(14)	(81)
	26,601	25,026

The taxation charge for the period as a percentage of profit before tax is 24.6% (2012: 26.0%).

A reduction in the UK corporation tax rate from 24% to 23% (effective from 1 April 2013) was substantively enacted on 3 July 2012, and further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013.

This will reduce the Company's future current tax charge accordingly and further reduce the deferred tax asset at 29 June 2013 (which has been calculated based on the rate of 23% substantively enacted at the balance sheet date) by £190,000.

Notes to the annual financial statements continued

For the 52 weeks ended 29 June 2013

7 Dividends

All dividends relate to the 1p Ordinary Shares.

		2013 £'000	2012 £'000
Final for the period ended 2 July 2011	– paid 8.0p	–	(16,158)
Interim for the period ended 30 June 2012	– paid 4.0p	–	(8,090)
Final for the period ended 30 June 2012	– paid 10.0p	(20,259)	–
Interim for the period ended 29 June 2013	– paid 4.5p	(9,127)	–
		(29,386)	(24,248)

The Directors are proposing a final dividend of 11.5p per Ordinary Share for the period ended 29 June 2013 which equates to £23.3m. The dividend will be paid on 20 December 2013 to shareholders on the register at the close of business on 29 November 2013. The Directors have announced a special dividend amounting to £50.7m (25.0p per share), to be paid on 11 October 2013 to shareholders on the register at the close of business on 20 September 2013.

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 29 June 2013 '000	52 weeks ended 2 July 2012 '000
Weighted average number of shares in issue during the period	202,598	201,968
Impact of share options	1,291	1,008
Number of shares for diluted earnings per share	203,889	202,976

9 Intangible assets

	Software development and licences £'000	Rights to Dorma brand £'000	Total £'000
Cost			
At 2 July 2011	4,925	5,036	9,961
Additions	1,590	4	1,594
Transfers from tangible assets	26	–	26
Disposals	(639)	–	(639)
At 30 June 2012	5,902	5,040	10,942
Additions	3,001	–	3,001
Transfers from tangible assets	148	–	148
Disposals	–	–	–
At 29 June 2013	**9,051**	**5,040**	**14,091**
Amortisation			
At 2 July 2011	2,332	2,937	5,269
Charge for the financial period	1,438	1,007	2,445
Disposals	(10)	–	(10)
At 30 June 2012	3,760	3,944	7,704
Charge for the financial period	1,115	1,010	2,125
Disposals	–	–	–
At 29 June 2013	**4,875**	**4,954**	**9,829**
Net book value			
At 2 July 2011	2,593	2,099	4,692
At 30 June 2012	2,142	1,096	3,238
At 29 June 2013	**4,176**	**86**	**4,262**

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

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

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 2011	66,207	68,509	1,600	45	38,330	174,691
Additions	12,826	13,279	727	–	10,198	37,030
Transfers to intangible assets and reclassifications	–	25	14	–	(65)	(26)
Disposals	–	(347)	(23)	(26)	(294)	(690)
At 30 June 2012	79,033	81,466	2,318	19	48,169	211,005
Additions	719	11,237	546	–	10,880	23,382
Transfers to intangible assets and reclassifications	49	52	–	–	(249)	(148)
Disposals	–	(167)	(4)	(19)	(1,017)	(1,207)
At 29 June 2013	**79,801**	**92,588**	**2,860**	**–**	**57,783**	**233,032**
Depreciation						
At 2 July 2011	4,286	21,573	379	45	22,558	48,841
Charge for financial period	1,794	6,051	497	–	7,891	16,233
On disposals	–	(160)	(6)	(26)	(190)	(382)
At 30 June 2012	6,080	27,464	870	19	30,259	64,692
Charge for financial period	1,355	7,147	606	–	9,125	18,233
On disposals	–	(96)	(2)	(19)	(1,002)	(1,119)
Impairment loss	148	–	2	–	16	166
At 29 June 2013	**7,583**	**34,515**	**1,476**	**–**	**38,398**	**81,972**
Net book value						
At 2 July 2011	61,921	46,936	1,221	–	15,772	125,850
At 30 June 2012	72,953	54,002	1,448	–	17,910	146,313
At 29 June 2013	**72,218**	**58,073**	**1,384**	**–**	**19,385**	**151,060**

11 Deferred tax

Deferred tax is provided in full on temporary differences under the liability method using a taxation rate of 23% (2012: 24%).

