Dunelm

The Home of Homes

Dunelm Group plc

Annual Report and Accounts

for the period ended 1 July 2017

Stock code: DNLM

Dunelm
The Home of Homes

AT DUNELM, WE LOVE HOMES AND ARE JUST AS OBSESSED BY THE PRODUCTS THAT GO IN THEM. WE'RE THE UK'S NO. 1 HOMEWARES RETAILER OFFERING OUR CUSTOMERS OVER 300,000 PRODUCTS TO ENHANCE EVERY ROOM IN THEIR HOME. WE FOCUS ON **style**, **quality** AND **value** AND ARE ALWAYS WORKING HARD TO MAKE OUR CUSTOMERS' LIVES A LITTLE EASIER.

We're a multichannel retailer with 160 out-of-town superstores, four high street stores and a market leading website, Dunelm.com, featuring extended ranges and delivery convenience (Home Delivery, Collect+, Reserve & Collect) via multi-device functionality and our own delivery fleet.

We are really proud of our business culture and we like to do things our own way. We're committed to our suppliers and making Dunelm a great place to work for our colleagues.

Our vision is to be the UK customer's number one choice for Homewares and Furniture. Our medium term ambition is to be twice as big as today, with sales of £2bn, and twice as good as today, for our customers.

Investment Proposition

1 WELL POSITIONED FOR GROWTH

Our growth record has been strong with 38 consecutive years of increased sales and we're always looking out for ways to sell more to our customers. We have a significant opportunity to continue to grow in the UK as we become the customers' number one choice for Homewares and Furniture.

- Number 1 in the £12.4bn Homewares market with 7.9% share. Opportunity to consolidate leadership position in a fragmented sector
- Opportunity to accelerate the growth of our online business with an expanded range, new brands, and improved delivery options, attracting new customers and evolving our model for the future
- Significant growth potential in Furniture where our share is less than 1% in an £11.3bn size market

2 CUSTOMER OFFER

We are always looking for ways to enhance our customer offer. We want to be famous for style, as well as quality and value. We're always looking and listening to ensure we make our customer experience as inspiring and easy as possible.

- We're well known for offering great value and quality across our broad product ranges. We will introduce more fashion and style-led ranges, and leverage our own brands to drive consideration and conversion across our categories
- Investments in our multichannel capability means customers can increasingly shop how and whenever they choose with next day or day of choice home delivery or collection in-store
- Our great people really make Dunelm different. We're proud to offer friendly and knowledgeable service to our customers, not pushy sales people

3 OPERATING MODEL

Our low cost operating model provides a solid platform for continued growth. We've invested sensibly over the years and will remain agile enough to respond quickly to changes in the marketplace.

- We're not held back by an over-priced or over-sized retail estate. In fact, we know we can still open more stores in key locations across the UK
- Our focus on cost and reducing waste ensures that we run a lean business and allows us to reinvest for growth and maintain great pricing for our customers
- We've grown up with many of our suppliers. Their skills and experience complement our own, and we are committed to maintaining great relationships and working with suppliers to create a more efficient supply chain

4 LONG TERM VALUE CREATION

We make decisions for the long term which means that levels of investment activity can rise and fall. We always want to do the right thing for our business and stakeholders.

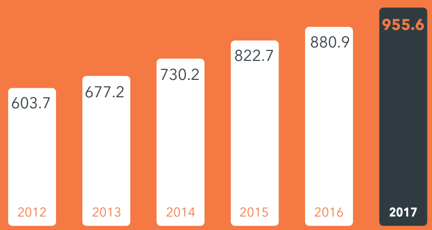
- As a highly cash-generative business with a conservative capital structure, we have the ability to re-invest and/or distribute our free cashflow each year
- As a large employer and a responsible business, we care about our communities and environment too. Whilst increasing employment numbers and community activities year on year, we have still managed to reduce emissions and waste
- Our progressive distribution policy has increased dividend per share each year since floating on the London Stock Exchange in 2006

See our business model on page 10

Highlights

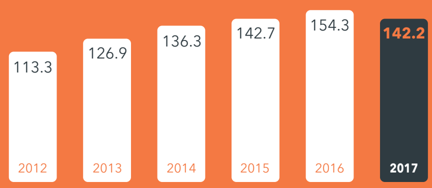
Revenue
£m

+8.5%
(2016: +7.1%)



EBITDA*
£m

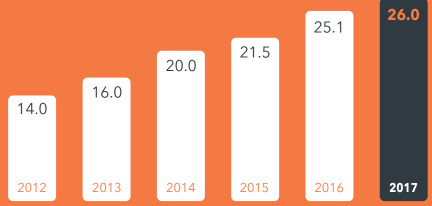
-7.8%
(2016: +8.1%)



* EBITDA is presented before exceptional costs.

Dividend Per Share
Pence

+3.6%
(2016: +16.7%)



Operational Highlights

- Continued increase in Homewares market share leadership to 7.9% (2016: 7.8%)†
- Acquisition of Worldstores in November 2016 creating a springboard for online growth and range development. Business plan for accelerated growth established and integration well under way
- Opening of seven new superstores in the year, completion of 11 new format refits, further development of the Distribution Centre (DC) sites in Stoke
- Customer proposition development including strong growth in seasonal ranges and Made to Measure, and new extended ranges online
- Strong business plan progress in a transitional year for Dunelm to support continued growth

† GlobalData Retail research (see page 8 for further details)

Financial Highlights

- Sales growth of 8.5% (2.3% excluding Worldstores) in challenging and subdued Homewares and Furniture markets
- EBITDA of £142.2m (pre exceptional items), down 7.8% year on year reflecting investment for growth and consolidation of Worldstores trading losses
- PBT of £109.3m (pre exceptional items), inclusive of -£10.7m of Worldstores operating losses in year
- Acquisition of Worldstores out of administration for £1 consideration with approximately -£20m cash impact in year
- £60.5m capital investment in year including freehold property, IT infrastructure development, and new and refit stores
- 3.6% increase in full year dividend to 26.0 pence per share

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At a Glance

SUSTAINABLE LONG TERM VALUE CREATION

OUR VISION IS TO BE THE CUSTOMER'S NUMBER ONE CHOICE FOR **homewares** AND **furniture**.

FAMOUS FOR STYLE, VALUE, QUALITY AND EASE OF SHOPPING.

What we do

We're the UK's No. 1 Homewares retailer offering our customers great products to enhance every room in their home. We focus on style, quality and value and are always working hard to make our customers' lives a little easier.

- 30,000 products in store
- Over 300,000 products online
- Over three million customers visit our stores and websites each week
- Which? Recommended provider in Homewares and Furnishings
- House Beautiful awards: Favourite Homewares Retailer 2016
- Made to Measure curtains and blinds service including home fitting
- Home Delivery, Reserve & Collect and Collect+ service

How we performed in 2016/17

- Continued sales growth and outperformance of the market
- Substantial investment for future growth
- Seven new stores opened and 11 refits completed
- Growth online complemented by Worldstores acquisition

SALES GROWTH
+8.5%

LIKE FOR LIKE (LFL) HOME DELIVERY SALES GROWTH
+23.5%

UNDERLYING DUNELM EBITDA
£152.9m[1]

CAPITAL INVESTMENT
£60.5m

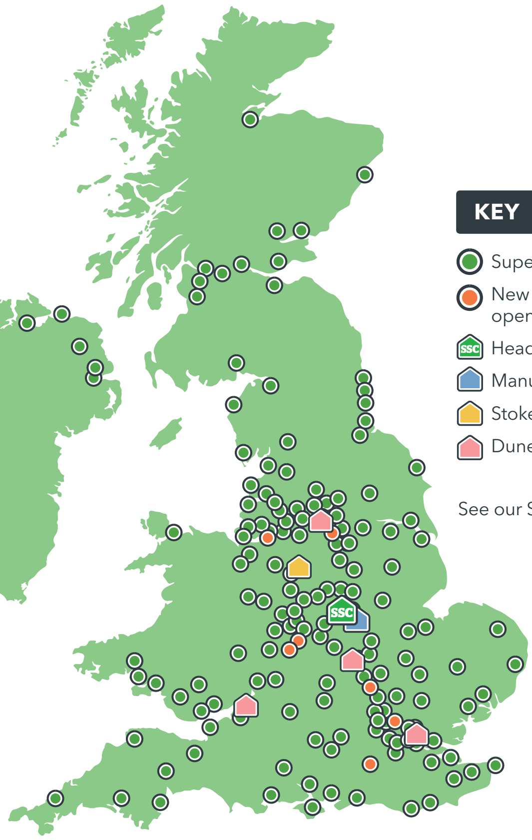
DIVIDEND PER SHARE GROWTH
+3.6%

1 Underlying Dunelm EBITDA is presented before Worldstores losses and exceptional items to highlight pre-acquisition business performance

Where we operate

We're a UK retailer with nationwide coverage including Northern Ireland. We also sell products to overseas customers in selected countries within the EU via our Home Delivery proposition.

- 160 superstores and four high street stores
- Store Support Centre in Leicester and office in London
- Two Distribution Centres in Stoke-on-Trent
- Contact Centre in Radcliffe
- Two Manufacturing Centres in Leicester
- Four Dunelm Home Delivery Network sites (Barnsley, Northampton, Bristol and Dartford)



KEY

- Superstores as at 2 July 2016
- New superstores opened since 3 July 2016
- Head Office: Store Support Centre
- Manufacturing
- Stoke I & II Distribution Centres
- Dunelm Home Delivery Network Sites

See our Store Listing on page IBC

Our Business Goals

We have four clear business goals which help us continually shape our business for our customers and the future.

1. **Create new reasons for customers to shop with Dunelm**
2. **Easy and inspiring for customers to shop**
3. **A simple and low cost operating model**
4. **A great place to work for colleagues**

Read more about our our vision & strategy on page 40

Our Business Principles

We have a unique culture stemming from our entrepreneurial beginnings and a set of business principles we live by.

- Sell more
- Be committed
- Do things our own way
- Keep it simple

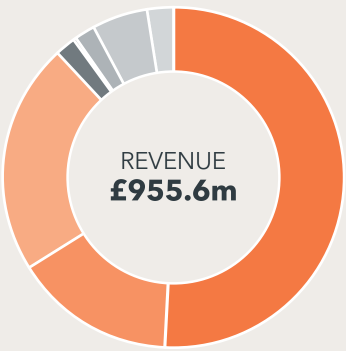
Our People

One of our business goals is to make Dunelm a great place to work for our colleagues.

- Over 9,000 colleagues, 67% female at year end FY17
- Over 100,000 training hours completed by colleagues during the year
- 73% of retail management positions filled by internal appointments
- Average length of colleague service is four years
- 6,500 pieces of colleague feedback received through our new engagement survey system

Read more about our people on page 40

How our Revenue is spent:



- Cost of sales **£488.0m**
- Labour costs **£144.8m**
- Other operating costs **£211.1m**
- Exceptional items **£16.9m**
- Financial items **£2.4m**
- Corporation tax **£19.3m**
- Dividends **£51.6m**
- Value retained by the Company **£21.5m**

Chairman's Statement

CONTINUED GROWTH IN A CHALLENGING MARKET

"WE HAVE CLEAR AND AMBITIOUS PLANS TO DELIVER SIGNIFICANT PROFITABLE GROWTH OVER THE MEDIUM TERM AND WE ARE MAKING GOOD PROGRESS DELIVERING THE BENEFITS OF THE WORLDSTORES ACQUISITION."

At Dunelm, we aim to be the number one choice for homewares and furniture in the UK. We will achieve this by building on the strengths which have underpinned our success to date; our extensive choice of good quality, great value products, backed up by friendly and knowledgeable service, in our nationwide network of over 160 stores.

In addition, we are extending our online offering. The acquisition of Worldstores represents a big leap forward in our online scale and capability, together with a substantial expansion of our online product offering, especially in furniture. There is still much to do to integrate fully this acquisition and to deliver its benefits to our customers, colleagues and shareholders, but the progress so far is very encouraging.

Over the medium term we are aiming to double our sales to £2bn, with 30-40% from the increasingly important Online channel. It has been a busy year and I would like to thank our wider leadership team and all our colleagues for their hard work and commitment, which is at the core of our success.

Performance

Over the last financial year we grew our total sales by 8.5% to £955.6m, with the benefit of £54.5m of sales from the Worldstores acquisition. We have continued to win share in a challenging and subdued market environment. Our like-for-like sales were 0.5% lower but our Online sales were up 23.5% (excluding Worldstores), demonstrating the changing pattern of customer shopping habits. We still see more opportunity to grow our national store network and we opened seven new superstores in the year, taking our network to 160 superstores.

Underlying profit before tax, before exceptional items, fell by 15.2% to £109.3m, the main reasons being the expected losses from the newly acquired Worldstores business, increased investment and the small reduction in our like-for-like store sales. We stepped up capital investment in the business to £60.5m from £42.5m last year to support the delivery of our strategic goals and longer term growth, with key investments in our IT systems, supply chain, website and stores. Profits after tax and exceptional items fell to £73.1m (2016: £102.3m).

Dividends

The Board has recommended a 2.1% increase in the final dividend to 19.5 pence per share, bringing the total dividend for the full year to 26.0 pence per share, an increase of 3.6% on the previous year. This dividend increase will reduce our dividend cover below our policy but it reflects both the large one-off costs associated with the Worldstores acquisition and our confidence in Dunelm's future growth prospects. We retain our strong balance sheet and our strong underlying cashflow. Principally as a result of the Worldstores acquisition and an increase in our inventories, which we do not expect to be repeated, our net debt at year end increased to £122.1m (2016: £79.3m).

Board Changes

Our Chief Executive, John Browett, stepped down in August and I would like to thank John for the progress made during his tenure. We have started a search to find his replacement. In the meanwhile, we have a strong executive team and I shall provide temporary leadership, ably supported by our Deputy Chairman, Will Adderley and our CFO, Keith Down.

Let me also thank Simon Emeny, our Senior Independent Director, for his admirable ten years' service on our Board. Simon will step down at our AGM and the appointment of his successor is well advanced.

Outlook

We have clear and ambitious plans to deliver significant profitable growth over the medium term and we are making good progress delivering the benefits of the Worldstores acquisition. We expect the trading climate to remain challenging with the disposable income of UK consumers under pressure. Nevertheless, we have a full programme of management actions to further improve the Dunelm customer proposition, both online and in-store, to enhance our business efficiency and to support our colleagues.

Sales in the first two months of the new financial year have started positively, with good LFL sales boosted by favourable weather comparatives. We expect to open eight new stores in the first half of the year, of which four are already open. An encouraging start.

