Dunelm Group plc
Annual Report and Accounts
for the year ended 4 July 2015

Stock code: DNLM

dunelm.com

Dunelm is the UK's No.1 Homewares retailer.

Investment proposition

Customer Offer

We provide customers with unrivalled choice with 20,000 lines across all key homewares categories, offering excellent value for money, and supported by friendly and knowledgeable customer service.

Property Portfolio

Our portfolio of almost 150 UK superstores comprises good quality trading locations at low average rents.

Multi-channel Capability

We have a high quality website allowing customers to shop with us online for home delivery or to reserve products for collection in store.

Supplier Relationships

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

Scale

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

Financial Strength

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

Navigating the report

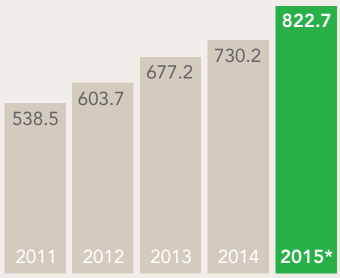
Look out for these icons

Read more in this report

Find more information online at www.dunelm.com

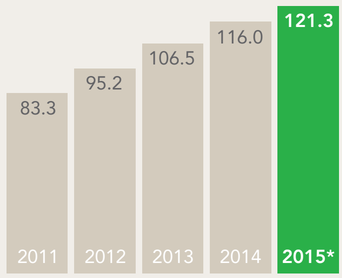
Financial Highlights

Revenue
£m



£822.7m
(2014: £730.2m)

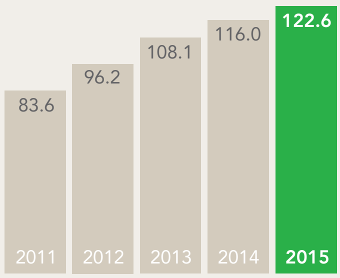
Operating profit
£m



£121.3m
(2014: £116.0m)

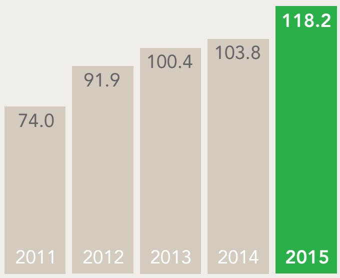
* 2015 is treated as a 52 week period for these measures, rather than 53 weeks

Profit before tax
£m



£122.6m
(2014: £116.0m)

Net cash from operations
£m



£118.2m
(2014: £103.8m)

FY15 Highlights

- 12 new stores opened
- Like-for-like sales up 5.8%
- New website launched
- Continued investment in our infrastructure
- Special distribution of 70p per share

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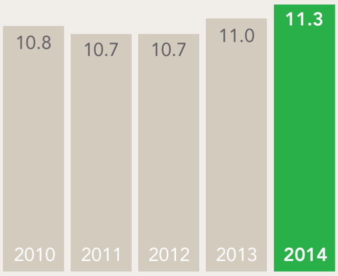
Large, growing and fragmented market

We continue to enhance our proposition to take advantage of market changes and opportunities, with our online channel being a key area of focus for us.

MARKET SIZE AND GROWTH

The UK Homewares market is estimated to reach £11.7bn in 2015. It demonstrates a relative resilience in tough times with somewhat muted growth as the economy expands. Market predictions looking ahead are for modest growth.

Market size
£bn



Source: Verdict Research

MARKET SHARE

Dunelm has grown significantly within the Homewares market and has achieved market leadership in recent years. The market continues to see consolidation with major multiple retailers continuing to take share from smaller independent operators.

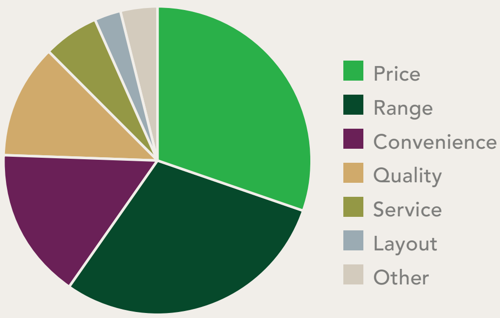
Market share
%

	2010	2014
Dunelm	5.3%	7.7%
John Lewis	6.0%	7.6%
Ikea	4.2%	5.1%
Top 10	42.2%	51.1%

Source: Verdict Research

MARKET DRIVERS

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



Source: Verdict Research

Business Model

How we create sustainable growth

Dunelm is the UK's No.1 Homewares retailer offering over 20,000 quality products across more than 20 different departments. The business operates from 149 'out-of-town' superstores, 6 high streets and provides further 'multi-channel' convenience through online, mobile, catalogue, telephone ordering and reserve and collect propositions.

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

- The broadest range and choice
- Strong availability
- Multi-channel convenience
- Customer service from knowledgeable and helpful colleagues
- Exceptional value for money

OUR OFFER

DEVELOP

Our specialist proposition comprises market leading range, choice and value for our customers

SOURCE

Through our skilled people utilising their expert knowledge and experience we ethically source our range of quality products through trusted UK and worldwide partners

SELL

With our growing nationwide store presence of over 150 stores, complemented by our multi-channel offer and convenience, we provide the expertise our customers want

DELIVER

Our robust, scalable and flexible supply chain allows us to distribute our products quickly and efficiently to our stores or to our customers at their homes

Also read about our Principal Risks and Uncertainties on pages 24 to 28

OUR KEY STRENGTHS

Customer Offer | Property Portfolio | Multi-channel Capability | Supplier Relationships | Scale | Financial Strength

CORPORATE RESPONSIBILITY SUPPORTING SUSTAINABLE GROWTH

Customers | Colleagues | Health and Safety | Suppliers & Human Rights | Communities | Environment

Read more about our Corporate Social Responsibility on pages 10 to 18

Our 3 Point Growth Strategy

Dunelm aims to provide market leading choice at great value

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

The superstore format provides an average of 30,000 sq. ft. of selling space with over 20,000 products across a broad spectrum of categories, extending from the Group's home textiles heritage (bedding, curtains, cushions, quilts and pillows) to a complete homewares offer including kitchenware and dining, lighting, wall art, furniture and rugs. Dunelm is one of the few national retailers to offer an authoritative selection of curtain fabrics on the roll, and owns a specialist UK facility dedicated to producing made-to-measure curtains.

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

Dunelm has three key areas of growth opportunity:

Growth Opportunity 1:

LFL stores sales growth

- Range developments (including Dorma)
- Colleague engagement and 'Customer First' programme
- Investment in store environments ("Great place to shop")
- Emphasis on stronger seasonal campaigns

Growth Opportunity 2:

National coverage from rolling out new stores

- Target of 200 superstores in the UK
- Average payback period is 30 months
- Particular focus on expansion in London & South East

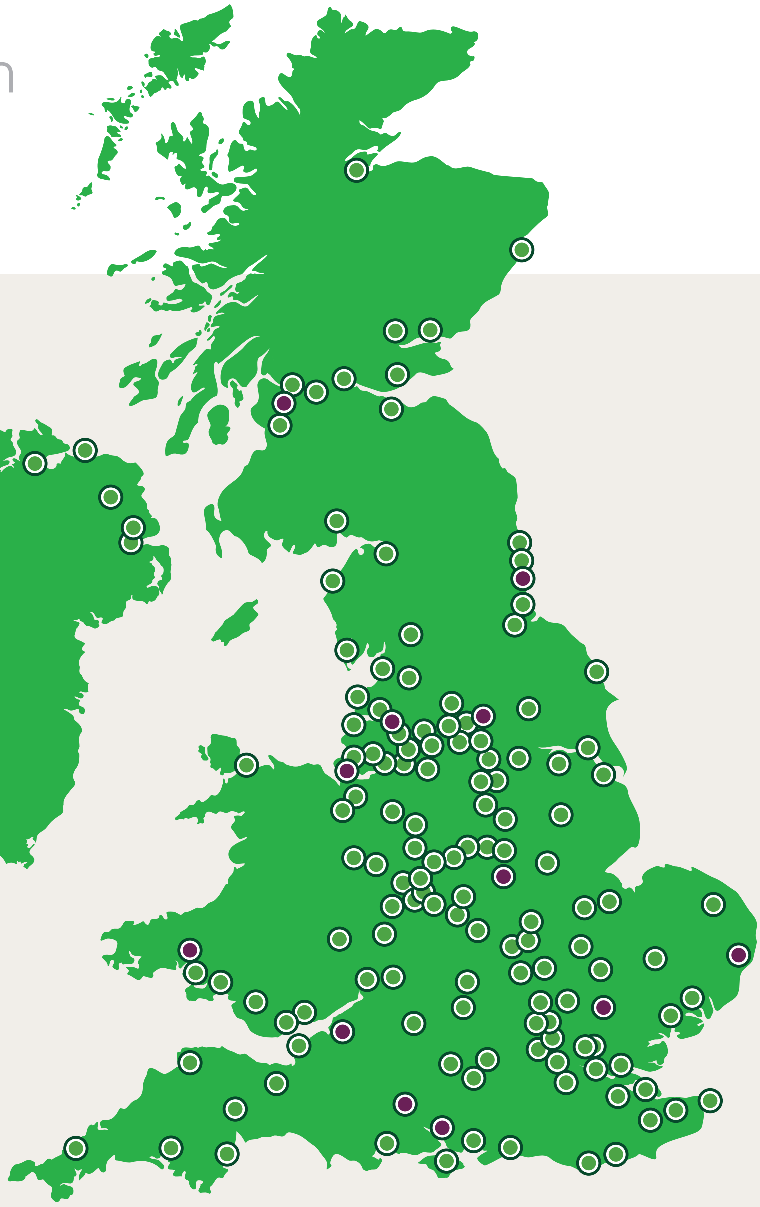
Growth Opportunity 3:

Growing sales and profit in the home delivery channel

- Increased focus on digital marketing
- Investment in enhanced delivery options
- Further expansion in online product range

› UK Store Portfolio

National coverage from rolling out new stores



NEW STORES OPENED

Since 28 June 2014

- Lowestoft
- Harlow
- Bristol
- Southampton
- Bromborough
- Wakefield
- Blackburn
- Loughborough
- Salisbury
- North Shields
- Carmarthen
- Paisley

KEY

- Superstores as at 28 June 2014.
- New superstores opened since 28 June 2014

Average payback period

30 MONTHS

TARGET SUPERSTORES

200

(currently 149)

Andy Harrison Chairman

I am delighted to report to you for the first time as Chairman of your Company. Dunelm is a strong business with an enviable track record of success. I look forward to working with the Board and the executive team to create further value for all stakeholders in the years to come.

Financial performance and shareholder distributions

It is pleasing to report that the business has maintained its record of growing sales and profit every year since IPO in 2006. Headline sales over the 52 week period to 27 June 2015 amounted to £822.7m, an increase of 12.7% on the prior year; over the 53 weeks to 4 July which are covered in our statutory numbers, sales amounted to £835.8m. PBT amounted to £121.4m on a 52 week basis (4.7% growth) and £122.6m for 53 weeks.

During the last year the Board agreed a new capital policy under which we intend to operate with a level of net debt within the range of 0.25 – 0.75 times historical EBITDA. Implementing this policy led to the payment of a special distribution to shareholders of 70p per share in March 2015. Further special distributions will be considered if net debt falls consistently below 0.25× EBITDA.

In addition to the above, the Board is recommending an increase in the final dividend to 16.0p per share (FY14: 15.0p), bringing the total ordinary dividend for the year to 21.5p (FY14: 20.0p). This is consistent with our policy of maintaining ordinary dividend cover in the range of 2.0-2.5×, with cover for the year of 2.2×.

A more detailed review of the financial performance is provided in the CFO's review.

Strategy development

In February, we announced a renewed focus on growth, with an ambition to increase the scale of our business by 50% over the medium term. The core elements of this strategy are described more fully in the Chief Executive's review.

Board changes

Let me start by thanking my predecessor, Geoff Cooper, who led the Board as Chairman for eleven years through Dunelm's IPO in 2006 to the end of the last financial year. Over this time the business has grown tremendously delivering a compound annual growth in sales of 11% and a compound annual growth in EPS of 15%. Shareholders have benefitted from this success with a total shareholder return of over 700% since IPO. Geoff has been pivotal to our success, and his leadership of the Board has been inspirational. On behalf of all my Board colleagues, I would like to thank him for his enormous service to Dunelm.

The last financial year also saw a change of Chief Executive. In September 2014 Nick Wharton left the role of Chief Executive after three years. After conducting a full external search the Board reppointed Will Adderley, who had previously been CEO between 1996 and 2011, to the role. At the time of this appointment John Browett was a top external target candidate, and we were delighted when John became available to join Dunelm earlier this year. John joined the Board as Chief Executive Designate on 1 July 2015, and he will become Chief Executive in January 2016 following an induction period working with Will and the broader senior team. John brings an excellent combination of business leadership together with outstanding retail skills across a breadth of sectors, from grocery and electrical goods to fashion. He also brings proven experience of applying technology in multi-channel operations which will help us accelerate our digital plans.

Will Adderley will revert to his previous role as Deputy Chairman and will remain actively involved in the business. The business will benefit greatly from the combined and complementary skills of John and Will, and I look forward to working with them both.

We will be joined in December this year by Keith Down as Chief Financial Officer, when David Stead retires from the Board. David has been with the Group for 12 years and has been a fundamental contributor to the growth and success of the business during his tenure. He will be missed by his colleagues and we all wish him well with his future plans.

Keith brings a wealth of experience in financial management, much of it gained in the quoted retail and hospitality sectors. I am confident that with his drive, experience and character he will play a central role in the execution of our growth strategy, and I look forward to welcoming him to the Board.

There were also a number of changes amongst my Non-Executive colleagues. Matt Davies resigned in January when he agreed to take on an executive role at Tesco plc. The Board greatly valued Matt's contribution during his tenure of nearly three years and we wish him well with his new role.

We were pleased to welcome William Reeve to the Board in July as a Non-Executive Director. William is a serial entrepreneur and investor, who co-founded LOVEFiLM.com and has been actively involved with a number of other successful online businesses. We have long searched for someone who has both an entrepreneurial mind-set and deep digital experience, who can operate at board level. William fits these requirements very well. We are also pleased to be able to announce the appointment of Peter Ruis as a Non-Executive Director. Peter has deep experience in the retail sector, with particular expertise in marketing. He is currently Chief Executive of Jigsaw and prior to that worked with John Lewis Partnership and Ted Baker.

Outlook

We are at a very exciting time in our development. We enter a new chapter of growth with a refreshed executive team, led by John, and supported by Will, who are two of the top retailers of their generation. We also have a great team across the business, with continuing passion for giving our customers great products, great value, and great service. Dunelm has an outstanding track record and is in great health. We look forward to reporting on our further progress,

Andy Harrison
Chairman
10 September 2015

Chief Executive's Review

Will Adderley Chief Executive

Overview

The last 12 months have seen exciting developments within Dunelm. We have set ourselves a new growth ambition, relaunched our strategy and made key appointments to further strengthen the capability of the executive management team. At the same time, we have delivered good financial performance including:-

- total sales of £822.7m on a 52 week basis, representing year on year growth of 12.7%
- total sales of £835.8m on a statutory 53 week basis
- PBT of £121.4m on a 52 week basis (4.7% growth)
- PBT of £122.6m on a statutory 53 week basis
- fully diluted EPS of 46.8p on a 52 week basis (7.1% growth)
- fully diluted EPS of 47.3p on a statutory 53 week basis

Ambition

Since our IPO in 2006 we have achieved strong growth in sales and profits. Going forward, our target is to deliver sustainable, profitable growth, with a medium term ambition of increasing sales by 50% from their current level.

Progress with our
GROWTH STRATEGY

We see three key areas of growth opportunity:

- **GROWTH OPPORTUNITY 1:** LFL stores sales growth
- **GROWTH OPPORTUNITY 2:** National coverage from rolling out new stores
- **GROWTH OPPORTUNITY 3:** Growing sales and profit in the home delivery channel

Growth opportunity 1
LFL stores sales growth

We pride ourselves on the breadth of choice we offer our customers, with good quality products at value for money prices across more than 20 different departments. We are always looking to improve the Dunelm offer for customers by evolving our ranges further, both in established departments as well as newer ones. So, for example, we have continued to perform strongly in bed linen thanks in part to developing a much stronger range of kids' bedding. Similarly, the roll-out of our Dunelm at Home service has helped to reinforce our strength as a curtains retailer, with made-to-measure curtains being one of our fastest-growing departments.

We have also placed renewed emphasis on seasonal merchandise, making deeper stock commitments to campaigns such as Summer Living than in recent years. Trading these campaigns harder has been a successful strategy in the last financial year and we intend to build on this going forward.

The look and feel of our stores also continues to evolve. This is assisted by refit activity (we completed nine medium refits in the last financial year) and by experimentation with new merchandising approaches. For example, during the last year we developed the concept of Dorma Living which we have introduced to a number of stores creating a dedicated Dorma area in which we complement the Dorma bed linen range with other Dorma-branded products such as curtains, crockery, decor and wallpaper.

We continue to invest in customer service through our Customer First programme. Rewards and incentives for our colleagues in stores are now aligned explicitly with customer service measures, as measured by direct customer feedback. We have a big focus on colleague engagement which we see as a key enabler to delivering continued strong service.

Supported by the above initiatives, sales in LFL stores grew by 3.4% over the last financial year. Looking ahead, we will continue to evolve our product offer and see many opportunities to strengthen the proposition further, even in established departments. In addition, we are starting to harness customer feedback in new ways and will use this to inform trials of different store layouts and merchandising approaches. Customer feedback will also be a key element in determining our marketing strategy going forward.

Growth opportunity 2
National coverage from rolling out new stores

The vast majority of our portfolio comprises out-of-town superstores, with the average store footprint comprising around 30,000 square feet of retail space. In the last financial year we opened 12 new superstores (one being a high street relocation) taking our superstore chain to 148 stores at the year end, providing 4.4 million square feet of selling space.

Our new stores continue to deliver strong returns, with the average expected discounted payback for stores opened in the last three financial years being approximately 30 months. We currently target the majority of our new store openings to achieve discounted cash flow payback of a maximum of 36 months, although we recognise that as our portfolio becomes more mature it will become harder to achieve this in all cases.

Since the year-end, we have opened one additional new store, and nine more stores are contractually committed (including two relocations), with six of these scheduled to open in the current financial year. We remain confident that the UK can support approximately 200 Dunelm superstores, with particular opportunity for us to expand our presence in London and the South-East.

Growth opportunity 3

Growing sales and profit in the home delivery channel

Our major achievement in this area during the last year was the launch of a new customer-facing web platform, which went live on 1 July 2015. This new platform improves the customer journey and shopping experience, provides significant further scalability, and paves the way for more frequent future developments to allow ongoing enhancements to functionality – starting with increased choice of delivery options for greater customer convenience.

We currently offer 17,000 homewares lines for home delivery, representing the major part of our business in this channel. Order fulfilment is outsourced to a specialist third party partner using a one-man delivery service. We achieve satisfactory profitability from this business in its own right, with additional benefits when customers bypass home delivery and use our Reserve & Collect service. We anticipate substantial further growth in both home delivery orders and Reserve & Collect transactions.

In addition to homewares, our home delivery proposition includes 700 larger furniture items which require a more expensive two-man delivery service. This type of business is relatively new for us. Whilst it is currently unprofitable, we are pleased with the progress made to date and we continue to refine our operating model in order to ensure that it can generate the profitability which we require.

Overall growth in home delivery sales during the last financial year was 55%. Over the year as a whole this channel accounted for 6.1% of our total business, up from 4.4% in the previous year.

People

We continue to invest in our people and management capability, starting at the very top of the business. I am delighted that John Browett has joined us and will be our next Chief Executive. John is an outstanding retailer and in the early stages of his induction to the business is already bringing fresh thinking and stimulus. With Keith Down identified as our new CFO to succeed David Stead on his retirement later this year, and with other senior appointments also in place, we have a top class executive team to continue driving growth over the coming years.

Infrastructure

We are also developing further the infrastructure which will be needed to allow us to realise our growth ambition. Central to this is the commitment we have made to an additional leasehold warehouse and distribution centre. This facility is scheduled to become operational in spring 2016. It is located close to our existing warehouse at Stoke on Trent and will double our warehouse space to 1 million square feet.

Recognising the importance of IT systems in any major retail business, we have been steadily upgrading our internal IT capability over the past two years. The team is now working on important developments not only for our online business, but also to make store operations more efficient and effective, and to support the increased scale of central activities as the business grows. The revenue impact of our investment in this area will continue to grow, as the team reaches full complement, as recent capital projects (notably the new web platform) begin to be amortised, and as we resume the work of ongoing web enhancements.

Marketing

We have increased our investment in customer communication over recent years to a level which now represents approximately 1.8% of sales. We anticipate retaining this scale of investment in the near term, albeit with a shift in emphasis away from traditional media in favour of digital marketing.

Summary and outlook

The last 12 months have seen considerable changes within Dunelm and the business is now in better shape than ever. We have good sales momentum and clear plans for further growth. I look forward to leading the business in implementing these plans over the next few months and, subsequently, to supporting John Browett and his executive team in further developing the business.

Will Adderley
Chief Executive
10 September 2015

How we manage our CSR

Customers, product, colleagues and our store environments are at the heart of our growth strategy and as such they are business priorities for us.

Our CSR areas of focus have direct relevance to these priorities as follows:

- **Customer** Customer, Health and Safety, Community
- **Product** Customer, Suppliers and Human Rights, Environment
- **Colleagues** Colleagues, Health and Safety, Community
- **Store Environment** Colleagues, Health and Safety, Environment, Community

Although we report on CSR topics separately, they form part of the role accountabilities of our Executive Board members and are regular agenda items for the Board and Executive Board.

BOARD
Overall responsibility for CSR

- Approve policies
- Executive members have line responsibility for managing specific CSR topics
- Monitor progress through KPIs and Board reports
- Annual presentations on health and safety and ethical sourcing

EXECUTIVE BOARD
Members have line responsibility for managing specific CSR topics

- Approve policies prior to submission to Board
- Regular Executive Board meeting agenda items

HOW WE MANAGE OUR CSR DIALOGUE AND COMMUNICATION

Customers: through customer care, weekly online surveys and social media	Colleagues: weekly 'Will's Word', in-house magazine and through Colleagues' Council	Suppliers: annual conference and meetings throughout the year	Others: social media, corporate website

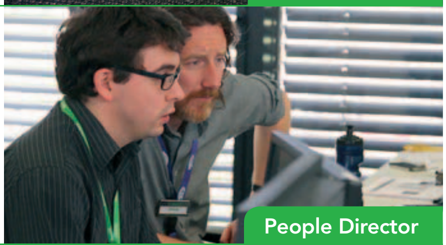
Our key areas of focus – why these matter

AREA OF FOCUS | Who manages this for Dunelm?

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

Chief Executive

Our Colleagues
We believe that a 'Great Place to Work = Great Place to Shop'. Our success is founded on the hard work and dedication of our colleagues; our aim is to keep our uniqueness as we grow, and to provide our colleagues with more opportunities and more training, and to celebrate their success.


People Director

Our Health and Safety
We have a duty of care which we take very seriously to ensure the health and safety of customers, colleagues, contractors and all other visitors to our premises.


Chief Executive

Our Suppliers and Human Rights
We do not manufacture the vast majority of the products that we sell; 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 and safety. In accordance with the requirements of the government's Modern Slavery Bill, our sourcing policy now specifically prohibits forced labour, slavery and human trafficking.


Product Director

Our Community
It is important to Dunelm and its colleagues and shareholders that we are responsible members of our community, and that we support local and national charitable causes.

ROALD DAHL'S Marvellous Children's Charity

Marketing Director

Our Environment
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.


Chief Financial Officer

Read more about our areas of focus on our website
www.dunelm.production.investis.com

Customers

Executive responsibility:

Chief Executive

Link to strategy:

1 2 3

What do we do?

We aim to provide to our customers:

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

WHAT HAVE WE ACHIEVED THIS YEAR?

2014/2015 OBJECTIVES	ACHIEVEMENTS
Reinforce our 'Customer First' ethos through further colleague training.	8,000 colleagues completed the second phase of our training programme
Major upgrade of our website and a new mobile app to enhance the online customer experience.	New website launched in July 2015.
Further extend the range of products available for order from our website and catalogue.	Introduced extended ranges of garden and electrical items.

Other achievements

- "Director of Customer Experience' appointed, a new role with responsibility for the delivery of service excellence across the business.
- Significant investment in upgrading our customer contact centre.
- Deeper analysis of customer feedback and our first use of customer 'focus groups' to help us understand better what our customers like (and dislike) about us.
- Introduction of same day 'Reserve and Collect' service and next day home delivery with 8pm cut-off.
- New carrier appointed for 'two man' deliveries, leading to a significantly better customer experience.
- Further improved Autumn / winter and Spring / summer catalogues.

Awards

- House Beautiful 2014 – Gold award for Favourite Home Retailer of the Year, Silver award for Favourite Online Retailer of the year, both voted by readers
- Excellence in Housewares Award 2014 – Excellence in Non-Specialist Multiple Retailing
- British Sandwich Association 'Sammies' award Café / Coffee Bar Sandwich Retailer of the Year

2015/16 objectives

- Further develop product ranges, including more market beating value offers and exciting new products.
- Enhance our 'made to measure' curtains and blinds proposition.
- Implement further improvements to our home delivery service, including named day delivery options.

Link to strategy

1 LFL store sales growth

2 National coverage from rolling out new stores

3 Growing sales and profit in the home delivery channel

Colleagues

Executive responsibility:
People Director

Link to strategy:
1 2 3

What do we do?
We employ over 9,000 colleagues across our business, including our colleagues in stores and our distribution and manufacturing operations, our Dunelm at Home consultants who advise our customers in their homes, colleagues in our contact centre in Radcliffe, and our store support centre team in Leicester.

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

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

	Male	Female	% Female
Group Board	6	2	25%
Senior Managers	15	7	32%
All colleagues	2,879	5,977	69%

We maintain regular communication with our colleagues via a weekly email from our Chief Executive ('Will's Word'), through regular store manager 'huddles', our Dunelm Gazette magazine which is published at least quarterly, and via the computer-based 'Dunelm Academy', to which all colleagues have access.

We operate a Colleagues' Council, through which colleague representatives can raise and discuss ideas and concerns with senior management. These are fed back to the Executive Board for consideration and action. In addition we run a colleague engagement survey, now twice a year, 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.

WHAT HAVE WE ACHIEVED THIS YEAR?

2014/2015 OBJECTIVES	ACHIEVEMENTS
Launch new careers website in the summer.	▶ Website launched in July 2014. In the financial year we processed over 180,000 job applications
Continue to add talent to the organisation through our graduate programme.	▶ We recruited 13 graduates in September 2014.
Continue to develop and roll out the 'Customer First' programme to all areas of the business.	▶ We trained over 8,000 colleagues in the year.
Continue to develop and deliver learning and development initiatives to meet the needs of the business.	▶ 157,000 hours of training delivered to our colleagues – from training over 100 colleagues in leadership skills to more practical training in use of sewing machines.
Respond to issues and opportunities identified from the engagement survey taking place in September 2014 and again in March 2015.	▶ Surveys held with over 90% participation and an improved engagement score each time. Actions to address the issues raised agreed and implemented by the Executive Board.
Continue to recruit and train colleagues in line with our new store opening programme.	▶ Opened 12 new superstores with fully recruited and trained teams.

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.

Other achievements

- People Director appointed to the Executive Board in April 2015 to help us develop and deliver our People Strategy.
- Significant investment in our contact centre in May 2015, to provide a modern working environment for our 200 strong customer service team.