Deferred taxation assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Property, plant and equipment	–	–	(603)	(1,331)	(603)	(1,331)
Other temporary differences	–	13	(144)	(83)	(144)	(70)
Share-based payments	2,207	1,104	–	–	2,207	1,104
	2,207	1,117	(747)	(1,414)	1,460	(297)

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

	Balance at 2 July 2011 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 30 June 2012 £'000
Property, plant and equipment	(1,670)	339	–	(1,331)
Employee benefits	1,077	226	(199)	1,104
Short-term temporary differences	(52)	72	(90)	(70)
	(645)	637	(289)	(297)

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

Notes to the annual financial statements continued

For the 52 weeks ended 29 June 2013

12 Inventories

	2013 £'000	2012 £'000
Goods for resale	92,940	86,221

13 Trade and other receivables

	2013 £'000	2012 £'000
Trade receivables	351	345
Other receivables	3,579	2,969
Prepayments and accrued income	14,414	13,740
	18,344	17,054

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

	2013 £'000	2012 £'000
Cash at bank and in hand	44,740	65,190

Included in the cash and cash equivalents is £19.7m (2012: £26.5m) of short term deposits, accessible at notice periods not exceeding three months.

15 Trade and other payables

	2013 £'000	2012 £'000
Trade payables	30,249	30,156
Accruals and deferred income	61,049	53,773
Other taxation and social security	8,510	9,333
Other creditors	2,298	4,180
	102,106	97,442

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

16 Interest bearing loans and borrowings

The Group maintains a £10m overdraft facility. Interest is payable on funds utilised under the facility at the rate of 1.5% above the bank's base rate.

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 foreign exchange hedging agreements with it's banking counterparties. The Group only deals with creditworthy counterparties and uses publicly available financial information to rate its counterparties.

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

Liquidity risk

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

Group policy is that surplus funds are placed on deposit with counterparties approved by the Board, with a minimum of 'A' credit rating. Credit limits with approved counterparties are limited to £25m for any individual party.

17 Financial risk management continued

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 is 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 16% of the total stock purchases in the year ended 29 June 2013. The outstanding US dollar liabilities at the year end were $525,000 (2012: $256,000) and payments on account were $6,234,000 (2012: $6,227,000).

During the year the Group entered into exchange rate swaps for $65.7m to sell sterling and buy US dollars. These swaps are accounted for as cash flow hedges. During the year the net mark to market profit on foreign currency hedging instruments taken to equity was £0.3m (2012: £0.3m). At the balance sheet date the Group had 16 swap contracts outstanding with a maximum value of $45.9m.

All of the Group's revenues are in sterling. Purchases of promotional goods are generally in US dollars. Purchase of regular range goods are generally in sterling, although some lines are now being imported directly and paid for in US dollars. We cover exchange rate exposure on expected promotional product purchases up to a maximum of 100% of forecast purchases over a four month horizon. We cover exchange rate exposure on expected regular range purchases up to a maximum of 50% of forecast purchases over a 12 month horizon. We use various means to cover the above currency exposures; hold excess funds in US dollars, take out forward contracts for the purchase of US dollars, enter into forward rate options.

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.

Sensitivity analysis

The Group's principal foreign currency exposure is to the US dollar.

The Directors believe that an increase or decrease of 10% in the US dollar to sterling exchange rates would not have a material effect on the Consolidated Statement of Comprehensive Income.

The US dollar year end exchange rate applied in the above analysis is 1.5239 (2012: 1.5617). Strengthening and weakening of sterling may not produce symmetrical results depending on the proportion and nature of foreign exchange derivatives which do not qualify for hedge accounting.

Fair values

The fair value of the Group's financial assets and liabilities is not materially different from their carrying value. The fair value of foreign currency contracts are sums required by the counterparties to cancel the contracts at the end of the year.

Fair value hierarchy

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

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

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

Gains on cash flow hedges during the year amounted to £387,000 (2012: gain £476,000).

Capital management

The Company manages its equity as capital.

The Board's objective with respect to capital management is to ensure the Group continues as a going concern in order to optimise returns to shareholders. The Board's policy is to retain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development. The Board regularly monitors the level of capital in the Group to ensure that this can be achieved.