Andy Harrison
Chairman

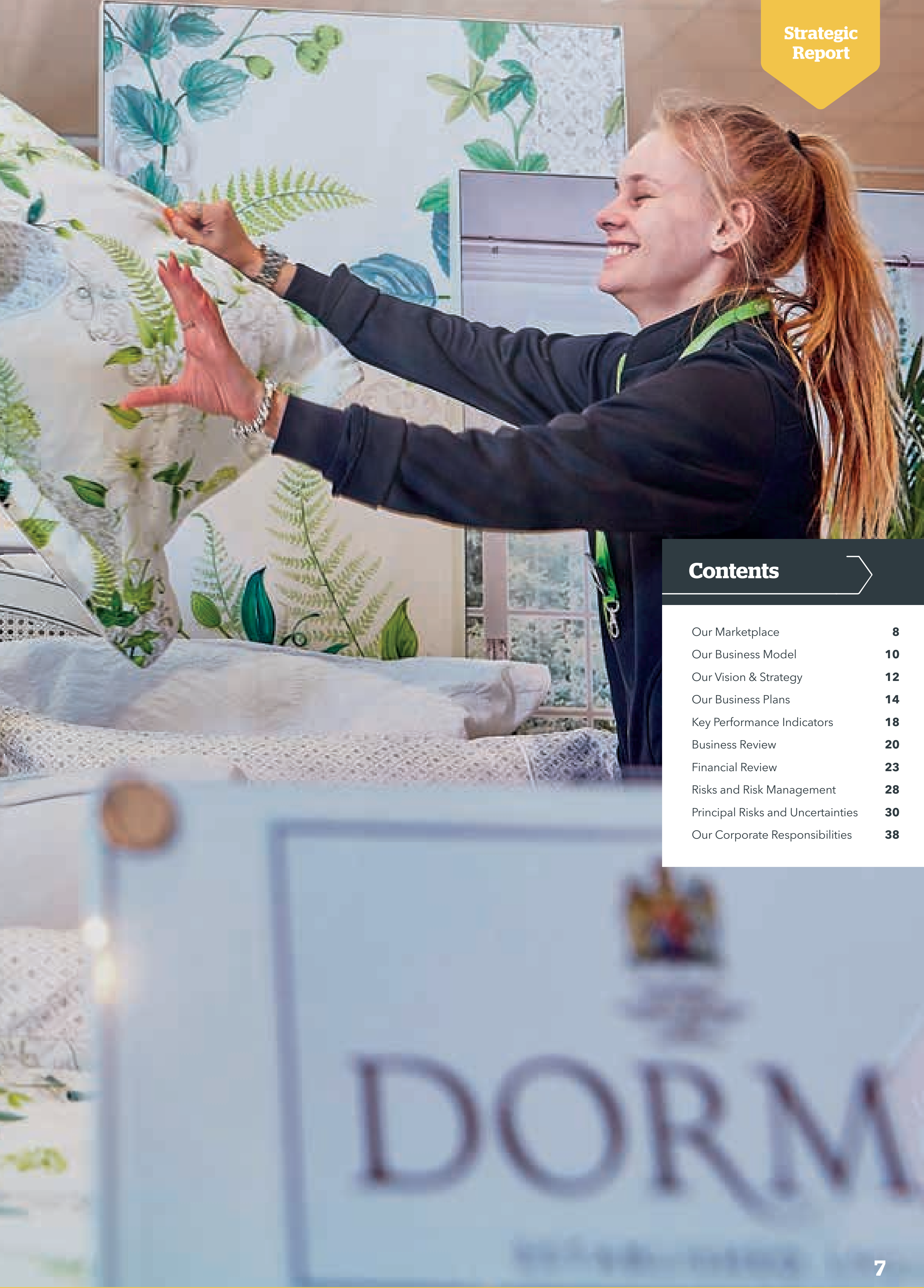
13 September 2017

Dunelm

The **Home** of Homes

WE HAVE CLEAR AND AMBITIOUS PLANS TO DELIVER SIGNIFICANT PROFITABLE GROWTH OVER THE MEDIUM-TERM. WE ARE AIMING TO **double** OUR **sales** TO **£2bn** WITH 30-40% FROM THE INCREASINGLY IMPORTANT **online channel**.

Strategic Report



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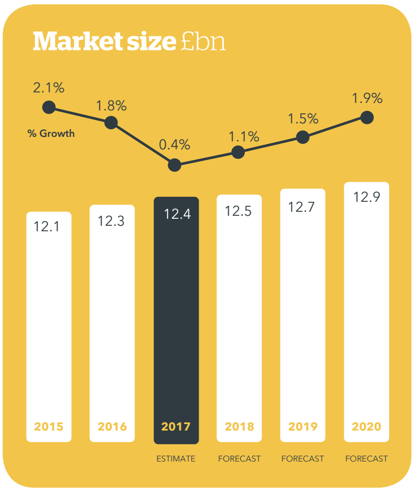
Our Marketplace

WELL POSITIONED FOR GROWTH

The Homewares Market*



Headlines

The UK homewares market is worth over £12bn per year. Based on estimated GlobalData research for calendar year 2017, growth has been minimal and driven by price, not volume. Our internal analysis, based on actual weekly sales data for our trading period, suggests the market may actually have been in decline. The market is expected to return to stronger growth in 2018.

Online penetration is still growing, to 13.6% in 2017 (2016: 12.6%), and is forecast to reach 16.2% by 2020. Improved convenience through shorter delivery times and cheaper deliveries will support growth.

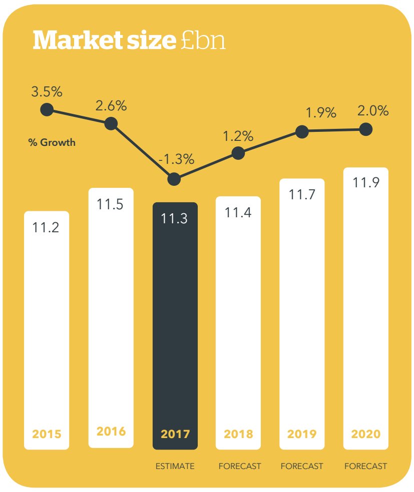
Stores continue to play a key role in the shopping journey with research highlighting an increasing importance of the in-store experience to consumers.

Most consumers purchase homewares every four to six months and the most frequent and highest spending shoppers are 25-34 year-olds. Younger shoppers especially are influenced by trends and design-led ranges.

Key growth drivers and inhibitors

+ Store space and new formats improve experience
+ Fashion and design-led ranges increase visit frequency
+ Online provides more choice and convenience
− Economic uncertainty, inflation and price competition
− Leisure favoured over retail

The Furniture Market†



Headlines

The UK furniture market is estimated to be worth £11.3bn in 2017. The market is expected to decline in 2017 (first decline since 2012), impacted by economic uncertainty and lower consumer confidence, and the impact of the exchange rate on price inflation. The market is expected to return to stronger growth from 2018 onwards.

Cost pressures, including labour costs (national living wage and apprentice levy) and input cost increases from weaker sterling, are expected to lead to further price increases across the market over the next 12 months.

Online penetration is growing rapidly to 15.3% in 2017 (2016: 13.7%), and is forecast to reach 19.0% by 2020 with customers becoming more comfortable with shopping this channel and benefitting from broader ranges, convenient delivery and lower pricing.

The market is expected to continue to consolidate with independents declining most, as costs erode margins, and online retailers capitalise on the benefits of the channel to attract and convert customers.

Key growth drivers and inhibitors

+ Online growth: lower overheads, broader ranges, keener prices, convenient deliveries
+ Growth in sales of bedroom furniture categories will be driven by increasing well-being and health awareness
− Economic uncertainty, inflation and price competition

* Homewares market data is based on GlobalData analysis. The methodology has been revised in the last 12 months; prior years and forecast market sizes, including retailers' market share analysis, have been amended to reflect better available information.

† Furniture market data is based on GlobalData analysis.

“Online retailing is driving growth in our markets, and is now part of customers’ everyday shopping experience with stores playing even more roles in a multichannel world. Our combined store and online offer will be greater than the sum of the parts, enabling us to offer a leading proposition.”

Andy Harrison CHAIRMAN

Getting closer to our customers – The Dunelm Home Lovers

THIS LAST YEAR, WE COMPLETED A MAJOR PIECE OF MARKET RESEARCH TO FIND OUT MORE ABOUT HOW TODAY’S CUSTOMERS SHOP FOR THEIR HOMES.

Over 6,000 UK shoppers took part in our research. We chatted to them, we went shopping with them (to Dunelm and to other retailers) and we even visited their homes.

Importantly, we captured data on how much they spend on their homes, across which categories, in which retailers and why. This has helped reveal where our opportunities lie and helped us shape our strategy.

We identified seven customer segments, and everybody in the market fits in to one of these segments, based on their attitudes towards their home and how they shop for it.

There are four customer segments who really love their homes, and spend more accordingly. We have called these the Dunelm Home Lovers. This is where we are focusing our efforts.

We are closer than ever before to what makes our customers tick, and this is helping to:

- Support our business strategy through better understanding of value in the market
- Improve advertising effectiveness through targeted communications and channels
- Help our teams when building ranges, styles, brands and pricing
- Develop our new store formats based on customer needs and feedback

This research has helped us define and prioritise activities within our business goals:

1 Create new reasons for customers to shop with Dunelm

- Introduce more new ranges and increase range refresh
- Introduce more seasonally relevant ranges
- Introduce more design-led and trend ranges
- Offer more choice online with a broader product offering
- Expand contemporary brand ranges such as 5A and Elements

2 Easy and inspiring for customers to shop

- Provide more inspiration through smaller, more frequent seasonal catalogues and better imagery
- Refit our stores to provide more inspirational displays
- Use better imagery to inspire customers on our websites
- Improve our web navigation and filters
- Develop Click & Collect service for extended ranges
- Offer improved home delivery options including next day and nominated day services
- Reduce queues at our tills by introducing in-line tills

What’s important to homewares shoppers?*

The top three most important customer priorities remain value for money, quality and price. In-store convenience and experience have been more highly rated by customers this year, and customer service expectations have also increased.

	2017	2016
Value for money	90.4	90.1
Quality	90.3	89.6
Price	87.6	87.8
Range	80.0	83.6
In-store experience	75.3	72.2
Convenience in-store	74.8	70.7
Customer service	73.8	68.3
Online experience	63.0	65.4

Our business plans focus on these issues, ensuring that we continually adapt and evolve to create the best customer proposition we can.

* Percentage of homewares shoppers rating each factor 7 or more out of 10, with 10 being highest importance. Data from GlobalData How Britain Shops Homewares survey of 10,000 shoppers

Our Business Model

DEVELOPING DUNELM. THE HOME OF HOMES

What we do

PRODUCT

Provide a leading range of quality, great value products for all customer groups.

- Over 30,000 products in store with 30% annual range refresh and frequent promotional buys to retain interest
- High levels of in-store availability to take home today
- Over 300,000 items available online for Home Delivery

SERVICE

Support customers throughout their shopping journey with friendly and knowledgeable colleagues in-store, ready to help.

- Over 9,000 colleagues, over 100,000 training hours per year
- High in-store Net Promoter Scores (NPS) highlight customer satisfaction and provide feedback on how to improve
- Dedicated customer service centre in Radcliffe, Manchester available to support customers seven days a week

MULTICHANNEL CONVENIENCE

Give options to customers on how they want to shop. Online or in-store, Home Delivery or collect+.

- Mobile and tablet friendly websites allow on-the-go browsing with clear pricing, product information and customer reviews
- Multiple delivery options and free or low cost delivery charges
- A conveniently located out-of-town superstore estate allowing customers to touch and feel products and seek expert advice

What makes Dunelm different

Low cost STORE ESTATE, ROOM FOR GROWTH

Friendly service, NOT PUSHY SALES PEOPLE

Multichannel GROWTH OPPORTUNITY

No.1 market leader IN HOMEWARES

COMMITTED TO **Supplier relationships**

Own brands and broad ranges, COMBINING STYLE, VALUE AND QUALITY

Multichannel offer, LOOK AND FEEL IN STORE

Our culture and Business Principles

OUR BUSINESS PRINCIPLES UNDERPIN OUR CULTURE AND ENCOURAGE US TO DO THE RIGHT THINGS WITH THE LONG TERM IN MIND

Sell more	Be committed	Do things our own way	Keep it simple
MERCHANDISE SUPPLIER RELATIONSHIPS KEEP LISTENING AND LOOKING	CUSTOMER FOCUS MOTIVATE OUR TEAMS DEVELOP OUR PEOPLE	BE THE UNDERDOG LONG TERM DECISIONS	WASTE ENVIRONMENT KEEP OUR COST STRUCTURE LEAN

“At Dunelm, we’re always looking for ways to make homes better.”

Will Adderley DEPUTY CHAIRMAN

Our Vision & Strategy

Our Vision

THE CUSTOMER’S NUMBER ONE CHOICE FOR HOMEWARES AND FURNITURE. FAMOUS FOR STYLE, VALUE, QUALITY AND EASE OF SHOPPING. £2BN SALES, 30-40% ONLINE, TWICE AS GOOD FOR OUR CUSTOMERS.

Our Goals

Goal One – CREATE NEW REASONS TO SHOP

Goal Two – EASY AND INSPIRING TO SHOP

Goal Three – A SIMPLE AND LOW COST OPERATING MODEL

Goal Four – A GREAT PLACE TO WORK FOR COLLEAGUES

Our Business Plans

	Goal One	Goal Two	Goal Three	Goal Four
DIGITAL	✓	✓	✓	✓
NEW STORE FORMAT		✓		✓
PRODUCT	✓	✓	✓	✓
FURNITURE	✓			✓
MADE TO MEASURE	✓			✓
STORE OPERATING MODEL			✓	✓
SUPPLY CHAIN			✓	✓
KIDDICARE	✓			✓

Long term value creation

FOR OUR CUSTOMERS

- Ever increasing reasons to shop at Dunelm. With new ranges, new departments, new products and new services
- Everyday low prices, two end of season clearance sale events per year
- An easy shopping experience, how and wherever customers want to shop
- Inspiration across channels to help make homes more comfy, cosy and stylish

FOR OUR PEOPLE AND COMMUNITIES

- Stable and secure employment in a growing business with opportunities to develop and progress
- A fair pay deal with pay rates above National Minimum/National Living Wage levels, plus additional benefits
- A strong commitment to our relevant nominated charities, helping us give back
- Focused on doing the right thing for the environment by reducing emissions and waste

FOR OUR SHAREHOLDERS

- A clear strategy for continued growth, with targeted investment for long term value creation
- Focus on cost control to maximise efficiency and return on capital employed
- Strong free cash flow generation allowing invest/distribute decisions to be made
- A progressive dividend policy with growth in dividend per share each year since flotation

Our Vision & Strategy

WHAT WE ARE SETTING OUT TO DO

OUR VISION IS TO BE THE CUSTOMER'S NUMBER ONE CHOICE FOR HOMEWARES AND FURNITURE.

FAMOUS FOR STYLE, VALUE, QUALITY AND EASE OF SHOPPING.

Dunelm
The Home of Homes

Our customers are changing, we have to continually adapt and evolve our offer

We have done well. We are the number one in the UK Homewares market and we are loved by customers today.

The world around us is changing fast. The web is part of almost every customer's shopping journey – whether for inspiration, research or purchasing. Stores now play lots of roles in a multichannel world.

Our competitive set is evolving rapidly – from discounters who are opening lots of stores to online pure-play retailers who offer huge ranges and slick service. Some of them have very different approaches to profit and this can be disruptive.

We have to set our business up to sell more in the future – whilst sticking to our principles of lean, low cost and doing things our own way.

We must continue to give customers clear (and more) reasons to shop with Dunelm. We will be famous for style, value, quality and ease of shopping.

This means well designed, brilliant quality, own label products at the best possible prices. We must offer more than today – more newness, choice and seasonality and desirable brands in Dorma, Fogarty and Kiddicare. Our range must be ten times as big as it was in the past, with hundreds of thousands of products available to order online.

Getting our product must be easy – anytime, anywhere. Our stores must be worth visiting, providing inspiration, advice, product trial and a window on our entire range. Our websites must be easy and inspiring to shop, with painless delivery and collection options. We will always look out for ways to make homes (and shopping for them) better.

We will broaden our appeal. Everyone will feel at home in our home – starting out, settled down, well off, hard up, classic tastes, bling-loving, sofa surfer or day tripper.

This is Dunelm, The Home of Homes for tomorrow, as well as today.

How we will get there

To us, this will feel like continual adaptation and evolution. To our customers, it will just be what they expect of us.