2015/16 objectives

- Further graduate intake in September 2015.
- Review pay and benefits structure to ensure that it remains competitive and meets the needs of the business, taking into account the implications of the new National Living Wage.
- Continue to develop and roll out the 'Customer First ' Programme.
- Respond to issues and opportunities arising from the engagement surveys to take place in September 2015 and March 2016.
- Implement a new Learning Management System to enable training to be delivered at the touch of a button.

› Health and Safety

Executive responsibility:
Chief Executive

Link to strategy:
1 2 3

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, and 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 and Executive Board meeting and each of these receive a monthly report and a formal annual presentation from the Group's Health and Safety Manager with accident/risk analysis, review of previous objectives and agreement of new objectives for the next year.

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

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

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

We have a proactive approach to safety, and colleagues are encouraged to report all potential hazards and risks. We have an ongoing programme of education and training, including DVDs and interactive computer based learning and ensure colleague involvement through the Colleague Council.

WHAT HAVE WE ACHIEVED THIS YEAR?

2014/2015 OBJECTIVES	ACHIEVEMENTS
Further improve support to stores.	▶ Store inspections carried out by Health and Safety team covering common causes of accidents, with follow up support. ▶ Online training database created for first aid, fork lift truck safety and food hygiene, to ensure sufficient cover and re-qualification planning. ▶ Approved registration with the Chartered Institute of Environmental Health for delivering 'in house' training for First Aid and Fire Safety
Monitor standards and potential issues in stores more closely.	▶ Additional Health and safety team member appointed. All sites now inspected each quarter, alternating between health and safety and fire safety inspections. ▶ Online accident and fire evacuation reporting has simplified data entry and analysis.
Provide greater support to non-store sites.	▶ Quarterly health and safety review meetings are held for each non-store site to identify opportunities to reduce risk and identify required support. Progress against objectives is scored and reported to the Executive Board each month.

Other achievements

- Review of Health and Safety Policy and Fire Safety Policy completed.
- Consultants have been employed to improve our asbestos management by performing visual inspections, and air monitoring as appropriate where asbestos is present in store.
- Risk management measures relating to company car drivers extended to colleagues who drive private cars on company business.
- Actions taken to address specific customer safety issues:
  - Passenger lifts -3D sensors fitted to ten stores and all new lifts since March 2015
  - Store entrance gates – closing speed dampened at all stores
  - 'Safe Merchandising' inspections carried out at all stores and follow up actions completed
- All stores audited during the year with all (100%) achieving a pass score for 2014/15 (93% for 2013/14).
- Accident rate of 3.2 accidents for every 100,000 customer visits in 2014/15 (3.5 in 2013/14).

2015/16 objectives

- Implement the health and safety management system for our new distribution centre,
- Roll out 'in house' first aid training
- Review of specific safety risks in coffee shops.
- Specific health and safety guidance for our Dunelm at Home service.
- Update legionella database and produce action plan.

Suppliers and Human Rights

Executive responsibility:

Product Director

Link to strategy:

1 3

What do we do?

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

We work with our suppliers to ensure that our products are produced in clean and safe environments, that workers are treated with respect and earn a reasonable wage and that suppliers work within the relevant local laws and regulations. All manufacturers with whom we trade directly are required to sign up to our 'Code of Conduct' based on the Ethical Trading Initiative ('ETI') base code. This is available on our website www.dunelm.com. No new factory source is taken on without a satisfactory audit being in place, and audits are repeated at least every two years.

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

WHAT HAVE WE ACHIEVED THIS YEAR?

2014/2015 OBJECTIVES	ACHIEVEMENTS
Improve communication with factories to develop their understanding of our ethical requirements.	▶ Code of conduct (which now includes a prohibition on forced labour, slavery and human trafficking) reissued to all product and coffee shop suppliers, and suppliers of non-stock products and services over a minimum spend threshold. Code of conduct available at www.dunelm.com. ▶ Supplier conference held in Far East; ethical, human rights, environmental and bribery and corruption policies explicitly reinforced.
Increase the proportion of factories with 'green' or 'amber' audits against our Ethical Code of Conduct.	▶ Score increased to 70% of product supply base (56% in 2013-14).
Continue to develop our in-house expertise in relation to human rights issues.	▶ Programme of training ongoing.

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.

We have signed up to the Prompt Payment Code which requires companies to pay suppliers in accordance with agreed terms, with a default period of 60 days. The number of days' purchases outstanding for payment at 4 July 2015 was 42 days (2014: 32 days). The main reason for the increase in creditor days was the extension of the accounting period to 53 weeks.

Other achievements

- Intertek appointed to provide a consistent audit service across our Far East supply base(with the internationally recognised 'SMETA' audit progressively being adopted as standard.)
- Responsibilities of Far East agents redefined to give more effective day-to-day ethical assurance.
- Focus on ensuring that requirements are extended to subcontractors where their use is common.

2015/16 objectives

- Monthly audit corrective action reporting to be introduced for high volume Far East suppliers.
- Extend audit regime to major coffee shop suppliers
- Include training on ethical matters in induction for all members of the Buying Team, with annual refresher training.
- Investigate core routes for high risk raw materials and start creation of database.
- Monitor developments in anti-slavery legislation and practice and adapt our processes accordingly.

› Community

Executive responsibility:

Marketing Director

Link to strategy:

1 2 3

What do we do?

Our colleagues have told us that they want the Company to support charitable causes, both nationally and in the local store community. We have a Charity Committee which adopts 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. All colleagues are entitled to an extra day's paid leave to undertake charitable activities.

We donate funds raised from carrier bag sales (legal requirement in Wales and Scotland) to GroundWork – a charitable organisation which brings people and the environment together with practical local action to build stronger communities, more green spaces and getting people back into work by creating green jobs.

We do not make any political donations.

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

WHAT HAVE WE ACHIEVED THIS YEAR?

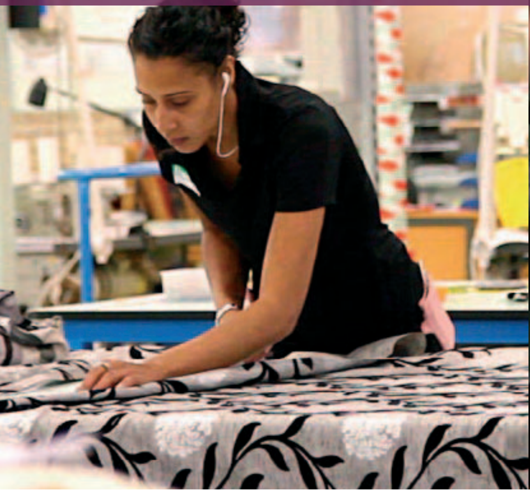
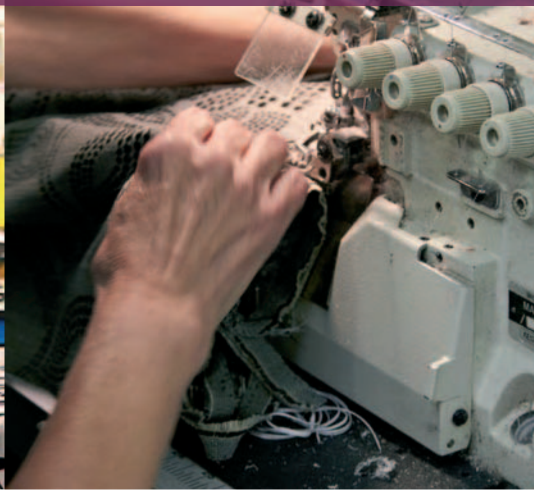
2014/2015 OBJECTIVES	ACHIEVEMENTS
Support our Charity of the Year, Barnardo's, whose work includes reaching and helping children who have been sexually exploited, young people leaving the care system, children with a parent in prison and families struggling to cope. Continue to support colleagues in their fundraising efforts.	Funds were raised through a variety of ways including: ▶ The annual Friends and Family night, (a themed fancy dress fundraising evening in store). ▶ Team fundraising events. ▶ Regular local donations including supporting schools, the local community, and the town of Syston where Dunelm Store Support Centre is based. ▶ National and International donations with funds being sent to a variety of charities including: East African Playgrounds, LOROS, Macmillan, Blesma and Cancer research. ▶ Colleagues regularly volunteer their time thanks to the free 'Charity Day'; this has included a team of 40 Dunelm colleagues transforming the Four Dwellings Children's Centre in Birmingham for Barnardo's. ▶ Gift in kind donations to local families in need through our Barnardo's charity partnership. ▶ Company-wide fundraisers for national events such as 'Red Nose Day', including a 'Superhero day', 'Christmas Jumper Day' and Pyjama Day.

The total value of charitable donations made by the Group in the period ended 4 July 2015 was £98,000 (2014: £206,000, which included a donation of £129,000 in lieu of 2013 annual bonus waived by Will Adderley). Total funds raised for charity by the Group and colleagues was £366,000 (2014: £352,000).

2015/16 objectives

- During 2015/16 our charity of the year will be Roald Dahl's Marvellous Children's Charity and we will continue to create fun fundraising activities including Christmas Jumper Day, Snappy Dresser Day and Marvin's Egg Hunt (Easter).
- We will continue to support our colleagues in their charitable fundraising efforts and by offering an annual day's leave to support charitable activities.
- Dunelm is the main sponsor for the '7days 7irons' challenge, supporting an individual who will complete seven triathlons from Land's End to John O'Groats in seven days, and passing by 23 of our stores en route.

› Environment


Executive responsibility:
Chief Financial Officer

Link to strategy:
1 2 3

The Group has an Environment Committee tasked with the development and implementation of strategy as well as ongoing monitoring to achieve high levels of environmental performance.

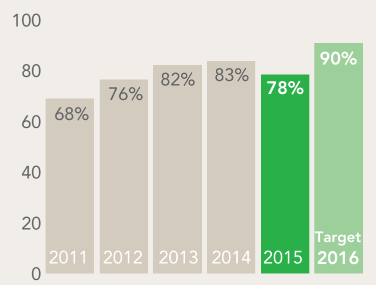
Waste Recycling

What we do
Through our 'Recycle at Work' initiative Dunelm has invested in a waste strategy to deliver high levels of recycling. All sites have balers for cardboard and colour-coded bins to segregate waste and are supported by training programmes that increase colleague awareness and compliance.

Our National Distribution Centre in Stoke recycles all of our cardboard, plastics, paper, bottles, cans, metal and wooden pallets. In addition all electrical waste is recycled through a WEEE compliant scheme.

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

Waste Recycled
%



Our Key Objectives
- To maximise levels of waste recycling
- To anticipate and to be fully compliant with all waste legislation

2015/16 Targets
- We will launch a new colleague engagement programme to promote greater awareness and compliance.
- A new web-based waste compliance audit will be live throughout the year to drive improvements.
- We will introduce dedicated food-waste collections across the UK by April 2016.
- We aim to eliminate glass drinks packaging within our coffee shops.

Energy Use

What we do

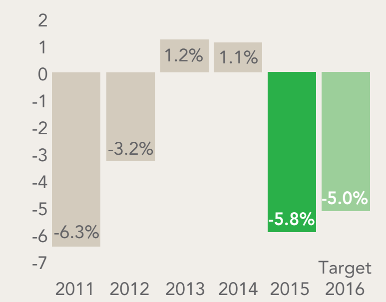
Dunelm targets energy reduction on a site-by-site basis. Smart meters, fitted to both electricity and gas supplies, measure energy consumption on a half-hourly basis allowing us to profile high or unusual patterns, target specific sites and to monitor the success of various energy reduction initiatives.

Building Management Systems designed to optimise energy use, are fitted as standard across the estate. These are hosted and monitored by a specialist energy partner who, together with our dedicated Energy Manager, targets performance to maintain an optimal balance between a comfortable trading environment for our customers and colleagues and maximum energy efficiency.

A focus of the business has been to invest In LED lighting in many areas. All new stores are 100% LED and a retro-fit program is under way to convert the rest of the chain over the next two years. LED lights are typically 40% more energy efficient than non-LED.

We have also added two more stores in Bristol and Dunstable to our existing solar energy trial at Leeds. These trials will determine the benefits of investing in this renewable technology across Dunelm estate.

Year on year reduction in electricity



Our Key Objectives

- To optimise energy use across the business
- To evaluate renewable technology options and trial where appropriate
- To fully comply with the new Energy Savings Opportunities Scheme

2015/16 Targets

- To deliver LED lighting systems to over 50% of stores by end FY16
- To re-lamp all Lighting Department display canopies to LED bulbs
- To fully test voltage-optimisation technology and reduce site capacity requirements
- To conduct a full review of Coffee-shop energy use

Greenhouse Gas Emissions (CO_2e)

What we do

As part of our carbon reduction work we have invested in photovoltaic technology in three stores: Leeds, Dunstable and Bristol. These systems ultimately replace energy sourced through the national grid with locally sourced energy.

We continue 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.

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

Our company car fleet is graded on emissions and we encourage the use of fuel efficient vehicles in all schemes.

Average emissions in 2015 were 110 CO_2 g/km (2014: 112 CO_2 g/km).

CO_2e emissions were as follows:

Tonnes of CO_2e	2013	2014	2015
Purchase of Energy	26,747	28,504	28,487
Cars on Company Business	500	650	675
Total	27,247	29,154	29,162
Intensity Measure – tCO_2e per £1m Group Revenue	40.24	39.93	34.89

Our Key Objectives

- To reduce CO_2 emissions relative to turnover year-on-year
- To identify and trial new technologies to reduce Greenhouse gas emissions

Our current performance

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

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

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

Performance

David Stead Chief Financial Officer

The FY15 accounting period represents trading for the 53 weeks to 4 July 2015. The comparative period FY14 represents trading for the 52 weeks to 28 June 2014. To aid comparability of performance year on year, the comments below in respect of trading items cover both the FY15 in full, and the 52 week period to 27 June 2015 (unaudited). In summary, the 53rd week represented £13.1m of revenue and £1.2m of operating profit (it was a week of unusually low sales and profitability, due to very hot weather and downtime of our web channel as we launched our new platform).

Revenue

Group revenue for FY15 was £835.8m (FY14: £730.2m), an increase of 14.5% for the full financial year and 12.7% on a 52 week basis. Like-for-like ('LFL') sales grew by 5.8% on a 52 week basis as a result of growth in both in-store LFL sales (+3.4%) and Home Delivery sales (+55.1%). Over the financial year as a whole Home Delivery sales represented 6.1% of total business (FY14: 4.4%). Within our sales mix, we saw particularly pleasing growth from furniture, and from our made-to-measure window treatments business including our Dunelm at Home service.

Our store expansion programme continued with 12 new openings in the year (of which one was a relocation of a high street shop).

Gross Margin

Gross margin decreased slightly by 30 basis points to 49.2% (FY14: 49.5%). Margin on core homewares products was stable, with dilution driven by a high level of markdown needed to clear excess stocks bought to support the expansion of our furniture proposition. We expect that the dilutive impact of furniture clearance will be much reduced in the coming year.

Operating Costs

Operating costs in FY15 grew by 17.7% compared with the prior year, or by 15.6% on a 52 week basis - an increase of £38.2m. The main drivers of this increase were:

- Store portfolio growth - average selling space increased by 8.8% across the year
- Multi-channel fulfilment - we invested in a higher quality of service for home delivery and the value of business through this channel rose by 55% compared with the previous year
- Dunelm At Home - we offered this in-home consultation service from approximately 100 stores on average over the year, compared with about half that number in the prior year
- Warehousing and Logistics - these costs increased by over £8m in total, driven to a significant extent by our increased commitment to furniture stock which led to inefficiencies in our internal supply chain, including extensive use of additional third party storage facilities
- IT capability - recognising the importance of IT in our business, we have significantly increased the scale and capability of our internal IT function
- Special distribution - we incurred one-off costs of £0.9m associated with the special distribution (referred to below)

Looking ahead, a number of these cost drivers will continue to apply in the new financial year as we open more stores, grow our home delivery business further, continue the roll-out of Dunelm at Home, and further invest in our IT capability. We do not anticipate a further increase in logistics costs in the coming year, except to the extent we incur one-off costs in transitioning to our new central warehouse.

Operating Profit

Group operating profit for the financial year was £122.5m (FY14: £116.0m), an increase of £6.5m (5.6%). On a 52 week basis operating profit was £121.3m, an increase of £5.3m (4.6%) over FY14. Operating profit margin was 14.7%, 110bps lower than FY14 due to the fall in gross margin and the operating cost impacts described above.

EBITDA

Earnings before interest, tax, depreciation and amortisation were £144.1m or £142.6m on a 52 week basis (FY14: £137.3m). This represents an increase of 5.0% on the previous financial year, or 3.9% on a 52 weeks basis. The EBITDA margin achieved was 17.3% of sales on a 52 week basis(FY14: 18.8%).

Financial Items

The Group generated a net gain of £0.1m on financial items in FY15 (FY14: £0.0m). Gains amounting to £0.5m (FY14: £0.4m) were made from interest earned on cash deposits and gains of £0.3m (FY14: £0.5m loss) resulted from foreign exchange differences on the translation of dollar denominated assets and liabilities. These gains were partially offset by £0.7m (FY14: £nil) of interest payable and amortisation of arrangement fees relating to the Group's revolving credit facility, described below.

As at 4 July 2015 the Group held $91.5m (FY14: $87.2m) in US dollar forward contracts representing approximately 67% of the anticipated US dollar spend over the next financial year. Surplus US dollar cash deposits amounted to $3.2m (FY14: nil).

PBT

After accounting for interest and foreign exchange impacts, profit before tax for the financial year amounted to £122.6m (FY14: £116.0m), an increase of 5.7%. On a 52 week basis the profit before tax was £121.4m, an increase of 4.7%.

Taxation

The tax charge for the year was 21.7% of profit before tax, compared with 23.2% in the prior year. This reflects the reduction in the headline rate of corporation tax from 22.5% to 20.75%. The tax charge is expected to trend approximately 100 bps above the headline rate of corporation tax going forward, principally due to depreciation charged on non-qualifying capital expenditure.

PAT and EPS

Profit after tax was £96.1m (FY14: £89.1m), an increase of 7.9%.

Basic earnings per share (EPS) for the 53 weeks ended 4 July 2015 was 47.5p (FY14: 44.0p), an increase of 8.0%. Fully diluted EPS increased by 8.2% to 47.3p (FY14: 43.7p); this is equivalent to 46.8p (7.1% increase) on a 52 week basis.

Operating Cash Flow

Dunelm continues to deliver strong cash returns. In FY15 the Group generated £118.2m (FY14: £103.8m) of net cash from operating activities, an increase of 13.9%.

Year-end working capital reduced by £0.2m compared with the previous year-end. We made significant investment in inventories to support 12 new stores, to support our expansion in furniture, and to improve availability. This investment was almost fully offset by an increase in Trade and Other Payables of £16.2m (FY14: £14.4m). Some of this increase is attributed to the 53 week accounting period and is expected to reverse in future years.

Capital Expenditure

Gross capital expenditure in the financial year was £31.6m compared with £28.0m in FY14. Significant investments were made in order to support the continued growth and development of the store portfolio with the addition of 12 new superstores (43% of capital expenditure) and a number of refits. We also acquired one freehold site during the year. The remaining investment related mainly to IT activities, including the new web platform which went live to customers on 1 July 2015 underpinning the development and expansion of our multi-channel offer.

We anticipate an increased level of capital expenditure in the next financial year. In addition to opening new stores (which continue to require on average £1.2m capital investment), we plan to carry out a number of major store refits (approximately £8m in total), will complete the fit-out of our new warehouse (estimated £12m investment) and will continue to invest in IT systems development (estimated £6m). We will also consider freehold store acquisitions on an opportunistic basis.

Capital Policy

During the year, the Board adopted a new policy on capital structure, targeting an average net debt level (excluding lease obligations and short-term fluctuations in working capital) of between 0.25× and 0.75× historical EBITDA. This policy provides the flexibility to continue to invest in the Group's growth strategy and to take advantage of investment opportunities as and when they arise, for example freehold property acquisitions.

Application of this policy led to payment of a special distribution to shareholders in March 2015 (see below). The Board will consider further special distributions in the future if average net debt over a period consistently falls below the minimum target level of 0.25× EBITDA, subject to known and anticipated investment plans at the time.

Banking Agreements and Net Debt

In order to support its new capital policy, during the year the Group entered into a £150m syndicated Revolving Credit Facility ('RCF') with a maturity of five years. The terms of the RCF are consistent with normal practice and include covenants in respect of leverage (net debt to be no greater than 2.5× EBITDA) and fixed charge cover (EBITDA to be no less than 1.5× fixed charges), both of which were met comfortably as at 4 July 2015.

In addition the Group maintains £20m of uncommitted overdraft facilities with two syndicate partner banks.

Net debt at 4 July 2015 was £74.8m (0.52× historical EBITDA) compared with net cash resources of £21.7m at the previous year-end. Daily average net debt from the date of the special distribution on 20 March 2015 through to 4 July 2015 was £75.4m. This falls within our target range of net debt.

Dividend

An interim dividend of 5.5p was paid in April 2015 (FY14: 5.0p). It is proposed to pay a final dividend of 16.0p per share (FY14: 15.0p), subject to Shareholder approval. The total dividend of 21.5p represents an increase of 7.5% over the previous year and maintains dividend cover of 2.2× (FY14: 2.2×).The final dividend will be paid on 27 November 2015 to shareholders on the register at the close of business on 16 October 2015.

Special Distribution

During the year, the Group returned excess capital of £141.7m (70.0p per share) to shareholders through a B/C Share Scheme which allowed shareholders to receive the return as capital or income.

Share Buy-back

During the year, the Group did not invest in any additional shares to hold in treasury. Treasury shares are held in order to satisfy future exercises of options granted under incentive plans and other share schemes. As at the year-end, we held 357,158 shares in treasury, equivalent to approximately 20% of options outstanding. Over time, we expect to increase our holding in treasury to be equivalent to approximately 60% of outstanding options.

Treasury Management

The Group Board has established an overall Treasury Policy, day-to-day management of which is delegated to me as Chief Financial Officer. The policy aims to ensure the following:

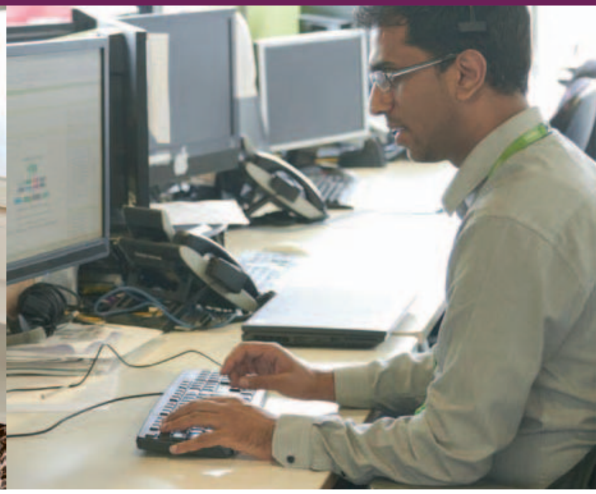
- Effective management of all clearing bank operations
- Access to appropriate levels of funding and liquidity
- Effective monitoring and management of all banking covenants
- Optimal investment of surplus cash within an approved risk/return profile
- Appropriate management of foreign exchange exposures 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 22.

David Stead
Chief Financial Officer
10 September 2015

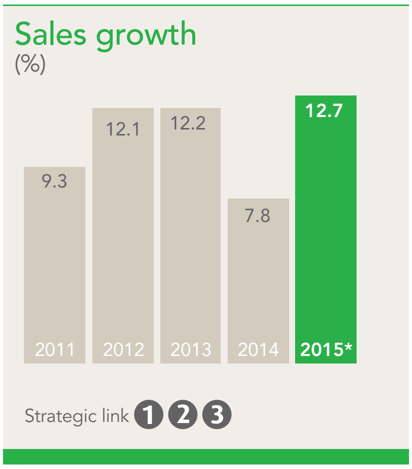
Key Performance Indicators

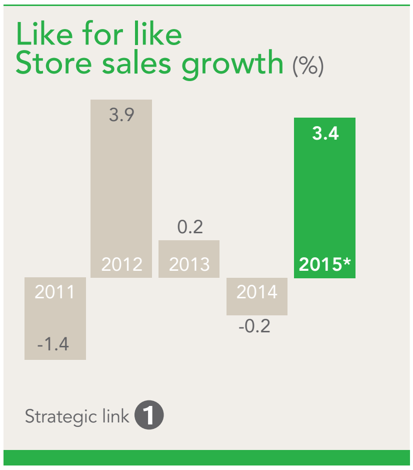


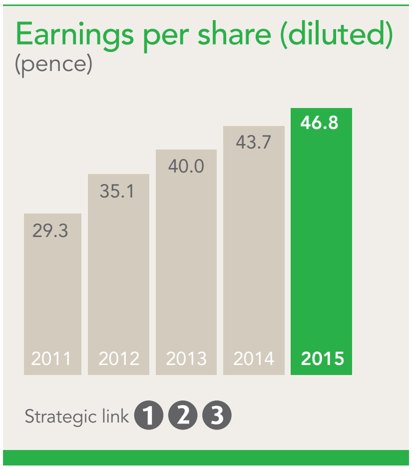
The following key performance indicators are considered to be the most appropriate for measuring how successful the business has been in meeting its strategic objectives. They also play a key role in determining remuneration strategy, as set out in the Remuneration Report.

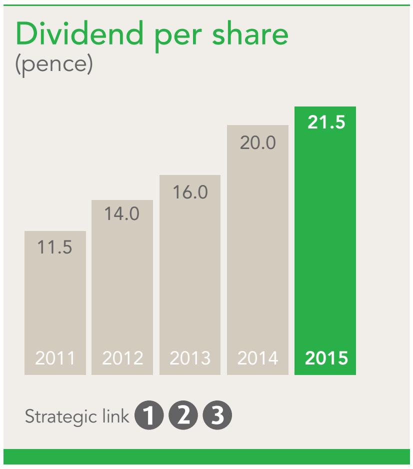
Link to strategy

1. LFL stores sales growth
2. National coverage from rolling out new stores
3. Growing sales and profit in the home delivery channel



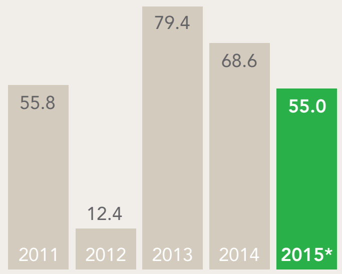






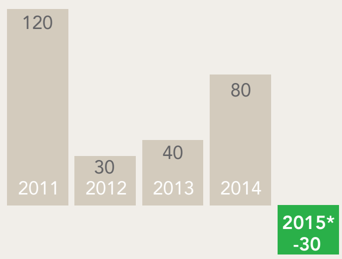
Read more about remuneration on pages 47 to 70

Home delivery sales growth
(%)

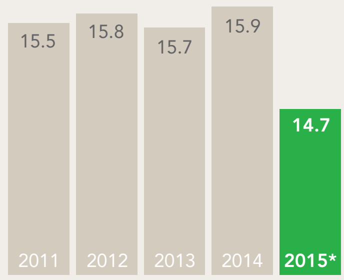


Strategic link 3

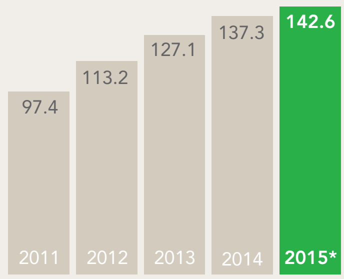
Gross margin change
(basis points)



Operating margin
(%)

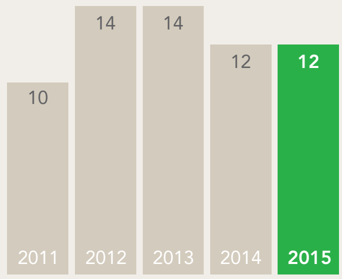


EBITDA
(£m)



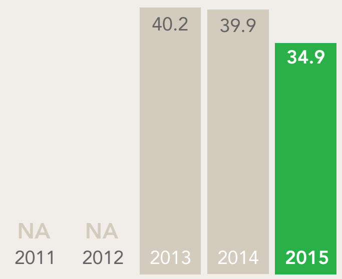
Strategic link 1 2 3

New store openings
(number)



Strategic link 2

Emissions
(tCO_2e per £1m Group Revenue)



* 2015 is treated as a 52 week period for these measures, rather than 53 weeks

Principal Risks and Uncertainties

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.