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

Notes to the annual financial statements continued

For the 52 weeks ended 29 June 2013

17 Financial risk management *continued*

Financial assets and liabilities

The following table is a comparison by category of the carrying amounts and fair values of the Group's financial assets and liabilities at 29 June 2013 and 30 June 2012.

	2013 Carrying value £'000	2013 Fair value £'000	2012 Carrying value £'000	2012 Fair value £'000
Cash and cash equivalents	44,740	44,740	65,190	65,190
Trade receivables	351	351	345	345
Forward exchange contracts – current	387	387	–	–
Total financial assets	45,478	45,478	65,535	65,535
Trade payables	(30,249)	(30,249)	(30,156)	(30,156)
Forward exchange contracts – current	–	–	(56)	(56)
Total financial liabilities	(30,249)	(30,249)	(30,212)	(30,212)
Net financial assets	15,229	15,229	35,323	35,323

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

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

	2013 £'000	2012 £'000
Sterling	41,321	64,116
US dollar	3,137	878
Euro	282	196
	44,740	65,190

As at 29 June 2013, the analysis of trade receivables that were past due but not impaired is as follows:

	Total £'000	Neither past due nor impaired £'000	Less than 30 days £'000	31–60 days £'000	61–90 days £'000	More than 90 days £'000
30 June 2012	362	30	296	–	3	33
29 June 2013	365	57	47	52	3	206

As at 29 June 2013, the analysis of trade payables that were past due but not impaired is as follows:

	Total £'000	Neither past due nor impaired £'000	Less than 30 days £'000	31–60 days £'000	61–90 days £'000	More than 90 days £'000
30 June 2012	30,156	28,563	722	(25)	456	440
29 June 2013	30,249	28,512	725	195	133	684

18 Share capital

	Number of Ordinary Shares of 1p each 2013	Number of Ordinary Shares of 1p each 2012
In issue at the start of the period	202,255,248	201,490,108
Issued during the period in respect of share option schemes	574,940	765,140
In issue at the end of the period	202,830,188	202,255,248

Proceeds received in relation to shares issued during the period were £589,000 (2012: £346,000).

	2013 Number of shares	2013 £'000	2012 Number of shares	2012 £'000
Ordinary shares of 1p each:				
Allotted, called up and fully paid	202,830,188	2,028	202,255,248	2,023

19 Treasury shares
In the past the Company has acquired its own shares ('treasury shares') for the purpose of delivery to employees under employee share schemes. No such purchases were made during the financial year.

The Company did not reissue any treasury shares during the year. (2012: nil).

20 Share-based payments
As at 29 June 2013, the Group operated three share award plans:

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

There were nil exercisable options in total under these schemes as at 29 June 2013 (2012: 128,228).

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

The fair value 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:

	November 2012 grant	October 2010 grant
Fair value at measurement date	151.7p	145.8p
Exercise price	641.5p	420.0p
Expected volatility (weighted average volatility used in modelling – based on historical volatility of comparable quoted companies)	29%	36%
Option life (weighted average life used in modelling)	3 years	3 years
Expected dividends	2.5%	2.5%
Risk-free interest rate	0.8%	1.7%

The number and weighted average exercise price of options under the GSOP at 29 june 2013 were as follows:

	Weighted average exercise price 2013	Number of shares under option 2013	Weighted average exercise price 2012	Number of shares under option 2012
Outstanding at beginning of year	420.0p	100,000	344.3p	136,495
Granted during year	641.5p	53,565	–	–
Exercised during year	–	–	137.0p	(36,495)
Lapsed during year	–	–	–	–
Outstanding at end of year	497.3p	153,565	420.0p	100,000

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 November 2012. Options may be exercised under the scheme within six months of the completion of the three year savings contract which commenced on 1 January 2013. 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:

	November 2012	November 2011	November 2010
Fair value at measurement date	158.8p	160.2p	192.8p
Share price	674.5p	503.5p	497.5p
Exercise price	545.0p	361.0p	337.0p
Expected volatility (weighted average volatility used in modelling – based on historical volatility of comparable quoted companies)	32%	31%	43%
Option life (weighted average life used in modelling)	3.5 years	3.5 years	3.5 years
Expected dividends	2.5%	2.5%	2.5%
Risk-free interest rate	0.8%	1.1%	1.7%
Forfeiture rate	57%	38%	19%