We will focus on four Business Goals:

1. **Create new reasons for customers to shop with Dunelm**
2. **Easy and inspiring for customers to shop**
3. **A simple and low cost operating model**
4. **A great place to work for colleagues**

The detail of what we will deliver

To achieve these goals, we will make big changes for customers and colleagues. These are things we have been working on in our Business Plans.

Goal One
Create new reasons for customers to shop with Dunelm

2016/17 Achievements
- Acquired Worldstores, Kiddicare and Achica
- Increased the quantity of new products to 16.0% for Autumn Winter 2017 (FY16: 14.6%)
- Introduced bigger Christmas and Summer Living ranges, with sales growth of 48% and 76% respectively

2017/18 Objectives
- Continue to develop our market leading homewares offer with more new and seasonal products
- Transform customer choice with over 300,000 products on Dunelm.com
- Develop our Dorma, Fogarty and Kiddicare brands
- Focus our furniture offer on occasional items, beds, mattresses and upholstery
- Improve our Made to Measure (M2M) blinds and curtains online offer
- Introduce Kiddicare to our Dunelm stores – a new category bringing new customers

Goal Two
Easy and inspiring for customers to shop

2016/17 Achievements
- Opened seven new stores and completed 11 major new format refits
- Rolled out 89 in-line tills, reducing queues and freeing up seasonal space
- Launched tablet-based selling in-store
- Acquired a two-man fleet capability allowing nominated and next day white-glove delivery service
- Started a seven-day made to measure curtains service

2017/18 Objectives
- Introduce Click & Collect service
- Implement mobile point of sale technology with chip and pin – enabling us to sell our whole range, in every store
- Offer improved home delivery options, with our own fleet
- Offer an even better Dunelm.com – with the best of Worldstores and Dunelm
- Complete at least ten refits with our latest concepts

Goal Three
A simple and low cost operating model

2016/17 Achievements
- 1-man, Kiddicare and Achica supply chain fulfilment consolidated into our Stoke DCs
- Completed paperless project and improved process through use of technology in our offices
- Revised people structures in-store to re-organise and streamline workload, and create more customer-facing time
- Developed new stock management routines in-store

2017/18 Objectives
- Work with our key suppliers to improve efficiency through the supply chain
- Continue to improve our processes – to ensure we deliver the right stock, right time, right place, right route
- Continue to simplify store operations, freeing up time for service
- Focus on right first time delivery for stores

Goal Four
A great place to work for colleagues

2016/17 Achievements
- Took steps to align our terms across the business to ensure a fair employment deal for all colleagues including our new Worldstores, Kiddicare and Achica colleagues
- Increased store manager internal appointments from 25% to 73%
- Relaunched our "key business principles" and further embedded them in our business

2017/18 Objectives
- Focus on improving processes, to provide more rewarding jobs
- Continue to develop our home-grown talent
- Provide more leadership training and support
- Continue to build a commitment to Dunelm through our business principles

How our goals join up with our 8 Business Plans

		DIGITAL	NEW STORE FORMAT	PRODUCT	FURNITURE	MADE TO MEASURE	STORE OPERATING MODEL	SUPPLY CHAIN	KIDDICARE
Goal One	CREATE NEW REASONS TO SHOP	✓		✓	✓	✓			✓
Goal Two	EASY AND INSPIRING TO SHOP	✓	✓	✓					
Goal Three	A SIMPLE AND LOW COST OPERATING MODEL	✓		✓			✓	✓	
Goal Four	A GREAT PLACE TO WORK FOR COLLEAGUES	✓	✓	✓	✓	✓	✓	✓	✓

Dunelm The Home of Homes

Our Business Plans

HOW WE MANAGE OUR STRATEGIC GROWTH ACTIVITIES

DIGITAL

- CREATE NEW REASONS TO SHOP ✓
- EASY AND INSPIRING TO SHOP ✓
- A SIMPLE AND LOW COST OPERATING MODEL ✓
- A GREAT PLACE TO WORK ✓

Ambition

Sell more by extending the range offer on Dunelm.com and creating seamless interaction between our stores and our websites. Significantly improve our Home Delivery proposition for customers.

Achievements this year

- Acquisition and integration of the Worldstores business
- 23.5% growth on Dunelm.com
- 38.3% growth in web-exclusive extended ranges online

Plans for next year

- Launch of greatly expanded Dunelm.com
- Nominated day/next day offer for a wider range of products
- Launch Click & Collect service

NEW STORE FORMAT

- CREATE NEW REASONS TO SHOP
- EASY AND INSPIRING TO SHOP ✓
- A SIMPLE & LOW COST OPERATING MODEL
- A GREAT PLACE TO WORK ✓

Ambition

Step change the shopping experience for customers, broadening the appeal of our stores, and encouraging more browsing and cross-category shopping.

Achievements this year

- Four store format trials developed, 11 refits, seven new stores
- Installed inline tills and doubled seasonal space in 89 stores
- 37 LED fit-outs completed

Plans for next year

- Ten major refits
- Ten new stores planned
- Format trials for M2M and furniture

PRODUCT

CREATE NEW REASONS TO SHOP ✓

EASY AND INSPIRING TO SHOP ✓

A SIMPLE & LOW COST OPERATING MODEL ✓

A GREAT PLACE TO WORK ✓

Ambition

Broaden customer appeal through product and price. Create more reasons to visit online and in-store every week. Focus on growth in sleep and soft furnishings categories.

Achievements this year

- Sales growth in seasonal ranges with Christmas +48%, and Summer Living +76%
- Range refresh increased to 16%, introducing new styles and more design-led product
- Introduction and growth of new brands (Kiddicare, 5A and Elements)

Plans for next year

- Focus on innovation, style and trends
- Continue seasonal product growth
- Increase market leadership of sleep and soft furnishings categories

FURNITURE

CREATE NEW REASONS TO SHOP ✓

EASY AND INSPIRING TO SHOP

A SIMPLE AND LOW COST OPERATING MODEL

A GREAT PLACE TO WORK ✓

Ambition

To become the UK customer's number one choice for furniture. Widening range by combining Dunelm and Worldstores offers. Initial focus on three power categories and leverage of our brands.

Achievements this year

- Major range refresh
- Trialled room-set layout in-store
- Grew Home Delivery sales on Dunelm.com by 9.8%

Plans for next year

- Launch sleep and sit zones in-store
- Expand and enhance Made To Order offer in-store and online

Our Business Plans
CONTINUED

MADE TO MEASURE

- CREATE NEW REASONS TO SHOP ✓
- EASY AND INSPIRING TO SHOP
- A SIMPLE AND LOW COST OPERATING MODEL
- A GREAT PLACE TO WORK ✓

Ambition
Inspire shoppers with custom-made curtains, blinds and shutters for their homes. Make ordering, delivery and fitting easy across all channels.

Achievements this year
- Grew blinds and shutters sales by 25%
- Consultants based in-store to increase productivity
- Trialled reduced lead times

Plans for next year
- Launch expanded M2M online service
- Improve sale and fit service for customers
- Roll-out seven-day delivery

STORE OPERATING MODEL

- CREATE NEW REASONS TO SHOP
- EASY AND INSPIRING TO SHOP
- A SIMPLE AND LOW COST OPERATING MODEL ✓
- A GREAT PLACE TO WORK ✓

Ambition
Make Dunelm an even better place to work and shop by freeing up colleague time to spend with customers.

Achievements this year
- Launched simplified operating structures
- Implemented new stock routines

Plans for next year
- Tablet selling tools in-store to showcase and sell our entire range
- Continue to focus and re-direct colleague hours towards customer service

SUPPLY CHAIN

CREATE NEW REASONS TO SHOP

EASY AND INSPIRING TO SHOP

A SIMPLE AND LOW COST OPERATING MODEL ✓

A GREAT PLACE TO WORK ✓

Ambition

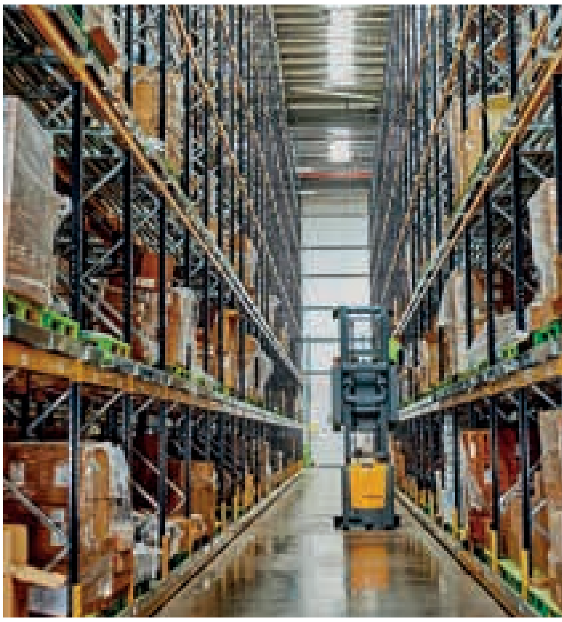
Develop a market-leading integrated multichannel supply chain capability, ensuring product is delivered to stores and customers efficiently, and that high levels of availability are always maintained.

Achievements this year

- Opened Stoke DC2, doubling capacity
- Migrated Home Delivery, Kiddicare and Achica operations into Stoke
- Acquired two-man delivery capability (Dunelm Home Delivery Network)

Plans for next year

- Develop Home Delivery Network
- Focus on supply chain efficiency
- Simplify store deliveries and facilitate click & collect



KIDDICARE

CREATE NEW REASONS TO SHOP ✓

EASY AND INSPIRING TO SHOP

A SIMPLE AND LOW COST OPERATING MODEL

A GREAT PLACE TO WORK ✓

Ambition

An extra reason for customers to shop with Dunelm, driving incremental sales and profit. Increase footfall to stores and traffic online, attracting and retaining a new younger customer.

Achievements this year

- Transitioned the Kiddicare Peterborough store to the Dunelm store network
- Developed business plan for growth
- Developed concession trial concept

Plans for next year

- Trial Kiddicare departments in stores
- Rebrand Dunelm Kids as Kiddicare
- Grow Kiddicare web channel

Key Performance Indicators

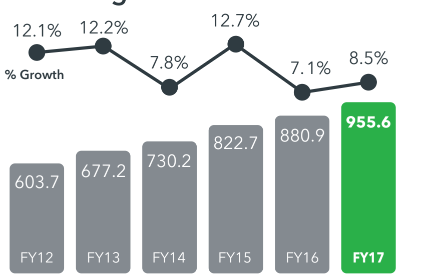
KEY PERFORMANCE INDICATORS (KPIs) ARE USED BY THE BOARD AND THROUGHOUT DUNELM TO MONITOR BUSINESS PERFORMANCE.

The KPIs set out in this summary are those considered to be most relevant to understand the performance of Dunelm over time.

Link to Business Goals:

1. Create new reasons for customers to shop with Dunelm
2. Easy and inspiring for customers to shop
3. A simple and low cost operating model
4. A great place to work for colleagues

Total Revenue
£m and growth %



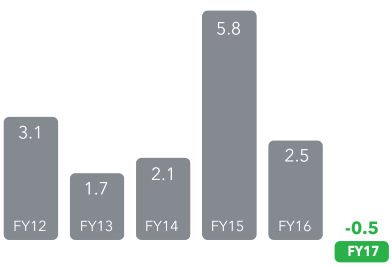
Growth of 8.5% includes a 6.2 percentage point increase attributable to sales from Worldstores for the last seven months of the year. The underlying Dunelm business (pre-Worldstores) grew by 2.3% in the year.

Sell More is a Business Principle and our strong record of continued sales growth reflects the ambition and culture of Dunelm.

This measure, which coincides with market share growth, is central to our vision as we become the customer's number one choice for Homewares and Furniture.

Link to business goals: 1 2

Total LfL Revenue
growth %

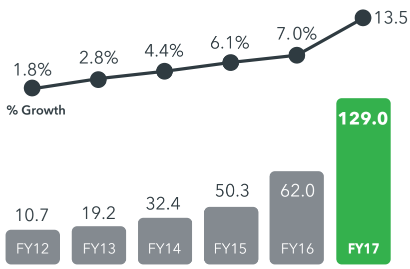


The small LfL decline of -0.5% reflects lower footfall in stores (-2.4% store LfL), partially offset by strong online Home Delivery growth (+23.5%).

Creating more reasons for customers to shop with Dunelm is the Business Goal which is core to our strategy of driving sales growth.

Link to business goals: 1 2

Home Delivery Sales
participation %



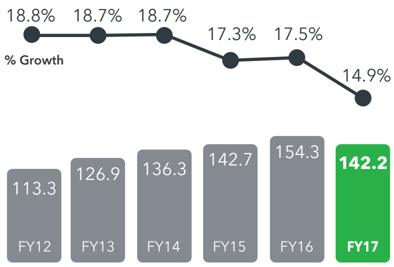
Home delivery sales now exceed 13% of total sales and include a five percentage point benefit from the Worldstores acquisition. Underlying Dunelm Home Delivery participation would otherwise have increased to 8.5% in the year.

Our digital growth ambition to offer a seamless multichannel experience to customers means that monitoring growth in this KPI is important to understand our progress and success over time.

Link to business goals: 1 2

EBITDA*

£m and % sales



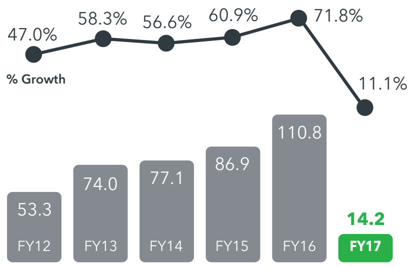
EBITDA has declined this year as we consolidated -£10.7m of Worldstores trading losses, and we have invested ahead of sales growth. We remain committed to growth and our low cost operating model and this measure is anticipated to improve again over time.

EBITDA is a good indicator of the cash generation capability of the business operations before working capital and capex investment decisions. It is important to monitor to ensure that Dunelm maintains its operating cost leadership position.

Link to business goals: 1 2 3

* EBITDA is presented before exceptional costs

Free Cashflow and EBITDA Conversion £m/%† sales



Free cashflow has reduced significantly this year driven by lower earnings, combined with significant investment in stock to drive seasonal product sales and refresh core ranges, and £60.5m of capital investments (up £18.0m year on year).

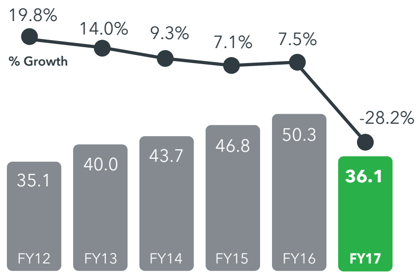
Dunelm is highly cash generative, and has the ability to make investment decisions for the long term to support growth, or to make capital distributions to shareholders. This KPI allows the Board to monitor cash flows carefully throughout the year as investment and distribution decisions are made.

Link to business goals: 1 2 3

† Free Cash Flow and EBITDA Conversion % are presented after exceptional costs

Earnings Per Share

Diluted, pence and growth %



The first decline in diluted Earnings Per Share (EPS) since flotation is largely the result of the trading losses of Worldstores post-acquisition, and subsequent integration costs.

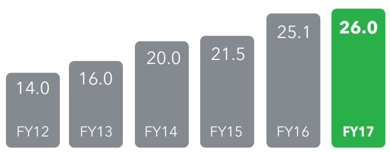
However, the underlying Dunelm business would still have reported a fall in EPS on a standalone basis this year due to the weaker trading performance and impact of operating cost investments. EPS is expected to improve again in FY18.