The Board oversees a systematic risk management process to provide assurance that both strategic and operational objectives can be achieved and that the brand remains secure for the long term.

In addition, the Audit & Risk Committee satisfies itself that all strategic or material risks are appropriately monitored by senior management, directing external assurance resources to high priority areas.

Link to strategy

1. LFL store sales growth
2. National coverage from rolling out new stores
3. Growing sales and profit in the home delivery channel

RISK MANAGEMENT FRAMEWORK

A regular 'Risk Forum' has been established, chaired by a dedicated Risk Manager, aimed at the identification, assessment, mitigation and ongoing monitoring of risks. Departmental 'Risk Champions' who attend the Risk Forum evaluate specific risks against 'likelihood' and 'impact' criteria to establish their potential severity.

A key output from this forum is a register of strategic risks. These risks are assigned 'owners' from the Executive Board whose responsibility it is to manage and mitigate these risks. The Executive Board considers at monthly meetings the extent and effectiveness of controls in these areas as well as reviewing the process of risk management through the Risk Forum.

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

Our assessment of the principal risks and uncertainties facing the business is set out below together with mitigation:

BRAND REPUTATION, PRODUCT AND SERVICE QUALITY

Performance indicator: Product complaints and recalls	Link to strategy: 1 2 3 Executive responsibility: **Chief Executive**	Impact compared to 2013/14: ↑
DESCRIPTION	**MITIGATION**	**PROGRESS IN 2014/15**
The quality and safety of our products and services is essential to the business. If our quality standards fall there is a risk that individuals could be harmed and/or that reputational damage could lead to consumers, colleagues and other stakeholders losing confidence in the Dunelm brand.	▶ We have a range of policies specifying the quality of products and production processes which suppliers must adopt. ▶ We conduct periodic CSR audits on all stock suppliers in line with ETI guidelines. ▶ We operate a full test schedule for all new products and on a sample basis for ongoing lines, overseen by our specialist Product Technology team. ▶ Food hygiene is maintained through the adoption of clear operating guidelines contained in our food safety manual. Staff certification is compulsory and risk assessments, equipment inspections and compliance audits are performed regularly to ensure standards are maintained.	▶ Ethical code of conduct upgraded to explicitly cover human trafficking and Fire & Building safety certification. ▶ Committed suppliers and overseas agents working directly with factories to deliver more 'green' ratings. ▶ Investment in the size and capability of the Product Technology team.

COMPETITION AND CUSTOMERS

Performance indicator: Market share	Link to strategy: 1 2 3 Executive responsibility: **Chief Executive**	Impact compared to 2013/14: ↑
DESCRIPTION	**MITIGATION**	**PROGRESS IN 2014/15**
The Group competes with a wide variety of retailers across multiple channels and across a broad spectrum of price-points. Failure to maintain a competitive offer in the Homewares market on multiple fronts (price, range, quality and service) and/or to respond to changing customer needs could materially impact profitability and limit opportunities for growth.	▶ 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 together with in-store customer clinics. ▶ Investment in marketing designed to communicate our credentials on range, choice and value. ▶ We continually focus on new product development, both in existing and new homewares categories, to strengthen our specialist proposition. ▶ We have invested significantly in the front-end web platform, fulfilment infrastructure and people capabilities to enhance our multi-channel customer offer.	▶ Dunelm leads the UK Homewares market with an increased share of 7.7%. ▶ Continuing product innovation in existing categories and strengthened seasonal campaigns. ▶ Creation of Customer Insight team. ▶ Investment in improved customer service through our 'Customer First' programme. Marketing investment has increased to 1.8% of sales. ▶ Successful launch of new web platform.

REGULATORY, ENVIRONMENT & COMPLIANCE

Performance indicator: Prosecution and other regulatory action	Link to strategy: 1 2 3 Executive responsibility: **Chief Executive**	Impact compared to 2013/14: ↑
DESCRIPTION	**MITIGATION**	**PROGRESS IN 2014/15**
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.	▶ 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.	▶ Ethical Trading policies have been reissued and agreed with all stock suppliers and regular suppliers of non-stock goods and services. ▶ Training on the requirements of the Bribery Act and Competition Law is in place for all relevant colleagues and policies are communicated to all suppliers. ▶ Human Resources policies and health and safety policies and procedures are kept under constant review and regular compliance audits have been completed. For further details please see our Corporate Social Responsibility report on pages 10 to 18.

IT SYSTEMS, SENSITIVE DATA AND CYBER RISK

Performance indicator: Number of major incidents	Link to strategy: 1 2 3 Executive responsibility: **Chief Executive**	Impact compared to 2013/14: ↑
DESCRIPTION	**MITIGATION**	**PROGRESS IN 2014/15**
Dunelm is dependent on the continued availability, integrity 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.	▶ 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. ▶ Authorisation controls and access to sensitive transactions are kept under constant review.	▶ We have further strengthened the depth and capability of our IT function particularly in the areas of IT Risk, Data Security and Enterprise Architecture. ▶ We have completed a full review of authorisation hierarchies across our main enterprise wide SAP system. ▶ A cross-functional Information Security Steering Group has been established to oversee our data security.

COMMODITY PRICES

Performance indicator: Gross margin	Link to strategy: 1 2 3 Executive responsibility: **CFO**	Impact compared to 2013/14: ↔
DESCRIPTION	**MITIGATION**	**PROGRESS IN 2014/15**
Failure to anticipate or manage cost price volatility in key areas such as freight, raw materials, energy and exchange rates may lead to pressure on margins and adversely impact the financial results.	▶ Stock cover provides the business with time to assess and respond to sustained periods of cost price movement. ▶ Dunelm's scale, growth and increased buying power allows it to secure supply of key raw materials at competitive prices. ▶ Hedging is in place for freight, energy and foreign exchange to help mitigate volatility and aid margin management. ▶ Specialist procurement resource and tight contract management.	▶ Foreign currency hedges are in place covering c 70% of expected purchases in FY16. ▶ New freight deals have been agreed with major shipping lines for 2015/16. ▶ Commodity price tracking has been extended to cover all key materials to assist planning and negotiation.

PORTFOLIO EXPANSION

Performance indicator: Number of new store openings and pipeline	Link to strategy: 2 Executive responsibility: **Chief Executive**	Impact compared to 2013/14: ↔
DESCRIPTION	**MITIGATION**	**PROGRESS IN 2014/15**
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.	▶ Our property team 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 funding headroom provide an attractive covenant to landlords and the ability to acquire freehold units if appropriate.	▶ We have opened 12 new stores in the year. ▶ The Executive Board has conducted regular reviews of sites in key catchment areas. ▶ We have legally completed on nine new stores due to open in 2015/16 and beyond.

BUSINESS INTERRUPTION & INFRASTRUCTURE

Performance indicator: n/a	Link to strategy: 1 2 3 Executive responsibility: **Chief Executive**	Impact compared to 2013/14: ↑
DESCRIPTION	**MITIGATION**	**PROGRESS IN 2014/15**
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.	▶ 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.	▶ Enhanced Crisis Management and Disaster Recovery process launched across the business. ▶ Desk-top simulations exercises completed to increase Crisis Management Team capability. ▶ Alternative supply sources/routes have been identified for key product categories. ▶ New partnerships have been agreed with local agents to bolster sourcing and supply capabilities in the Far East. ▶ We have re-sourced a number of ranges, including one whole category where our UK supplier was unable to provide satisfactory service.

FINANCE AND TREASURY

Performance indicators:	Link to strategy: 1 2 3	Impact compared to 2013/14:
Operating cash conversion Banking Covenants Loan Headroom	Executive responsibility: **Chief Financial Officer**	↑
DESCRIPTION	**MITIGATION**	**PROGRESS IN 2014/15**
Lack of access to 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.	▶ The Group has a £150m, five-year revolving credit facility in place until March 2020. ▶ Further, uncommitted borrowing facilities have been agreed for possible short-term working capital requirements. ▶ Dunelm works with a syndicate of long-term, committed partner banks. ▶ A Group Treasury Policy is in place to govern levels of debt, cash management strategies and to control foreign exchange exposures	▶ New capital policy agreed by the Board to operate with net debt between 0.25× – 0.75× historic EBITDA. ▶ New five year debt facility agreed with syndicate of banks. ▶ Net Debt at the end of the year was £74.8m (0.52× EBITDA)

MANAGEMENT TEAM & KEY PERSONNEL

Performance indicators:	Link to strategy: 1 2 3	Impact compared to 2013/14:
Colleague retention	Executive responsibility: **Chief Executive**	↓
DESCRIPTION	**MITIGATION**	**PROGRESS IN 2014/15**
The success of Dunelm is dependent upon the availability of talented senior management and specialist colleagues. The success of the business could be impacted if it fails to attract, retain and motivate high calibre colleagues.	▶ 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 50 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.	▶ The Executive Board has been strengthened through the appointments of a new CEO and other senior appointments, including a People Director. ▶ Investments have been made in both depth and capability of teams in key areas such as IT, Buying & Merchandising and Logistics.

Governance

Andy Harrison
Chairman

N R

Key strengths: A current CEO with considerable experience of leading large consumer facing organisations with a strong service offer. Long-standing plc experience and shareholder understanding.

Dunelm role: Chairs the Board, which is responsible for Group strategy, performance, risk oversight and good governance. Regularly visits stores to meet colleagues and members of the senior management team. Participates in investor presentations and some shareholder meetings.

Joined Dunelm Board:
September 2014.

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

Other Commitments: Chief Executive Officer of Whitbread plc.

Will Adderley
Chief Executive

N

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

Dunelm role: Leads the Group and chairs the Executive Board. In addition to his Board role, provides liaison with the Remuneration Committee for reward below Board level. Member of the Nominations Committee and attends Audit & Risk Committee meetings by invitation. Will become Deputy Chairman on 1 January 2016 when John Browett succeeds him as Chief Executive Officer.

Joined Dunelm Board: 1992, and has worked for Dunelm for his whole career. He took over the day-to-day running of the Group from his father in 1996. Remained as Chief Executive through the Group's IPO in 2006. Became Deputy Chairman in February 2011 and was reappointed Chief Executive in September 2014.

Previous Experience: All parts of Dunelm's business.

Other Commitments: None.

John Browett
Chief Executive Designate

Key strengths: Experienced Chief Executive. Exceptional combination of business leadership and outstanding retail skills across a breadth of sectors, from grocery to electricals and fashion. Proven experience of applying technology in multi-channel operations.

Dunelm role: Currently in an induction period until he succeeds Will Adderley as Chief Executive in January 2016. Will then lead the Group and the Executive Board and liaise with the Remuneration Committee in respect of below Board remuneration. Will attend Audit & Risk Committee meetings by invitation.

Joined Dunelm Board: July 2015

Previous Experience: Various leadership positions at Tesco plc, including appointments as Strategy Director, CEO of Tesco.com, and Group Operations Development Director. CEO of Dixons Retail plc. Senior Vice President Apple Retail. CEO of Monsoon 2012 to 2015.

Other Commitments: Non-Executive Director of easyJet plc, Octopus Capital Limited and Octopus Investments Limited.

David Stead
Chief Financial Officer

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 department, as well as taking responsibility for a number of strategic and cross-functional initiatives. Participates in Audit and Risk Committee meetings by invitation and sits on the Executive Board. Will retire from the Board in December 2015 and be succeeded by Keith Down.

Joined Dunelm Board: September 2003.

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

Other Commitments: Non-Executive Director of Card Factory plc. Honorary Member of Council, University of Birmingham.

Notes:

The following individuals were also Board members during the financial year:

Geoff Cooper	Chairman, retired from the Board on 7 July 2015.
Matt Davies	Non-Executive Director, resigned 8 January 2015.
Nick Wharton	Chief Executive, resigned 10 September 2014.

As announced on 9 July 2015, Keith Down will be appointed to the Board on 7 December 2015 as Chief Financial Officer, to succeed David Stead.

Marion Sears
Non-Executive Director

Chair of Nominations
and Remuneration Committees

A N R

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: As a Non-Executive Director, provides strategic advice, monitors management performance and oversees risk management. Regularly visits stores to meet store colleagues and members of the senior management team. Together with the Chairman, takes specific responsibility for director recruitment, co-ordinating the Board's corporate governance duties and for liaising with shareholders on corporate governance matters. Attends investor presentations and shareholder meetings.

Joined Dunelm Board: July 2004.

Previous Experience: Robert Fleming, JP Morgan Investment Banking.

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

Liz Doherty
Non-Executive Director

Chair of Audit and
Risk Committee

A N R

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

Dunelm role: As a Non-Executive Director, provides strategic advice, monitors management performance and oversees risk management. Regularly visits stores to meet store colleagues and members of the senior management team. Attends investor presentations and shareholder meetings. Chair of the Audit and Risk Committee.

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, Corbion NV and Delhaize Group.

Simon Emeny
Senior Independent Director

A N R

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: As a Non-Executive Director, provides strategic advice, monitors management performance and oversees risk management. Regularly visits stores to meet store colleagues and members of the senior management team. Attends investor presentations and shareholder meetings. Senior Independent Director and will become Chair of the Remuneration Committee on 11 September 2015.

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.

William Reeve
Non-Executive Director

A N R

Key strengths: A serial entrepreneur and investor with deep digital experience, who can operate at Board level.

Dunelm role: As a Non-Executive Director, provides strategic advice, monitors management performance and oversees risk management. Regularly visits stores to meet store colleagues and members of the senior management team. Attends investor presentations and shareholder meetings.

Joined Dunelm Board: July 2015.

Previous experience: President, MD and COO of LOVEFiLM.com, which he co-founded. Various executive roles in several leading e-commerce businesses including Graze.com, Paddy Power PLC, Secret Escapes and Zoopla.

Other Commitments:
Co-CEO of Hubbub.co.uk

Committee memberships

- A Audit and Risk Committee member
- N Nominations Committee member
- R Remuneration Committee member

Peter Ruis
Non-Executive Director

A N R

Key strengths: A current CEO with deep experience in retail and brands, working for both large and more entrepreneurial organisations, with a particular expertise in marketing.

Dunelm role: As a Non-Executive Director, provides strategic advice, monitors management performance and oversees risk management. Regularly visits stores to meet store colleagues and members of the senior management team. Attends investor presentations and shareholder meetings.

Joined Dunelm: September 2015.

Previous experience: Senior positions at John Lewis Partnership, Levi Strauss and Ted Baker.

Other Commitments: Chief Executive of Jigsaw.

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. Secretary to the Executive Board.

Joined Dunelm: November 2011.

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

Other Commitments: None.

Bill Adderley
Founder and Life President

Bill, 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.

Committee memberships

- A Audit and Risk Committee member
- N Nominations Committee member
- R Remuneration Committee member

Corporate Governance
Chairman's Letter

Andy Harrison Chairman

Dear Shareholder

I am delighted to have been appointed as Chairman of Dunelm, as our Company moves into the next chapter of its development.

As your new Chairman, I intend to continue the Board's previous policy towards governance by supporting relevant requirements and best practice guidelines, and seeking to apply them in a pragmatic way that adds value to Dunelm. Led by the Audit and Risk Committee, this year we will be continuing to refine the way in which we manage internal control and risk, in readiness for the enhanced reporting requirements in the Corporate Governance code that we will need to comply with in our next report.

As outlined elsewhere in this annual report, there have been important changes in our Board composition during the year. I would like to extend my thanks to Marion Sears, who as Chair of the Nominations Committee, has shown exceptional diligence and commitment in leading the process by which all of the Board appointments have been secured; and also for stepping in to Chair the Remuneration Committee on the departure of Matt Davies, a role which she will now hand to Simon Emeny.

At our AGM this year, as usual, all Directors will be seeking reappointment. In addition, in accordance with the Listing Rules, each of the Non-Executive Directors will also be subject to a vote of shareholders independent of the Adderley family. We will also be seeking approval for some changes to our approved Remuneration Policy, which are described fully in the Remuneration Report; and (as in previous years) authority to buy back shares to satisfy employee share option entitlements, together with a waiver under the Takeover Code which is required in order to exercise this authority due to the Adderley family shareholding.

I look forward to meeting shareholders at the AGM.

Yours sincerely

Andy Harrison
Chairman
10 September 2015

Corporate Governance Report

2014/15 SUMMARY
Principal activities

Board membership:

- **1 September 2014** – Andy Harrison appointed to the Board as Non-Executive Director
- **10 September 2014** – Nick Wharton resigned from the Board as Chief Executive
- **11 September 2014** – Will Adderley reappointed as Chief Executive
- **12 September 2014** – Change of Non-Executive Director responsibilities
- **8 January 2015** – David Stead announced intention to retire as Chief Financial Officer
- **8 January 2015** – Matt Davies resigned as Non-Executive Director
- **1 July 2015** – John Browett appointed as Chief Executive Designate
- **1 July 2015** – William Reeve appointed as Non-Executive Director

Since the year end:

- **8 July 2015** – Andy Harrison succeeded Geoff Cooper as Chairman
- **9 July 2015** – Announced that Keith Down will succeed David Stead as CFO in December
- **10 September 2015** – Peter Ruis appointed as a Non-Executive Director

Strategy:

- **11 February 2015** – Launch of refreshed "three pillar" growth strategy
- **11 February 2015** – New capital policy announced
- **24 March 2015** – Return of 70 pence per share to shareholders by way of a B/C share scheme.

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.
- It is the Board's responsibility 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.
- We support corporate governance guidelines and 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.

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

Code compliance

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

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

From the date of this report, Marion Sears, who has served more than nine years on the Board, is no longer being treated by the Board as an independent Non-Executive Director for the purposes of the Code. The Board, our majority shareholder and our largest institutional shareholders support her continued Board and committee membership. Marion will put herself forward for reappointment at the AGM by shareholders independent of the Adderley family as well as a full shareholder vote to ensure that the Board's assessment continues to be supported by shareholders.

As a 'non-independent' Non-Executive Director, for the purposes of Board balance Marion is counted with the Executive Directors. Thus at the date of this report excluding the Chairman we have four Executives / non-independent Non-Executives, and four independent Non-Executives.

Marion has chaired the Remuneration Committee since 8 January 2015, and has been a member of the Audit and Risk Committee during the period. She will retire as Chair of the Remuneration Committee on 11 September 2015, but will remain a member of both committees (as well as Chair of the Nominations Committee) at the request of the Board. Although the Corporate Governance Code states that members of the Audit and Risk Committee and Remuneration Committees should be independent non-executives only, the Board considers that Marion contributes fully and effectively to the work of the Board and its committees and that there is sufficient independent representation from the other independent Non-Executive Directors.

Board role and composition

The Board has three roles:

STRATEGY

Set the strategy that will secure the continued growth of the Group over the long term in the interests of its shareholders, taking account of our responsibilities to colleagues, customers, the community in which we operate and the interests of our other stakeholders.

Ensure that resources are in place to deliver the strategy.

GOVERNANCE

Instil and maintain a culture of honesty, integrity and transparency.

Ensure that financial and other controls and processes for risk management are in place and working effectively.

Set an effective remuneration policy.

Maintain good relationships with shareholders.

PERFORMANCE

Review progress towards strategic goals and management performance.

Board balance and (with the exception noted above) committee membership is fully compliant with the requirements of the Corporate Governance Code.

The Board structure at the date of this report is shown below:

Andy Harrison **Chairman**

Executives/Non-Independents

Will Adderley Chief Executive

John Browett Chief Executive Designate

David Stead Chief Financial Officer

Marion Sears Non-Executive Director

Independent Non-Executives

Simon Emeny Senior Independent Director

Liz Doherty Non-Executive Director

William Reeve Non-Executive Director

Peter Ruis Non-Executive Director

The names and roles of each of the Directors during the period are set out in the table below.

Name	Position at period end	Committee Chair	Note
Geoff Cooper	Non-Executive Chairman	None	Retired from the Board on 7 July 2015 (after the period end).
Andy Harrison	Non-Executive Director	None	Appointed to the Board on 1 September 2014. Succeeded Geoff Cooper as Chairman on 8 July 2015.
Will Adderley	Chief Executive	None	Appointed Chief Executive on 11 September 2014. Prior to that he was Deputy Chairman. Will revert to Deputy Chairman when John Browett succeeds him as Chief Executive
John Browett	Chief Executive Designate	None	Appointed 1 July 2015. Will become Chief Executive on 1 January 2016.
David Stead	Finance Director	None	Will retire in December 2015. Successor will be Keith Down.
Simon Emeny	Senior Independent Director	None	Appointed Senior Independent Director on 12 September 2014. Will chair Remuneration Committee from 11 September 2015.
Marion Sears	Non-Executive Director	Nominations Remuneration	Chair of Remuneration Committee between 28 June 2014 and 11 September 2014, and resumed this position on 8 January 2015 when Matt Davies resigned from the Board. Will retire as Remuneration Committee Chair on 11 September 2015. Senior Independent Director prior to retiring this position on 11 September 2014.
Liz Doherty	Non-Executive Director	Audit and Risk	Appointed Chair of Audit and Risk Committee on 12 September 2014.
William Reeve	Non-Executive Director	None	Appointed 1 July 2015.
Matt Davies	None	None	Non-Executive Director. Chair of Audit and Risk Committee between 28 June 2014 and 11 September 2014. Chair of Remuneration Committee between 12 September 2014 and 8 January 2015. Resigned from the Board on 8 January 2015 due to a change in his executive position.
Nick Wharton	None	None	Chief Executive between 28 June 2014 and 10 September 2014.

Chairman and Chief Executive responsibilities

The Board has adopted written statements setting out the respective responsibilities of the Chairman and the Chief Executive; these are available on the Group's website or from the Company Secretary. In general terms, the Chairman is responsible for running the Board and the Chief Executive is responsible for running the Group's business.

Independence of Non-Executive Directors

As required by the Corporate Governance Code and the Listing Rules of the United Kingdom Listing Authority, the Board considers annually whether all Non-Executive Directors continue to exhibit independence of character and judgement prior to putting them forward for reappointment at the AGM. This was last considered in September 2015 and we confirmed that Andy Harrison was independent on appointment and that Simon Emeny, Liz Doherty, William Reeve and Peter Ruis are independent.

Marion Sears has served 11 years on the Board (nine years since flotation of the Company in October 2006). Although the Board considers that Marion continues to exhibit independence of character and judgement, we recognise that given her tenure some of our institutional shareholders and their representatives may no longer consider her to be independent. Marion is a highly valued Board member who contributes fully and effectively to the work of the Board and its committees. Our majority shareholder and our largest institutional shareholders support her continued Board membership. The Board has therefore decided to treat her as 'non-independent' for the purposes of reporting compliance against the UK Corporate Governance Code, and to appoint an additional independent Non-Executive Director to achieve the required Board balance.

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

Board attendance

The Board held nine 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	Meetings attended
Will Adderley	9
John Browett[4]	0
Geoff Cooper	7
Matt Davies[2]	4
Liz Doherty	9
Simon Emeny	9
Andy Harrison[1]	7
William Reeve[4]	0
Marion Sears	9
David Stead	9
Nick Wharton[3]	1

1. Andy Harrison was appointed on 1 September 2014. He attended all but one meeting following his appointment.
2. Matt Davies attended all meetings that took place prior to his resignation on 8 January 2015.
3. Nick Wharton attended all but one meeting that took place prior to his resignation on 10 September 2015.
4. John Browett and William Reeve were appointed to the Board on 1 July 2015. There were no meetings between that date and the end of the financial year.

Any Director who was unable to attend a meeting received the papers in advance and passed on comments to the Chairman.

Change of Non-Executive Director responsibilities

During the period the following changes in the responsibilities of the Non-Executive Directors took place.

The change in September 2014 was to address the concerns of certain investor bodies and proxy agencies who do not regard Marion Sears as independent in view of her tenure. The second change was as a result of the unforeseen resignation of Matt Davies in January 2015, due to a change in his executive position. Marion will retire from her position as Chair of the Remuneration Committee on 11 September 2015, and will be succeeded by Simon Emeny.

	From 8 January 2015 to date	Between 12 September 2014 and 8 January 2015	Between 28 June 2014 and 11 September 2014
Senior Independent Director	Simon Emeny	Simon Emeny	Marion Sears
Audit and Risk Committee Chair	Liz Doherty	Liz Doherty	Matt Davies
Remuneration Committee Chair	Marion Sears	Matt Davies	Marion Sears
Nominations Committee Chair	Marion Sears	Marion Sears	Marion Sears

Board meetings

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 financial statements, 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 Chief Financial Officer report on operational performance (including health and safety) and the Chief Financial Officer 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 2014/15 were:

Areas of focus

Strategic	▶ Overall business strategy ▶ Board independence, composition and diversity ▶ Senior management succession ▶ Budget ▶ Treasury policy (including new capital policy) ▶ Return of cash to shareholders ▶ Tax policy
Governance and risk	▶ Board succession ▶ Investor communications ▶ Investor feedback via advisors ▶ AGM voting and feedback ▶ Risk reviews ▶ Health and safety ▶ Bribery Act ▶ Ethical sourcing ▶ IT security and cyber security
Operational	▶ Competitor activity ▶ Furniture strategy ▶ Brand awareness ▶ Colleague engagement ▶ Product quality

We measure the time spent on strategy, governance and operational performance at each meeting. Over the year, the majority of our time was spent on strategy, followed by governance and operational performance, which the Board considers to be appropriate.

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

Non-Executive Director meetings

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

Board committees

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

Details of the membership of the committees and of their activities during the past financial year can be found in the reports from the Chair of each of the committees on pages 42 to 75.

Training and induction

Upon joining the Board, any new Director is offered a comprehensive and tailored induction programme with visits to key sites and meetings with senior managers and other colleagues. This includes access to recent Board and Committee papers, including strategy documentation; meetings with each of the Executive Directors and the Company Secretary and other members of senior management; store visits.

As part of the annual Board evaluation, any additional training or development needs are addressed by the Chairman with each Director. Please see the Directors' biographies on pages 30 to 32 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.

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

Evaluation

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

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

The principal agreed action from the 2014 evaluation was to ensure that the Board succession plan will remain a regular Board agenda item (alongside formal Nominations Committee meetings). This was implemented, with Board succession discussed at the majority of Board meetings.

In 2015 Andy Harrison, as incoming Chairman, conducted a formal review with each of the Directors and of the Board as a whole. He concluded that the Board works well, with an effective open and informal style, a high level of trust between Directors, a good mix of challenge and support, focused on driving business performance over both the short and the long term. The priorities for the coming year are:

- To ensure that the Board retains and builds on these strengths in the coming year during a period of substantial change around the Board table.
- Continued focus on the Board succession plan.

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

The Chief Executive and the Chief Financial Officer report back to the Board after the investor roadshows. The Group's brokers and financial PR advisors also provide a written feedback report after the full and half year results announcements and investor roadshows to inform the Board about investor views, and in addition Non-Executive Directors attend a selection of investor meetings.

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

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

Rule 9 waiver

As usual we will be requesting authority to buy back up to 5 million shares (2.5% of our share capital) at the AGM. Our Chief Executive, Will Adderley, has a beneficial interest in 30.5% of our share capital. For us to exercise the right to buy back shares we have to ask shareholders to approve a waiver of Rule 9 of the Takeover Code, as otherwise Will would be required by law 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.
- Since 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 55% currently).
- There has been a Relationship Agreement in place since flotation which provides safeguards to other shareholders – for details please see the Directors' Report on page 76.