20 Share-based payments continued

b) Dunelm Group Savings Related Share Option Plan *continued*

The number and weighted average exercise price of options outstanding under the Sharesave at 29 June 2013 was as follows:

	Weighted average exercise price 2013	Number of shares under option 2013	Weighted average exercise price 2012	Number of shares under option 2012
Outstanding at beginning of year	321.5p	820,753	245.7p	870,612
Granted during year	545.0p	272,662	361.0p	325,879
Exercised during the year	254.6p	(231,548)	127.3p	(230,051)
Forfeited during year	384.1p	(83,282)	263.4p	(145,687)
Outstanding at end of year	413.0p	778,585	321.5p	820,753

The weighted average share price at the time of exercise was 699.4p.

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 and senior management. The grants are exercisable in November 2015. These grants are dependent on the level of growth in Group EPS relative to RPI, as well as continuing employment. The maximum life of options under the LTIP is 10 years from the date of grant. Full details of this plan are included in the Remuneration Report on pages 47 to 56.

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:

	October 2011	October 2011	December 2010	December 2010	October 2010
Share price at date of grant	499.0p	451.0p	500.0p	500.0p	440.1p
Discount factor, based on dividend yield of 2.5% to vesting date	0.927	0.905	0.881	0.927	0.927
Fair value of option	462.9p	408.3p	440.6p	463.4p	407.9p

	November 2012	November 2011
Share price at date of grant	641.5p	431.0p
Discount factor, based on dividend yield of 2.5% to vesting date	0.779	0.927
Fair value of option	499.5p	399.8p

The number and weighted average exercise price of options under the LTIP at 29 June 2013 is as follows:

	Weighted average exercise price 2013	Number of shares under option 2013	Weighted average exercise price 2012	Number of shares under option 2012
Outstanding at beginning of year	–	1,427,268	–	1,499,266
Granted during year	–	300,905	–	441,477
Exercised during year	–	(343,392)	–	(498,594)
Forfeited during year	–	(595)	–	(14,881)
Outstanding at end of year	–	1,384,186	–	1,427,268

The weighted average share price at the time of exercise was 686.8p.

d) Impact on income statement

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

	2013 £'000	2012 £'000
GSOP	63	45
Sharesave	342	337
LTIP	1,640	1,421
	2.045	1,803

21 Commitments

As at 29 June 2013 the Group had entered into capital contracts amounting to £13.2m. The equivalent figure as at 30June 2012 was £15.3m.

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

	2013 Motor vehicles £'000	2013 Land and buildings £'000	2013 Plant and machinery £'000	2012 Motor vehicles £'000	2012 Land and buildings £'000	2012 Plant and machinery £'000
Within one year	895	35,761	496	552	31,005	287
In the second to fifth year inclusive	2,354	131,337	2,158	392	111,904	840
After five years		175,052	964	–	142,666	102
	3,249	342,150	3,618	944	285,575	1,229

The Group has 121 operating leases in respect of properties. These leases run for periods of up to 20 years, with an option to renew leases on expiry. Lease payments are typically reviewed every five years.

The Group also leases a number of vehicles, shop fittings and items of computer hardware under operating leases. These vary in length.

22 Contingent liabilities

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

23 Related parties

Identity of related parties

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

Key management personnel

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

Directors of the Company and their immediate relatives control 31.0% of the voting shares of the Company.

Disclosures relating to remuneration of Directors are set out in the Remuneration Report on pages 47 to 56 The remuneration of the key management personnel, excluding Directors of the Group, is set out below:

	2013 £'000	2012 £'000
Salaries and other short-term benefits	1,868	1,753
Post-employment benefits	53	34
Share-based payments	477	217
	2,398	2,004

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

24 Ultimate controlling party

The Directors consider that the Adderley family is the ultimate controlling party of Dunelm Group plc by virtue of their combined shareholding.

25 Subsequent events

The Board have announced a special dividend amounting to £50.7m (25.0p per share), to be paid to shareholders on 11 October 2013.