EPS is a key measure for shareholders and employees and is a component of remuneration calculations. It monitors Dunelm's ability to grow profitably over the long term.

Link to business goals: 1 2 3 4

Dividend Per Share

growth %



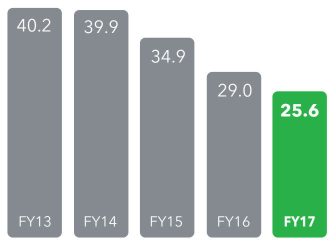
The Board have recommended a 3.6% increase in dividend per share reflecting confidence in the long term cash generation capability of Dunelm and in the strategic plan. Dividend per share has increased each year since flotation in 2006.

With so many colleagues owning shares in Dunelm, dividend per share is an important metric for both external shareholders and for our people as we continue to make Dunelm a great place to work.

Link to business goals: 3 4

CO_2 Emissions

tCO_2e /£1m Group Revenue



Another reduction in emissions highlights the great progress made on a range of environmental initiatives including LED lighting, solar power generation and lower emission vehicles.

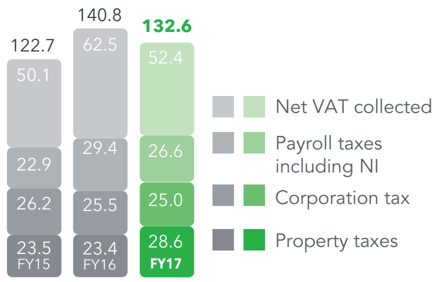
Doing the right thing for the environment is something Dunelm takes seriously and has invested in. We recognise it is important for our colleagues and customers too. It also helps us reduce waste and keep our cost structures lean.

This KPI allows us to assess our progress in reducing our impact on the environment.

Link to business goals: 3 4

Tax Contributions

£m



We aim to comply with all relevant tax legislation and keep our tax affairs transparent and sustainable for the long term. In line with business performance our total tax contributions have decreased to £132.6m in 2016-17.

This measure highlights our contribution to society and conservative tax planning.

Link to business goals: 3 4

Business Review

PREPARING DUNELM FOR FUTURE GROWTH

Dunelm is a great business which has grown rapidly over its 38-year history by offering great value for money for customers. Over time we have developed an unrivalled range of homewares products and a low cost operating model, supported by a strong balance sheet and robust cash generation, which allows us to continue to invest for growth.

Our vision is to be the customer's number one choice for Homewares and Furniture. We want to be famous for style, value, quality and ease of shopping. We are aiming to be twice as big as today, in both sales and profit, and twice as good as we are today for our customers.

Over the last 12 months we have made considerable progress in preparing Dunelm for future growth, while continuing to react to changing market conditions and customer needs. We have grown sales in our core business, and have benefited from further top-line growth from the acquisition of the Worldstores Group in November 2016. This is against the backdrop of a challenging Homewares market in FY17 and warm weather, in the early part of the year, which reduced footfall.

While we have continued to grow faster than the market, our share of 7.9% is still relatively low for a market leader and the £12bn Homewares market remains fragmented. In furniture, where the UK market size is £11bn, our share is even lower, at around 1%. Our position in both markets illustrates the scale of the opportunity still available to Dunelm.

Online growth is impacting all retailers, and is now part of customers' everyday shopping experience. Competition from online pure-play operators and from the discounters is increasing in the Homewares and Furniture markets. However, our combined store and online business enables us to offer a leading customer proposition which neither the discounters nor the pure-play operators can match.

"WE HAVE A CLEAR PLAN AND WE ARE NOW WELL POSITIONED FOR CONSIDERABLE GROWTH AND SUCCESS IN A MULTICHANNEL WORLD… IT IS NOW UP TO US TO CAPTURE THE OPPORTUNITY FOR PROFITABLE GROWTH."

Our customers' needs are clear to us. Inspiration and convenience across channels are essential. Being able to look, touch and feel products remains important in the Homewares and Furniture categories where rendering colour and texture online remains challenging. This gives us confidence in continuing our roll-out of physical stores which remain a highly profitable part of our business. Continued growth in design and style-led purchases also provides us with opportunity to increase footfall and visit frequency.

Offering a convenient home delivery service is key and next-day, nominated day/ time and other services such as furniture recycling are in high demand. In this area, we are really excited by the opportunities on the horizon, as we leverage our Dunelm Home Delivery Network.

We are delighted to have completed the Worldstores acquisition and are excited about the opportunity it provides us to accelerate and develop our multichannel capability. It provides a massive leap forward for our online and store offer which our customers will love including:

- Broader product ranges, with improved sourcing agility and a focus on Furniture
- An improved Home Delivery service for two-man deliveries
- Improved technological capabilities including better websites for customers, and stronger delivery management
- New reasons to shop with Dunelm in the Nursery category via Kiddicare

We anticipate the total investment for the acquisition and integration will be approximately £25-30m, broadly the amount we would have invested ourselves to develop the same capability, but over a longer period. The acquisition means we have been able to accelerate our progress and increase our online presence. We expect to reach near break-even in the Worldstores businesses in FY18 after integration benefits, and anticipate approximately £10m further PBT improvement in FY19.

We have four succinct and enduring business goals which help us shape and prioritise our activities to support growth. These sit above our eight business objectives which we continue to use to co-ordinate actions and monitor progress internally.

Total Revenue growth
%
8.5%
(2016: 7.5%)

Homewares market share
%
7.9%
(2016: 7.8%)

1 Create new reasons for customers to shop with Dunelm

We must never cease to innovate and adapt to offer more categories and services to our customers. We are pleased with the progress we have made in the last 12 months and excited about the ideas we have planned.

We grew our seasonal product offerings across key Christmas and Summer trading periods by 48% and 76%, respectively, and increased the online prominence and marketing of them. We doubled the seasonal space available by refitting the front of store areas with a new till configuration in 89 stores. We believe there is much more potential here and are taking ambitious steps to drive more growth next year.

During the year, we acquired the Kiddicare and Achica brands as part of the Worldstores acquisition. Alongside the Worldstores benefits mentioned above, we are particularly excited by the opportunities Kiddicare provides as a new Nursery category for Dunelm. We have begun work to rebrand our own kids ranges to Kiddicare, and are well progressed with plans to trial opening a number of Kiddicare departments in existing Dunelm stores as part of our refit programme. The largest of these will be 10,000 square feet, a substantial space investment. Kiddicare offers a fantastic range proposition and has the potential to bring new customer groups to our stores and websites, just at the point where they become more interested in our Homewares and Furniture ranges.

With the acquisition of Worldstores, we also now have access to around 300,000 new Homewares and Furniture products which are available to shop on the Worldstores websites. This is a significant extension to our range which our customers will love.

In-store we have changed more products this year and focused heavily on our promotional ranges. We want our customers to see new products each time they visit our stores and websites. We are constantly working to bring a wide variety of styles to our customers. We anticipate that, over time, this will improve our footfall and conversion. Whilst this has had a short term impact on the level of end of season stock we're carrying, it has also created more opportunities for our customers to find a bargain.

In the next year, we are really excited about the planned re-launch of our Made to Measure curtains and blinds offer online. Also, we will make progress on our Furniture offer, improving range, service and economics. We believe we have significant growth ahead of us in these categories.

2 Easy and inspiring for customers to shop (both in-store and online)

Our stores provide a fantastic opportunity for us to showcase product ranges and inspire customers as they browse and shop Homewares. Our websites provide the same opportunity for customers at home or on the go. We are working hard to create a seamless proposition across all channels, making life easier for our customers wherever and whenever they shop with us.

This year we trialled new formats in stores and have since used the learnings to inform the design of 11 major store refits. The customer response has been encouraging and we see this essential maintenance capital expenditure as a real opportunity to make our store environments more inspiring and easier to shop, so as to support sales growth. Our customers have also appreciated our new in-line till layouts which we've continued to roll out this year.

We launched tablet-based selling in-store, providing customers with the opportunity to access the full Dunelm range from a store. We supported colleagues with training on the new tablets and we have also trialled our brand new tablet-based mobile point of sale system which has integrated chip and pin capability. We plan to launch this across the store estate this year. This will allow our colleagues to sell customers our full product range (including Worldstores products), seamlessly for Home Delivery and, in the future, Click & Collect.

Developing a market leading two-man fleet capability is a key priority for Dunelm to unlock the potential opportunity for Furniture growth. The fleet network acquired from Worldstores operates from a series of hubs throughout the UK. This enables us to sell items we don't hold in stock, limiting working capital investment. We have developed and begun implementing plans to improve further the last delivery mile, and provide amazing service for our customers. In April, we began offering Dunelm products via this service and we are well on the way to re-branding and re-working the operation to become the Dunelm Home Delivery Network.

Business Review
CONTINUED

This year we have restructured our Made to Measure business. We have brought our consultants back into store (from previously being out on the road) to enable them to showcase the product range displays to customers more effectively and to reduce appointment waiting times. We have introduced a new seven-day express service, initially in two of our areas. We have also increased the offer of our fitting service from around 100 to 150 stores. This has supported the growth of blinds and shutter sales, up by 25% in the year.

3 A simple and low cost operating model

Our low cost operating model and dedication to keeping things simple has created a straightforward business platform for future growth. As a key business principle, it is essential we continue to keep our business simple and free from unnecessary complexity so we can continue to deliver great value for money.

Last year we consolidated the one-man Home Delivery warehousing operation into our main warehouse facilities in Stoke. This has allowed us to maintain one stock file, improve our product availability for customers, and reduce the cost of transporting product between sites. We have also completed the transfer of the Kiddicare and Achica operations from their previous site in Peterborough to Stoke.

We launched a 'paperless' project last year and have been successful in reducing the amount of paper (and printing) used across the business by 33%. We have broadened the use of technology and introduced more applications for a variety of business activities from colleague scheduling to communications. We will continue to focus on technology as an enabler for improved working practices.

Our focus on activities which have a benefit on the environment continued. During the year, we reduced CO_2 emissions by 5.3%, supported by the completion of 37 LED refits in the year taking the total number of stores with LED lighting up to 125. Our focus on recycling and landfill diversion has enabled us to reduce our General Waste tonnage by 6.5% year on year, generate significant revenues from recycling, and improve our landfill diversion by three percentage points to 92%.

In our stores, we focused on re-organising and streamlining activities to create more customer facing time. We diverted approximately 400,000 hours from operational tasks to customer service and developed improved stock management routines, creating more accurate stock files and better availability for customers when browsing our stores. Stock file accuracy will become even more critical as we develop our Click & Collect service to ensure we don't add additional cost into our operation.

4 A great place to work for our colleagues

Making Dunelm a great place to work has been a long-standing goal as we know that highly engaged colleagues provide better service to our customers.

We are encouraged with the progress made this year in creating better, more rewarding jobs for colleagues in stores and in support functions, and the fact that we're promoting more and more internal colleagues to assistant manager and manager level roles demonstrates improvements we're making to identify and develop talent.

Great leadership makes a huge difference and we have invested more in management and leadership development training and will continue to do this. We've also made big improvements to our internal communications and made changes to numerous people processes including appraisals and recruitment to promote better colleague support and well-being.

We have recently re-launched, company-wide, our business principles which we're really proud of. We want to ensure all colleagues can live these every day.

Summary and Outlook

The progress made last year, combined with the Worldstores acquisition, provides a massive leap forward for our customers. We have made several changes which help us create a seamless multi-channel offer and will support the trading performance of the business going forward.

The improved technology, range and fleet capabilities provided by the Worldstores acquisition, have accelerated our progression and we are excited by the opportunities which Kiddicare will bring in terms of new and existing customer footfall, trading densities improvements and brand recognition.

The Homewares market remains uncertain and favourable weather (cooler and wetter) is never guaranteed. However, we have a clear plan and are well positioned for considerable growth and success in a multichannel world. We already have a leading customer offer which we're making even stronger. We have a low cost operating model which we will protect. It is now up to us to capture the opportunity for profitable growth which lies ahead of us.

Andy Harrison
Chairman

Keith Down
Chief Financial Officer

13 September 2017

Financial Review

CHIEF FINANCIAL OFFICER'S REPORT

Revenue

Group revenue for FY17 was £955.6m (FY16: £880.9m), an increase of 8.5% for the full financial year, including £54.5m of revenues generated by the Worldstores businesses over the last seven months of the year post-acquisition.

On an underlying basis, excluding Worldstores, Dunelm grew by 2.3% to £901.1m in FY17. Like-for-like ('LFL') sales declined by 0.5% as a result of lower footfall in our stores, where LFL sales decreased by 2.4%.

"DUNELM CONTINUES TO DELIVER STRONG CASH RETURNS FROM OPERATIONS PROVIDING THE OPPORTUNITY TO MAKE INVESTMENT DECISIONS TO DELIVER LONG TERM GROWTH"

This was partially offset by a continued strong performance online with Online growing by +23.5%. Over the financial year as a whole, Online sales represented 8.5% of the underlying Dunelm business (FY16: 7.0%).

Including Worldstores' contribution for the last seven months of the year, 13.5% of sales were Online in FY17, and since acquisition, approximately 20% of our total sales order value now originates online.

LFL performance in the year reflected:

- Unusually warm weather which had a dampening effect on footfall in Q1
- Availability being lower than the prior year for most of the first half as a result of disruption following the addition of the new warehouse in Stoke
- The negative impact of Easter falling later in the calendar year
- The benefit of investment in seasonal ranges and space which supported sales in the final quarter

Our store expansion programme continued with seven new openings in the year (of which one was a relocation), increasing our store portfolio to 160 superstores and four stores in high street locations. We also completed 11 major store refits to create an easier and more inspirational shopping experience for customers.

	52 weeks to 1 July 2017		
	Sales (£m)	YoY Growth (£m)	YoY Growth (%)
LFL stores	758.4	-18.7	-2.4%
LFL online	76.5	+14.5	+23.5%
Total LFL	834.8	-4.1	-0.5%
Non-LFL stores	66.3	+24.4	–
Total Dunelm excl. Worldstores	901.1	+20.3	+2.3%
Worldstores*	54.5	+54.5	–
Total Dunelm Group	**955.6**	**+74.7**	**+8.5%**

* Worldstores sales for seven months post-acquisition on 28 November 2016.

Financial Review
CONTINUED

Gross Margin

Gross margin decreased by 90 basis points to 48.9% (FY16: 49.8%), impacted by the consolidation of lower Worldstores gross profit margins of 34%.

On an underlying basis, the Dunelm business was broadly flat year on year. FY17 Q4 gross margin was adversely impacted by a combination of increased newness, generating higher end of season markdown, and increased seasonal sales at lower margin.

As expected, retail price increases offset cost pressures from the USD exchange rate.

Operating Costs before Exceptional Items

Operating costs before exceptional items in FY17 grew by 15.1% compared with the prior year, an increase of £46.7m. Of this increase, £29.6m relates to the operating costs of the acquired Worldstores business for the last seven months of the year. The remaining £17.1m reflects a 5.6% increase in underlying Dunelm operating costs, driven by:

- Store portfolio growth – seven new superstore openings, increasing selling space by 4.9%
- Online – the value of business through this channel rose by 23.5% compared with the previous year
- Logistics spend increased by £6.0m year on year, including the permanent increase in cost base due to the opening of a second warehouse (partially offset by savings from exiting external storage), but also unanticipated one-off transition costs associated with the opening of a new DC and also the movement of our one-man delivery network (£3-4m)
- IT capability – we continue to invest in IT as a key enabler for the future growth of our business. We have continued to increase the scale and capability of our internal IT function as well as incurring further depreciation and amortisation relating to completed projects
- Marketing – increased spend on digital marketing and investment in new brand and seasonal campaigns to drive customer awareness

Looking ahead, a number of volume-based cost increases will apply as we continue to grow. We intend to open approximately 12 new stores next year, and refit a further 10 stores into our new format. We anticipate the transitional expenditure on logistics incurred this year to be a one-off and expect to achieve integration cost benefits of approximately £5m in the next financial year particularly in relation to digital marketing effectiveness and logistics consolidation efficiencies.