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

Significant shareholders

The Group's significant shareholders are listed in the Directors' report on page 77 and voting rights are stated on page 76.

Conflicts of interest

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

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

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

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

- Will Adderley is a major shareholder and connected to other major shareholders. Authorised on the basis that Will continues to abide by the terms of the Relationship Agreement entered into between himself, other major shareholders and the Company on flotation of the Company in 2006.

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

Conflicts that have been disclosed are reviewed annually by the Board.

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

Appointment and removal of Directors

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

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

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

In accordance with the Corporate Governance Code, all Directors will retire from the Board and offer themselves for re-election at the Annual General Meeting. Non-Executive Directors will also be subject to a separate vote by shareholders independent of the Adderley family as required by the Listing Rules of the United Kingdom Listing Authority.

Powers of Directors

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

At the Annual General Meetings of the Company from 2007 onwards, the Board has sought and been given authority to issue shares and to buy back and reissue shares. Similar resolutions are being tabled at the 2015 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, and the Board as a whole takes responsibility for management of risk throughout the business.

Given the size of our Board and the relative lack of complexity in our business we do not have a separate Board Risk Committee; our Audit and Risk Committee oversees the risk management process as part of its activities.

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

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

Throughout the year and up to the date of approval of this Annual Report there has been in place an established, ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This year we have appointed a dedicated Group Risk Manager and significantly refreshed and strengthened the process by which we identify and address business risks. This process has been reviewed by the Audit and Risk Committee and the Board and is in accordance with the Financial Conduct Authority's Guidance on Internal Control for Directors.

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

Board	Collective responsibility for managing risk	▶ Formal consideration of risk appetite ▶ Formal risk review twice annually ▶ Consideration of 'what keeps us awake at night' ▶ Key risk topics reviewed through regular timetabled presentations or key risk reviews ▶ Monitor KPIs through Board reports ▶ Executive members have line responsibility for managing specific risks
Audit and Risk Committee	Oversees risk management process	▶ Receives report on risk management process at each meeting. ▶ Formal risk review twice annually ▶ Allocates resources for external assurance reviews of selected risks. ▶ Selects topics for 'key risk' reviews by the Board.
Executive Board	Members have line responsibility for managing specific risk areas	▶ Formal risk review twice annually ▶ Key risks reviewed individually by the Executive Board once a year.
Risk Forum	Its members, Risk Champions (Executive Board members or their appointees), oversee the identification and management of departmental risks on the risk register	▶ Members responsible for the identification and management of individual departmental risks that are collated on the risk register ▶ Co-ordination of approach to risks that apply across departments. ▶ Share best practice. ▶ Compile strategic risk register for escalation to the Executive Board as appropriate.

- Risk management is a collective Board responsibility. The Board as a whole sets the 'risk appetite', in the context of which major decisions are taken, including our approach to risk management.
  - — The key risks identified through the formal process described below, together with the risk register as a whole, are reviewed by the Board twice a year. In addition, once a year the Board considers 'what keeps us awake at night'.
  - — Important risk topics are covered in-depth either by regular timetabled presentations (e.g. health and safety, ethical trading), by 'key risk' discussions (e.g. management succession, product quality), or regularly as a standard agenda item (e.g. competitor activity).
  - — Executive Directors have line responsibility for managing specific risks and delegate these to members of the Executive Board as appropriate.
- Each member of the Executive Board is responsible for managing risks in his or her department. He or she appoints a Risk Champion, who is responsible for identifying risks within the department, ensuring that departmental risks are identified and documented on the risk register, and mitigation is in place, with a named individual responsible for management of the risk.
  - — The register of risks is maintained by Risk Champions and discussed by them at the Risk Forum. Risks are assessed in terms of impact and likelihood and the highest priority risks are identified for specific focus. The Risk Forum also discusses the management of risks that impact across departments and ensures that the approach across the Group is consistent. Where relevant, new or heightened risks are escalated to the Executive Board.
- The Executive Board reviews the key risks (in terms of severity) individually. Usually two risks and their mitigating actions are reviewed at each meeting. In addition the Executive Board formally reviews the full strategic risk register twice a year.
- The Audit and Risk Committee is responsible for overseeing the risk management framework described above. The key 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.

Internal control and internal audit

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

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

The system of internal control comprises:

- A list of matters specifically reserved for Board approval, for example significant capital expenditure.
- A well-established control framework comprising clear structures and accountabilities for colleagues, well understood policies and procedures and budgeting and review processes. This framework has been documented during the year and reviewed by the Audit and Risk Committee.
- 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 an operational audit team.

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

The Audit and Risk Committee considers that a permanent internal audit function is not required in view of the adequacy of internal and risk management controls and reporting in place (including the use of third party experts to provide assurance on selected topics), the relatively low level of complexity in the business and the close involvement of the Executive Directors in the operation of the business.

The programme of external assurance activities carried out in 2014/15 comprised:

- Compliance with HMRC real time reporting requirements
- VAT compliance
- Procedures to ensure product quality

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

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

Bribery Act 2010

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

- Anti-corruption and anti-bribery policy implemented.
- The policy on acceptance of gifts and other privileges has been updated and a formal procedure has been implemented for signing off and logging hospitality.
- Executive Board members and Heads of Department have received training and also signed a declaration of compliance, which is an annual process.
- All members of the Buying, Merchandising and Product Technology departments are required to attend a Bribery Act training session when they commence employment.
- There is compulsory annual refresher training for the above individuals.
- Standard terms and conditions for suppliers include a Bribery Act clause.
- Specific training has been carried out for suppliers and agents in high risk territories.
- The Whistleblowing Policy refers specifically to the Bribery Act.

This report was reviewed and approved by the Board on 10 September 2015.

Andy Harrison
Chairman
10 September 2015

Letter from the Chair of the Audit and Risk Committee

Liz Doherty Chair of the Audit and Risk Committee

Dear Shareholder,

This is my first report as Chair of the Audit and Risk Committee, a role which I assumed on 12 September 2014. I thank Matt Davies for the work that he carried out to strengthen the role of the committee under his tenure, as the Group continues to grow and evolve.

Under the leadership of Will Adderley there has been a new emphasis on growth in the Group's strategy. In addition, regulators have continued their focus on the work of audit committees. In response to these factors we have continued to look at ways in which we can improve our controls and risk management:

- We have carried out two specific pieces of work in the year to reinforce our controls for the next phase of our growth:
  - we have formally adopted a tax strategy; and
  - we have carried out a review of our internal control framework.
- As noted in the Corporate Governance Report, we have also strengthened our risk management process, with the creation of a Risk Forum within the business to oversee the identification and management of risks throughout the Group, and by increasing the time spent by the Executive Board in reviewing key risks.
- All businesses continue to be exposed to cyber risks, and we have created an Information Security Steering Group to oversee our approach to this threat. This Steering Group has assessed our approach against an industry standard and developed a programme of activity to improve how we manage this risk.

Our programme of internal audit activity, supported by external assurance providers, continued throughout the year. Specific reviews of the following topics were conducted: compliance with HMRC Real Time Information (RTI) reporting requirements, accuracy of VAT returns, and adequacy of our Product Quality procedures.

In the light of industry concern about the treatment of supplier discounts and rebates, we have also specifically reviewed this area (although is not significant to Dunelm in profit terms).

We paid our auditors PricewaterhouseCoopers advisory fees of £55,125 in the financial year, as against the audit fee of £72,000. This relates to work commissioned prior to their appointment as auditor. A breakdown of the fees paid is provided in the report.

Looking forward, a key focus for the committee in the coming year will be to support the incoming Chief Financial Officer, Keith Down. We will also consider how best to report against the 2014 Corporate Governance Code, and work will be conducted to support our statements on long term viability, going concern and risk management.

I look forward to meeting shareholders at the AGM.

Yours sincerely,

Liz Doherty
Chair of the Audit and Risk Committee
10 September 2015

Audit and Risk Committee Report

2014/15 SUMMARY

Principal activities

- Formal review of internal control framework
- Formal tax policy adopted
- Risk management process strengthened
- Information Security Steering Group formed to oversee cyber security
- Review of supplier income
- Review of committee terms of reference

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

Principal duties

The principal duties of the Committee are to:

- oversee the integrity of the Group's financial statements and public announcements relating to financial performance
- oversee the audit process
- monitor the effectiveness of financial controls and the process for identifying and managing risk throughout the Group.

The full terms of reference for the Committee can be found on the Group's website, www.dunelm.com. These terms were reviewed by the Committee in February 2015 as part of its evaluation process, and updated to reflect the Committee's increased responsibilities in respect of the annual report, and the regulatory requirements in relation to audit tendering.

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

Committee membership

The following Directors served on the Committee during the year:

Name	From:	To:
Liz Doherty (Chair)[1]	1 May 2013	To date
Marion Sears	18 January 2005	To date
Simon Emeny	25 June 2007	To date
William Reeve[2]	1 July 2015	To date
Andy Harrison[3]	1 September 2014	7 July 2015
Matt Davies[1]	8 February 2012	8 January 2015

1. Matt Davies chaired the Committee until 12 September 2014, when he was succeeded by me in a planned change to the responsibilities of Non-Executive Directors. He resigned from the Board and the Committee on 8 January 2015 in order to take up a new executive role.
2. William Reeve was appointed to the Board and the Committee on 1 July 2015.
3. Andy Harrison stepped down from the Committee following his appointment as Chairman on 8 July 2015 (after the year-end).

The Company Secretary acts as secretary to the Committee.

The Chief Financial Officer 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 previous executive roles, including as Chief Financial Officer of Reckitt Benckiser Group plc.

Committee activities in 2014/15

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

Name	Meetings attended
Liz Doherty	3
Marion Sears	3
Simon Emeny	3
William Reeve[1]	0
Andy Harrison[2]	2
Matt Davies[3]	1

1. William Reeve was appointed to the Board and the Committee on 1 July 2015. There were no committee meetings between that date and the year end.
2. Andy Harrison was unable to attend the first meeting following his appointment due to a pre-existing commitment. He received papers and passed on comments to the Committee Chair.
3. Matt Davies attended all meetings during his tenure.

During the year the activities of the Committee included:

Routine Items

- Approval of the full year results issued in September 2014 and the half year results issued in February 2015.
- Review of the process for identifying and managing risk within the business in September 2014, including a review of the risk register, and a mid-year update of these in February 2015.
- Verification of the independence of the auditor and approval of the scope of the audit plan and the audit fee.
- Review of fraud and Bribery Act controls and cyber security are standing agenda items for each meeting.
- Receipt of external assurance reports (see below).

Specific Topics

- Formal review of Internal control framework
- Formal tax policy adopted
- Risk management process strengthened
- Information Security Steering Group formed to oversee cyber security
- Review of supplier income
- Review of committee terms of reference

Significant areas of judgement

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

At its meeting in September 2015, the Committee reviewed a comprehensive paper prepared by the Chief Financial Officer, which analysed the Group's results for the financial year; highlighted matters arising in the preparation of the Group financial statements; and provided forecasts to support the Directors' going concern statement. The Committee also considered a paper prepared by the external auditors, which included significant reporting and accounting matters.

The major accounting issues discussed by the Committee were as follows:

Provisions for inventory, returns and property

For each of the above, the Committee considered the approach taken by management and assessed available evidence, including historical outcomes. Particular attention was given to reviewing the provision for obsolete, slow-moving or discontinued inventory and the pattern of stock clearance over the financial period. The Committee concluded that the values recorded in the financial statements are appropriate.

Complex supplier arrangements

The Committee received a report from management on the nature and scale of supplier income. The Committee noted that the main source of supplier income is through retrospective volume rebates, that these are not significant in the context of the Group's financial statements, and that management's policy for recognising such income is in any event conservative.

"Fair, Balanced and Understandable"

At the request of the Board, the Committee also considered whether the annual report and financial statements as a whole are "fair, balanced and understandable". Factors taken into account included:

- Does the narrative of the Chief Executive's and Chief Financial Officer's reviews fairly reflect the performance of the Group over the period reported on?
- Are the narrative sections consistent with each other, and with the financial statements?
- Is the connection between strategy and remuneration clearly described?
- Can readers easily identify key events that happened during the year?

Committee members received the draft annual report in advance and had the opportunity to make comments in advance of the formal meeting at which the report was tabled for approval.

Following its review, the Committee confirmed that the annual report was "fair, balanced and understandable".

External auditor

2014-15 was the second financial year in which the report and financial statements were audited by PricewaterhouseCoopers, following that firm's appointment as statutory auditor in January 2014.

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

- The quality and scope of the planning of the audit. In February 2015, the external auditors presented their strategy for 2014/15 to the committee. The Committee reviewed and agreed with the external auditors' assessment of risk. The Committee also reviewed the audit approach and the approach to assessing materiality for the Group.
- The quality of reports provided to the Committee and the Board and the quality of advice given;
- The level of understanding demonstrated of the Group's businesses and the retail sector;
- The objectivity of the external auditor's views on the controls around the Group and the robustness of challenge and findings on areas which required management judgment.

The fee paid to PricewaterhouseCoopers for the statutory audit of the Group and Company financial statements and the audit of Group subsidiaries pursuant to legislation was £72,000. A breakdown of non-audit fees paid to PricewaterhouseCoopers during the financial year is set out below.

PricewaterhouseCoopers attended the Committee meetings in September 2014 and February 2015. The Committee also met privately with them during the meeting, and as Chair of the Committee I had dialogue with the audit partner on a number of occasions.

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

Use of auditors for non-audit work

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

Our policy is simple – we will only use auditors for non-audit work if:

- they offer demonstrably better capability or lower cost than alternative providers; and
- there is no potential conflict with the independence of the audit.

We have a relatively flat management structure and all advisory work is required to be sanctioned by the Chief Financial Officer, who consults with me as Committee Chair if the fee involved is significant or if there are any issues regarding independence. Much of the advisory work that we outsource is tax related, and we have retained the services of KPMG for this purpose. Therefore we do not consider that any more complex guidelines are needed. However we are aware that there are proposals to require companies to set out specific services which may or may not be carried out by their statutory auditor. Once these have become final we will review our policy.

During the period we paid PricewaterhouseCoopers £55,125, of which £17,500 related to a review of compliance with pension auto-enrolment obligations that took place in 2014, and the remainder to follow-up work, including advice on implementation of IT system changes needed to address pensions auto-enrolment. The original assignment was agreed prior to the appointment of PricewaterhouseCoopers as auditors.

Fees paid to PricewaterhouseCoopers for audit work were £72,000.

Auditor rotation

Last year we adopted a policy to tender the statutory audit at least every five years going forward. This means that the next tender will be for the 2018/19 audit at the latest. We will also invite at least one firm outside the 'Big Four' to participate in the tender process.

Internal audit/external assurance

The Committee initiated a formalised programme in 2013 with activities conducted either by an internal team that is independent of the area under review, or by an external party, decided on a case by case basis. In either case, the review is conducted on behalf of the Committee and reports back to them. In February 2015 the Committee discussed and agreed that this approach to internal audit remains satisfactory.

Topics reviewed in the year are set out below:

Review topic	Reviewed by
Compliance with RTI reporting obligations	KPMG
Accuracy of VAT returns	KPMG
Product Quality procedures	Intertek

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

In addition, the Committee monitored progress against actions agreed following the reports received in the 2013-14 financial year from external assurance providers in relation to business continuity, pensions auto-enrolment and payment controls. All agreed actions are now completed, with business continuity remaining as a standing agenda item for the Committee.

Internal control framework

Dunelm's business has a relatively low level of complexity, and a simple management structure. As a result, the Group's system of internal control, which is described in the Corporate Governance Report on page 41 has not previously been documented. This year the Committee decided that it would be appropriate to document the control framework, in order to identify any potential control 'gaps', and to anticipate potential control challenges as the Group embarks on the next stage of its ambitious growth strategy.

The following areas have been assessed: business ethics including anti-bribery controls; accountabilities; people management, including succession planning, development and alignment of incentives; risk management processes; internal control; crisis management; monitoring and reporting. Although no significant control weaknesses have been identified, a number of actions have been agreed as a result of the review.

Tax policy

Dunelm has a simple corporate structure, and its activities are almost all UK based. It has also adopted a relatively conservative approach to tax planning. Previously we have therefore not considered that it is necessary to adopt a formal tax policy. This year the Committee decided that it would be appropriate to do so, to support the Group's strategy. This is to ensure that our approach to tax is consistent with our business strategy and the Board's appetite for risk and approach to risk management.

The policy covers the following taxes: corporation tax; VAT; employment taxes; insurance premium tax; stamp duty and other property taxes; customs and excise duties. The policy will be reviewed annually by the Committee.

Information security

Information security remains one of the most important risk areas and it is a standing Committee agenda item, as well as being one of the key risks reviewed by the Executive Board.

In September 2014 we set up an 'Information Security Steering Group' to oversee this area. The Group comprises senior representatives from the IT, Finance, Legal and People departments, and is chaired by our Head of People, to ensure that it covers information management in the widest sense (IT systems, data protection and confidentiality). The Steering Group has assessed our compliance against the ISO27001 Security Standards and a number of actions are being progressed, particularly to address education and awareness. The Committee receives an update from this Steering Group at each meeting.

Risk management process

As noted in the Corporate Governance Report, we have also strengthened our risk management process, with the creation of a Risk Forum to oversee the identification and management of risks throughout the Group, and by increasing the time spent by the Executive Board in reviewing key risks.

The Committee formally reviewed the process in place for the identification and management of risks in September 2014, and confirmed that it is appropriate and in compliance with regulatory requirements.

This report was reviewed and approved by the Committee on 10 September 2015.

Liz Doherty

Chair of the Audit and Risk Committee

10 September 2015

Letter from the Chair of the Remuneration Committee

Marion Sears Chair of the Remuneration Committee

Dear Shareholder,

As described elsewhere in this annual report we recently appointed two new executives and, as a result, for the first time since IPO in 2006, we have needed to update the performance-related elements of executive remuneration. This has led to our new policy which will be presented at the AGM for shareholder approval in a binding vote. In developing our new policy we have consulted with major institutional shareholders and we are pleased that feedback has been positive and supportive.

We continue to follow the same principles of seeking alignment, rewarding long-term shareholder value creation and structuring pay so that the majority is performance-based according to stretching targets. However we have gone a step further with alignment and the Executive Directors will invest two-thirds of all performance pay (i.e. 2/3 of both any awarded bonus and LTIP vesting, after tax) in Dunelm shares for the lifetime of their employment with the Group. We call this the 'Lifetime Lock-in' and it replaces the previous two-year deferral requirement under our LTIP with a much stronger arrangement. In addition, both John Browett (who becomes CEO on 1 January 2016) and Keith Down (who becomes CFO on 7 December 2015) have agreed to make a personal investment in Dunelm shares upon joining (subject to company close periods). We believe this sends a really strong message about commitment, and alignment of management with all shareholders.

In updating our Policy we have had to increase the quantum of bonus and LTIP awards to remain competitive and to secure the individuals we want but we are content that this goes hand in hand with the executives holding more shares, and for longer. Importantly however, we have maintained the overall remuneration 'shape' relative to market levels of:

- basic salary at median level or below
- annual bonus at median level; and
- LTIP at upper quartile level.

This emphasises the long-term view held by the Board and relates directly to our strategy. The main change in our updated Policy is to express the LTIP opportunity as a fixed number of shares (rather than as a percentage of salary). This makes executive remuneration particularly sensitive to the share price performance. We hope you will appreciate that this ensures that the executives share fully in any share price movement, in either direction. Crucially, we have maintained the stretching performance conditions and, as before, the executive team has to deliver compound annual growth in earnings per share of RPI+15% in order to secure the maximum LTIP vesting.

Will Adderley, who already has a large beneficial shareholding, has requested to reduce his annual salary to £1 with effect from 1 July 2015 and we are pleased to acknowledge this significant gesture. Will has already waived his right to receive awards under share based schemes.

The timing of our new Executive appointments means that we are returning to shareholders for a second year running for a binding vote to approve this new Policy. Our majority shareholder supports this Policy and we hope you will support it too.

The appointment of a new Chairman and two new NEDs also prompted a review of non-executive fees. We found our fee level was below the FTSE250 range and accordingly Chairman and Non-Executive fees have been rebased to market levels.

As you may remember, I retired from the Remuneration chair a year ago but due to the departure of Matt Davies I took on the role again temporarily during this busy period. I am delighted now to hand over to Simon Emeny as the new Remuneration Committee chair and I know he will continue to have the interests of all stakeholders at heart.

Yours sincerely,

Marion Sears

Chair of the Remuneration Committee

10 September 2015

HOW OUR POLICY IS LINKED TO OUR STRATEGY

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

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

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

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

This is consistent with delivery of the objectives set out in our corporate strategy (which was refined in 2015), which are all long term in nature; namely the growth of like-for-like sales in store; obtaining national coverage from rolling out new stores; and growing sales and profit in the home delivery channel. Our approach is also in keeping with the family origin of the business, and is important to the Adderley family who remain our majority shareholders.

It is our intention to maintain a simple and transparent remuneration structure for the benefit of all parties.

Introduction

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

The **Policy Report** sets out the Directors' remuneration policy, which will be put to shareholders for approval at the Annual General Meeting in November 2015, as we are proposing some changes to the policy which was approved by shareholders on 11 November 2014. This is because of executive recruitment during the year and these changes are set out in the box headed 'policy changes' on page 49.

Subject to shareholder approval, the updated policy will be effective as of 24 November 2015.

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

The **Annual Report on Implementation** sets out how the policy approved in November 2014 has been applied during the financial year being reported on and how policy will be applied in the coming year. This report will also be put to shareholders for approval at the Annual General Meeting in November 2015, although the vote on the implementation report is advisory.

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

Proposed changes to our Remuneration Policy

Our first Remuneration Policy (the '2014 Policy') was approved at the Annual General Meeting on 11 November 2014, although the principles were applied throughout the financial year to June 2015.

In July 2015 we recruited John Browett to our Board as Chief Executive Designate, with the intention that he will succeed Will Adderley as Chief Executive on 1 January 2016. We also announced that Keith Down will become Chief Financial Officer in December 2015, on the retirement of David Stead.

We wanted to offer our new Executives a remuneration package which recognises their talent and experience, and also incentivises them to deliver long term, profitable growth for the Group.

In order to provide the desired structure, the following policy changes to our 2014 Policy are being proposed for approval:

Policy change	Rationale
Annual bonus	
Annual bonus maximum to be increased from 100% to 125% of base salary[1]	To align the maximum opportunity (which will only be earned for the achievement of stretching performance conditions) to the opportunity available to executives of companies of a similar size and complexity.
In accordance with the 2014 policy, performance targets are set annually based on financial and strategic objectives. To date the financial target has been based 100% on EPS growth. However for 2015-16 it is intended that performance criteria will be based on PBT (80%) and non-financial KPIs (20%)	Performance criteria no longer subject to the same measure as LTIP (EPS growth).
Long Term Incentive Plan	
Award over fixed number of shares each year for the next three years (rather than percentage of salary)	Executives benefit more if share price rises (and less if it does not)
A reduced amount pays out at threshold performance (10% at RPI+ 3%, previously 25%)[1,2]	Encourages long term stewardship
Two year post performance period retention disapplied in the event that 'Lifetime Lock-in' is used[1].	In most circumstances 'Lifetime Lock-in' (see below) results in stronger alignment through personal shareholding. Personal shareholding targets also retained.
'Lifetime Lock-in'	
Executive Directors are required to make a personal investment in Dunelm shares on appointment (subject to close periods)	Promotes strong alignment with shareholders and long term stewardship
Two-thirds of all performance pay (bonus and LTIP entitlement) earned must be invested in Dunelm shares (after payment of tax and national insurance); 50% of these must be retained for at least two years after leaving the Group	Promotes strong alignment with shareholders and long term stewardship
Personal shareholding requirement of 1× salary after three years and 2× salary after five years	Promotes strong alignment with shareholders and long term stewardship. Shares must be acquired to meet this if bonus and LTIP do not deliver required shareholding.

In addition to the policy changes set out above, we are proposing to compensate Keith Down for deferred shares earned with his previous employer which have been forfeited when he resigned. This compensation, which only represents a small proportion of his benefits left behind, will be taken in the form of an award of Dunelm restricted stock vesting in 2016 and 2017 in line with the original vesting dates of the deferred shares. Although the award is in line with our 2014 Policy, shareholder approval will be sought at the AGM to make the restricted stock award, which is referred to in the policy table on pages 50 to 55, using new issue or treasury shares.

From 1 July 2015, Will Adderley requested that his basic salary be reduced to £1 per annum.

We consulted our major institutional shareholders about the above changes and feedback was unanimously supportive.

1. As disclosed in the Annual Report on Implementation, David Stead will continue to be remunerated under the 2014 Policy as approved by shareholders at the last AGM. Accordingly his maximum bonus opportunity for 2015-16 will be 100% of salary and will be prorated for service if he retires as planned in 2016. The 'Lifetime Lock- in' does not apply to any bonus earned by David Stead for 2015-16.
2. As disclosed in the Annual Report on Implementation, an award is expected to be made to David Stead under the LTIP in accordance with the 2014 Approved Policy in October 2015 at the level of 150% of base salary. This will vest subject to performance over a three year period, and then be subject to a two year holding period. The 'Lifetime Lock-in' does not apply to any award granted to David Stead in respect of 2015-16. Following David's planned retirement in 2015-16, the Committee may allow him to exercise a pro rata amount of this award following the end of the holding period. This award will vest as to 25% for threshold performance.

THE POLICY REPORT

Directors' Remuneration Policy 2015

The policy set out below will take binding effect from the date of its approval by shareholders at the 2015 Annual General Meeting, to replace the policy that was approved in 2014. It will remain in force for three years, with approval being sought for renewal of the policy at the latest at the 2018 AGM.

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

Future policy table

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

Executive Directors

Base salary

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

Retirement benefits

Purpose and link to strategic objectives	To provide a competitive post-retirement benefit. To attract and retain the high-calibre talent necessary to develop and deliver the business strategy.
Operation	Contribution equivalent to a percentage of base salary made to a defined contribution plan or paid as a cash allowance.
Maximum Opportunity	Up to 20% of base salary. No element other than base salary is pensionable.
Performance metrics	None. No recovery provisions apply to retirement benefits.

Benefits

Purpose and link to strategic objectives	To provide a competitive benefits package. To attract and retain the high-calibre talent necessary to develop and deliver the business strategy.
Operation	A range of benefits are provided, which may include car or car allowance; private health insurance for the individual and their family; permanent health cover; life assurance; mobile phone; use of a car and driver in connection with the role; colleague discount. Additional benefits, such as relocation expenses, housing allowance and school fees may also be provided in certain circumstances if considered reasonable and appropriate by the Committee. For non-UK Executives (none at present) the Committee may consider additional allowances in accordance with standard practice.
Maximum Opportunity	Current benefits provided are described in the Annual Report on Implementation on page 62. The Committee reserves the right to provide such benefits as it considers necessary to support the strategy of the Company. The Committee does not consider it to be appropriate to set a maximum cost to the Company of benefits to be paid.
Performance metrics	None. No recovery provisions apply to benefits.

Annual bonus – awards to be made to Executive Directors other than David Stead, who is retiring during the financial year.