Parent Company statement of financial position

As at 29 June 2013

	Note	2013 £'000	2012 £'000
Non-current assets			
Investment in subsidiaries	4	48,466	47,500
Deferred tax asset	5	1,165	611
Total non-current assets		**49,631**	**48,111**
Current assets			
Trade and other receivables	6	146.201	168,949
Current tax asset		806	916
Total current assets		147,007	169,865
Total assets		**196,638**	**217,976**
Current liabilities			
Trade and other payables	7	(2,685)	(2,612)
Total current liabilities		(2,685)	(2,612)
Total liabilities		(2,685)	(2,612)
Net assets		**193,953**	**215,364**
Capital and reserves			
Issued capital	10	2,028	2,023
Share premium		1,612	1,025
Non-distributable reserves		3,311	2,345
Capital Redemption Reserve		43,157	43,155
Retained earnings		143,845	166,816
Equity shareholders' funds		**193,953**	**215,364**

The financial statements on pages 84 to 92 were approved by the Board of Directors on 12 September 2013 and were signed on its behalf by:

David Stead
Director

12 September 2013

Company number 4708277

Parent Company statement of cash flows

For the 52 weeks ended 29 June 2013

	2013 £'000	2012 £'000
Profit before tax	70,739	99,617
Adjusted for:		
Net financing costs	(6,189)	(5,223)
Operating profit	64,550	94,394
Operating cash flows before movements in working capital		
Decrease/(increase) in receivables	22,748	(79,063)
Increase in payables	73	2,325
Net movement in working capital	22,821	(76,738)
Investment income	(70,000)	(100,000)
Share-based payments expense	1,079	1,022
Cash flows from operating activities	18,450	(81,322)
Dividends received	70,000	100,000
Tax paid	–	–
Interest paid	–	–
Interest received	6,189	5,223
Net cash generated from operating activities	**94,639**	**23,901**
Cash flows from financing activities		
Proceeds from issue of share capital	589	347
Return of Capital to shareholders	(65,842)	–
Dividends paid	(29,386)	(24,248)
Net cash flows utilised in financing activities	**(94,639)**	**(23,901)**
Net increase in cash and cash equivalents	–	–
Cash and cash equivalents at the beginning of the period	–	–
Cash and cash equivalents at the end of the period	**–**	**–**

Parent Company statement of changes in equity

For the 52 weeks ended 29 June 2013

	Issued share capital £'000	Share premium £'000	Capital redemption reserve £'000	Non-distributable reserve £'000	Retained earnings £'000	Total £'000
As at 30 June 2011	**2,015**	**681**	**43,155**	**1,564**	**90,150**	**137,565**
Profit for the financial year	–	–	–	–	99,677	99,677
Total comprehensive income for the financial year	–	–	–	–	99,677	99,677
Issue of share capital	8	344	–	–	(6)	346
Share-based payments	–	–	–	781	1,022	1,803
Deferred tax on share-based payments	–	–	–	–	(157)	(157)
Current corporation tax on share options exercised	–	–	–	–	378	378
Dividends	–	–	–	–	(24,248)	(24,248)
Total transactions with owners, recorded directly in equity	8	344	–	781	(23,011)	(21,878)
As at 2 July 2012	**2,023**	**1,025**	**43,155**	**2,345**	**166,816**	**215,364**
Profit for the financial year	–	–	–	–	70,549	70,549
Total comprehensive income for the financial year	–	–	–	–	70,549	70,549
Issue of share capital	5	587	2	–	(6)	588
Share-based payments	–	–	–	966	1,079	2,045
Deferred tax on share-based payments	–	–	–	–	430	430
Current corporation tax on share options exercised	–	–	–	–	205	205
Dividends	–	–	–	–	(29,386)	(29,386)
Return of Capital to shareholders	–	–	–	–	(65,842)	(65,842)
Total transactions with owners, recorded directly in equity	5	587	2	966	(93,520)	(91,960)
As at 29 June 2013	**2,028**	**1,612**	**43,157**	**3,311**	**143,845**	**193,953**

The non-distributable reserve's purpose is to reflect movements in share-based payments in respect of awards given by the Parent Company to employees of subsidiaries.

Parent Company accounting policies

Basis of preparation
The Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs') and as applied in accordance with the provisions of the Companies Act 2006.

The accounts of the Company are prepared under the historical cost convention, in accordance with the Companies Act 2006, applicable accounting standards and specifically in accordance with the accounting policies set out below.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Investments
Investments in subsidiary undertakings are stated at the adjusted cost of the investment, 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.

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.

Bank borrowings and borrowing costs
Interest-bearing bank loans and overdrafts are recorded at their fair value.