Exceptional Items

During the year, exceptional cost items of £16.9m were incurred in relation to the acquisition and subsequent integration of the Worldstores businesses as follows:

	(£m)
Acquisition costs – administrator fees	0.9
Acquisition costs – other professional fees	0.4
Welcome payments for continuation of supply	7.3
Fair value adjustments in respect of acquired inventory	0.5
Key management retention bonuses	2.7
Asset write-offs, impairments and accelerated depreciation	2.9
Other integration costs	2.2
Total	**16.9**

Welcome payments of £7.3m were made to suppliers to ensure continuation of supply and were part of the expected initial working capital outflow.

Fair value adjustments in respect of acquired inventory have unwound as the inventory has been sold.

Key management retention bonuses are potentially payable over a three-year period, and have both retention and performance conditions attached.

As a result of the acquisition, a review of the websites and other intangible IT assets of both the existing Dunelm business and the acquired business has been undertaken. Decisions have been made to integrate the available assets and, as a result, certain assets have been written off and others' useful economic lives have been reduced, resulting in accelerated depreciation. Such cost items have been judged as exceptional and one-off in nature and not part of the underlying trading performance of the Group.

Other integration costs include professional advisory support, and costs associated with the exit of the Peterborough site and transfer into Stoke of the Kiddicare and Achica logistics operations.

Of the above exceptional cost items, £11.3m are cash outflows in the period. Exceptional costs items of approximately £7m are anticipated in the next financial year, of which approximately £4m will be cash outflows.

Earnings Per Share (Diluted)
Pence

36.1p

(2016: 50.3)

Dividend Per Share
Pence

26.0p

(2016: 25.1)

Operating Profit

Group operating profit before exceptional items for the financial year was £111.7m (FY16: £129.3m). This includes operating losses of £10.7m in respect of Worldstores for the seven months post-acquisition.

On an underlying Dunelm basis, operating profit before exceptional items was £122.4m, (-£6.9m or -5.3% year on year) and operating profit margin was 13.6% (FY16: 14.7%) reflecting the more challenging sales environment, the impact of one-off logistics transition costs, and continued investment to enhance key infrastructure and internal capabilities to deliver future growth.

EBITDA

Earnings before interest, tax, depreciation and amortisation before exceptional items were £142.2m, and on an underlying basis excluding Worldstores, were £152.9m (FY16: £154.3m). This represents a small underlying decrease of -0.9% on the previous financial year. The underlying EBITDA margin achieved was 17.0% of Dunelm sales excluding Worldstores (FY16: 17.5%).

After exceptional items and Worldstores losses, EBITDA was £128.2m.

Financial Items

The Group incurred a net financial expense of £2.4m in FY17 (FY16: £0.4m). Interest and amortisation of costs arising from the Group's revolving credit facility amounted to £1.8m (FY16: £1.6m) and net foreign exchange differences on the translation of dollar denominated assets and liabilities amounted to a further £0.6m expense (FY16: gain of £1.1m). These costs were partially offset by interest earned on cash deposits of £0.2m (FY16: £0.1m).

As at 1 July 2017, the Group held $140.0m (FY16: $93.0m), in US dollar forward contracts, of which $107.6m mature in the next 12 months (FY16: $81.5m), representing 69% of the anticipated US dollar spend over the next financial year. Surplus US dollar cash deposits amounted to $0.3m (FY16: $1.6m).

Hedging

Due to the Brexit vote that took place close to the Group's period end in the prior year, the hedging balance was material at 2 July 2016, and additional disclosures were included in the notes to the financial statements. Since this point, the impact of the decline in the USD exchange rate has largely unwound and as a result, the hedging balance has returned to a more "normal" level.

PBT

After accounting for interest and foreign exchange impacts, profit before tax before exceptional items for the financial year amounted to £109.3m (FY16: £128.9m), a decrease of 15.2%. On a comparable underlying basis, excluding Worldstores, Dunelm PBT before exceptional items was £120.0m representing a decrease of 6.9% compared to FY16. Excluding the non-cash net foreign exchange movement year on year of £1.7m, PBT would have decreased by 5.5%.

Improvement in PBT in respect of Worldstores in FY18 is expected to be approximately £12m on an annualised basis (annualised losses for Worldstores were approximately £15–20m in FY17) as the Worldstores businesses approach break-even profitability in the year. A further £10m of PBT benefit is anticipated in the following year.

Taxation

The tax charge for the year was 20.9% of profit before tax, compared with 20.6% in the prior year. This reflects the reduction in the headline rate of corporation tax from 20.0% in FY16 to 19.75% this year; however, it was impacted year on year by a number of ineligible items including acquisition costs and freehold property purchase costs. Without these one-off impacts, the tax charge is expected to trend approximately 75-100 bps above the headline rate of corporation tax going forward, principally due to depreciation charged on non-qualifying capital expenditure.

Financial Review
CONTINUED

PAT and EPS

Profit after tax was £73.1m (FY16: £102.3m).

Basic earnings per share (EPS) for the year ended 1 July 2017 decreased to 36.3p, or 43.1p before exceptional items (FY16: 50.5p). Fully diluted EPS decreased to 36.1p, or 42.8p before exceptional items (FY16: 50.3p).

Operating Cash Flow

Dunelm continues to deliver strong cash returns from operations providing the opportunity to make investment decisions to deliver long term growth. In FY17 the Group generated £79.5m (FY16: £148.2m) of net cash from operating activities. Whilst this is down £68.7m year on year, it includes the impact of the lower underlying Dunelm EBITDA (£1.4m), the trading losses incurred by the Worldstores business since acquisition (£10.7m), and the cash elements of exceptional cost items (£11.3m). Additionally, net working capital increased by £26.2m compared to a reduction of £18.3m last year.

The investment in working capital, which we do not expect to recur, reflects cost price increases, new store inventories and decisions made to increase the level of product refresh to introduce more new ranges for customers (resulting in higher end of season inventories at year end), and to bring forward the intake of seasonal lines in preparation for earlier launch year on year. At the end of the year the Group had £48.7m higher inventories than the prior year including the acquired inventories relating to Worldstores. Trade and Other Payables due within one year increased by £37.7m with growth in capital creditors comprising £2.5m within this.

Capital Expenditure

Gross capital expenditure in the financial year was £60.5m compared with £42.5m in FY16. During the year, we acquired two freehold sites in Shoreham and Darlington (£13.1m), and we invested in new stores (£11.7m), IT projects (£12.7m) and distribution capability (£3.3m). Additional maintenance capital investment of £19.7m was made in refitting stores.

We expect a similar level of capital expenditure in the next financial year, at around £55m to £60m, as we continue to invest to support our long term growth strategy. We plan to open 12 new stores next year, of which two are relocations (requiring an average investment of £1.3m per store), and are aiming to complete 10 major store refits (approximately £20m in total) as well as a number of smaller store-based projects (approximately £5m). We will continue to invest in IT systems and web development (estimated at £15m) and supply chain improvements. We will consider freehold store acquisitions on an opportunistic basis.

Free cashflow after capital expenditure was £14.2m in the year (FY16: £110.4m), reflecting the lower profitability year on year, the investment in inventories, higher capital expenditure and acquisition of Worldstores.

Banking Agreements and Net Debt

The Group has in place a £150m syndicated Revolving Credit Facility ('RCF'), with an optional £75m accordion facility which matures in 2020. 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 1.75× fixed charges), both of which were met comfortably as at 1 July 2017. In addition, the Group maintains £20m of uncommitted overdraft facilities with two syndicate partner banks.

Net debt at 1 July 2017 was £122.1m (0.86× historical EBITDA before exceptional items) compared with £79.3m in FY16 (0.51× historical EBITDA). Daily average net debt in FY17 was approximately £92.2m (FY16: £50.7m).

Capital and Dividend Policy

During FY15, 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.

The Board's policy on dividends is that ordinary dividend cover (by which we mean the Group's earnings per share divided by the total amount paid to shareholders by way of ordinary dividend) should be between 1.75× and 2.25× in the full year in respect of which the dividend is paid.

The Board will consider further special distributions in the future if average net debt over a period consistently falls below the minimum target of 0.25× EBITDA, subject to known and anticipated investment plans at the time.

The Group's full capital and dividend policy is available on our website at www.dunelm.com.

Dividends paid and proposed

Reflecting the capital and dividend policy, an interim dividend of 6.5p per share was paid in March 2017 (FY16: 6.0p). It is proposed to pay a final dividend of 19.5p per share (FY17: 19.1p), subject to shareholder approval. The total dividend of 26.0p represents an increase of 3.6% over the previous year, giving a dividend cover of 1.6×, excluding exceptional items (FY16: 2.0×). This cover level is outside of policy, as described above; however, the Board wishes to signify confidence in the Worldstores integration and believes that dividend progression should be maintained during this investment year. The final dividend will be paid on 24 November 2017 to shareholders on the register at the close of business on 3 November 2017.

During the prior year, the Group returned excess capital of £63.8m (31.5p per share) to shareholders in the form of a special dividend with a total return of £108.4m to shareholders by way of dividend in the year, the equivalent of 53.5p per share.

Retained Earnings

During the previous financial year, the Group undertook a capital restructuring exercise which facilitated the payment of dividends from subsidiary undertakings to Dunelm Group plc of £359m. Consequently, the parent company had retained earnings of £242.8m as at 2 July 2016. The retained earnings of the parent company as at 1 July 2017 was £189.1m.

Share Buy-back

During the year, the Group invested £4.2m to buy 500,000 shares to hold in treasury, in line with its policy to purchase shares in the market to satisfy the future exercise of options granted under incentive plans and other share schemes. At the year end, 1,150,642 shares were held in treasury, equivalent to approximately 48% of options outstanding. Over time, we expect to increase our holding in treasury to be equivalent to approximately 60% of outstanding options.

Tax Policy

The Group maintains its straightforward and transparent tax policy. The aim is to comply with all relevant tax legislation and pay all taxes due, in full and on time as well as actively managing tax affairs and only to engage in tax planning where this is aligned with commercial and economic activity and does not lead to an abusive result. We would normally expect our corporation tax charge to be higher than the statutory tax rate, as noted above. HMRC has recently reconfirmed the Group's low-risk tax status. Further details of the Group's tax policy are available on our website, www.dunelm.com.

During the year, total tax contributions paid to HMRC during the year in the form of corporation tax, property taxes, PAYE and NIC and VAT were £132.6m (FY16: £140.8m).

Treasury Management

The Group Board has established an overall Treasury Policy, day-to-day management of which is delegated to the 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 18.

Keith Down
Chief Financial Officer

13 September 2017

Risks and Risk Management

THE BOARD AS A WHOLE TAKES RESPONSIBILITY FOR MANAGEMENT OF RISK THROUGHOUT THE BUSINESS.

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 promoting colleague shareholding in Dunelm
- Embedding our culture and values

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.

Risk management framework

The Board confirms that:

- There is an ongoing process for identifying, evaluating and managing the principal risks faced by the Group;
- The systems have been in place for the year under review and up to the date of approval of the annual report and financial statements;
- They are regularly reviewed by the Board; and
- The systems accord with the guidance issued by the Financial Reporting Council's guidance on risk management, internal control and related financial and business reporting issued in September 2014.

The diagram below sets out how responsibility for risk management is allocated and how that responsibility is discharged:

Board	**Collective responsibility for managing risk**	• Formal review of principal risks twice annually – one of which is in connection with consideration of the viability statement (see further below) • Separate discussion of a key risk topic ('what keeps us awake at night') • Risk topics reviewed through regular timetabled presentations or papers • Monitors KPIs through Board reports • Executive Directors have line responsibility for managing specific risks
Audit and Risk Committee	**Oversees risk management process**	• Receives report on risk management process twice annually • Formal review of principal risks twice annually – one of which is in connection with consideration of the viability statement (see further below) • Allocates resources for independent assurance reviews of selected risks • Selects topics for 'key risk' reviews by the Board
Executive Board	**Reviews principal risks** **Members have responsibility for managing risk within their area of accountability**	• Formal review of principal risks twice annually • Reviews risk register once a year • Risk topics reviewed through regular timetabled presentations or papers • Monitors KPIs through Executive Board reports • Executive Board members have line responsibility for managing risk within their area of accountability

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	• 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
Audit and Risk Committee	• Oversees effectiveness of internal control • Receives reports from external auditors • Approves independent assurance programme • Receives reports generated through the independent assurance programme
Executive Board	• Responsible for operating within the control framework • Reviews and monitors compliance with policies and procedures • Recommends changes to controls/policies where needed • Monitors performance
Internal Audit Programme	• Independent reviews of matters selected by the Audit and Risk Committee
Operational Audit Team	• Reviews compliance with certain internal procedures in stores and at other locations

The Audit and Risk Committee has oversight of the system of internal controls and of the independent assurance programme and receives the report of the external auditor following the annual statutory audit. For further details please see the Audit and Risk Committee report.

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.

Although no significant control weaknesses have been identified as a result of the review, the Board agreed that the Audit and Risk Committee would look at how assurance of performance against the controls is gained to identify whether any further assurance is needed.

Process for preparing consolidated financial statements

The Group has established internal control and risk management systems in relation to the process for preparing consolidated financial statements. The key features of these systems are:

- Management regularly monitors and considers developments in accounting regulations and best practice in finance reporting and, where appropriate, reflects developments in the consolidated financial statements. The external auditor also keeps the Audit and Risk Committee appraised of these developments
- The Audit and Risk Committee and the Board review the draft consolidated financial statements. The Audit and Risk Committee receives reports from management and the external auditors on significant judgements, changes in accounting policies, changes in accounting estimates and other pertinent matters relating to the consolidated financial statements
- The full year financial statements are subject to external audit and the half year financial statements are reviewed by the external auditor

Principal Risks and Uncertainties

THE BOARD CONFIRMS THAT IT HAS CARRIED OUT A ROBUST ASSESSMENT OF THE PRINCIPAL RISKS FACING THE GROUP, INCLUDING THOSE THAT WOULD THREATEN ITS BUSINESS MODEL, FUTURE PERFORMANCE, SOLVENCY OR LIQUIDITY. THE BOARD'S ASSESSMENT OF THE PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP AND THE MITIGATION IN PLACE IS SET OUT BELOW.

The Worldstores Group was acquired during the year, and, as noted in the interim financial statements in February 2017, the Board decided that "Failure to integrate the Worldstores business successfully" was an additional principal risk which should be added to the register.

Last year we included a separate "Brexit" section. For reporting purposes this has now been absorbed into the "competition, markets and customers" section, the "business efficiency" section, and the "finance and treasury" section, in line with the relevant mitigating actions.