Purpose and link to strategic objectives	Rewards and incentivises delivery of annual financial, strategic and personal targets.
Operation	Paid in cash, after the results for the financial year have been audited, subject to performance targets having been met. Two-thirds of bonus earned must be invested in Dunelm shares after tax and national insurance obligations have been met.
Maximum Opportunity	Maximum opportunity – 125% of base salary per annum. For on target performance – 40 % of maximum opportunity. For threshold performance – 5 % of maximum opportunity.
Performance metrics	Stretching performance targets are set each year. Performance targets for the Executive Directors are typically based on financial and strategic objectives set by the Remuneration Committee annually. Financial objectives include, but are not limited to, budgeted PBT for the financial year taking into account market consensus and individual broker expectations. The strategic objectives will vary depending on the specific business priorities in a particular year. Typically, the majority of the annual bonus for Executives is subject to financial objectives. Subject to recovery provisions (malus) at the discretion of the Committee if there has been a misstatement of results for the year in respect of which the bonus is paid, or if there has been an error in calculating performance, or in the case of gross misconduct. The Remuneration Committee also has the discretion to clawback the bonus up to three years after payment in the above circumstances; and in cases of fraud the Committee can apply malus and clawback for an unlimited period of time.

Annual Bonus – award to be made to David Stead in 2015 only.

Please note – this bonus award is in line with the approved 2014 Policy.

Purpose and link to strategic objectives	Rewards and incentivises delivery of annual financial, strategic and personal targets.
Operation	Paid in cash, after the results for the financial year have been audited, subject to performance targets having been met.
Maximum Opportunity	Maximum opportunity – 100% of base salary per annum. For on target performance – 40 % of maximum opportunity. For threshold performance – 5 % of maximum opportunity.
Performance metrics	As for John Browett and Keith Down above

Long Term Incentive Plan – awards to be made to Executive Directors other than Will Adderley (who has waived his entitlement), and David Stead who is retiring during the financial year.

Purpose and link to strategic objectives	Supports delivery of strategy by targeting EPS growth, which the Committee believes to be closely aligned to the drivers of growth In the business over the long term. Rewards strong financial performance and sustained increase in shareholder value over the long term. Aligns with shareholder interests through the delivery of shares.
Operation	Conditional awards are made annually (which can take the form of a conditional award, nil-cost option or nominal value option), with vesting subject to performance over three financial years.
Maximum Opportunity	Maximum annual award is 110,000 shares for the Chief Executive Officer and 60,000 shares for the Chief Financial Officer. (subject in either case to such adjustment as the Committee determines to take account of any variation in the Company's share capital). The Committee will review the fixed number of shares set out above every three years. For threshold performance: 10% of the award will vest. For maximum performance: 100% of the award will vest. Straight-line vesting between the threshold and maximum levels will apply for performance between threshold and maximum points. Two-thirds of all shares vesting must be retained by the executive (after sale of shares to meet tax and national insurance obligations).
Performance metrics	Growth in fully diluted EPS over the three year performance period compared with growth in the index of retail prices (RPI) over the same period. The Remuneration Committee considers the target annually taking into account market consensus and individual broker expectations. For information, the target applicable to awards to be made after the policy is adopted are: ▶ No part of the award will vest until EPS growth exceeds RPI growth by 3%. ▶ 10% of the award vests at RPI growth plus 3%. 100% of the award vests at RPI plus 15%. ▶ Between those figures the award will vest on a straight-line basis. Awards are subject to recovery provisions (malus) at the discretion of the Committee if there has been a misstatement of results for the performance period to which the award relates, if there has been an error in calculating performance or in the case of gross misconduct. The Remuneration Committee also has the discretion to clawback vested awards for up to three years from vesting in these circumstances and in cases of fraud the Committee can apply malus and clawback for an unlimited period of time.

Long Term Incentive Plan – award to be made to David Stead in 2015 only.

Please note – this award is in line with the approved 2014 Policy,

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

Lifetime Lock-in and personal shareholding targets

Purpose and link to strategic objectives	Aligns with shareholder interests through shareholding and promotes long term thinking.
Operation	Executive Directors are required to build a beneficial holding of shares equal to 100% of salary after three years and 200% of salary after five years from appointment. From the date of approval of this Policy the following additional requirements apply: A personal investment in Dunelm shares should be made on appointment as an Executive Director (subject to close periods). Other than for the award to be made to David Stead referred to on page 53, two-thirds of amounts earned under the annual bonus and the LTIP after approval of this Policy (after payment of tax and national insurance) must be retained in Dunelm shares. These shares must be held during employment and at least 50% of them retained for at least two years after employment ends. The Remuneration Committee retains the right to waive this requirement in exceptional circumstances, such as death, divorce, ill health or severe financial hardship.
Maximum Opportunity	Not applicable
Performance metrics	Not applicable

All employee share plan (Sharesave)

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

Keith Down joining award

Purpose and link to strategic objectives	Keith Down will be granted an award of restricted stock to compensate him for deferred shares earned with his previous employer which have been forfeited when he resigned. This represents a small proportion of his benefits left behind.
Operation	Nil cost option vesting as to 22% in 2016 and 78% in 2017 (reflecting the proportion and vesting dates of the deferred shares that have been forfeited).
Maximum Opportunity	Award over shares with a face value at grant of £335,000 (based on the market value of Dunelm shares at the date of grant).
Performance metrics	No performance conditions apply in relation to this award as the deferred shares in respect of which he is being compensated are not subject to a performance condition. Awards are subject to recovery provisions (malus) at the discretion of the Committee if there has been a misstatement of results for a financial period from 2015-16 onwards or in the case of gross misconduct. The Remuneration Committee also has the discretion to clawback vested awards for up to three years from vesting in these circumstances and in cases of fraud the Committee can apply malus and clawback for an unlimited period of time.

Non-Executive Directors

Fees

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

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

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

Performance measures and how targets are set

The Remuneration Committee selects performance measures that it believes are:

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

Annual bonus

For previous years, annual bonus was linked to growth in earnings per share (EPS), which is the same as under the LTIP. While the Remuneration Committee considers EPS to be a key performance measure for the Company (as discussed below in relation to the LTIP), in response to concerns raised by some institutional shareholders about using the same target we have decided to adopt a different measure to the LTIP, and also formally to adopt a non-financial element.

For 2015-16, 80% of the annual bonus is linked to PBT and 20% to personal and strategic objectives. Each Director's annual bonus is therefore linked primarily to delivery of Group financial performance, but also to personal performance and contribution to the strategic progress of the Group. The PBT target is set by the Remuneration Committee each year, taking into account market consensus and broker expectations. Personal and strategic objectives are set at the commencement of the year and assessed by the Remuneration Committee.

The Committee reserves the right to adjust the financial performance target or change the performance condition if justified by the circumstances, for example if there was a major capital transaction.

For future years, the Committee will determine the financial measures and the weighting of financial and non-financial measures based on specific business priorities in a particular year.

LTIP

The Remuneration Committee considered the use of EPS as a performance measure carefully when the Company was floated in 2006, and has discussed it with shareholders regularly. 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. 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 for the LTIP. The use of EPS as a primary measure for Dunelm's LTIP is considered appropriate because of the low level 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.

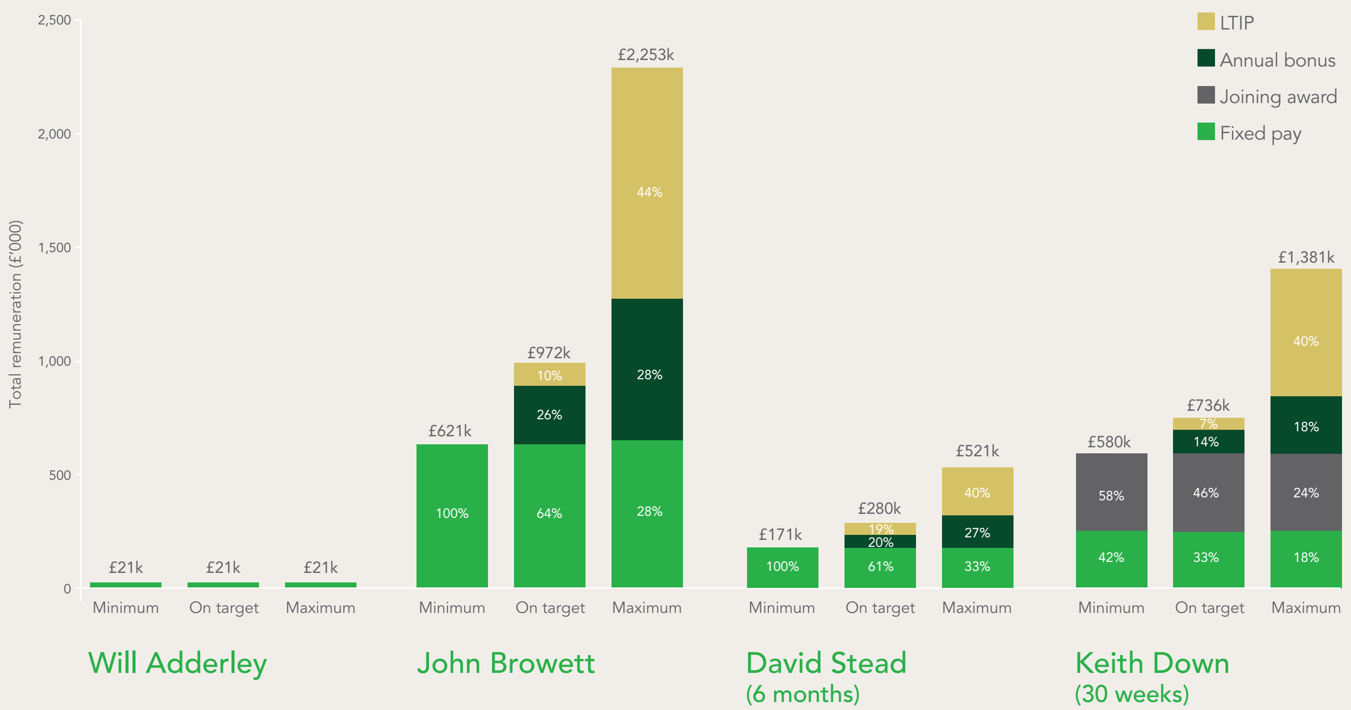
The EPS target for the LTIP is based on growth in EPS compared to the increase in the Index of Retail Prices (RPI) over the performance period. The targets that apply to awards that are outstanding are set out in the Policy table on pages 50 to 55.

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

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

Illustrative performance scenarios

The following graphs set out what each of the Executive Directors could earn in the financial year 2015-16 under the following scenarios:



Please note that the scenarios shown opposite for David Stead and Keith Down show prorated remuneration over the 2015–16 financial year, based on Keith Down's expected start date of 7 December 2015, and David Stead's expected retirement date of 31 December 2015. Full disclosure of the actual amount earned by each of them during the financial year will be made in the 'single figure' table in next year's annual report and financial statements.

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

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

	Base salary £'000	Benefits £'000	Pension (10-20% of salary) £'000	Total fixed £'000
Will Adderley	-	21	-	21
David Stead	280	20	42[1]	342
John Browett	500	21	100[2]	621
Keith Down	350	21	53[1]	424

1. 15% of salary reflecting pension provision for 2015–16.
2. 20% of salary reflecting pension provision for 2015–16.

- **In line with expectations** – Fixed pay plus annual cash bonus at on target performance of 40% of maximum opportunity (i.e. 50% of salary for John Browett and Keith Down and 40% of salary for David Stead) and vesting of 10% of the award of shares under the LTIP for John Browett and Keith Down, and 25% of the award for David Stead.
- **Maximum performance** – Fixed pay plus 100% of maximum annual bonus opportunity (i.e. 125% of salary for John Browett and Keith Down and 100% of salary for David Stead) and 100% of share award vesting under the LTIP.
- Keith's joining award has been shown in full.
- Please note that two-thirds of performance pay earned by John Browett and Keith Down (after payment of their tax and national insurance liability) must be invested in Dunelm shares pursuant to the 'Lifetime Lock-in'.

Will Adderley has requested that his annual salary be reduced to £1 per annum, and he has waived his entitlement to receive an LTIP award.

It should be noted that the numbers above are likely to be different to the actual pay that is earned by the Executive Directors during the year:

- Actual pay will reflect company and personal performance over the relevant performance period.
- The value of the LTIP awards to be made is based on the average price of a Dunelm share over the three months to 4 July 2015, which is 915.7p – the actual share price at date of award is likely to differ.
- Keith Down's joining award has been shown in full as this is conditional only on his being employed at the vesting dates, although none of it is due to vest in the financial year.
- We are required to show the value of the LTIP awards that are expected to be made in the year based on face value of the date of grant without making any assumptions for share price growth; we are required also to show the potential LTIP values over the full three year performance period.

Recovery

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

At the discretion of the Remuneration Committee, recovery (malus) may be made against any unpaid cash bonus or unvested LTIP options in the following circumstances:

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

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

In addition, Keith Down's restricted share award is subject to malus and clawback if there has been a misstatement of results for a financial period from 2015-16 onwards or in the case of gross misconduct or fraud.

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

Service contracts and loss of office payments

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

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

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

Non-Executive Directors have letters of appointment. The term is for an initial period of three years with a provision for termination of one month's notice from either party, or three months' notice from either party in the case of Andy Harrison, the Chairman. Letters are renewed for up to two additional three year terms, and then renewed annually. The letter of appointment will terminate without compensation if the Director is not reappointed at the AGM.

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

Exercise of LTIP and Sharesave options following termination of employment

LTIP

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

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

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

Sharesave

If a participant leaves the Group, options granted under the Sharesave will normally lapse, but may be exercised within six months (or 12 months in the case of death) from the cessation of employment due to death, injury, disability, retirement, or redundancy, or the employing company leaving the Group or, provided that the option has been held for at least three years, cessation for any other reason (apart from dismissal by the Company).

Joining award

If Keith Down leaves the employment of the Group prior to vesting of the joining award it will lapse if he leaves due to resignation, or he is dismissed for misconduct. If he leaves for any other reason it will vest on the normal vesting date and be exercisable for six months (if it has not already vested), although the Committee retains discretion to permit the award to vest earlier. If Keith leaves other than due to resignation or dismissal for misconduct after the award vested, it will be exercisable for six months after cessation.

Change of control and other corporate events

LTIP

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

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

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

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

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

Sharesave

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

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

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

Joining award

If there is a change of control or winding up of the Company, shares subject of the award will vest and may be exercised in full.

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

Executive pay and the pay of other colleagues

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

The remuneration of Executive Directors is more heavily weighted towards variable pay than other colleagues, so that a greater part of their pay is linked to successful delivery of strategy and aligned with shareholders. They are also required to retain two-thirds of post tax performance pay in Dunelm shares to be held for the duration of employment and beyond, and are subject to higher personal shareholding targets.

The remuneration of colleagues below the Board reflects the seniority of the role, market practice and the ability of the individual to influence Company performance.

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

In setting the policy for the Executive Directors' remuneration, the Committee takes note of the overall approach to remuneration in the Group.

The base salary of Executive Directors may be increased annually in line with the Company-wide award unless other circumstances apply, as set out in the policy table.

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

Shareholder views

The Board is committed to ongoing engagement with shareholders in respect of all governance matters, including executive remuneration. A formal consultation took place with our major shareholders in July 2015 in relation to the revised Remuneration Policy set out on page 49.

In addition to this, the Company holds a Corporate Governance Day, usually annually, hosted by the Chairman and the other Non-Executive Directors, to which all major shareholders are invited. This enables both parties to discuss governance topics, including remuneration, informally. In addition, the Chairman and Non-Executive Directors usually attend results presentations and a selection of shareholder meetings.

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

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

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

Approach to recruitment remuneration

The Company's remuneration policy was set at the time of its flotation in 2006, and has changed very little since then. Prior to 2015 only one new Executive Director appointment had been made; in July 2015 we have appointed two new Executive Directors. Although we are proposing some changes to our 2014 Remuneration Policy as set out above, the provisions of this part of the 2014 Policy are unchanged, and were applied in the recruitment of our new Directors.

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

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

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

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

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

The maximum level of variable pay that could be awarded to a new Executive Director in the first year of employment, excluding any buyout arrangements and awards in the first year of employment, would normally be in line with the policy table set out on pages 50 to 55. The Committee would explain the rationale for the remuneration package in the next annual report of the Company.

In addition, on hiring an external candidate the Committee may make arrangements to buy out remuneration that the individual has forfeited on leaving a previous employer. The Committee will generally seek to structure buyout awards and payments on a comparable basis to remuneration arrangements forfeited. These awards or payments are excluded from the maximum level of variable pay referred to in the policy tables; however, the Committee's intention is that the value awarded or paid would be no higher than the expected value of the forfeited arrangements. The Committee does not intend to use any discretion in this section to make a non-performance related incentive payment (for example a 'golden hello').

In order to implement the arrangements described, the Committee may rely on the exemption in Listing Rule 9.4.2, which allows for the grant of share or share option awards to facilitate, in unusual circumstances, the recruitment of a Director.

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

ANNUAL REPORT ON IMPLEMENTATION

Directors' Remuneration – Report on Implementation 2015

This section of the report sets out how the Directors' Remuneration Policy which was approved by shareholders on 11 November 2014 has been applied in the financial year being reported on.

Although the 2014 Policy was not in effect for the entire financial year 2014-15, the remuneration described below is consistent with it.

We are putting forward an amended policy for approval at the AGM in November 2015. The information below which relates to how our policy is to be applied during 2015-16 assumes that the amended policy will be approved.

Committee membership and meetings

The following Directors served on the Remuneration committee during the year:

Table 1 – Committee membership

Member	Period from:	To:
Marion Sears (Chair)[3]	18 January 2005	To date
Geoff Cooper[1]	18 January 2005	7 July 2015
Simon Emeny	25 June 2007	To date
Liz Doherty	1 May 2013	To date
Andy Harrison	1 September 2014	To date
William Reeve[2]	1 July 2015	To date
Matt Davies[3]	8 February 2012	8 January 2015

1. Geoff Cooper resigned from the Committee on 7 July 2015, upon his retirement from the Board.
2. William Reeve was appointed to the Board and the Committee on 1 July 2015.
3. Matt Davies chaired the Committee between 12 September 2014 and 8 January 2015, when he resigned from the Board and the Committee in order to take up an executive role at Tesco plc.

Marion Sears acts as Secretary to the Committee.

Seven 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)	7
Geoff Cooper[1]	6
Simon Emeny	7
Liz Doherty	7
Andy Harrison[1]	6
William Reeve[2]	0
Matt Davies[3]	4

1. Neither Andy Harrison nor Geoff Cooper attended the meeting held to discuss the fee to be offered to Andy Harrison on his appointment as Chairman.
2. William Reeve was appointed to the Board and the Committee on 1 July 2015. There were no committee meetings between that date and the year end.
3. Matt Davies attended all meetings during his tenure.

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

Advisers

The Committee uses Deloitte for general advice in relation to executive remuneration on an ad hoc basis. Deloitte is a member of the Remuneration Consultants' Group and as such voluntarily operates under a code of conduct in relation to executive remuneration consulting in the UK. Deloitte does not have any other ongoing business relationship with the Group although they were engaged to provide advice on banking arrangements during the financial year. The Committee is satisfied that the advice that they have received from Deloitte in the year has been objective and independent.

Total fees paid to Deloitte for remuneration related work in the year were £7,389. Fees of £150,205 were also paid to Deloitte for advice in relation to banking arrangements.

Single figure for total remuneration (audited information)

The following table sets out total remuneration for Directors for the period ended 4 July 2015:

Table 3 – Directors' remuneration – single figure table

	Salary/fees[3] £'000		Benefits[4] £'000		Bonus £'000		LTIP awards[5] £'000		Pension[6] £'000		Total £'000	
Director	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Executive												
Will Adderley	**502**	265	**17**	24	**25**	60	**0**	604	**45**	27	**589**	980
David Stead	**275**	269	**12**	12	**14**	61	**338**	590	**27**	27	**666**	959
John Browett	**7**	-	**-**	-	**-**	-	**-**	-	**1**	-	**8**	-
Nick Wharton[2]	**596**	416	**18**	45	**-**	94	**-**	912	**8**	42	**622**	1,509
Non-Executive												
Geoff Cooper	**122**	120	**-**	-	**-**	-	**-**	-	**-**	-	**122**	120
Marion Sears	**49**	50	**-**	-	**-**	-	**-**	-	**-**	-	**49**	50
Simon Emeny	**45**	40	**-**	-	**-**	-	**-**	-	**-**	-	**45**	40
Matt Davies	**24**	45	**-**	-	**-**	-	**-**	-	**-**	-	**24**	45
Liz Doherty	**45**	40	**-**	-	**-**	-	**-**	-	**-**	-	**45**	40
Andy Harrison[1]	**34**	-	**-**	-	**-**	-	**-**	-	**-**	-	**34**	-
William Reeve	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Total	**1,699**	1,245	**47**	81	**39**	215	**338**	2,106	**81**	96	**2,204**	3,743

1. Andy Harrison was appointed to the Board as a Non-Executive Director on 1 September 2014, and the figures above reflect his fee from that date. His fee was increased to £200,000 per annum with effect from 8 July 2015 (after the period end) when he assumed his position as Chairman.
2. Nick Wharton resigned from the Board on 10 September 2014 and the figures for 2015 pay, benefits and pension above reflect remuneration to that date, plus contractual pay and benefits of £512,010 paid in respect of the 12 month notice period under his service contract.
3. Base salaries for Executive Directors and fees for Non-Executive Directors were increased by 2% on 1 July 2014, in line with the Company-wide award. From 1 July 2015 the following changes to base salary / fee were implemented: Will Adderley's salary was reduced to £1 per annum; David Stead's salary increased by 2% in line with the Company-wide award; the base fee for Non-Executive Directors was increased to £48,000 and the Committee Chair and SID fee increased to £6,000 per annum.
4. Benefits include the cost to the Company of a car allowance and private health insurance for the individual and their family (health insurance waived by David Stead). The 2014-15 value also includes the taxable benefit in respect of the car and chauffeur provided to Nick Wharton and Will Adderley in connection with their roles prior to 10 September 2015. On 1 July 2015, Will Adderley and David Stead's car allowance was increased to £20,000 per annum in line with the allowance to be paid to other Executive Directors from 1 July 2015. Annual bonus is the amount earned in respect of the financial year 2014-15. Details of how this was calculated are set out below.
5. LTIP award number for 2015 is the value of the LTIP award vesting whose three year performance period ends on the last day of the financial period being reported (2014-15). Details of how this value was calculated are set out in the note to table 5 opposite.

   The comparable figure for 2013-14 is the actual value of the 2011 LTIP awards which vested in favour of Nick Wharton, Will Adderley and David Stead on 28 November 2014 based on the mid-market price on 28 November 2014, of 845.5p. The comparable figure in the 2013-14 annual report was based on the number of shares in the 2011 LTIP awards due to vest in favour of Nick Wharton, Will Adderley and David Stead on 28 November 2014 calculated using the average share price over the three months preceding the end of the performance period on 28 June 2014, which was 924.13p.
6. Pension in 2014-15 is a fixed sum (10% of base salary) contributed to a personal pension on behalf of the individual, or a salary supplement of the same amount. From 1 July 2015 this will be 20% of base salary for John Browett and 15% of base salary for David Stead (and his successor Keith Down when he commences employment). Will Adderley has waived his entitlement to pension from 1 July 2015.

Annual bonus

Executive Directors were awarded an annual performance-related cash bonus for 2014-15 with a maximum potential payment of 100% of salary. For both Will Adderley and David Stead, the performance criterion was earnings per share against budget; the Committee may then apply judgement to increase or decrease the amount payable taking into account performance against personal non-financial objectives relevant to each Director, linked to delivery of strategy.

For the period ended 4 July 2015, budget EPS was 49.3p for 52 weeks (and 50.1p for 53 weeks). The financial target set was that on a 52 week basis no bonus would be paid until EPS reaches 46.8p and maximum bonus will be paid at 51.8p. Between those numbers, bonus would be payable calculated on a straight-line basis. Market consensus for 2014-15 EPS at the date the target was set was 49.0p.

Reported EPS of 46.8p for 2014-15 on a 52 week basis has therefore given rise to a bonus payable of 5% of base salary.

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

Table 4 – Annual bonus in respect of 2014-15 performance

	Bonus awarded £	Percentage of maximum award
Will Adderley	25,095	5%
David Stead	13,750	5%

John Browett, who commenced employment on 1 July 2015, had no bonus entitlement in 2014-15.

LTIP – awards vesting in respect of performance in 2014-15

Awards are made under the LTIP annually to Executive Directors of up to 150% of basic salary, with a three year performance period, although as a major shareholder Will Adderley has waived his entitlement since 2012. The performance target is based on growth in fully diluted EPS over the performance period. For further information please see the policy report on pages 50 to 55.

Over the three-year performance period which ended on 4 July 2015, reported fully diluted EPS grew at a compound annual rate of 10.1%. This is 8 % above the compound annual growth in RPI over the same period. Accordingly, 56% of the November 2012 LTIP award will vest in November 2015 as follows:

Table 5 – LTIP awards vesting in respect of performance in 2012-15

	Shares vesting	Percentage of maximum award
David Stead	36,915*	56

* Please note that the original award was in respect of 61,730 shares, this was increased by 6.79% to 65,920 following the return of capital to shareholders in March 2015. Please see the note to table 8.

Will Adderley waived his entitlement to receive an LTIP award.

The 2012 LTIP award which vests in favour of David Stead as described above is included in the single number for total remuneration for 2014/15 set out in table 3. The value has been calculated using the average share price over the three months preceding the end of the performance period on 4 July 2015, which was 915.7p.

LTIP awards made to Directors during 2014-15

LTIP awards were made to Executive Directors on 9 October 2014 as set out below:

Table 6 – LTIP awards made to Directors during 2014-15

Name	Award	Number of shares	Face value at date of award (percentage of salary)	Performance condition	Performance period	Vesting date (vesting deferred for 2 years following end of performance period)	% vesting at threshold performance
David Stead	Nil cost option under LTIP	53,922*	£412,035 (150%)	Growth in fully diluted EPS over the three year performance period compared with growth in the index of retail prices (RPI) over the same period. No part of the award will vest until EPS growth exceeds RPI growth by 3%. 25% of the award vests at RPI growth plus 3%. 100% of the award vests at RPI plus 15%. Between those figures the award will vest on a straight-line basis. Subject to a two year deferral period following the end of the performance period.	July 2014 to June 2017	9 October 2019	25%

* Please note that the original award was in respect of 50,494 shares, this has been increased by 6.97% following the return of capital to shareholders in March 2015. Please see the note to table 8.

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

Nick Wharton resigned from the Board on 10 September 2014, and ceased to be an employee from that date. He received his basic salary, pension allowance and contractual benefits to date of departure, together with bonus earned for the 2013-14 financial year, following application of performance criteria, of £93,600. These sums are included in Table 3 – single figure table.

In line with his contractual arrangements, Nick Wharton also received the following:

- £512,010 in respect of salary, pension and benefits for the 12 month notice period under his service contract.
- In accordance with the rules of the Long Term Incentive Plan, following its vesting on 28 November 2014, Mr Wharton was also permitted to exercise the options granted to him under the Plan on 28 November 2011 over 107,888 Ordinary Shares (77.5% vesting following application of performance criteria for the performance period of 1 July 2011 to 30 June 2014). The options were exercised and the shares sold on 2 December 2014 at a price of 865p per share, raising a total amount of £933,221 prior to payment of commission, income tax and national insurance.

Mr Wharton also received as compensation for loss of office a payment of £787,990. This represented:

- An allowance for cash bonus earned in respect of the financial year 2014-15.
- An amount accrued in respect of unvested awards made under the Company's Long Term Incentive Plan on 20 November 2012 and 7 October 2013. The Remuneration Committee took into account the time that had elapsed through the performance period and the extent to which the performance targets were expected to be met. A reduction was also made for accelerated payment of the award. These awards then lapsed.
- No compensation was paid in respect of the 'joining award' made under the Long Term Incentive Plan on 1 December 2010 over 198,807 shares, which was conditional only on Mr Wharton remaining in employment at the vesting date of 1 December 2015. This award then lapsed.

The arrangements set out above were considered carefully by the Remuneration Committee in consultation with Deloitte. They are in accordance with the Remuneration Policy subsequently approved by shareholders on 11 November 2014.