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

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

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

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

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

Share-based payments
The Company operates three share option schemes details of which are set out in note 12.

The fair value of options granted is realised as an employee expense with a corresponding increase in equity. The fair value of employee services received in the subsidiaries under these schemes are recognised as an expense in the financial statements of the subsidiary undertakings which benefit from the employee services. The company has recognised the fair value of the share-based payments as an increase in equity with a corresponding adjustment to investments.

Fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. Fair value is measured using the binomial model, taking into account the terms and conditions applicable to the options.

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

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

Parent Company accounting policies continued

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

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

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

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

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

New Standards and interpretations
In the current year there were no new standards adopted that had a material impact on the Group or Company results.

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

IFRS 12 – Interest in other entities
IFRS 13 – Fair Value Measurement

The above will be adopted in the Group and Company financial statements when they become effective. When adopted, none of the above standards or amendments are expected to have any significant impact on the financial statements of the Group or Company.

Notes to the Parent Company financial statements

For the 52 weeks ended 29 June 2013

1 Income statement

The Company made a profit after tax of £70,549,000 (2012: £99,677,000). The Directors have taken advantage of the exemption available under section 408 Companies Act 2006 and have not presented an income statement for the Company alone.

The Company is not required to give details of the fees paid to its auditors in accordance with the Companies (Disclosure of Auditor Remuneration) Regulations 2005.

2 Employee costs

The Company has no employees other than the three Executive Directors. Full details of the Directors' remuneration and interest are set out in the Remuneration Report on pages 47 to 56, and share-based payments details in note 20 on pages 81 to 82.

3 Dividends

All dividends relate to the 1p Ordinary Shares.

	2013 £'000	2012 £'000
Final for the period ended 2 July 2011 – paid 8.0p	–	(16,158)
Interim for the period ended 30 June 2012 – paid 4.0p	–	(8,090)
Final for the period ended 30 June 2012 – paid 10.0p	(20,259)	–
Interim for the period ended 29 June 2013 – paid 4.5p	(9,127)	–
	(29,386)	(24,248)

The Directors are proposing a final dividend of 11.5p per Ordinary Share for the period ended 29 June 2013 which equates to £23.3m. The dividend will be paid on 20 December 2013 to shareholders on the register at the close of business on 29 November 2013. The Directors have announced a special dividend amounting to £50.7m (25.0p per share), to be paid on 11 October 2013 to shareholders on the register at close of business on 20 September 2013.

4 Investments

Shares in subsidiary undertakings.

	£'000
As at 3 July 2011	46,719
Share-based payments	781
As at 30 June 2012	47,500
Share-based payments	966
As at 29 June 2013	48,466

The following were subsidiaries as at 29 June 2013:

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
Dunelm Limited	100%	Dormant
Dunelm Card Services Limited	100%	Dormant
Ensco 735 Limited*	100%	Property holding company
Zoncolan Limited*	100%	Property holding company

* Share Capital held by subsidising undertakings

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

5 Deferred tax assets

	Assets	
	2013 £'000	2012 £'000
Employee benefits	1,165	611

5 Deferred tax assets continued

The movement in deferred tax assets is as follows:

	Balance at 2 July 2011 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 20 June 2012 £'000
Employee benefits	655	113	(157)	611

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

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

	2013 £'000	2012 £'000
Amounts owed by subsidiary undertakings	146,174	168,912
Prepayments and accrued income	27	37
Other taxation and social security	–	–
	146,201	168,949

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

	2013 £'000	2012 £'000
Trade payables	72	24
Accruals and deferred income	2,469	2,388
Other taxation and social security	124	180
Other creditors	20	20
	2,685	2,612

8 Interest bearing loans and borrowings

On 7 February 2013 the Company entered into a £10m overdraft facility. Interest is payable on funds utilised under the facility at the rate of 1.5% above the bank's base rate.

9 Financial risk management

Capital management

The following table is a comparison by category of the carrying amounts and fair values of the Company's financial assets and liabilities at 29 June 2013 and 30 June 2012.