RISK	DESCRIPTION	HOW WE MITIGATE	PROGRESS IN 2016/17
Competition, market and customers **Link to business goals:** 1 2 3 **Performance Indicator:** Market share **Business Plan link:** Store format, Digital (Digital Director); Furniture (Product Director); Made to Measure (Retail Director); Product (Product Director) **Executive responsibility:** Customer Director **Reports to:** Chief Executive **Impact compared to 2015/16:** ⇔	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. A downturn in consumer spending will impact sales and productivity.	• Comparative performance within the Homewares market tracked monthly across all main product categories • Customer insight research gauges relative customer perception and experience • Investment in store design and 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 **Board oversight:** Reviewed annually in depth by the Board at its Strategy Day and through the "what keeps us awake" discussion. Business plan review once per annum.	▷ Dunelm continues to lead the UK Homewares market with an increased estimated share of 7.9% in 2017 (7.8% in 2016) ▷ Detailed customer profiling work completed to inform decisions on product and offer ▷ Improved customer feedback mechanism implemented ▷ Worldstores acquisition has increased our share of the high growth Online market, and enabled us to provide a significantly wider product range and enhanced home delivery service ▷ Enhancements made to our existing Online offer to improve the website for customers ▷ New store formats successfully implemented in seven new stores and 11 major refits ▷ Continued product innovation in existing categories and strengthened seasonal campaigns ▷ Progress made to develop our furniture and Made to Measure offers ▷ Marketing to emphasise the value that we offer across all price points

RISK	DESCRIPTION	HOW WE MITIGATE	PROGRESS IN 2016/17
Brand damage **Link to business goals:** 1 2 4 **Performance Indicator:** Product complaints and recalls **Business Plan link:** Product **Executive responsibility:** Product Director **Reports to:** Chief Executive **Impact compared to 2015/16:** Unchanged	The quality and safety of our products and services is essential to the business. We must also ensure that our suppliers share and uphold our approach to business ethics, human rights (including safety and modern slavery) and the environment. Failure to do so could result in harm to individuals with the potential for customers, colleagues and other stakeholders to lose confidence in the Dunelm brand.	• We have a range of policies specifying the quality of products and production processes which suppliers must adhere to • 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 • All stock and food suppliers and the majority of our other suppliers are required to sign up to our Anti-Bribery and Ethical Code of Conduct which is in line with international guidelines, and also specifically covers modern slavery • We conduct periodic audits on all suppliers of own brand products against our Code of Conduct • Selected non-stock suppliers are assessed against our modern slavery audit **Board oversight:** Ethical trading/modern slavery and product safety reviewed annually ‘in depth’ by the Board.	▷ Committed suppliers and overseas agents continue to work directly with factories to deliver more ‘green’ ratings against our Ethical Code of Conduct ▷ Clearer communication to suppliers about corrective actions and what is expected in order to make the improvements ▷ Food safety procedures in store simplified and training reinforced. Key risks now monitored by operational audit review ▷ Timber policy adopted ▷ Policy on Modern Slavery adopted and awareness programme launched with colleagues and key partners For further information please see the Corporate Responsibilities Report.

Trend direction:

INCREASING UNCHANGED DECREASING

Link to business goals:

1 CREATE NEW REASONS FOR CUSTOMERS TO SHOP WITH DUNELM
2 EASY AND INSPIRING FOR CUSTOMERS TO SHOP
3 A SIMPLE AND LOW COST OPERATING MODEL
4 A GREAT PLACE TO WORK FOR COLLEAGUES

Principal Risks and Uncertainties
CONTINUED

RISK	DESCRIPTION	HOW WE MITIGATE	PROGRESS IN 2016/17
Portfolio expansion **Link to business goals:** 1 2 3 **Performance Indicators:** Number of new store openings and pipeline **Business Plan link:** Store format **Executive responsibility:** Property Director **Reports to:** Chief Executive **Impact compared to 2015/16:** ⇔	Availability of vacant or new retail space in the right location is essential to deliver our strategy to expand our national coverage through growth in our store portfolio. 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 **Board oversight:** Property strategy reviewed annually by the Board.	▷ We have opened seven new stores in the year, including two in the London area ▷ We are planning to open ten new stores in 2017/18 ▷ Emphasis on sourcing stores in the London area, where we are relatively under-represented
People and culture **Link to business goals:** 4 **Performance Indicators:** Colleague retention **Business Plan link:** All **Executive responsibility:** People Director **Reports to:** Chief Executive **Impact compared to 2015/16:** ⇔	The success of the business could be impacted if it fails to attract, retain and motivate high calibre colleagues. Maintaining the culture of our business, embodied in our 'key business principles' is essential to deliver our strategy and ensure the long term sustainability of our business.	• The composition of the Executive team is regularly reviewed 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 • High calibre individuals are retained and developed through sponsored talent management and development • 'Key business principles' in place to describe our values and business culture • The Group's remuneration policy detailed on pages 72 to 85 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 **Board oversight:** People plan and talent management reviewed annually by the Board.	▷ Terms and conditions aligned across the Group (including at Worldstores) to ensure fair and consistent treatment ▷ Store teams restructured to provide greater clarity and visibility of development and promotion opportunities ▷ Further investment in training and development ▷ Key business principles further reinforced through communication and incorporation into recruitment, induction, training and appraisal processes; and through colleague communications ▷ Since year end, the recruitment of a new Chief Executive to replace John Browett, who resigned on 29 August 2017, is a high priority for the Nominations Committee and the Board

RISK	DESCRIPTION	HOW WE MITIGATE	PROGRESS IN 2016/17
Regulatory, environment and compliance **Link to business goals:** 2 3 4 **Performance Indicators:** Prosecution and other regulatory action **Business Plan link:** All **Executive responsibility:** Company Secretary **Reports to:** Chief Financial Officer **Impact compared to 2015/16:**	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.	• Policies and codes of practice are in place outlining mandatory requirements within the business for all key compliance 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 • Dedicated Group Health and Safety function to oversee this aspect of compliance • 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 • We have a whistle-blowing procedure and helpline which enables colleagues to raise concerns in confidence **Board oversight:** Monthly Board report on Health and Safety. Health and safety reviewed in depth by the Board at least annually. Non-compliances reported by the Company Secretary by exception.	▷ Implementation plan adopted for the General Data Protection Regulation ▷ Compliance policies and controls at Worldstores Group brought in line with Dunelm standards ▷ Training on Modern Slavery Act completed by all senior managers, and Modern Slavery statement published ▷ Health and safety policies and audit procedures strengthened through more focused audits and user-friendly training

Trend direction:

INCREASING UNCHANGED DECREASING

Link to business goals:

1 CREATE NEW REASONS FOR CUSTOMERS TO SHOP WITH DUNELM
2 EASY AND INSPIRING FOR CUSTOMERS TO SHOP
3 A SIMPLE AND LOW COST OPERATING MODEL
4 A GREAT PLACE TO WORK FOR COLLEAGUES

Principal Risks and Uncertainties
CONTINUED

RISK	DESCRIPTION	HOW WE MITIGATE	PROGRESS IN 2016/17
IT systems, data protection and cyber security **Link to business goals:** 2 3 4 **Performance Indicators:** Number of major incidents **Business Plan link:** All **Executive responsibility:** Chief Information Officer **Reports to:** Chief Executive **Impact compared to 2015/16:** **Previous category:** IT systems, sensitive data and cyber risk	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. The risk of loss of data including customer data could have a significant adverse reputational impact.	• Business critical systems are based on established, industry leading package solutions, or are established systems which have been developed in-house with full support in place • A detailed IT development and security roadmap is 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 • Information Security Steering Group in place to oversee the Group's approach to IT security and data protection **Board oversight:** Cyber security is a standard agenda item for the Audit and Risk Committee. IT strategy reviewed annually by the Board. Major security incidents reported by the Company Secretary.	▷ Continued investment is being made in the capability of our IT function and in maintaining and upgrading business critical systems ▷ The IT Roadmap is aligned to and reviewed alongside our strategic initiatives ▷ We have adopted the Government's '10 steps to cyber security' as a template to assess our position; progress has been made against all measures during the year ▷ Controls at Worldstores have been assessed and incorporated into the cyber security programme ▷ Implementation plan adopted for the General Data Protection Regulation
Supply chain disruption **Link to business goals:** 2 3 4 **Performance Indicators:** Service levels in respect of store fulfilment **Business Plan link:** Supply chain **Executive responsibility:** Supply Chain Director **Reports to:** Chief Executive **Impact compared to 2015/16:** **Previous category:** Business interruption and infrastructure	Supply chain disruption could disrupt stock flows from DCs to stores and customer's homes, leading to an impact on trading or cost / efficiency implications. Loss of the store support centre, the manufacturing centres, or our contact centre could impact our ability to trade and divert focus from long term strategy and planning.	• Supply chain strategy in place to ensure capacity is in line with five year plan • Physical infrastructure – All Dunelm non-store facilities are subject to disaster recovery plans and could all operate from fall-back facilities • Suppliers – The Group seeks to limit dependency on individual suppliers by actively managing key supplier relationships **Board oversight:** Disaster recovery is a standard Audit and Risk Committee agenda item.	▷ New warehouse facility opened at Stoke to increase capacity and efficiency, and provide a further fall-back facility for our existing warehouse ▷ In-house two-man delivery capability secured through the Worldstores acquisition. ▷ Agreements with partners extended to secure service continuity ▷ Sourcing policy adopted to improve supplier management and robustness of supply for key product categories

RISK	DESCRIPTION	HOW WE MITIGATE	PROGRESS IN 2016/17
Business efficiency **Link to business goals:** 2 3 4 **Performance Indicators:** EBITDA % **Business Plan link:** Store operations, Supply chain **Executive responsibility:** Chief Financial Officer, Stores Director (Store Operations) **Reports to:** Chief Executive **Impact compared to 2015/16:** ↑	Failure to operate the business in an efficient manner leads to additional cost and operating margin pressure, and could constrain our profitability and our ability to compete and grow the business in line with our strategy. Failure to anticipate or manage cost price volatility in key areas such as freight, raw materials, energy and exchange rates may lead to increased cost, margin pressure and lower profitability.	• Costs are managed by the Board and Executive Board through the budget and forecasting process and monthly management accounts reviews • Projects are in place to simplify store processes to reduce store operating costs and improve stock management • Dunelm's scale, growth and increased buying power allows it to secure supply of key services and raw materials at competitive prices. Commodity price tracking covers all key materials • Major non-stock purchase contracts regularly tendered **Board oversight:** Board receives monthly management accounts. Strategic Business Plans and budget reviewed by the Board at least annually.	▷ Our store operating model initiative has delivered productivity improvements enabling us to absorb the additional colleague costs arising from the living wage legislation in 2016/17 ▷ This project will continue in 2017/18 as we absorb further increases in the living wage and the apprenticeship levy ▷ We are working with our suppliers to deliver efficiency improvements to help mitigate the additional costs arising from the fall in the value of sterling following the Brexit vote in June 2016, and other raw material price increases ▷ Our "keep it simple" project has delivered cost savings at our Store Support Centre through streamlining processes and reducing waste
Finance and treasury (including Brexit impact) **Link to business goals:** 3 **Performance Indicators:** Operating cash conversion, Banking covenants, Loan headroom **Business Plan link:** All **Executive responsibility:** Chief Financial Officer **Reports to:** Chief Executive **Impact compared to 2015/16:** ↑	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 February 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. • Hedging is in place for foreign exchange, and freight and energy prices are agreed in advance, to help mitigate volatility and aid margin management **Board oversight:** Board receives monthly treasury report.	▷ Net Debt at the end of the year was £122.1m (0.86× EBITDA before exceptional items). Since our debt is higher than in recent years we are managing our cash more closely ▷ Foreign currency hedges are in place covering approximately 70% of expected purchases in FY18 ▷ The impact of the fall in the value of sterling following the United Kingdom's vote to exit from the European Union has been partly mitigated through efficiency improvements agreed with our suppliers

Principal Risks and Uncertainties
CONTINUED

RISK	DESCRIPTION	HOW WE MITIGATE	PROGRESS IN 2016/17
Failure to successfully integrate the Worldstores business **Link to business goals:** 1 2 3 4 **Performance Indicator:** Sales and gross margin **Business Plan link:** Digital, supply chain **Executive responsibility:** Chief Executive **Impact compared to 2015/16:** NEW	Failure to successfully integrate the Worldstores business could disrupt the core Dunelm business and risk failure to deliver the full benefits of the acquisition.	• Implementation plan in place to focus on driving sales across the combined business, achieving synergies and harmonising risk management and compliance standards to an appropriate level • Focus on ensuring minimum distraction to the core Dunelm business. Dedicated resource allocated to the plan • Retention arrangements in place with key management and Executive team focus on communication and building relationships across both businesses **Board oversight:** Board receives a monthly presentation on progress against the implementation plan.	▷ Combined executive and senior management team in place, many back-office functions combined, and now aligned employment terms and conditions across the Group ▷ Supply chain consolidation commenced, with closure of Peterborough distribution centre and combined two-man fleet ▷ Worldstores products listed on new "Dunelm.com/extra" site ▷ Plan in place to consolidate IT platforms ▷ Consolidation of supply base commenced ▷ Strategic development plans in place for Kiddicare business ▷ Compliance processes harmonised across the Group

Trend Direction:

INCREASING UNCHANGED DECREASING

Link to business goals:

1 CREATE NEW REASONS FOR CUSTOMERS TO SHOP WITH DUNELM
2 EASY AND INSPIRING FOR CUSTOMERS TO SHOP
3 A SIMPLE AND LOW COST OPERATING MODEL
4 A GREAT PLACE TO WORK FOR COLLEAGUES

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. In their consideration of going concern, the Directors have reviewed the Group's future cash forecasts and profit projections, which are based on market data and past experience. The Directors are of the opinion that the Group's forecasts and projections, which take into account reasonably possible changes in trading performance, show that the Group is able to operate within its current facilities and comply with its banking covenants for the foreseeable future.

As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully. Having reassessed the principal risks, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial information. 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 on pages 8 to 36. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 23 to 27. In addition, note 18 to the annual report and 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.

Viability statement

In accordance with provision C.2.2 of the 2016 Corporate Governance Code, in addition to the going concern statement, the Directors have also assessed the prospects of the Group over a longer period.

The Directors confirm that the Group has considerable financial strength, and therefore they have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due for the next five years, ending June 2022.

A period of five years has been chosen as this is the timeframe currently adopted by the Board as its strategic and financial planning horizon, and the business is largely dependent on UK consumer confidence and discretionary spending which is difficult to project beyond this period.

The five-year plan considers the Group's earnings growth potential, its cash flows, financing options and key financial ratios, taking into account the economic outlook and principal risks and mitigating factors affecting the Group.

This assessment of viability has been made with reference to the Group's current position and future prospects, its strategy, the market outlook and its principal risks and the mitigation in place to manage them. These were reviewed by the Directors at their annual Strategy Day in May 2017 when the five-year plan and the budget for the following year was considered and again at the September 2017 Board meeting.

The Board considers that the risk most likely to occur in the near future is a fall in consumer confidence as the terms of the Brexit deal become clearer and an increase in its cost base as a result of the fall in the value of sterling against the US dollar. Price increases would partially alleviate the cost pressure but could be offset by declines in volume. It therefore considers that the likely impact of any of the principal risks materialising would be a reduction in the level of sales growth and possibly a weakening in gross margin.

As a result, sensitivities against the five-year plan have been reviewed by the Audit and Risk Committee and the Board as part of the assessment made to support this statement, together with the actions which could be taken to mitigate these. Account was also taken of the Group's strong balance sheet and relatively low level of debt.

In the scenarios reviewed by the Board, the likely impact could be absorbed over the term of the financial forecasts by making adjustments to its operating plans within the normal course of business (without impacting its external financing or capital and dividend policy).

Our Corporate Responsibilities

HOW WE OPERATE

Our business principles provide a guide to how the Group, the Board and all of our colleagues should behave towards our customers, other colleagues, our suppliers and our local, national and international community. They are set out in our "little book of house rules" which all of our colleagues receive on induction, and all colleagues are appraised against them. We also use our business principles in our colleague communications.