Geoff Cooper retired from the Board after the period end, on 7 July 2015. He was paid his fee to date of departure, and did not receive any payment for loss of office.

There were no other payments to past Directors or other payments for loss of office during the financial period.

Statement of Directors' share interests (audited)

Executive Directors are subject to a shareholding target which requires them to build a beneficial holding of Dunelm shares with a value of 1× salary after three years and 2× salary after five years (measured by reference to share price at the financial year end). Will Adderley and David Stead comply with this requirement at the financial year end. John Browett was appointed three days prior to the year end and during a close period; he has committed to purchase additional shares after the end of the close period in October 2015.

The following tables show the interests of the Directors in shares of the Company at 4 July 2015 as follows:

- Shares held beneficially – table 7.
- Interests in nil cost options under the LTIP – table 8.

Table 7 – Directors' beneficial shareholdings (audited)

	At 4 July 2015 1p Ordinary Shares	At 28 June 2014 1p Ordinary Shares
Will Adderley	61,961,779	61,890,303
David Stead	734,628	695,135
Geoff Cooper	181,611	181,611
Marion Sears	101,313	101,313
Simon Emeny	26,400	26,400
Liz Doherty	2,500	2,500
John Browett	1,645	n/a
Andy Harrison	-	n/a
William Reeve	-	n/a

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

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

Director	Date of award	Nature of award	Share options at 4 July 2015	End of performance period	Market price of shares at date of award
Will Adderley	-	-	Nil	-	-
David Stead	Nov 2012	2012/15 LTIP	65,920*	June 2015	641.5p
	Oct 2013	2013/16 LTIP	49,216*	June 2016	876.5p
	Oct 2014	2014/17 LTIP	53,922*	June 2017	816.0p
John Browett	-	-	Nil	-	-

* As announced on 1 July 2015, the number of shares covered by each of the awards to David Stead was increased by 6.79%, reflecting the difference between the price of an Ordinary Share in the Company before and after the record date for participation in the Return of Capital implemented by the Company in March 2015. The number of LTIP options held prior to that date was: 2012/15 LTIP 61,730; 2012/16 LTIP 46,087; 2014-17 LTIP 50,494.

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

All of the above are nil cost options, and are subject to the performance condition noted in the policy table.

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

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

	Shares under option at 4 July 2015	Shares under option at 28 June 2014	Granted during period	Exercised during period	Lapsed during period	Exercise price per share	Market price of shares at date of exercise
David Stead	Nil	2,493	-	2,493	-	361p	924p

None of the other Directors have options under the Sharesave.

Share options and dilution

The Remuneration Committee considers the provisions of the Investment Association's Guidelines on Executive Remuneration when determining the number of shares over which share scheme incentive awards may be made. At the date of this report, since flotation of the Group in 2006 options have been granted over 2.7% of the Company's issued share capital. The Group does not hold any shares in an employee benefit trust.

Service contracts

In accordance with the Group's policy, the service contracts of the Executive Directors have no fixed term, the notice period for termination is 12 months from either party for contracts entered into before 1 July 2015 (six months for contracts entered into on or after that date), and payments on termination are restricted to a maximum of the value of base salary and benefits for the notice period. The Remuneration Committee may apply mitigation in respect of any termination payment.

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

Table 10 – Directors' service contracts

	Date of contract	Unexpired term	Notice period
Will Adderley	28 September 2006	n/a	12 months
David Stead	15 September 2003	n/a	12 months
John Browett	1 July 2015	n/a	6 months
Marion Sears	22 July 2004	10 months	1 month
Simon Emeny	25 June 2007	9 months	1 month
Liz Doherty	1 May 2013	7 months	1 month
Andy Harrison	17 July 2014	23 months	3 months
William Reeve	1 July 2015	33 months	1 month
Peter Ruis	10 September 2015	36 months	1 month

Since Marion Sears has now served 11 years on the Board (nine of which are post flotation of the Company in 2006) her contract is renewed for one year terms (rather than three), with the notice period referred to above.

Relative TSR performance

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

Table 11 – Total shareholder return performance graph (rebased to 3 July 2009 = 100)

The shares traded in the range 763.5p to 965.5p during the year and stood at 911p at 4 July 2015.

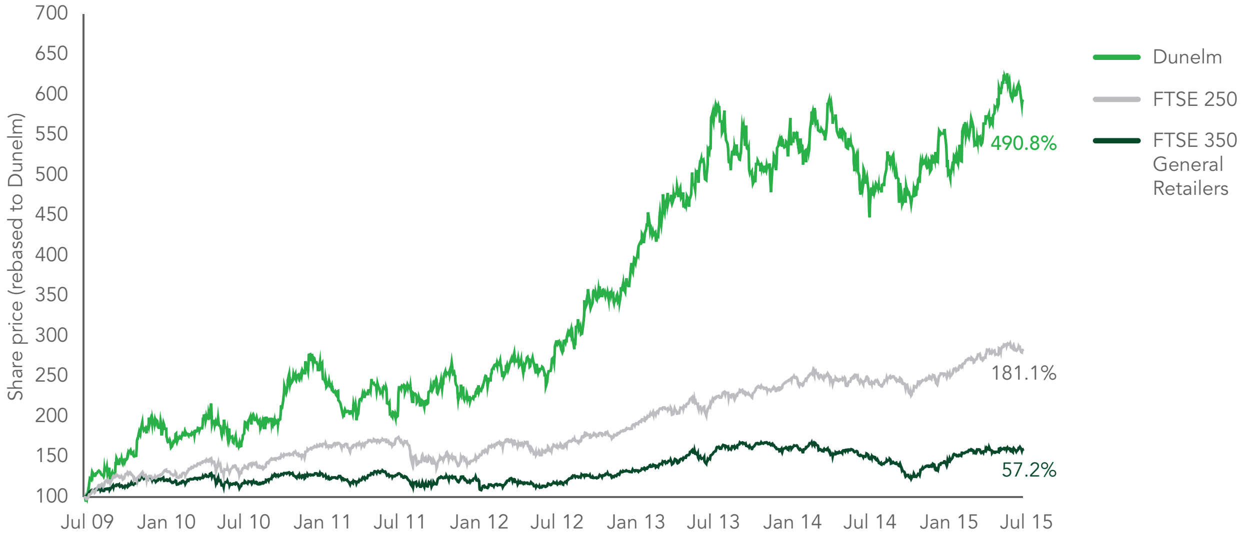


Table 12 – Historic Chief Executive pay

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

		CEO Single figure of total remuneration £'000	Annual bonus payment against maximum opportunity %	Long-term incentive vesting rates against maximum opportunity %
FY14/15	Will Adderley[1]	507	5%	n/a
FY14/15	Nick Wharton	110	n/a	n/a
FY13/14	Nick Wharton[2]	1,509	22.5%	77.5%
FY12/13	Nick Wharton	1,292	97.0%	86.7%
FY11/12	Nick Wharton	853	100.0%	n/a
FY10/11	Nick Wharton[3]	429	6.0%	n/a
FY10/11	Will Adderley[3]	1,413	4.0%	100.0%
FY09/10	Will Adderley	1,366	100.0%	100.0%

1. Will Adderley was reappointed Chief Executive on 11 September 2014, following the resignation of Nick Wharton on 10 September 2014. The data for each Director for 2014/15 is prorated by time of service as Chief Executive.
2. Nick Wharton's first LTIP award vested and was exercised in December 2013.
3. Will Adderley was Chief Executive until he was succeeded by Nick Wharton on 1 February 2011. The data for each Director for 2010/11 is prorated by time of service as Chief Executive.

Change in remuneration of Chief Executive compared to Group employees

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

Table 13 – Relative change in Chief Executive pay

	Change in base salary 2013/14 to 2014/15	Change in benefits 2013/14 to 2014/15[2]	Bonus earned as % of salary 2014/15	Bonus earned as % of salary 2013/14	% change in bonus earned 2014/15	% change in bonus earned 2013/14
Chief Executive	+24.8%[1]	–29.0%	5%	22.5%	–73.0%	–76.0%
All colleagues (per capita)	+7.5%	+12.7%	8%	24.9%	+2.0%	–57.0%

1. Will Adderley was appointed Chief Executive on 11 September 2014, with a base salary of £560,000 per annum. Nick Wharton, his predecessor, had a base salary of £424,485 in 2014-15 and £416,000 in 2013-14. A prorated base salary of each has been used in the table above for 2014/15. The full year base salary for Nick Wharton has been used for 2013-14.The higher base salary was awarded to Will Adderley as the median for FTSE250 companies recognising that Will receives no award under the Long Term Incentive Plan.
2. The 2013-14 value includes the additional taxable benefit in respect of the car and chauffeur provided to Nick Wharton in connection with his role. Will Adderley has waived this entitlement.

Table 14 – Relative spend on pay

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

	2014/15 £'000	2013/14 £'000	% increase
Total spend on pay	**107,307**	93,027	15.4%
Ordinary dividend to shareholders	**41,458**	33,411	24.1%
Distributions to shareholders via share buyback	-	6,852	n/a
Special distributions to shareholders	**141,727**	50,708	179.5%
Total distributions to shareholders	**183,185**	90,971	101.4%

This information is based on the following:

- Total spend on pay – total employee costs from note 4 on page 94, including salaries and wages, social security costs, pension and share based payments.
- Dividends taken from note 7 on page 96.
- Share buyback taken from consolidated statement of changes in equity on page 87.

Executive Director external Board appointments

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

Will Adderley does not hold any external PLC Board appointments.

David Stead was appointed as a Non-Executive Director of Card Factory plc on 12 May 2014, prior to its admission to the London Stock Exchange on 20 May 2014. He retains his Director fee (£53,000 in 2014/15).

On joining the Company on 1 July 2015, John Browett was a Non-Executive Director of easyJet plc, and will retain this position until January 2016. Subsequent to his appointment and the period end on 20 July 2015 he was appointed a Director of Octopus Capital Limited and Octopus Investments Limited. He retains his Director fees (£567 in 2014–15).

Senior executive remuneration

The Remuneration Committee provides oversight and guidance on the remuneration structure for Executive Board members. The package for new appointments is formally presented to the committee for approval. In conducting its assessment of Executive Board remuneration the committee pays particular regard to whether any individual is incentivised to take risks inappropriate to their role and responsibilities.

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

All members of senior management who receive share awards are also subject to shareholding targets as follows:

Executive Board and certain other senior executives	1× base salary to be acquired over five years
Other Executives	0.5× base salary to be acquired over time

Statement of implementation of policy in the 2015/16 financial year

We are putting forward a revised Remuneration Policy for approval at the AGM in November.

Elements of performance pay in 2015-16 are subject to shareholder approval of our new Policy being obtained. These have been identified below.

Base salary, benefits and pension

Base salary and benefits for each of the Executive Directors for 2015/16 are set out in the table below:

Table 15 – Base salary, benefits and pension for 2015/16

	Base salary	Increase to base salary year on year	Benefits	Increase to benefits year on year	Pension	Increase to pension year on year
Will Adderley	£1	-99.9%	Car allowance; private health insurance for the individual and their family; permanent health cover; life assurance; mobile phone.	67% reflecting increase to car allowance in line with the incoming CEO	Nil	n/a
John Browett	£500,000	Nil	As for Will Adderley above.	Nil	£100,000	Nil
David Stead	£280,185	+2%	As for Will Adderley above.	As for Will Adderley above	£42,028	+56%
Keith Down (employment commences 7 December 2015)	£350,000 (will be paid pro rata)	n/a	As for Will Adderley above. In addition Keith Down will receive a one-off payment towards the costs of his acquiring a home close to our Store Support Centre in Leicester (as referred to on page 69).	n/a	£52,500 (will be paid pro rata)	n/a

Basic salary increase for David Stead is in line with the Company-wide award of 2%. His car allowance increased to £20,000 (2014-15: £12,000) and his pension entitlement to 15% of base salary (2014-15: 10%) in line with the remuneration of Keith Down, the incoming Chief Financial Officer.

Annual bonus

John Browett and David Stead have been awarded a bonus opportunity of 125% and 100% of base salary respectively. The award to John Browett is subject to shareholder approval at the AGM to increase the maximum bonus quantum permitted by our 2014 Remuneration policy from 100% of base salary to 125%. The performance conditions attached to the bonus are:

- 80% linked to achievement of target PBT;
- 20% linked to achievement of strategic and personal targets.

The target PBT is set taking into account market consensus and broker expectations. The actual target has not been disclosed at this time as it is commercially sensitive. The target and an assessment of the extent to which it has been achieved will be disclosed in next year's remuneration report.

Subject to shareholder approval of our revised Remuneration Policy, Keith Down will be awarded a bonus opportunity of 125% of base salary on joining the Company, with the same targets set out above. Bonus earned will be applied pro rata to service over the financial year.

John Browett and Keith Down have each committed that two-thirds of the bonus earned (after payment of income tax and national insurance) will be invested in Dunelm shares, to be held for the duration of employment, with 50% of these shares to be retained for two years following cessation of employment.

Following David Stead's planned retirement from the Company in 2015-16, the Remuneration Committee may award him a part of his annual bonus, subject to performance conditions and prorated for service, in accordance with the Remuneration Policy.

LTIP

An award is expected to be made to John Browett and Keith Down after the AGM in November 2015. Subject to shareholder approval of the new Remuneration Policy, the award to John Browett will be over 110,000 shares; to Keith Down over 60,000 shares.

The awards to John Browett and Keith Down will vest, subject to continued employment, on the third anniversary of the grant date, to the extent that performance conditions have been met. Two-thirds of vested shares (after sale to cover tax and national insurance liability on exercise) must be retained for the duration of employment, and 50% of these must be retained for two years following cessation of employment.

An award is expected to be made to David Stead in October 2015 over shares equivalent to 150% of basic salary, based on the closing share price on the dealing day preceding the grant. The terms of the award and the performance condition will be as set out in the policy report, the performance period being July 2015 to June 2018 inclusive.

The award to David Stead will ordinarily vest in November 2020, following a two year deferral at the end of the three year performance period. Following David's planned retirement from the Company in 2015-16 the Remuneration Committee may allow him to exercise a pro rata number of these options at the end of the holding period in accordance with the rules of the Plan and the Remuneration Policy.

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

Joining award

In order to compensate Keith Down for some of the value of already-earned deferred shares in his previous employer which he will forfeit on resignation, subject to shareholder approval, we have agreed to award him Dunelm restricted stock to the value of £335,000. These shares will vest in 2016 (22%) and 2017 (78%) according to the original proportions and vesting dates of the deferred shares that have been forgone. We are advised that this is in line with best practice and it represents a significant compromise on Keith's part which we would hope shareholders will acknowledge. Although this is in line with our 2014 Remuneration Policy, the mechanism to implement the award requires shareholder approval at the AGM.

We are also requiring Keith to purchase a home close to our Store Support Centre in Leicester. A contribution of up to £35,000 will be made towards the cost of stamp duty and furnishings (to be purchased from Dunelm where possible).

Sharesave

An invitation will be issued in October 2015 to all eligible employees, to receive sharesave options at a 20% discount to the closing market price of Dunelm Group shares on the dealing day preceding the issue of the invitation. The maximum monthly savings will be £500 per month. Executive Directors employed at that date are eligible to apply for Sharesave options.

Non-Executive Director fees for 2015/16

Fees to be paid to Non-Executive Directors are as set out in the table below:

Table 16 – Non-Executive Director Fees

	Position	Base Fee	Committee/ SID Fee	Increase in base fee year on year	Increase in committee fee year on year	Comment
Andy Harrison	Chairman	£200,000	Nil	488%	n/a	Fee increased from base NED fee on becoming Chairman
Marion Sears	Nominations Committee chair	£48,000	£7,000	17.6%	15%	Will receive Remuneration Committee Chair fee until 10 September 2015
Simon Emeny	Senior Independent Director and Remuneration Committee Chair	£48,000	£11,000	17.6%	168%	Will receive Remuneration Committee Chair fee from 11 September 2015
Liz Doherty	Audit and Risk Committee chair	£48,000	£6,000	17.6%	46%	Audit and Risk Committee chair since 12 September 2014
William Reeve	Non-Executive Director	£48,000	Nil	n/a	n/a	
Peter Ruis	Non-Executive Director	£39,000	Nil	n/a	n/a	Prorated from 10 September 2015

Fee increases with effect from 1 July 2015 resulted from a review against the market prompted by our recruitment of Non-Executive Directors during the year, and is in accordance with our Remuneration Policy. The new base fee of £48,000 and committee fee of £6,000 are still at lower quartile for a FTSE250 company. In addition we only pay committee fees to the chair of a committee and not to all members.

Statement of shareholder voting

At the Annual General Meeting on 11 November 2014, the total number of shares in issue with voting rights (excluding treasury shares) was 201,975,254. The resolution to approve the Directors' Remuneration Policy, the Annual Report on Implementation of the Remuneration Policy, and to approve the new Long Term Incentive Plan and Sharesave Plan received the following votes from shareholders:

Table 17 – Voting on remuneration related resolutions at the 2014 AGM

Resolution	Votes for	% of votes cast	Votes against	% of votes cast	Votes withheld	% withheld
Approve Remuneration Policy	183,420,359	98.7	2,463,626	1.3	19,758	0.0
Approve Annual Remuneration Report	178,587,993	96.0	1,417,179	0.8	5,898,571	3.2
Approve Long Term Incentive Plan	183,338,514	98.6	2,557,628	1.4	6,666	0.0
Approve Sharesave Plan	185,690,202	99.9	260,189	0.1	5,325	0.0

Approved by the Board of Dunelm Group plc on 10 September 2015 and signed on its behalf by

Marion Sears
Chair of the Remuneration Committee
10 September 2015

Letter from the Chair of the Nominations Committee

Marion Sears Chair of the Nominations Committee

Dear Shareholder,

As you know we have worked hard over a number of years to evolve the composition of the Board so that it remains refreshed and has the appropriate skills to support the next chapter of Dunelm's growth. The changes announced during the year, and since the year end, represent the culmination of work over a considerable period of time to identify individuals who collectively will provide the next generation of strategic leadership that we need.

We have had a number of changes during the year but all of these have been thought about and planned by the whole Board over months or years and, with the consistency of the family presence and the longer tenures of Simon Emeny, Liz Doherty and me, we have stability. We are excited about the future and we are convinced that we have put together a Board which is every bit as collegiate, focused, determined and ambitious as the Board which has steered Dunelm since IPO.

During the year we were sorry to lose our NED Matt Davies when he took a new executive position. Matt was a strong proponent of culture and he made a significant contribution during his tenure.

In April, we announced the appointment of Andy Harrison, already a Non-Executive Director, as our new Chairman to succeed Geoff Cooper, with effect from 8 July. Andy has been an outstanding CEO of three public companies and he has a hard-to-find depth and breadth of consumer-focused experience.

In June, we announced the appointment of John Browett who joined on 1 July and who will become our CEO on 1 January 2016. As part of our succession planning work we had got to know John some time ago and we were prepared to wait until he became available. John's knowledge and experience of retail operations and of our markets mean that we approach our future strategic opportunities with confidence.

William Reeve was also appointed in June, as a NED. He has wide and varied plc and start-up experience, an entrepreneurial mind-set and deep digital experience which will contribute to our multi-channel thinking.

In July, following the year end, we announced the appointment of Keith Down as CFO. Keith will join in December and will bring a wealth of experience in financial management and retail. We were able to manage the timing of the search process to ensure that John was involved in Keith's appointment.

In September, following the year end, we appointed Peter Ruis as an NED. Peter fits our model as a working CEO in retail and he knows both large and small companies as well as the homewares sector and fashion.

The process of considering and implementing Board succession has been complex. Will Adderley returns to the position of Deputy Chairman and Geoff Cooper, our Chairman of 11 years, and David Stead, our Chief Financial Officer of 12 years both chose to retire. Their support and endless patience over their departure dates meant we could do the right thing for the business and manage the arrival of the new Board members whom we wanted to attract. Geoff has been a model Chairman and we have all learned a lot from him. David has been a first class CFO who always kept the respect and confidence of the Board and his team alike. It is impossible to articulate the significance of both their contributions to Dunelm over the last decade as the business grew in market value by over five times.

Going forward Dunelm's Board will comprise a Chairman, three Executive Directors and five Non-Executive Directors, four of whom are deemed to be independent by length of tenure. We are therefore in compliance with governance best practice and, most importantly, the Board retains a strong mix of long-standing and new Directors as well as a blend of skills and a wide diversity of thought.

I hope you have the chance to meet some of the new Board members before long.

Yours sincerely,

Marion Sears
Chair of the Nominations Committee
10 September 2015

Nominations Committee Report

2014/15 SUMMARY
Principal Activities

- Geoff Cooper retired as Chairman after 11years
- Andy Harrison appointed to succeed Geoff Cooper as Chairman
- Will Adderley reappointed as Chief Executive in September 2014 to lead the Group in its new phase of growth, following the resignation of Nick Wharton
- John Browett appointed Chief Executive Designate, to succeed Will Adderley as Chief Executive Officer in January 2016
- CFO search resulted in appointment of Keith Down to succeed David Stead on his retirement in December 2015
- Matt Davies resigned
- William Reeve appointed as a Non-Executive Director
- Board evaluation by the incoming Chairman of the Board

Since the year end:

- Peter Ruis appointed as a Non-Executive Director

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

Principal duties

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, www.dunelm.com.

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 has been or will be made to the Board without agreement of all Directors.

Committee Membership

The following Directors served on the Committee during the year:

Member	Period from:	To:
Marion Sears (Chair)	18 January 2005	To date
Geoff Cooper[1]	18 January 2005	7 July 2015
Simon Emeny	25 June 2007	To date
Will Adderley	17 February 2011	To date
Liz Doherty	1 May 2013	To date
Andy Harrison	1 September 2014	To date
William Reeve[2]	1 July 2015	To date
Matt Davies[3]	8 February 2011	8 January 2015

1. Geoff Cooper resigned from the Committee on 7 July 2015, upon his retirement from the Board.
2. William Reeve was appointed to the Board and the Committee on 1 July 2015.
3. Matt Davies was a member of the Committee until 8 January 2015, when he resigned from the Board and the Committee due to a change in his executive role.

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

Member	Meetings attended:
Marion Sears (Chair)	6
Geoff Cooper[1]	5
Simon Emeny	6
Will Adderley	6
Liz Doherty	6
Andy Harrison[1]	5
William Reeve[2]	0
Matt Davies[3]	2

1. No Director attended a meeting during which his or her own position was discussed. Hence Geoff Cooper and Andy Harrison were absent from the meeting held in respect of the Chairman succession.
2. William Reeve was appointed to the Board and the Committee on 1 July 2015. There were no committee meetings between that date and the year end.
3. Matt Davies attended all meetings during his tenure.

Committee Activities in 2014/15

Board Succession Planning

For a number of years we have had a formal, long range plan for how Board membership should develop over the coming years. In the last financial year we have announced a number of changes to the Dunelm Board, most of which have been the culmination of careful planning and these are described below.

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.

As in previous years, we conducted an analysis of the balance of skills on the Board as a whole, taking account of the future needs of the business in the light of the refreshed growth strategy, the Board changes set out above, and the knowledge, experience, length of service and performance of the Directors. In accordance with our policy, we also had regard to the requirement to achieve a diversity of characters, backgrounds and experiences amongst Board members. As a result of these changes, we revised our succession plan and the programme of activities in place to deliver it.

Summary of Board changes in 2014-15

- September 2014: Will Adderley succeeded Nick Wharton as Chief Executive, to lead the Group into its new phase of growth, following a search process commenced by the Committee earlier in the year.
- January 2015: David Stead announced his intention to retire in the autumn of 2015.
- January 2015: Matt Davies resigned from the Board, following his appointment to an executive role with Tesco plc.
- April 2015: Geoff Cooper announced his intention to retire in July 2015, to be succeeded by Andy Harrison.
- July 2015: John Browett joined as Chief Executive Designate, and will succeed Will Adderley as Chief Executive from January 2016; Will Adderley to become Deputy Chairman from that date.
- July 2015: William Reeve joined the Board as a Non-Executive Director.
- July 2015: Announced that Keith Down is to succeed David Stead as Chief Financial Officer in December 2015.

Further information is given below in relation to these changes.

Chairman Succession

Geoff Cooper served 11 years as Dunelm's Chairman, and successfully led the Group through its flotation, and the five-fold growth in market value of the business that has followed. As nine years' service is a milestone for many corporate governance analysts, Geoff indicated his wish to retire from the Board once a successor had been identified. As Dunelm enters a new phase of growth, the Committee was clear that it should appoint an individual of a calibre, experience and strategic perspective at least equal to that of Geoff.

When Andy Harrison joined the Board last year, we were pleased to have found a person who clearly fits our requirements for a Non-Executive Director as follows:

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

Andy has provided thoughtful challenge and insight to Board and Committee discussions during the year. Following his decision to relinquish his executive role at Whitbread plc, thus reducing his other commitments, the Committee was unanimous in its decision to recommend that Andy be asked to Chair the Board from 8 July 2015.

Chief Executive and Chief Executive Designate

Will Adderley succeeded Nick Wharton as Chief Executive in September 2014. The background to this change and the process followed were described in last year's report and financial statements.

It was the Board's intention that Will Adderley's appointment would be a permanent one; however, in early 2015 John Browett became available. As part of our succession planning work John was identified as a leading CEO candidate some time ago, in view of his strong combination of business leadership, outstanding retail skills across a breadth of sectors, and proven experience of applying technology in multi-channel operations. We agreed that John should be appointed as Chief Executive Designate in July 2015. Following an induction period he will succeed Will Adderley as Chief Executive on 1 January 2016, and Will will again assume the role of Deputy Chairman, which he held between 2011 and 2014.

As we were not actively seeking a new Chief Executive, we did not engage in a full search process. However John was originally identified as a potential candidate through our relationship with an executive search firm Augmentum.

Chief Financial Officer

In January 2015, David Stead advised the Board that he intended to retire later in 2015, once a successor had been identified. David has been the Chief Financial Officer of Dunelm since September 2003, and has led the Finance team and (until recently) the IT and HR functions through the flotation of the Group and its subsequent growth.

We drew up a role and person specification, and engaged CT Partners to conduct a full market search. We also made the fact of David's proposed retirement public in order to attract the widest potential pool of candidates. After a number of interviews, led by myself, Will Adderley and Liz Doherty (as Audit and Risk committee chair), we shortlisted two individuals (one male and one female), both of whom met all Board members and John Browett, our incoming Chief Executive. It was unanimously decided that Keith Down was the most suitable candidate for the role, and we are delighted that he has agreed to join Dunelm in December 2015.

NED Search

Throughout the year Committee members have continued to network with contacts and meet with a large number of potential candidates on an informal basis. To follow best practice we also advertised the role of NED on the specialist recruitment website, NuRole, in order to access applicants whom we did not know but who are searching for a new role. These activities enabled us to create a 'pool' of suitably qualified, interesting and available candidates from which to select new Non-Executive Directors.

Matt Davies resigned in January when it was announced that he would be assuming an executive role at Tesco plc.

Following our review of skills and balance in February, we agreed that it would be desirable to appoint two additional Non-Executive Directors, in order to replace the skills brought to us by Matt, and to bring us new perspectives.

We were delighted to find William Reeve, who joined us on 1 July 2015. William is a serial entrepreneur and investor with deep experience growing successful e-commerce businesses, such as LOVEFiLM.com which he co-founded, Graze.com, Paddy Power PLC, Secret Escapes, Zoopla and Hubbub.co.uk. William's approach and experience will complement the other skills of our Board members. All Board members met with William and we were unanimous in our decision to appoint him as NED.