	2013 Carrying value £'000	2013 Fair value £'000	2012 Carrying value £'000	2012 Fair value £'000
Subsidiary loans	146,174	146,174	168,912	168,912
Total financial assets	146,174	146,174	168,912	168,912
Trade payables	(72)	(72)	(24)	(24)
Total financial liabilities	(72)	(72)	(24)	(24)
Net financial assets	146,102	146,102	168,888	168,888

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

10 Share capital

	Number of Ordinary Shares of 1p each 2013	Number of Ordinary Shares of 1p each 2012
In issue at the start of the period	202,255,248	201,490,108
Issued during the period in respect of share option schemes	574,940	765,140
In issue at the end of the period	202,830,188	202,255,248

Proceeds received in relation to shares issued during the period were £588,000 (2012: £343,000).

	2013 Number of shares	2013 £'000	2012 Number of shares	2012 £'000
Ordinary Shares of 1p each				
Allotted, called up and fully paid	202,830,188	2,028	202,255,248	2,023

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

11 Treasury shares

In the past the Company has acquired its own shares ('treasury shares') for the purpose of delivery to employee share schemes. No such purchase was made during the year.

The Company did not reissue any treasury shares during the year (2012: nil).

12 Share-based payments

As at 29 June 2013, the Company operated one share award plan:

Long-Term Incentive Plan ('LTIP')

There were no exercisable options as at 29 June 2013.

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 have been made in the year, to the Executive Directors. The grant is exercisable in November 2015 depending on the level of growth in Group EPS relative to RPI, the grant awarded to Nick Wharton is over the financial years 2012/13 to 2014/15. The maximum life of options under LTIP is 10 years from the date of grant. Full details of this plan are included in the Remuneration Report on pages 47 to 56.

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:

	November 2012	November 2011	October 2011	December 2010	December 2010
Share price at date of grant	641.5p	431.0p	499.0p	500.0p	500.0p
Discount factor, based on dividend yield of 2.5% to vesting date	0.779	0.927	0.927	0.881	0.927
Fair value of option	499.5p	399.8p	462.7p	440.6p	463.4p

The number and weighted average exercise price of options under the LTIP at 29 June 2013 is:

	Weighted average exercise price 2013	Number of shares under option 2013	Weighted average exercise price 2012	Number of shares under option 2012
Outstanding at beginning of year	–	918,594	–	1,034,923
Granted during year	–	157,131	–	321,508
Exercised during year	–	(209,164)	–	(437,837)
Lapsed during year	–	–	–	–
Outstanding at end of year	–	866,561	–	918,594

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

	2013 £'000	2012 £'000
LTIP	1,079	1,022
	1,079	1,022

Notes to the Parent Company financial statements continued

For the 52 weeks ended 29 June 2013

13 Contingent liability

The Company and certain subsidiaries have given joint and several guarantees in connection with all bank facilities provided by the Group's principal bankers.

The Group's banking facilities are subject to a netting facility whereby credit balances may be offset against indebtedness of other Group companies.

14 Related party disclosure

The amount due to the Company from subsidiary undertakings is set out in note 6. Transactions between the Company and its subsidiaries were as follows:

	2013 £'000	2012 £'000
Cash paid to Group undertakings	(99,755)	(26,590)
Cash received from Group undertakings	827	432
Dividends received	70,000	100,000
Net interest receivable	6,189	5,223

Advisers and contacts

Corporate Brokers and Financial Advisers	**UBS Investment Bank** 1 Finsbury Avenue London EC2M 2PP Tel: 020 7567 8000
	Oriel Securities Limited 150 Cheapside London EC2V 6ET Tel: 020 7710 7600
Legal Advisers	**Allen & Overy LLP** One Bishops Square London E1 6AO Tel: 020 3088 0000
Auditor	**KPMG Audit plc** 1 Waterloo Way Leicester LE1 6LP Tel: 0116 256 6000
Principal Bankers	**Barclays Bank plc** Midlands Corporate Banking PO Box 333 15 Colmore Row Birmingham B3 2WN Tel: 0845 755 5555
Registrars	**Equiniti** Aspect House Spencer Road Lancing West Sussex BN99 6DA Tel: 0871 384 2030[1]
Financial Public Relations	**MHP Communications** 60 Great Portland Street London W1W 7RT Tel: 020 3128 8100
Registered Office	**Store Support Centre** Watermead Business Park Syston Leicestershire LE7 1AD Company Registration No: 4708277
Investor Relations	investorrelations@dunelm.com Tel: 0116 2644356

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

Dunelm Store listing

Superstores

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

High Street

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

Notes

Notes

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