As well as forming part of our business principles, the individual corporate responsibility topics which we report against below form part of the role accountabilities of our Executive Board members and are regular agenda items for the Board and Executive Board.

The diagram below illustrates how we ensure that our responsibilities are discharged:

Board

- Overall responsibility for our corporate responsibilities
- Oversight of the key business principles
- Approves policies
- Executive members have line responsibility for managing specific topics
- Monitors progress through KPIs and Board reports
- Annual presentations on people, Health and Safety and ethical sourcing

Executive Board

- Role models for the business principles
- Members have line responsibility for managing specific topics
- Approves policies prior to submission to Board
- Regular Executive Board meeting agenda items
- Monitors progress through KPIs, Board reports and customer and colleague feedback

Colleagues

- Appraised by reference to our business principles
- Provide feedback of customer and colleague suggestions via our engagement survey, Yammer and colleague council

How we engage

Customers: through customer care, online surveys and social media

Colleagues: weekly email from the Deputy Chairman, in-house magazine, Colleagues' Council, Yammer, instant communication from stores, and "always on" engagement survey

Suppliers: annual conference and meetings throughout the year

Others: social media, corporate website

Customers

Executive responsibility:
Customer Director

Link to business goals:
1 2

Link to business principles:
Sell more
Be committed

Why?

We want to be the customer's number one choice for homewares and furniture – the Home of Homes. We welcome all customers, whatever their age, taste or budget, and offer them the widest range of products for their homes, whenever and however they want to shop.

What?

We will always look out for ways to make homes (and shopping for them) better for our customers. We offer:

- Well designed, brilliant quality, own label products at the best possible prices
- The widest possible range of products, offering choice, newness, seasonality and desirable brands
- Easy access to our products, however they choose to shop (in-store, home delivery, delivery to store)
- Stores which are worth visiting – inspiring, conveniently located, safe and accessible
- Websites that are inspiring and easy to navigate, with painless delivery and collection options
- Friendly and knowledgeable colleagues, in-store, in our contact centre and delivering our products

2016/17 achievements

- We opened seven new stores and completed 11 major refits, all incorporating our refreshed formats
- Customer friendly changes, such as queue-busting in-line tills, made to a larger number of stores
- Store teams restructured to increase service-related activity and specialist training
- Extended our product offer – more seasonal items and thousands more products via our Worldstores acquisition
- Further improvements to our website, including frequently refreshed "get the look" features
- Home delivery standard lead time reduced to 3-5 working days and more next day / nominated day services introduced
- New customer feedback mechanism launched, enabling customers to quickly feed back freehand comments on our service

- We will meet our customers' expectations for safety and ethical and sustainable sourcing
- Our marketing will always be fair and truthful

Awards

- Which? Recommended Provider for Furnishings and Homewares High Street Shop, June 2016
- Readers of House Beautiful Magazine awarded us Gold Home Retailer of the Year 2016 and Silver Online Retailer of the Year 2016
- Café Chain of the Year – Café Life award 2017
- Runner up – British Sandwich Association 'Sammies' award Café / Coffee Bar Sandwich Retailer of the Year 2016

What's next for 2017/18

- We aim to open ten new stores, relocate two new stores and complete ten store refits in our new formats
- We will offer our biggest ever Christmas range, and continue to develop and improve our product offer
- Launch of our Dunelm Extra website – offering a wider range of products online, the majority available for next day delivery
- Equip our store colleagues with chip and pin enabled tablets, making our entire online portfolio accessible for ordering in-store for home delivery
- Launch Click & Collect – customers can order products for collection in their local store as well as home delivery
- Roll out of Kiddicare in store fixtures, offering a complementary product range to existing and new customers
- Our online offer of Made to Measure curtains and blinds will be expanded and lead times reduced substantially

Our Corporate Responsibilities
CONTINUED

People

Executive responsibility:
People Director

Link to business goals:
2 3 4

Link to business principles:
Sell more | Be committed | Keep it simple | Do things our own way

Why?

We believe that a great place to work is a great place to shop – we can only deliver great products and services to our customers through the hard work and commitment of our colleagues.

What?

We employ over 9,000 colleagues across our business; in stores, our distribution and manufacturing operations, our contact centre in Radcliffe, and our store support centres in Leicester and London.

Our people strategy has three elements:

Deliver the basics – provide fair employment to all colleagues, regardless of disability, race, religion or belief, sex, sexual orientation, gender reassignment, marital status or age.

At the end of June 2017, the breakdown of male and female colleagues was as follows:

	Male	Female	% Female
Group Board	7	2	22%
Executive Board	7	4	36%
Senior Management Team	16	7	30%
All other colleagues	2,988	6,033	67%

2016/17 achievements

- Aligned employment terms and conditions across our operations, including Worldstores to ensure consistent terms to all our colleagues
- Delivered training to colleagues, including nationally accredited modern apprenticeships and NVQs; our "sell more" programme; support for colleagues studying for professional qualifications in finance, HR and IT; management and leadership skills workshops; and interactive computer based learning tools
- We changed our graduate scheme to improve our focus on fewer individuals, ensuring that each receives dedicated training, mentoring by a member of the Executive team, and close involvement in strategic project work
- Our new store management structure has provided a clearer development path – in the year we have filled 73% of Retail Management positions internally.
- We relaunched our business principles and took steps to ensure that they are embedded in our ways of working, as described below

Invest in our home-grown talent – "develop our people" is one of our key business principles – providing training and development opportunities helps us retain talent in the business.

Living our business principles – during the year we relaunched the business principles first written over ten years ago by our Deputy Chairman, Will Adderley.

All new colleagues receive our "Little Book of House Rules" explaining our principles. These principles are used in recruitment and appraisals, and embedded into our colleague communications.

Some of the ways we bring our business principles to life include:

- "Housewarming" induction for new starters, to introduce them to us, our products and our way of doing things
- Communication through regular huddles; a weekly topical email; our quarterly Gazette; and our In touch and Yammer intranet communications
- We hold colleague councils where our colleagues can raise and discuss issues – meetings are attended by senior management and the outcome is fed back to the Executive Board
- Our "always on" colleague feedback mechanism allows us to act on issues quickly. A number of key concerns affecting colleagues have been identified and addressed this year
- We held a company-wide "new year celebration" at the end of June 2017, a fun event to celebrate our achievements over the year

What's next for 2017/18

- Continue to work at aligning our employment proposition consistently across all of our sites and businesses
- Continue to develop our people, including those on our graduate scheme, and participating in the launch of the first retail "degree apprenticeship"
- A company-wide engagement survey (in addition to the "always on" survey), using this to better inform the way we communicate and engage colleagues throughout their career
- Do things our own way in recruitment, targeting varied candidate pools for selection. Linked to this we are developing a new careers website to better reflect our employment brand
- Issue our reports under the gender pay gap requirements

Health and Safety

Executive responsibility:
Chief Executive

Link to business goals:
2 3 4

Link to business principles:
Sell more | Be committed | Keep it simple

Why?

We want to ensure the safety and well-being of our customers, our colleagues and all our visitors. We have a Group Health and Safety manager who ensures that the appropriate policies and procedures are in place, and regularly reports to the Group Board and the Executive Board.

What?

The Board is responsible for the creation and implementation of our Health and Safety policy and procedures, which include an effective system of 'upward' and 'downward' communication, appropriate standards for monitoring performance and 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.

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. At our Stoke distribution centres we have a dedicated Health and Safety Adviser. Risk assessments are in place at all Company sites 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 and distribution centres 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 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 we ensure colleague involvement through the Colleague Council.

2016/17 achievements

- Health and safety processes at Worldstores premises brought in line with Dunelm standards. New procedures implemented for new distribution fleet
- Store fixture and furniture safety reviewed following widely publicised "Top Shop" customer accident
- Programme started to eliminate forklift truck usage in store warehouses
- Strengthened procedures relating to contractors working in stores, with a focus on working at height and roof working
- Continued review of the current Health and Safety processes with specific focus on areas of highest risk such as the new Stoke warehouse, and where needed, provide further training materials and support
- Provided Institution of Occupational Safety and Health (IOSH) "Managing Safety" training to Area People Managers and Shift Managers at our Stoke and Workroom operations
- Implemented a simplified and focused induction DVD and validation quiz for all store colleagues

What's next for 2017/18

- Launch "Clean As You Go" policy in all stores to help mitigate the risk of trips, slips and falls
- Support and strengthen distribution Health and Safety procedures within the Home Delivery Network management framework.
- Launch half day Health and Safety training course for new managers and store premises key holders
- Continue to focus on safety within our distribution network which now includes the addition of four Worldstores sites
- Continue to provide Health and Safety training and development to senior management throughout the business
- A new trailer fleet for Stoke DC will be operational in January 2018 which will allow additional forklift trucks to be removed from stores

Suppliers and Human Rights

Executive responsibility:
Product Director

Link to business goals:

1 3 4

Link to business principles:

Sell more | Be committed | Keep it simple | Do things our own way

Why?

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. They must demonstrate that they operate in accordance with recognised standards that uphold human rights and safety, prohibit modern slavery and promote sustainable sourcing.

What?

Fair and consistent – One of our business principles is to deal with our suppliers in an open and honest way. We ask all of our suppliers to sign our standard terms and conditions in advance of commencing trade, and we have signed up to the Prompt Payment Code. The number of days' purchases outstanding for payment at 1 July 2017 was 38 days (2016: 38 days).

Human rights – Suppliers of products for resale with whom we trade directly are asked to sign our Code of Conduct, based on the Ethical Trading Initiative ('ETI') base code, with a strengthened section on slavery. Suppliers must provide a clean and safe work environment, workers must be treated with respect and earn a reasonable wage, and relevant local laws and regulations must be met.

Effective management of human rights throughout our supply chain is built into our product procurement procedures. Our in-house technology team has extensive experience of working with factories to improve quality and ethical standards. Our Far East sourcing partners monitor standards and work to improve them on our behalf.

All suppliers of Dunelm branded products must have a satisfactory audit in place which is no more than two years old, and a valid building and fire safety certificate. From 2016, we have used two Pillar SMETA audits, which cover the Dunelm code and a wider range of qualitative measures. During 2017/18 we will establish these standards for suppliers of our Worldstores, Kiddicare and Achica branded products. Supplier branded products are not subject to audits but suppliers sign our Code of Conduct (or equivalent) and an assessment is made of their standards and capability.

Where non-compliance is discovered we work with a supplier to help them achieve compliance, usually within three months. Critical non-conformances such as use of child labour, working against choice/slavery or absence of valid Building or Fire Certificates 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.

Modern slavery – In 2016 we assessed our own facilities and supply base (products and services) for modern slavery risk and have required the major providers to sign our Code of Conduct. Our audits of suppliers of our Dunelm branded products also covers modern slavery. Our statement made pursuant to the Modern Slavery Act 2015, which contains further information, is available at www.dunelm.com. In the coming year, we will extend this to the Worldstores business which we acquired in the year.

Provenance – We are raising our provenance requirements, with particular emphasis on timber sourcing, cotton, animal welfare, feathers and down, polyester and use of microfibres. We will be strengthening our policies and practices in these areas.

2016/17 achievements

- Worked with suppliers to remove those operating from any shared multi-storey facilities in view of the heightened risk
- Modern slavery awareness training provided to colleagues in our Stoke distribution centre and our distribution partners; all management colleagues completed online training
- Worldstores technology team joined the Dunelm team and work started to harmonise procedures and standards
- Worldstores suppliers brought on to Dunelm trading terms
- Assessment made of high risk countries of origin and materials for provenance and slavery issues
- Timber policy adopted and feather and down policy and processes strengthened

What's next for 2017/18

- Dunelm quality, ethical sourcing and audit standards to be extended to all Worldstores, Kiddicare and Achica own branded products, and to Pausa coffee shop suppliers
- Implement supply chain mapping solution to obtain greater visibility of risk beyond the first tier of suppliers
- "FastForward" audits to be introduced for all UK manufacturers of own brand products to assess for modern slavery risk
- Assess our non-stock and Pausa supply base for slavery risk

Community

Executive responsibility:
Customer Director

Link to business goals:

1 4

Link to business principles:

Sell more | Be committed | Do things our own way

Why?

We aspire to be responsible members of our community, as this reflects our aim to always do the right thing; it also matters to our shareholders, customers and colleagues.

What?

We are proud to support Home-Start UK as our "charity of the year". Collections are made in-store, specific fundraising events are organised both by individuals and business areas 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 each month.

2016/17 achievements

- Colleagues participated in a number of events, including the London Marathon, the Three Peaks Challenge, fancy dress end of year party, as well as raising money through raffles, bake sales and sample sales
- Charity cupcakes have been sold in Pausa coffee shops. Home-Start UK merchandise boxes and donation tins are in each store, and discontinued stock has been donated via Home-Start UK to families in need
- The total value of charitable donations made by the Group in the period ended 1 July 2017 was £35,998 (2016: £58,541).
- Total funds raised for charity by the Group and colleagues were £365,774 (2016: £231,328). Of this, £340,776 was raised for Home-Start UK

We also support colleagues who are raising money for charities of their choice, often by matching the sums raised. All colleagues are entitled to, and are encouraged to take, an extra day's paid leave to undertake charitable activities, either individually or as a team.

We donate funds raised from English and Scottish carrier bag sales to Home-Start UK, our charity of the year, and from Welsh carrier bag sales to GroundWork, a charitable organisation which brings people and the environment together with practical local action to build stronger communities. They aim to create more green spaces, and get people back into work through creating green jobs.

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's next for 2017/18

- Second year of our partnership with Home-Start UK
- Continue to support our colleagues in their charitable fundraising efforts by offering an annual day's leave to support charitable activities
- Continue to support local causes and community focuses where possible to ensure we help the communities around our entire estate

Environment

Executive responsibility:
Chief Financial Officer

Link to business goals:

1 2 3 4

Link to business principles:

Sell more | Be committed | Keep it simple | Do things our own way

Why?

At Dunelm we always try to do the right thing, and we are committed to minimising the impact of our business on the environment.

Our Environment & Sustainability Committee is responsible for the development and implementation of environmental strategies to continually improve our recycling and waste management and reduce our energy consumption and carbon (CO_2) emissions. We have recently recruited an Environment & Sustainability Manager who will lead and co-ordinate these efforts across our business.

Recycling & Waste Management

What?

We aim for high levels of recycling across our business. All stores have cardboard balers and colour-coded bins to segregate waste for recycling. Training programmes and communication to increase colleague awareness and compliance are undertaken frequently.

Our Distribution Centres in Stoke recover and process our product packaging from our DC and store operations (cardboard and polypropylene) ready for recycling.

2016/17 achievements

- All sites have been audited in 2016/17 and an ongoing compliance review process has been built into our existing operational audit procedures
- A new audit tool has been developed to record levels of compliance and allow action planning and improved response follow-up in the future
- Audit results highlighted compliance concerns which has led to the introduction of mixed dry recycling (see next page)
- Internal marketing campaigns in 2017 have been held to ensure a consistent promotion of recycling
- Store Manager Conference presentations, and frequent Area Manager briefings have supported this throughout the year
- Recycling now features regularly in our monthly colleague Gazette publication, and new posters in colleague rest rooms, store warehouses, and training academies have been introduced
- We successfully launched a coffee cup recycling collection at SSC in September 2016, recycling approximately 100,000 paper cups in the remainder of the year

We have further mixed recycling collections from our stores for paper, plastic bottles and cans which is then sorted and recycled offsite. We also recycle wooden pallets and metal fixtures. All electrical waste is recycled through a WEEE compliant scheme. Any remaining waste that is not sorted for recycling within the business is sent offsite for further sortation.