In addition to our networking described above we conducted a formal search to identify a current retail Chief Executive to replace Matt. As a result of that search we have been able to appoint as NED Peter Ruis, the Chief Executive of Jigsaw. In this search we used Zygos to review the retail market and a shortlist of three candidates (one of whom was female) was interviewed. The Board unanimously selected Peter for his retailing experience, his knowledge of the homewares sector and his understanding of the fashion sector and the behaviour of this customer segment. We believe that Peter will bring a valuable extra perspective to our strategic debate, and will fit well with the Dunelm culture and values.

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. The last review was in February 2015.

Following the Chairman transition which took place at the end of the financial year, individual performance reviews of Directors will take place during the financial year. I will also lead a review of the Chairman's performance during 2016.

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 within Dunelm.

Details of the gender balance within the Group are set out in the Corporate Social Responsibility report on page 13. The Committee is pleased that there is a good level of gender diversity at Board and senior management level (25% and 32% respectively).

Tenure and Re-Election Of Directors

In accordance with the UK Corporate Governance Code, all Directors will seek re-election at the 2015 AGM, and as now required by the Listing Rules the Non-Executives will be subject to an additional vote by shareholders independent of the Adderley family.

I have been a Board member since 2004, and so have served 11 years on the Board, nine of these following the Company's flotation in 2006. In accordance with best practice, from 2013 my contract is renewed annually for a one year term, subject to earlier termination by notice and reappointment at the AGM. Simon Emeny is midway through a third term as Non-Executive Director which takes his tenure to 2016, and Liz Doherty and Andy Harrison and William Reeve all remain within their first term.

As stated above, there have been a number of changes to our Board in the last 12 months. As usual, we aim to balance continuity with regular refreshment of skill and experience.

This report was reviewed and signed on behalf of the Board on 10 September 2015.

Marion Sears
Chair of the Nominations Committee
10 September 2015

The Directors present their report together with the audited financial statements for the period ended 4 July 2015.

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

Strategic Report

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

Results and Dividends

The consolidated profit for the year after taxation was £96.1m (2014: 89.1m). The results are discussed in greater detail in the Chief Financial Officer's review on pages 20 to 21.

A final dividend of 16.0 per share (2015: 15.0p) is proposed in respect of the period ended 4 July 2015 to add to an interim dividend of 5.5p per share paid on 10 April 2015 (2014: 5.0p). The final dividend will be paid on 27 November 2015 to shareholders on the register at 16 October 2015.

Special Distribution

On 24 March 2015, 70.0p per Ordinary Share was returned to shareholders by way of a B/C Share Scheme.

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 arm's length terms and on a normal commercial basis;

b. not take any action which precludes or inhibits any member of the Group from carrying on its business independently of Jean and Bill Adderley and their associates (as defined in the Listing Rules);

c. not exercise any of their voting 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.

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

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

In addition, the Articles of Association of the Company provide that the election and re-election of independent Directors must be conducted in accordance with the election provisions set out in LR 9.2.2ER and LR 9.2.2FR. This means that the election or re-election of each independent Director at the Annual General Meeting will be subject to an additional separate resolution upon which parties controlling 30% or more of the voting shares of the Company are not eligible to vote.

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

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

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

Change of Control

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

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

Share Capital and Treasury Shares

The Company has only one class of shares, Ordinary Shares of 1p each.

The issued Ordinary Share capital of the Company has not changed during the period

At 4 July 2015, the Company held 357,158 Ordinary Shares in treasury (2014: 936,498).

During the period the Company did not purchase any ordinary shares into treasury. 579,340 shares were transferred to employees who exercised options under a share incentive scheme. Details of option exercises by Directors are set out in the Remuneration Report.

647 ordinary shares have been moved out of treasury since the period end to employees who exercised options under a share incentive scheme.

Substantial Shareholders

At 10 September 2015 the following had notified the Company of a disclosable interest in 3% or more of the nominal value of the Company's Ordinary Shares:

	Ordinary Shares	Percentage of share capital
Will Adderley	61,961,779	30.5
Bill Adderley	48,070,000	23.7

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

Directors

The Directors of the Company and their biographies are set out on pages 30 to 32. Details of changes to the Board during the period are set out in the Corporate Governance Report on page 35.

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 39.

Employee Information

Information relating to employees of the Group Is set out in the Corporate Social Responsibility report on page 13.

Share incentive schemes in which employees participate are described in the Remuneration Report on pages 52 to 54.

Greenhouse Gas Emissions

The Corporate Social Responsibility report on page 18 sets out the greenhouse gas emissions disclosures required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Treasury and Risk Management

The Group's approach to treasury and financial risk management is explained in the Principal Risks and Uncertainties section on page 28.

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.

Independent Auditors

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

Disclaimer

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

Annual General Meeting

The Annual General Meeting will be held at 9.30 am on Tuesday 24 November 2015 at Fuller's The Parcel Yard, King's Cross Station, London N1C 4AH. A formal notice of meeting, explanatory circular and a form of proxy will accompany this report and accounts.

This report was reviewed and signed on behalf of the Board on 10 September 2015.

Dawn Durrant
Company Secretary
10 September 2015

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

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

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

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

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

Disclosure of information to auditors

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

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

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

a. so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

b. he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent Auditors' Report
TO THE MEMBERS OF DUNELM GROUP PLC

Report on the financial statements

Our opinion

In our opinion, Dunelm Group plc's Group financial statements and Parent Company financial statements (the 'financial statements'):

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 4 July 2015 and of the Group's profit and the Group's and the Parent Company's cash flows for the 53 weeks (the 'period') then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

The financial statements comprise:

- the consolidated and Parent Company statements of financial position as at 4 July 2015;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated and Parent Company statements of cash flows for the period then ended;
- the consolidated and Parent Company statements of changes in equity for the period then ended;
- the accounting policies; and
- the notes to the annual financial statements, which include other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report and Accounts 2015 (the 'Annual Report'), rather than in the notes to the annual financial statements. These are cross-referenced from the financial statements and are identified as audited.

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

Our audit approach

Overview

- Overall Group materiality: £6.1m which represents 5% of profit before tax.

- The Group is structured with one segment that comprises a consolidation of four legal entities.
- We conducted an audit of the complete financial information of these four legal entities, together with additional procedures performed, including over the Group consolidation.

- Inventory provisions.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Inventory provisions Refer to the Audit and Risk Committee Report on page 44 and the critical accounting estimates and judgements in the Accounting Policies in the notes to the accounts on page 88. Inventory represents a significant asset on the Group's balance sheet and is carried at the lower of cost and net realisable value ('NRV'). The NRV provision involves judgement in assessing slow moving or obsolete inventory. The Group accounting policy is based upon an analysis of the number of weeks' cover of inventory (i.e. number of weeks sales held in inventory) based upon an average of the previous 26 weeks of sales. Provisions are recorded according to the number of weeks cover, type of inventory, certain classifications (such as whether inventory is a continuity line or discontinued) and management's assessment of the expected realisable value for each category of inventory. Provisions for new inventory ranges, where historic data is limited, are recorded according to management's expectations of discounting required to achieve sell-through.	We tested the inputs to the provision calculation, including the classification (for example continuity line or discontinued) of inventory to reports from the buying department, which is segregated from the finance department, and found them to be consistent. We also re-performed the weeks' cover calculation, identifying no exceptions. We challenged the expected realisable value of inventory by reference to the historic experience of selling inventory at below cost and management's intended plans for future routes of clearance. We found that the provision rates were consistent with the evidence obtained, based on past activity, and appropriately applied.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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

In establishing the overall approach to the Group audit, we identified two legal entities: Dunelm Soft Furnishings Limited and Dunelm Group plc, which, in our view, required an audit of their complete financial information due to their financial significance to the Group.

In addition, we also conducted the statutory audits of the remaining two non-significant legal entities such that the audit work was complete prior to finalisation of the audit of the Group financial statements, thereby providing further evidence in support of our Group opinion.

The audits of these four legal entities, together with the additional procedures performed at the Group level, including over the Group consolidation, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£6.1m (2014: £5.8m).
How we determined it	5% of profit before tax.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, as we believe this is the key measure used by the shareholders in evaluating the performance of the Group.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £0.05m as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 77, in relation to going concern. We have nothing to report having performed our review.

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

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

Other required reporting

Consistency of other information

Companies Act 2006 opinions

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 35 to 41 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

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

  We have no exceptions to report arising from this responsibility.
- the statement given by the Directors on page 78, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Parent Company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Parent Company acquired in the course of performing our audit. We have no exceptions to report arising from this responsibility.
- the section of the Annual Report on page 44, as required by provision C.3.8 of the Code, describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee. We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report - Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

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

Corporate governance statement

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

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

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

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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

Mark Smith (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
10 September 2015

Consolidated Income Statement
For the 53 weeks ended 4 July 2015

	Note	2015 53 weeks £'000	2014 52 weeks £'000
Revenue	1	**835,805**	**730,152**
Cost of sales		**(424,649)**	(368,851)
Gross profit		**411,156**	**361,301**
Operating costs	3	**(288,672)**	(245,273)
Operating profit	2	**122,484**	**116,028**
Financial income	5	**811**	436
Financial expenses	5	**(673)**	(478)
Profit before taxation		**122,622**	**115,986**
Taxation	6	**(26,551)**	(26,914)
Profit for the period attributable to owners of the parent		**96,071**	**89,072**
Earnings per Ordinary Share — basic	8	**47.5p**	44.0p
Earnings per Ordinary Share — diluted	8	**47.3p**	43.7p

Consolidated Statement of Comprehensive Income

For the 53 weeks ended 4 July 2015

	2015 53 weeks £'000	2014 52 weeks £'000
Profit for the period	**96,071**	89,072
Other comprehensive income/(expense):		
Items that may be subsequently reclassified to profit or loss:		
Movement in fair value of cash flow hedges	**905**	(3,286)
Transfers of cash flow hedges to cost of sales	**1,706**	—
Deferred tax on hedging movements	**(522)**	668
Other comprehensive income/(expense) for the period, net of tax	**2,089**	(2,618)
Total comprehensive income for the period attributable to owners of the parent	**98,160**	**86,454**

Consolidated Statement of Financial Position

As at 4 July 2015

	Note	4 July 2015 £'000	28 June 2014 £'000
Non-current assets			
Intangible assets	9	13,124	9,260
Property, plant and equipment	10	158,946	152,866
Deferred tax asset	11	1,897	3,783
Total non-current assets		**173,967**	**165,909**
Current assets			
Inventories	12	133,118	115,528
Trade and other receivables	13	19,122	19,479
Cash and cash equivalents	14	16,197	21,740
Total current assets		**168,437**	**156,747**
Total assets		**342,404**	**322,656**
Current liabilities			
Trade and other payables	15	(88,102)	(72,586)
Liability for current tax		(12,495)	(13,461)
Derivative financial instruments	16	(308)	(2,898)
Total current liabilities		**(100,905)**	**(88,945)**
Non-current liabilities			
Bank loans	17	(91,000)	-
Trade and other payables	15	(42,376)	(40,544)
Provisions for liabilities	18	(3,055)	(3,430)
Total non-current liabilities		**(136,431)**	**(43,974)**
Total liabilities		**(237,336)**	**(132,919)**
Net assets		**105,068**	**189,737**
Equity			
Issued share capital	19	2,028	2,028
Share premium		1,624	1,624
Capital redemption reserve		43,157	43,157
Hedging reserve		(230)	(2,319)
Retained earnings		58,489	145,247
Total equity attributable to equity holders of the parent		**105,068**	**189,737**

The financial statements on pages 83 to 107 were approved by the Board of Directors on 10 September 2015 and were signed on its behalf by:

Will Adderley
Chief Executive

Consolidated Statement of Cash Flows

For the 53 weeks ended 4 July 2015

	Note	2015 53 weeks £'000	2014 52 weeks £'000
Profit before taxation		122,622	115,986
Adjustment for net financing costs		(138)	42
Operating profit		122,484	116,028
Depreciation and amortisation	2	21,436	20,257
Impairment losses on non-current assets	10	109	25
Loss on disposal of non-current assets	2	102	942
Operating cash flows before movements in working capital		144,131	137,252
(Increase) in inventories	12	(17,590)	(22,588)
Decrease/(increase) in receivables	13	1,505	(1,160)
Increase in payables	15	16,236	14,448
Net movement in working capital		151	(9,300)
Share-based payments expense	21	250	2,470
Foreign exchange gains		-	95
		144,532	130,517
Interest received	5	522	461
Tax paid		(26,859)	(27,144)
Net cash generated from operating activities		118,195	103,834
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment	10	3	35
Acquisition of property, plant and equipment	10	(25,362)	(20,760)
Acquisition of intangible assets	9	(5,884)	(7,303)
Net cash used in investing activities		(31,243)	(28,028)
Cash flows from financing activities			
Proceeds from issue of share capital	19	-	12
Proceeds from reissue of treasury shares	20	810	1,278
Purchase of treasury shares	20	-	(15,404)
Drawdowns on revolving credit facility	17	167,000	-
Repayments of revolving credit facility	17	(76,000)	-
Loan transaction costs	17	(1,295)	-
Interest paid	5	(148)	-
Ordinary dividends paid	7	(41,458)	(33,411)
Special distributions to shareholders	7	(141,727)	(50,708)
Net cash flows used in financing activities		(92,818)	(98,233)
Net decrease in cash and cash equivalents		(5,866)	(22,427)
Foreign exchange revaluations		323	(573)
Cash and cash equivalents at the beginning of the period		21,740	44,740
Cash and cash equivalents at the end of the period	14	16,197	21,740

Consolidated Statement of Changes in Equity

For the 53 weeks ended 4 July 2015

	Note	Issued share capital £'000	Share premium £'000	Capital redemption reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
As at 29 June 2013		**2,028**	**1,612**	**43,157**	**299**	**150,598**	**197,694**
Profit for the period		-	-	-	-	89,072	89,072
Movement in fair value of cash flow hedges	16	-	-	-	(3,286)	-	(3,286)
Deferred tax on hedging movements	11	-	-	-	668	-	668
Total comprehensive income for the period		-	-	-	(2,618)	89,072	86,454
Issue of share capital	19	-	12	-	-	-	12
Purchase of treasury shares	20	-	-	-	-	(15,404)	(15,404)
Issue of treasury shares	20	-	-	-	-	1,278	1,278
Share based payments	21	-	-	-	-	2,470	2,470
Deferred tax on share based payments	11	-	-	-	-	286	286
Current corporation tax on share options exercised	6	-	-	-	-	1,066	1,066
Ordinary dividends paid	7	-	-	-	-	(33,411)	(33,411)
Special distributions to shareholders	7	-	-	-	-	(50,708)	(50,708)
Total transactions with owners, recorded directly in equity		-	12	-	-	(94,423)	(94,411)
As at 28 June 2014		**2,028**	**1,624**	**43,157**	**(2,319)**	**145,247**	**189,737**
Profit for the period		-	-	-	-	96,071	96,071
Movement in fair value of cash flow hedges	16	-	-	-	905	-	905
Transfers to cost of sales	16	-	-	-	1,706	-	1,706
Deferred tax on hedging movements	11	-	-	-	(522)	-	(522)
Total comprehensive income for the period		-	-	-	2,089	96,071	98,160
Issue of treasury shares	20	-	-	-	-	810	810
Share based payments	21	-	-	-	-	250	250
Deferred tax on share based payments	11	-	-	-	-	(861)	(861)
Current corporation tax on share options exercised	6	-	-	-	-	157	157
Ordinary dividends paid	7	-	-	-	-	(41,458)	(41,458)
Special distributions to shareholders	7	-	-	-	-	(141,727)	(141,727)
Total transactions with owners, recorded directly in equity		-	-	-	-	(182,829)	(182,829)
As at 4 July 2015		**2,028**	**1,624**	**43,157**	**(230)**	**58,489**	**105,068**

Basis of preparation

The Group financial statements consolidate those of Dunelm Group plc ('the Company') and its subsidiaries (together referred to as the 'Group'). The Company financial statements on pages 108 to 116 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 (IFRS) and IFRS Interpretations Committee (IFRSIC) interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS and these are presented on pages 83 to 107.

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

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

Going concern

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

Further information regarding the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Strategic Report and Business Review on pages 2 to 28. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chief Financial Officer's review on pages 20 to 21. In addition note 16 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk.

Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an 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 the inventories held where it is anticipated that net realisable value (NRV) will be below costs. NRV is calculated on the basis of current selling price and expected future price reductions. Future price reductions in turn are assumed to be in line with the Group's standard approach to clearing discontinued and slow-moving inventory; and are applied to such proportion of inventory as deemed appropriate given the level of cover in relation to recent sales history, on a line by line basis.

Equity-settled share-based payments

Certain employees and Directors of the Group receive equity-settled remuneration in the form of equity-settled share-based payment transactions, whereby employees render services in exchange for shares or rights over shares. The cost of equity-settled transactions with employees is measured by reference to the fair value, determined using the Black-Scholes valuation model, at the date at which an option is granted. The inputs into the model for which estimate or judgement is used are volatility, dividend yield and risk free interest rate. Volatility is measured at the standard deviation of share returns based on the daily share price over a period of time prior to the grant date. The dividend yield used for each option is the prior year's yield. This is calculated using the prior years' dividends, excluding special dividends, divided by the year end closing share price. The five year UK gilts yield on the day of the grant is taken as the risk free interest rate. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the non-market vesting conditions are expected to be fulfilled, ending on the relevant vesting date. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date is adjusted to reflect the Directors' best available estimate of the number of equity instruments that will ultimately vest based upon non-market conditions.

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

Basis of consolidation

Subsidiaries

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

Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Consistent accounting policies have been adopted across the Group.

Revenue

Revenue is generated from the sale of homewares through the Group's stores and website, and small amounts of related services such as the Dunelm at home consultants. Revenue therefore represents the proceeds from sales of goods and related services, excluding sales between Group companies and is after deducting returns, discounts given and VAT. Revenue is recognised when risk and reward passes to the customer, which is 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. Revenue is settled in cash at the point of sale.

Foreign currencies

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

Intangible assets

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

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

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

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

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

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

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

Amortisation

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

software development and licences	3 years
trademarks	5 years

Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses. Cost includes the original purchased price of the asset and the costs attributable to bringing the asset to its working conditions for intended use.

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

Depreciation

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

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

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

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

Current assets

Trade and other receivables

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is derived using the average cost method and includes costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price less cost to sell in the ordinary course of business. Provisions are made for obsolete, slow-moving or discontinued stock.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities and as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Bank borrowings and borrowing costs

Interest-bearing bank loans and overdrafts are recorded at their fair value. Transaction costs incurred are amortised over 48 months.

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 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. The gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedge cash flows affect the income statement.

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

Impairment

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

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

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

Share capital

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

Provisions

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

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

Expenses

Property leases

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

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

Financing income/expense

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

Retirement benefits

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

Share-based payment transactions

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

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

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

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

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

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

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

Dividends

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

Taxation

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

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

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

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

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

New standards and interpretations

There are no new standards, amendments to existing standards or interpretations which are effective for the first time during the period ended 4 July 2015 that have a material impact on the Group.

At the balance sheet date there are a number of new standards and amendments to existing standards in issue but not yet effective, including IFRS 15 'Revenue from contracts with customers', which is effective for periods beginning on or after 1 January 2018 and IFRS 9 'Financial Instruments', which is effective for periods beginning on or after 1 January 2018. The Group has not early-adopted any of these new standards or amendments to existing standards.

The Group is currently assessing the impact of IFRS 9 and IFRS 15. There are no other new standards, amendments to existing standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

Notes to the Annual Financial Statements
For the 53 weeks ended 4 July 2015

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

The Chief Operating Decision Maker is the Executive Board of Directors of Dunelm Group plc. Internal management reports are reviewed by them on a monthly basis. Performance of the segment is assessed based on a number of financial and non-financial KPIs 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 /(crediting) the following items:

	2015 53 weeks £'000	2014 52 weeks £'000
Cost of inventories included in cost of sales	**421,269**	365,746
Amortisation of intangible assets	**2,020**	1,798
Depreciation of owned property, plant and equipment	**19,416**	18,459
Impairment losses on non-current assets	**109**	25
Operating lease rentals	**38,932**	33,980
Loss on disposal of property, plant and equipment and intangible assets	**102**	942
Net foreign exchange (gains)/losses	**(323)**	573

The cost of inventories stated above includes the benefit of a net reduction in the provision for obsolete inventory of £839,000.

The analysis of auditors' remuneration is as follows:

	2015 53 weeks £'000	2014 52 weeks £'000
Fees payable to the Company's auditors for the audit of the Parent and consolidated annual financial statements	**17**	16
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	**55**	54
— other services (See Audit and Risk Committee Report on page 45 for further information)	**55**	-

3 Operating costs

	2015 53 weeks £'000	2014 52 weeks* £'000
Selling and distribution	**262,594**	221,910
Administrative expenses	**25,976**	22,421
Loss on disposal of property, plant and equipment and intangible assets	**102**	942
	288,672	245,273

* prior year comparatives have been aligned to the current year classification of reporting, with no significant impact on any classification of cost.

4 Employee numbers and costs

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

	2015 53 weeks Number of heads	2015 53 weeks Full-time equivalents	2014 52 weeks Number of heads	2014 52 weeks Full-time equivalents
Selling	7,757	4,425	7,558	4,258
Distribution	382	377	307	302
Administration	417	410	305	299
	8,556	5,212	8,170	4,859

The aggregate remuneration of all employees including Directors comprises:

	2015 53 weeks £'000	2014 52 weeks £'000
Wages and salaries including bonuses and termination benefits*	109,478	94,442
Social security costs	6,529	6,607
Share-based payment expense (note 20)	250	2,470
Other pension costs	1,257	1,300
	117,514	104,819

* Includes a payment to N Wharton as compensation for loss of office as disclosed in the Remuneration Report on page 64.

Details of Directors' remuneration, share options, long-term incentive schemes and pension entitlements are disclosed in the Remuneration Report on pages 48 to 70.

5 Financial income and expenses

	2015 53 weeks £'000	2014 52 weeks £'000
Finance income		
Interest on bank deposits	507	425
Foreign exchange gains (net)	301	-
Other Interest received	3	11
	811	436
Finance expenses		
Interest on bank borrowings and overdraft	(538)	-
Amortisation of issue costs of bank loans	(135)	-
Foreign exchange losses (net)	-	(478)
	(673)	(478)
Net finance income/(expense)	138	(42)

6 Taxation

	2015 53 weeks £'000	2014 52 weeks £'000
Current taxation		
UK corporation tax charge for the period	26,357	28,435
Adjustments in respect of prior periods	(309)	(152)
	26,048	28,283
Deferred taxation		
Origination of temporary differences	237	(1,386)
Adjustments in respect of prior periods	266	(463)
Impact of change in tax rate	-	480
	503	(1,369)
Total tax expense	26,551	26,914

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

	2015 53 weeks £'000	2014 52 weeks £'000
Profit before taxation	122,622	115,986
UK corporation tax at standard rate of 20.75% (2014: 22.5%)	25,444	26,097
Factors affecting the charge in the period:		
Non-deductible expenses	1,144	740
Loss on disposal of non-qualifying assets	6	212
Adjustments in respect of prior periods	(43)	(615)
Effect of standard rate of corporation tax change	-	480
Tax charge	26,551	26,914

The taxation charge for the period as a percentage of profit before tax is 21.7% (2014: 23.2%).

Changes to the UK corporation tax rates were announced in the Chancellor's Budget on 8 July 2015. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020.

As the changes had not been substantively enacted at the balance sheet date their effects are not included in these financial statements. The overall effect of these changes, if they had applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax asset by an additional £190k and increase the tax expense for the period by £117k.

7 Dividends and special distributions to shareholders

The dividends set out in the table below relate to the 1p Ordinary Shares.

		2015 53 weeks £'000	2014 52 weeks £'000
Special dividend for the period ended 29 June 2013	– paid 25.0p	-	(50,708)
Final for the period ended 29 June 2013	– paid 11.5p	-	(23,287)
Interim for the period ended 28 June 2014	– paid 5.0p	-	(10,124)
Final for the period ended 28 June 2014	– paid 15.0p	(30,322)	-
Interim for the period ended 4 July 2015	– paid 5.5p	(11,136)	-
		(41,458)	(84,119)

The Directors are proposing a final dividend of 16p per Ordinary Share for the period ended 4 July 2015 which equates to £32.4m. The dividend will be paid on 27 November 2015 to shareholders on the register at the close of business on 16 October 2015.

On 11 February 2015 the Company announced the return of capital to shareholders via a B/C share scheme. Accordingly:

— On 10 March 2015 128,710,152 0.001 pence B shares were issued. A dividend of 70 pence per B share was declared on 11 March 2015. Following the declaration of the B share dividend, the B shares automatically converted into deferred shares and were purchased by UBS and subsequently purchased from UBS by the Company, in each case for an aggregate sum of 0.001 penny, and cancelled.

— On 10 March 2015 73,756,725 0.001 pence C shares were issued. The C shares were purchased by UBS on 11 March 2015 for 70 pence per share. The C shares purchased by UBS were in turn purchased from UBS by the Company and then cancelled.

8 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to equity holders of the Company by the weighted average number of Ordinary Shares in issue during the period excluding ordinary shares purchased by the Company and held as treasury shares (note 20).

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

Weighted average numbers of shares:

	53 weeks ended 4 July 2015 '000	52 weeks ended 28 June 2014 '000
Weighted average number of shares in issue during the period	202,217	202,554
Impact of share options	982	1,474
Number of shares for diluted earnings per share	203,199	204,028

	53 weeks ended 4 July 2015 £'000	52 weeks ended 28 June 2014 £'000
Profit for the period	96,071	89,072
Earnings per Ordinary Share — basic	47.5p	44.0p
Earnings per Ordinary Share — diluted	47.3p	43.7p

9 Intangible assets

	Software development and licences £'000	Rights to Dorma brand £'000	Total £'000
Cost			
At 29 June 2013	9,051	5,040	14,091
Additions	7,303	-	7,303
Disposals	(2,323)	-	(2,323)
At 28 June 2014	14,031	5,040	19,071
Additions	5,884	-	5,884
At 4 July 2015	**19,915**	**5,040**	**24,955**
Accumulated amortisation			
At 29 June 2013	4,875	4,954	9,829
Charge for the financial period	1,713	85	1,798
Disposals	(1,816)	-	(1,816)
At 28 June 2014	4,772	5,039	9,811
Charge for the financial period	2,019	1	2,020
At 4 July 2015	**6,791**	**5,040**	**11,831**
Net book value			
At 29 June 2013	4,176	86	4,262
At 28 June 2014	9,259	1	9,260
At 4 July 2015	**13,124**	**-**	**13,124**

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

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

10 Property, plant and equipment

	Land and buildings £'000	Leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
Cost					
At 29 June 2013	79,801	92,588	2,860	57,783	233,032
Additions	209	10,465	799	9,287	20,760
Disposals	-	(1,140)	(35)	(938)	(2,113)
At 28 June 2014	80,010	101,913	3,624	66,132	251,679
Additions	4,252	11,826	377	9,255	25,710
Disposals	-	(193)	-	(879)	(1,072)
At 4 July 2015	**84,262**	**113,546**	**4,001**	**74,508**	**276,317**
Accumulated depreciation					
At 29 June 2013	7,583	34,515	1,476	38,398	81,972
Charge for the financial period	1,349	6,629	759	9,722	18,459
Disposals	-	(740)	(25)	(878)	(1,643)
Impairment	51	-	(10)	(16)	25
At 28 June 2014	8,983	40,404	2,200	47,226	98,813
Charge for the financial period	1,268	7,510	733	9,905	19,416
Disposals	-	(123)	-	(844)	(967)
Impairment	109	-	-	-	109
At 4 July 2015	**10,360**	**47,791**	**2,933**	**56,287**	**117,371**
Net book value					
At 29 June 2013	72,218	58,073	1,384	19,385	151,060
At 28 June 2014	71,027	61,509	1,424	18,906	152,866
At 4 July 2015	**73,902**	**65,755**	**1,068**	**18,221**	**158,946**

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

11 Deferred tax

Deferred tax is provided in full on temporary differences under the liability method using a taxation rate of 20% (2014: 20%).

Deferred taxation assets and liabilities are attributable to the following:

	Assets	
	2015 £'000	2014 £'000
Property, plant and equipment	**636**	421
Share-based payments	**1,250**	2,704
Other temporary differences	**11**	658
	1,897	3,783

	Assets	
	2015 53 weeks £'000	2014 52 weeks £'000
Deferred tax to be recovered after more than 12 months	**1,329**	1,585
Deferred tax to be recovered within 12 months	**568**	2,198
	1,897	3,783

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

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

	Balance at 28 June 2014 £'000	Recognised in income £'000	Recognised in equity £'000	**Balance at 4 July 2015 £'000**
Property, plant and equipment	421	215	-	**636**
Share-based payments	2,704	(593)	(861)	**1,250**
Other temporary differences	658	(125)	(522)	**11**
	3,783	(503)	(1,383)	**1,897**

12 Inventories

	2015 £'000	2014 £'000
Goods for resale	**133,118**	115,528

13 Trade and other receivables

	2015 £'000	2014 £'000
Trade receivables	198	950
Other receivables	3,006	3,626
Prepayments and accrued income	15,918	14,903
	19,122	19,479

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

14 Cash and cash equivalents

	2015 £'000	2014 £'000
Cash at bank and in hand	16,197	21,740

The Group deposits funds only with institutions that have a credit rating of 'A' and above.

15 Trade and other payables

	2015 £'000	2014 £'000
Current		
Trade payables	51,715	39,817
Accruals and deferred income	26,960	21,229
Taxation and social security	9,320	11,075
Other payables	107	465
Total current trade and other payables	88,102	72,586
Non-current		
Accruals and deferred income	42,376	40,544
Total non-current trade and other payables	42,376	40,544
Total trade and other payables	130,478	113,130

The maturity analysis of non-current accruals and deferred income, asll of which relate to lease incentives, is as follow:

	2015 £'000	2014 £'000
One to two years	4,998	4,424
Two to five years	15,002	13,644
After five years	22,376	22,476
	42,376	40,544

16 Financial risk management

The Board of Directors has overall responsibility for the oversight of the Group's risk management framework. A formal process for reviewing and managing risk in the business is in place.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's deposits with banks and financial institutions as well as foreign exchange hedging agreements with its banking counterparties. The Group only deals with creditworthy counterparties and uses publicly available financial information to rate its counterparties.

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

The Group's maximum exposure to credit risk is represented by payments in advance of goods to overseas suppliers. At the period end these amounted to $6,057,000 (2014: $7,310,000).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and extreme circumstances. The Group manages this risk by continuously monitoring cash flow forecasts. The Group's available facilities can be found in note 17.

All of the Group's derivative financial liabilities are due to settle within 24 months of the balance sheet date

Interest rate risk

The Group's bank borrowings incur variable interest rate charges. The Directors do not consider that future changes in interest rates are likely to cause a material direct impact on profitability.

Foreign currency risk

All of the Group's revenues are in sterling. The majority of purchases are also in sterling, but some goods purchased direct from overseas suppliers are paid for in US dollars, accounting for just under 20% of stock purchases in the period ended 4 July 2015.

The Group uses various means to cover its exposure to US dollars: holding US dollar cash balances; taking our forward contracts for the purchase of US dollars; and entering into forward rate contracts,

All the Group's foreign exchange transactions are designed to satisfy US dollar denominated liabilities. The maximum level of hedging coverage which will be undertaken is 100% of anticipated expenditure on a three month horizon, stepping down to 75% on a nine to 12 month horizon. Coverage beyond 12 months is minimal.

The outstanding US dollar liabilities at the period end were $281,000 (2014: $150,000).

During the period the Group entered into exchange rate swaps for $137.0m to sell sterling and buy US dollars. These swaps are accounted for as cash flow hedges. During the period the mark to market gain on foreign currency hedging instruments taken to equity was £0.9m (2014: £3.3m loss). At the balance sheet date the Group had 176 swap contracts outstanding with an aggregate maximum value of $134.0m.

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

Sensitivity analysis

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

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

The US dollar period end exchange rate applied in the above analysis is 1.5603 (2014: 1.7016). Strengthening and weakening of sterling may not produce symmetrical results depending on the proportion and nature of foreign exchange derivatives.

Fair values

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

16 Financial risk management continued

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 derivative financial instruments carried at fair value have been measured by a Level 2 valuation method, based on observable market data.

Gains on cash flow hedges during the period amounted to £2,080,000 (2014: loss £1,607,000).

Capital management

The Company considers equity plus debt as the 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.

During the period, the Board reviewed its policy on capital structure and dividends. The original policy was established at the time of the flotation of the Company and in the Board's opinion has ceased to reflect the scale of the business and its consistent track record of cash generation over many years. Accordingly, the Board determined that the Group will operate with a modest amount of leverage such that net debt should fall within the range of 0.25 to 0.75 times the last 12 months EBITDA. In order to fund the ongoing debt, the Group has entered into an arrangement with a syndicate of three major banks for the provision of a £150m revolving credit facility, expiring on 9 February 2020. The gearing ratio at 4 July 2015 was as follows:

	2015 £'000	2014 £'000
Total borrowings (note 17)	91,000	-
Less: cash and cash equivalents (note 14)	(16,197)	(21,740)
Net debt/(cash)	74,803	(21,740)
Total equity	105,068	189,737
Total capital	179,871	167,997
Gearing ratio	42%	n/a

Financial (liabilities)/assets

The carrying value of all financial assets and financial liabilities was equal to their fair value.

	Loans and receivables £'000	Other financial liabilities at amortised costs £'000	Derivatives used for hedging £'000	Total £'000
Cash and cash equivalents	16,197	-	-	16,197
Trade receivables	198	-	-	198
Total financial assets	16,395	-	-	16,395
Trade payables	-	(51,715)	-	(51,715)
Bank borrowings	-	(91,000)	-	(91,000)
Forward exchange contracts – current	-	-	(308)	(308)
Total financial liabilities	-	(142,715)	(308)	(143,023)
Net financial assets/(liabilities) as at 4 July 2015	**16,395**	**(142,715)**	**(308)**	**(126,628)**

16 Financial risk management continued

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

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

	2015 £'000	2014 £'000
Sterling	**14,011**	21,572
US dollar	**2,050**	34
Euro	**136**	134
	16,197	21,740

As at 4 July 2015, 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
28 June 2014	962	889	47	8	3	15
4 July 2015	**198**	**36**	**125**	**18**	**11**	**8**

As at 4 July 2015, the analysis of trade payables that were past due is as follows:

	Total £'000	Neither past due nor impaired £'000	Less than 30 days £'000	31-60 days £'000	61-90 days £'000	More than 90 days £'000
28 June 2014	39,817	37,973	977	679	117	71
4 July 2015	**51,715**	**48,322**	**2,883**	**221**	**141**	**148**

17 Bank loans

	2015 £'000	2014 £'000
Bank borrowings	**91,000**	-

The Group has medium term bank revolving credit facilities of £150m (2014: £nil) committed until 11 February 2020. £91m of this facility was drawn down at 4 July 2015. The carrying amount of bank borrowings is equal to fair value.

18 Provision for liabilities

	Balance at 28 June 2014 £'000	Utilised in the period £'000	Created in the period £'000	Released in the period £'000	Balance at 4 July 2015 £'000
Property related	3,430	(468)	842	(749)	**3,055**

Property related provisions consist of costs associated with vacant property and dilapidations. Dilapidations are based on the Directors' best estimate of the Group's future liabilities.

19 Share capital

	Number of Ordinary Shares of 1p each 2015	Number of B Shares of 0.001p each 2015	Number of C Shares of 0.001p each 2015	Number of Ordinary Shares of 1p each 2014
In issue at the start of the period	**202,833,931**	-	-	202,830,188
Issued during the period in respect of share option schemes	-	-	-	3,743
B/C share issued via bonus issue	-	**128,710,152**	**73,756,725**	-
B shares cancelled in the year	-	**(128,710,152)**	-	-
C shares redeemed in the year	-	-	**(73,756,725)**	-
In issue at the end of the period	**202,833,931**	-	-	202,833,931

Proceeds received in relation to shares issued during the period were £nil (2014: £12,000).

	2015 Number of shares	2015 £'000	2014 Number of shares	2014 £'000
Ordinary shares of 1p each:				
Authorised	**500,000,000**	**5,000**	500,000,000	5,000
Allotted, called up and fully paid	**202,833,931**	**2,028**	-	2,028

20 Treasury shares

	2015 Number of shares	2015 £'000	2014 Number of shares	2014 £'000
Outstanding at the beginning of the period	**(936,498)**	**(8,623)**	-	-
Purchased during the period	-	-	(1,706,154)	(15,404)
Reissued during the period in respect of share option schemes	**579,340**	**5,335**	769,656	6,781
Outstanding at the end of the period	**(357,158)**	**(3,288)**	(936,498)	(8,623)

The Group acquired none of its own shares through purchases on the London Stock Exchange during the year (2014: 1,706,154). Treasury 2014 shares are held by the Group for the purpose of delivery to employees under employee share schemes. In 2014, the total amount, including fees, paid to acquire shares was £15,404,000 and the consideration was deducted from retained earnings within shareholders equity.

The Group reissued 579,340 (2014: 769,656) treasury shares during the period for a total value of £5,335,000 (2014: £6,781,000).

Proceeds from the issue of treasury shares included in the consolidated statement of cash flows of £810,000 (2014: £1,278,000) is the amount employees contributed.

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

21 Share-based payments

As at 4 July 2015, 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 3,692 exercisable options in total under these schemes as at 4 July 2015 (2014: 2,844).

On 30 June 2015, all non-exercisable share options were modified in order to protect option holders from the possible dilution to the value of their options following the return of capital to shareholders made in March 2015. HMRC guidance requires that any adjustment made to approved options results in

— the total market value of shares subject to option immediately prior to and immediately after the adjustment being substantially the same; and

— the exercise price payable under the option immediately prior to and immediately after the adjustment being substantially the same.

This was done by increasing the number of shares by 6.79% and decreasing the exercise price per share by 6.36%.The same methodology was applied to all option schemes, including LTIP. This amendment had no impact on the share based payment charge for the year.

The fair value of options granted during the period was determined using the Black-Scholes valuation model. Full disclosures have not been given based on the immateriality of the figures.

a) Dunelm Group Share Option Plan

The GSOP was established in December 2003. Options have a vesting period of three years from date of grant and a maximum life of ten years. All 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 number and weighted average exercise price of options under the GSOP at 4 July 2015 were as follows:

	Weighted average exercise price 2015	Number of shares under option 2015	Weighted average exercise price 2014	Number of shares under option 2014
Outstanding at beginning of the period	814.6p	139,900	497.3p	153,565
Granted during the period	-	-	876.5p	115,377
Adjusted during the period	766.9p	7,741	-	-
Exercised during the period	-	-	420.0p	(100,000)
Lapsed during the period	795.6p	(25,860)	741.2p	(29,042)
Outstanding at end of the period	815.6p	121,781	814.6p	139,900

b) Dunelm Group Savings Related Share Option Plan

The Sharesave scheme was established in 2006 and is open to all staff with eligible length of service. Grants are made under the scheme annually. Options may be exercised under the scheme within six months of the completion of each three year savings contract. There is provision for early exercise in certain circumstances such as death, disability, redundancy and retirement.

The number and weighted average exercise price of options outstanding under the Sharesave at 4 July 2015 were as follows:

	Weighted average exercise price 2015	Number of shares under option 2015	Weighted average exercise price 2014	Number of shares under option 2014
Outstanding at beginning of the period	551.0p	757,663	413.0p	778,585
Granted during the period	653.0p	523,706	702.0p	322,740
Adjusted during the period	601.1p	61,027	-	-
Exercised during the period	363.1p	(223,043)	337.1p	(258,175)
Lapsed during the period	639.6p	(157,633)	510.0p	(85,487)
Outstanding at end of the period	638.8p	961,720	551.0p	757,663

The weighted average share price at the time of exercise during the year was 893.9p.

21 Share-based payments continued

c) Long-Term Incentive Plan

The LTIP was approved by the Board in 2006 enabling the Group to award shares to particular individuals, normally in the form of nominal cost options. The LTIP is administered by the Remuneration Committee. One grant was made in the period, to the Executive Directors and senior management. These grants are exercisable in November 2017, 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 ten years from the date of grant. Full details of this plan are included in the Remuneration Report on pages 52 to 53.

The number and weighted average exercise price of options under the LTIP at 4 July 2015 are as follows:

	Weighted average exercise price 2015	Number of shares under option 2015	Weighted average exercise price 2014	Number of shares under option 2014
Outstanding at beginning of the period	-	1,199,332	-	1,384,186
Granted during the period	-	304,522	-	252,953
Adjusted during the period	-	44,948	-	-
Exercised during the period	-	(356,297)	-	(415,224)
Lapsed during the period	-	(483,422)	-	(22,583)
Outstanding at end of the period	-	709,083	-	1,199,332

The weighted average share price at the time of exercise was 851.9p.

d) Impact on income statement

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

	2015 £'000	2014 £'000
GSOP	50	96
Sharesave	520	488
LTIP	(320)	1,886
	250	2,470

22 Commitments

As at 4 July 2015 the Group had entered into capital contracts for new stores amounting to £4.4m (2014: £2.5m).

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

	2015 Motor vehicles £'000	2015 Land and buildings £'000	2015 Plant and machinery £'000	2014 Motor vehicles £'000	2014 Land and buildings £'000	2014 Plant and machinery £'000
Within one year	959	38,526	1,029	769	37,643	1,014
In the second to fifth year inclusive	1,535	148,272	2,701	1,439	140,422	3,181
After five years	-	161,529	435	-	173,495	720
	2,494	348,327	4,165	2,208	351,560	4,915

The Group has 140 operating leases in respect of properties. These leases run for periods of up to 20 years, with an option to renew leases on expiry. Lease payments are typically reviewed every five years.

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

23 Contingent liabilities

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

24 Related parties

Identity of related parties

The Group has related party relationships with its subsidiaries and with its Directors. Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation for the Group. A list of subsidiaries can be found in note 4 to the Parent Company financial statements.

Key management personnel

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

Directors of the Company and their close relatives control 55.4% (2014: 55.7%) of the voting shares of the Company.

Disclosures relating to remuneration of Directors are set out in the Remuneration Report on pages 48 to 70. The remuneration of the key management personnel is set out below:

	2015 £'000	2014 £'000
Short-term employee benefits	3,243	3,294
Post-employment benefits	288	88
Share-based payments	265	1,305
	3,796	4,687

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.

25 Ultimate controlling party

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

26 Subsequent events

There are no reportable subsequent events for Dunelm Group plc.

Parent Company Statement of Financial Position
As at 4 July 2015

	Note	4 July 2015 £'000	28 June 2014 £'000
Non-current assets			
Investment in subsidiaries	4	51,175	49,899
Deferred tax asset	5	273	1,553
Total non-current assets		**51,448**	**51,452**
Current assets			
Trade and other receivables	6	2,951	149,314
Current tax asset		199	-
Total current assets		**3,150**	**149,314**
Total assets		**54,598**	**200,766**
Current liabilities			
Trade and other payables	7	(1,058)	(1,531)
Current tax liability		-	(190)
Total current liabilities		**(1,058)**	**(1,721)**
Total liabilities		**(1,058)**	**(1,721)**
Net assets		**53,540**	**199,045**
Equity			
Issued capital	10	2,028	2,028
Share premium		1,624	1,624
Non-distributable reserves		6,020	4,347
Capital redemption reserve		43,157	43,157
Retained earnings		711	147,889
Total equity attributable to equity holders of the Parent		**53,540**	**199,045**

The financial statements on pages 108 to 116 were approved by the Board of Directors on 10 September 2015 and were signed on its behalf by:

David Stead
Director

Company number 4708277

Parent Company Statement of Cash Flows
For the 53 weeks ended 4 July 2015

There were no cash movements during the year for the Company as any cash transactions were executed by other members of the Dunelm Group plc Group on behalf of the Company. As a result no statement of cash flows has been presented in these financial statements.

Parent Company Statement of Changes in Equity

For the 53 weeks ended 4 July 2015

	Note	Issued share capital £'000	Share premium £'000	Capital redemption reserve £'000	Non-distributable reserve £'000	Retained earnings £'000	Total equity £'000
As at 29 June 2013		**2,028**	**1,612**	**43,157**	**3,311**	**143,845**	**193,953**
Profit for the period		-	-	-	-	100,369	100,369
Total comprehensive income for the period		-	-	-	-	100,369	100,369
Issue of share capital	10	-	12	-	-	-	12
Purchase of treasury shares	11	-	-	-	-	(15,404)	(15,404)
Issue of treasury shares	11	-	-	-	-	1,278	1,278
Share-based payments	12	-	-	-	1,036	1,434	2,470
Deferred tax on share-based payments	5	-	-	-	-	330	330
Current corporation tax on share options exercised		-	-	-	-	156	156
Dividends	3	-	-	-	-	(84,119)	(84,119)
Total transactions with owners, recorded directly in equity		-	12	-	1,036	(96,325)	(95,277)
As at 28 June 2014		**2,028**	**1,624**	**43,157**	**4,347**	**147,889**	**199,045**
Profit for the period		-	-	-	-	37,145	37,145
Total comprehensive income for the period		-	-	-	-	37,145	37,145
Purchase of treasury shares	11	-	-	-	-	810	810
Share-based payments	12	-	-	-	1,673	(1,290)	383
Deferred tax on share-based payments	5	-	-	-	-	(757)	(757)
Current corporation tax on share options exercised		-	-	-	-	99	99
Ordinary dividends paid	3	-	-	-	-	(41,458)	(41,458)
Special distributions to shareholders		-	-	-	-	(141,727)	(141,727)
Total transactions with owners, recorded directly in equity		-	-	-	1,673	(184,323)	(182,650)
As at 4 July 2015		**2,028**	**1,624**	**43,157**	**6,020**	**711**	**53,540**

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

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

Investments

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

Current assets

Trade and other receivables

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

Share capital

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

Share-based payments

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

— including any market performance conditions; (for example, an entity's share price);

— excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

— including the impact of any non-vesting conditions (for example, the requirement for employees to save).

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

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

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

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

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

Dividends

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

Taxation

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

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

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

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

New standards and interpretations

There are no new standards, amendments to existing standards or interpretations which are effective for the first time during the period ended 4 July 2015 that have a material impact on the Company.

1 Income statement

The Company made a profit after tax of £37,145,000 (2014: £100,369,000). The Directors have taken advantage of the exemption available under section 408 Companies Act 2006 and have not presented an income statement for the Company alone.

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

2 Employee costs

The Company has no employees other than the two Executive Directors and the non-Executive Directors. Full details of the Directors' remuneration and interests are set out in the Remuneration Report on pages 48 to 70. Share-based payments details are given in note 12 on page 116.

3 Dividends and special distributions to shareholders

The dividends set out in the table below relate to the 1p Ordinary Shares.

		2015 53 weeks £'000	2014 52 weeks £'000
Special dividend for the period ended 29 June 2013	– paid 25.0p	-	(50,708)
Final for the period ended 29 June 2013	– paid 11.5p	-	(23,287)
Interim for the period ended 28 June 2014	– paid 5.0p	-	(10,124)
Final for the period ended 28 June 2014	– paid 15.0p	(30,322)	-
Interim for the period ended 4 July 2015	– paid 5.5p	(11,136)	-
		(41,458)	(84,119)

The Directors are proposing a final dividend of 16p per Ordinary Share for the period ended 4 July 2015 which equates to £32.4m. The dividend will be paid on 18 December 2015 to shareholders on the register at the close of business on 27 November 2015.

On 11 February 2015 the Company announced the return of capital to shareholders via a B/C share scheme. Accordingly:

— On 10 March 2015 128,710,152 B shares were issued. A dividend of 70 pence per B share was declared on 11 March 2015. Following the declaration of the B share dividend, the B shares automatically converted into deferred shares and were purchased by UBS and subsequently purchased from UBS by the Company, in each case for an aggregate sum of 0.001 penny, and cancelled.

— On 10 March 2015 73,756,725 C shares were issued. The C shares were purchased by UBS on 11 March 2015 for 70 pence per share. The C shares purchased by UBS were in turn purchased from UBS by the Company and then cancelled.

4 Investment in subsidiaries

Shares in subsidiary undertakings:

	£'000
As at 29 June 2013	48,466
Share-based payments	1,433
As at 28 June 2014	49,899
Share-based payments	1,276
As at 4 July 2015	**51,175**

The following were subsidiaries as at 4 July 2015:

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
Zoncolan Limited*	100%	Property holding company

* Share Capital held by subsidising undertakings

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

Within the financial year Ensco 735 Limited was dissolved and is therefore no longer a subsidiary of the Group.

5 Deferred tax assets

	Assets	
	2015 £'000	2014 £'000
Employee benefits	**273**	1,553

The movement in deferred tax assets is as follows:

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

	Balance at 28 June 2014 £'000	Recognised in income £'000	Recognised in equity £'000	**Balance at 4 July 2015 £'000**
Employee benefits	1,553	(523)	(757)	**273**

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

	2015 £'000	2014 £'000
Amounts owed by subsidiary undertakings	**1,787**	149,296
Prepayments and accrued income	**1,164**	18
	2,951	149,314

Amounts owed by subsidiary undertakings are immediately repayable. Interest is charged monthly on all intercompany balances at an annual rate of 2%.

7 Trade and other payables

	2015 £'000	2014 £'000
Trade payables	-	10
Accruals and deferred income	946	904
Other taxation and social security	112	597
Other payables	-	20
	1,058	1,531

8 Interest bearing loans and borrowings

The Company has no committed borrowing facilities as any cash transactions are executed by other members of the Dunelm Group plc Group on behalf of the Company.

9 Financial risk management

Capital management

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

10 Share capital

	Number of Ordinary Shares of 1p each 2015	Number of B Shares of 0.001p each 2015	Number of C Shares of 0.001p each 2015	Number of Ordinary Shares of 1p each 2014
In issue at the start of the period	202,833,931	-	-	202,830,188
Issued during the period in respect of share option schemes	-	-	-	3,743
B/C share issued via bonus issue	-	128,710,152	73,756,725	-
B shares cancelled in the year	-	(128,710,152)	-	-
C shares redeemed in the year	-	-	(73,756,725)	-
In issue at the end of the period	202,833,931	-	-	202,833,931

Proceeds received in relation to shares issued during the period were £nil (2014: £12,000).

	2015 Number of shares	2015 £'000	2014 Number of shares	2014 £'000
Ordinary shares of 1p each:				
Authorised	500,000,000	5,000	500,000,000	5,000
Allotted, called up and fully paid	202,833,931	2,028	202,833,931	2,028

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

11 Treasury shares

	2015 Number of shares	2015 £'000	2014 Number of shares	2014 £'000
Outstanding at the beginning of the period	**(936,498)**	**(8,623)**	-	-
Purchased during the period	**-**	**-**	(1,706,154)	(15,404)
Reissued during the period in respect of share option schemes	**579,340**	**5,335**	769,656	6,781
Outstanding at the end of the period	**(357,158)**	**(3,288)**	(936,498)	(8,623)

The Company acquired none of its own shares through purchases on the London Stock Exchange during the year (2014: 1,706,154). The remaining 2014 shares are held by the Company for the purpose of delivery to employees under the employee share schemes. In 2014, the total amount, including fees, paid to acquire the shares was £15,404,000 and the consideration was deducted from retained earnings within shareholders' equity.

The Company reissued 579,340 (2014: 769,656) treasury shares during the period for a total value of £5,335,000 (2014: £6,781,000).

Proceeds from the issue of treasury shares included in the consolidated statement of cash flows of £810,000 (2014: £1,278,000) is the amount employees contributed.

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

12 Share-based payments

As at 4 July 2015, the Company operated one share award plan:

Long-Term Incentive Plan ('LTIP')

There were 2,000 exercisable options under this scheme as at 4 July 2015 (2014: nil).

Long-Term Incentive Plan

The LTIP was approved by the Board in 2006 enabling the Group to award shares to particular individuals, normally in the form of nominal cost options. The LTIP is administered by the Remuneration Committee. One grant was made in the period, to the Executive Directors and senior management. These grants are exercisable in November 2016, dependent on the level of growth in Group EPS relative to RPI, as well as continuing employment. The maximum life of options under the LTIP is ten years from the date of grant. Full details of this plan are included in the Remuneration Report on pages 52 to 53.

On 30 June 2015, all non-exercisable share options were modified in order to protect option holders from the possible dilution to the value of their options following the return of capital to shareholders made in March 2015. The Board requires that any adjustment made to options results in:

— the total market value of shares subject to option immediately prior to and immediately after the adjustment being substantially the same; and

— the exercise price payable under the option immediately prior to and immediately after the adjustment being substantially the same.

This was done by increasing the number of shares by 6.79% and decreasing the exercise price per share by 6.36%.

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

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

	October 2014	October 2013	November 2012
Share price at date of grant	861.0p	876.5p	641.5p
Volatility	35.11%	40.00%	29.23%
Dividend yield	4.0%	4.0%	2.5%
Option life	3years	3years	3years
Risk-free interest rate	1.44%	1.35%	0.84%
Discount factor, based on dividend yield to vesting date	0.670	0.670	0.779
Fair value of option	577.0p	587.4p	499.5p

12 Share-based payments continued

The fair value of the additional options granted in the modification and the assumptions used in the calculations are as follows:

	October 2014	October 2013	November 2012
Share price at date of grant	861.0p	876.5p	641.5p
Volatility	32.78%	32.78%	32.78%
Dividend yield	4.0%	4.0%	2.5%
Remaining option life	27 months	15 months	5 months
Risk-free interest rate	1.40%	1.40%	1.40%
Discount factor, based on dividend yeild to vesting date	0.690	0.718	0.831
Fair value of option	594.0p	629.5p	533.20p

The number and weighted average exercise price of options under the LTIP at 4 July 2015 is as follows:

	Weighted average exercise price 2015	Number of shares under option 2015	Weighted average exercise price 2014	Number of shares under option 2014
Outstanding at beginning of the period	-	794,753	-	866,561
Granted during the period	-	50,494	-	117,307
Adjusted during the period	-	10,747	-	-
Exercised during the period	-	(249,168)	-	(163,962)
Lapsed during the period	-	(437,768)	-	(25,153)
Outstanding at end of the period	-	169,058	-	794,753

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

	2015 £'000	2014 £'000
LTIP	(894)	1,036

Details of LTIP awards lapsing during the period, causing the current period credit, are included in the Remuneration report.

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.

14 Related party disclosure

The amount due to the Company from subsidiary undertakings is set out in note 4. Transactions between the Company and its subsidiaries were as follows:

	2015 £'000	2014 £'000
Cash paid to Group undertakings	2,526	3,167
Cash received from Group undertakings	(191,300)	(104,782)
Dividends received	35,887	100,000
Net interest receivable	5,378	4,737

Key management personnel

All employees of the Company are key management personnel.

Directors of the Company and their close relatives control 55.4% (2014: 55.7%) of the voting shares of the Company.

Disclosures relating to remuneration of Directors are set out in the Remuneration Report on pages 48 to 70.

15 Subsequent events

Dividends amounting to £95m have been declared, authorised and paid by Dunelm (Soft Furnishings) Limited to Dunelm Group plc on 3 September 2015.

Advisers and Contacts

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Investor Relations	investorrelations@dunelm.com Tel: 0116 2644356

1. Calls to this number are charged at 10p per minute plus your phone company's access charge 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.

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