Last year Dunelm recycled 79% (2016: 78%) of waste and reduced general waste volumes by over 200 tonnes (-6.5%) in stores despite new store openings. Through collaboration with our waste partners, we have improved total Company landfill diversion to 92% (2016: 89%) and achieved 100% landfill diversion from our Distribution Centres in Stoke. We continue to work with our waste partners to identify alternative solutions to eliminate use of landfill for the remainder of our operational waste and we expect to achieve at least 94% landfill diversion next year.

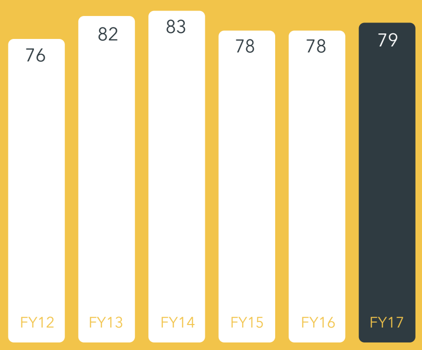
Key objectives

- Our approach to recycling and waste more generally is to adopt the following prioritisation: Reduce, Reuse, Rework, Recycle
- To minimise general non-recyclable waste across the business and reduce use of landfill and other adverse environmental impacts
- To be fully compliant with all relevant waste legislation

What's next for 2017/18

- Continue to improve recycling performance aiming towards 100% landfill diversion over the medium term
- Undertake at least ten "show and tell" waste audits at Dunelm sites to assess recycling performance and engage colleagues across the business
- Explore greater opportunities of working with charities / the reuse sector to make more donations of unsellable stock
- Explore new business opportunities around the circular economy and assess potential opportunities for Dunelm

Waste recycled %



Reduce, Reuse and Rework Initiatives

REUSE
REDUCE
RECYCLE

Reduce

- Our paperless office waste reduction initiative has reduced paper usage by over 60% year on year
- New "less than perfect" stock selling guidance to colleagues has helped reduce general waste collection weight by 20kg per week per store

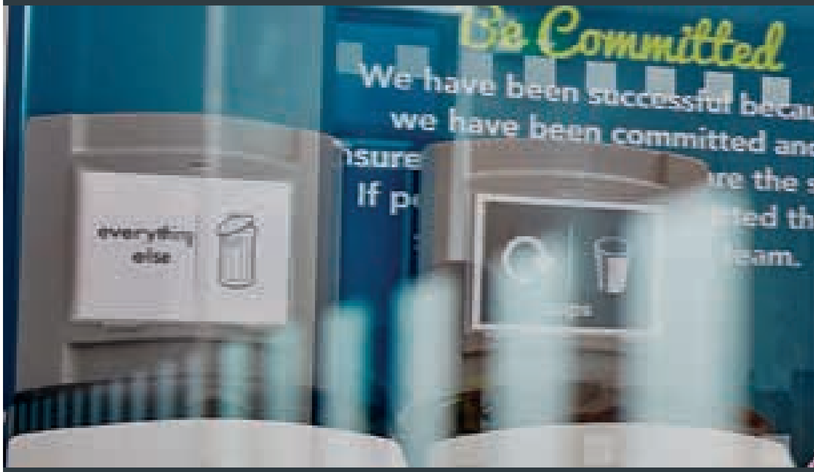
Reuse

- Partnering with the Furniture Reuse Network and our 'Charity of the Year' Home-Start UK, has enabled us to donate products which can't be sold such as quilts, pillows and some furniture
- We now work with over 100 local charities on this reuse initiative

Rework

- In 2017, we have significantly improved the processing of returned furniture and electricals
- These are now fully inspected, tested and if suitable, reworked into brand new condition products for onward re-sale. Alternatively parts are used for spares or sent for WEEE recycling

KEEPING IT SIMPLE FOR OUR **colleagues** AND THE **environment**



What we discovered

- Our compliance audits highlighted that multiple segregation of recyclable items in-store was causing confusion. We had seven different recycling bins in-store as well as general waste bins
- Colleagues found it confusing to choose the correct bin. This impacted compliance and led to contamination of waste
- Our colleagues in Stoke who previously sorted plastic bottles, paper and cans were faced with mixed refuse which was time-consuming and a dirty job to work through

Our response

- We introduced a new mixed dry recycling service in-store, which was collected direct from store by our waste contractor
- A training video and new marketing materials accompanied the programme
- New permanent plastic bins were introduced to replace the cardboard versions that were used previously for recycling, which had a very short lifespan

How this has helped

- Operations are now simplified saving colleague processing time in store and at our DCs
- Recycling compliance has improved significantly. We anticipate an improvement in landfill diversion due to reduced contamination

Our Corporate Responsibilities
CONTINUED

Environment

Energy Use

What?

Dunelm manages energy usage and energy reduction initiatives on a site-by-site basis. 'Smart' meters are fitted to electricity and gas supplies and energy consumption is measured frequently with analytics tools available to help identify issues and opportunities to reduce usage. Building Management Systems ("BMS"), designed to optimise energy use, are fitted as standard across our estate.

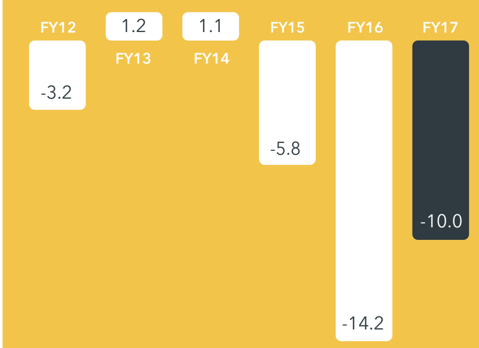
Energy consumption is monitored by our Energy Manager in conjunction with a specialist energy partner. We target underperforming sites alongside the implementation of various energy reduction initiatives to maximise energy efficiency, while maintaining a comfortable trading environment for our customers and colleagues.

We have prioritised a programme to invest in full LED lighting at all sites. All new stores are 100% LED and in total we have retro-fitted 69 stores to this more efficient equipment. 125 stores (77% of the estate) now have LED lighting fitted.

2016/17 achievements

- We continued the LED programme and re-fitted 37 stores with LED lighting, taking the total number of our stores with LED lighting to 125 stores
- Our focus on energy consumption in stores continued, and despite the warm weather in Summer 2016, requiring higher use of power for air conditioning, we achieved a 9.0% reduction in electricity consumption in LFL stores and a 13.7% reduction in gas usage in LFL stores
- Combining electricity and gas, our consumption reduced by 10% in LFL stores
- We continue to monitor the performance of our stores and assess future investments. We currently have 1 site identified for FY18 where solar power will be introduced

Year on year reduction in energy usage %



What's next for 2017/18

- Review the capability and functionality of Building Management Systems across the store estate
- Reduce like-for-like energy consumption by a further 5%
- Assess investment potential for more solar powered sites
- Raise awareness of energy consumption across the business through internal communications

Greenhouse Gas Emissions (CO_2e)

What?

We have invested in photovoltaic systems (solar power) in four of our stores (Leeds, Dunstable, Bristol and Cambridge). These systems replace energy sourced through the national grid with local renewable energy. We continue to monitor performance of these installations to inform future investment decisions as we assess additional sites for solar power generation.

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 specialist partners 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 2017 were 108 CO_2 g/km (2016: 108 CO_2 g/km).

2016/17 achievements

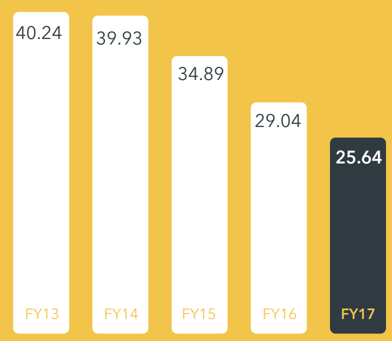
- We have reduced CO_2 emissions by 11.7% year on year compared to revenue growth
- We are currently trialling electric and low emission vehicles to see if they are suitable for operational purposes
- Our work to roll out more LED stores has helped reduce energy usage and lower emissions

What's next for 2017/18

- Reduce CO_2 emissions relative to turnover year on year
- Identify and trial new technologies to reduce greenhouse gas emissions
- Review and access our company car fleet to introduce more zero and low emissions options to colleagues
- Review Home Delivery Network vehicles and performance, setting targets and creating plans to reduce emissions through improving miles per gallon and sourcing more efficient vehicles

CO_2e emissions were as follows:

Intensity Measure – tCO_2e per £1m Group Revenue



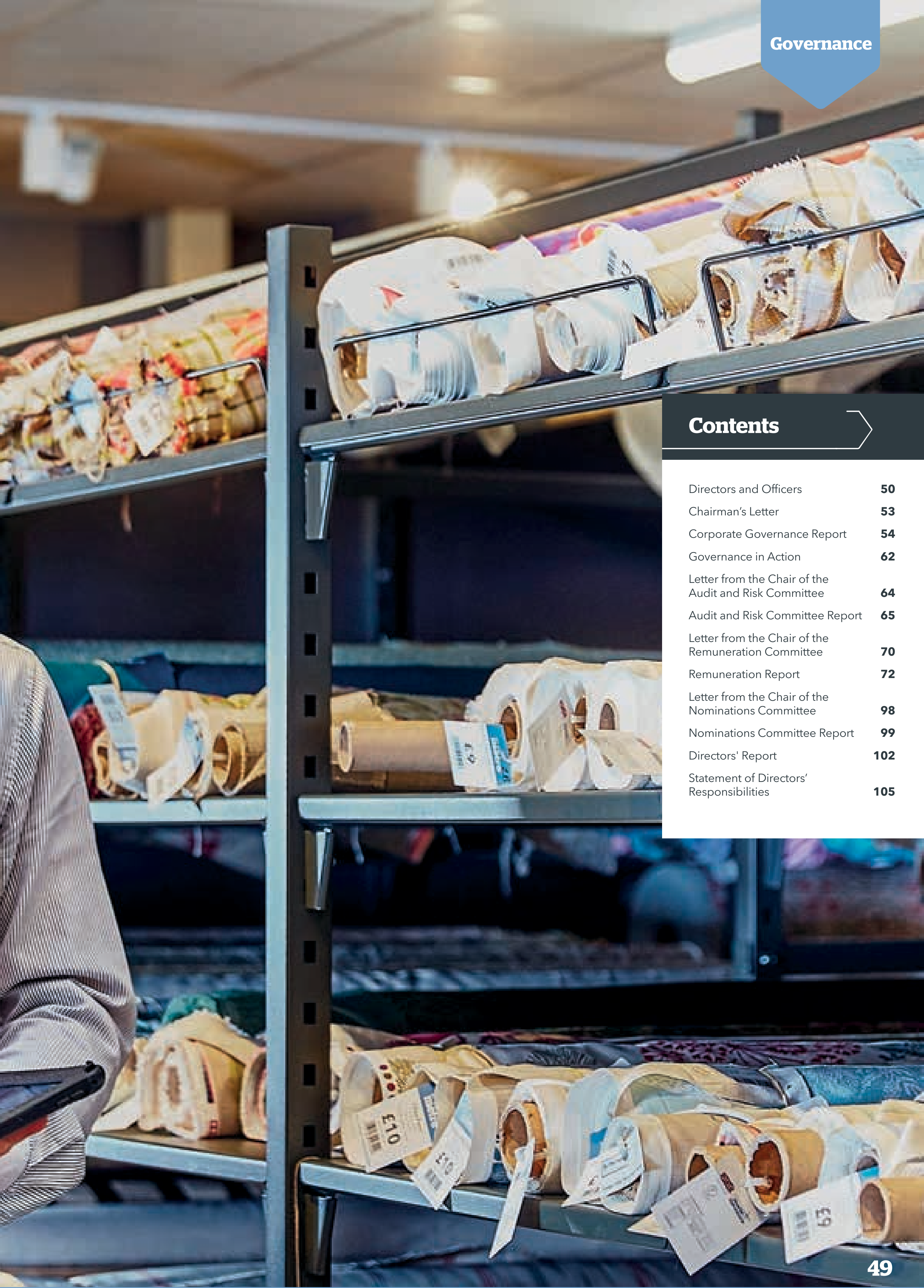
Measuring emissions

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 £1m of turnover' as its intensity measure, reflecting the link between growth, activity and performance.

Governance



Contents

Directors and Officers

Andy Harrison

CHAIRMAN

N R

Chair of the Nominations Committee

Key strengths: A former 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. Chairs the Nominations Committee. 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 Whitbread plc from 2010 to 2016. 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: None.

Will Adderley

DEPUTY CHAIRMAN

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: Director and major shareholder, who spends his time on strategic activities which protect and enhance shareholder value and preserve the Group's culture and values. Member of the Nominations Committee.

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. Resumed his role of Deputy Chairman when John Browett became Chief Executive on 1 January 2016.

Previous experience: All parts of Dunelm's business.

Other commitments: WA Capital Limited.

Liz Doherty

NON-EXECUTIVE DIRECTOR

A N R

Chair of the Audit and Risk Committee

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: Fellow of the Chartered Institute of Management Accountants (FCMA). Finance Director of Reckitt Benckiser plc (2011 to 2013), Brambles Limited (Australia) (2007 to 2009) and Group International Finance Director of Tesco PLC from 2003 to 2007.

Other commitments: Non-Executive Director of Corbion NV and Novartis International AG.

William Reeve

NON-EXECUTIVE DIRECTOR

A N R

Key strengths: A serial entrepreneur and investor with deep digital experience.

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: Co-founder of three internet-related businesses: Fletcher Research, LOVEFiLM.com, and Secret Escapes. Non-Executive Director of numerous others including Graze.com, Paddy Power plc and Zoopla.

Other commitments: None.

Committee memberships

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

Keith Down

CHIEF FINANCIAL OFFICER

Key strengths: Finance background and extensive plc experience in retail and consumer businesses. Understanding of investor community. Strategic and financial perspective across a number of 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.

Joined Dunelm Board: December 2015.

Previous experience: Chartered Accountant who, after qualifying at KPMG, held a number of senior finance roles in convenience retailing and at Tesco PLC. Finance Director of JD Wetherspoon Plc between 2008 and 2011 and Chief Financial Officer at The Go-Ahead Group Plc between 2011 and 2015.

Other commitments: Non-Executive Director of Topps Tiles plc.

Simon Emeny

SENIOR INDEPENDENT DIRECTOR

A N R

Chair of the Remuneration Committee

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 Chair of the Remuneration Committee.

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.

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 and product.

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: September 2015.

Previous experience: Senior positions at John Lewis Partnership (2005 to 2013), Levi Strauss (2001 to 2004) and Ted Baker (1997 to 2001).

Other commitments: Chief Executive of Jigsaw.

Marion Sears

NON-EXECUTIVE DIRECTOR

N

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. Now non-independent, as defined by tenure, but asked to remain on the Board by the Board members and Adderley family. Attends investor presentations and shareholder meetings.

Joined Dunelm Board: July 2004. Marion was Senior Independent Director and Chair of Remuneration Committee 2006-2015 and Chair of Nominations Committee until 2016.

Previous experience: Robert Fleming, JP Morgan Investment Banking.

Other commitments: Non-Executive Director of Persimmon plc, Fidelity European Values plc, Aberdeen New Dawn Investment Trust plc and Director of WA Capital Limited.

Directors and Officers
CONTINUED

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. Member of the Executive Board.

Joined Dunelm: November 2011.

Previous experience: Qualified as a solicitor at Allen & Overy (1988 to 1994). Company Secretary of Geest plc between 1994 and 2005.

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 and frequently visit stores.

Note: John Browett was Chief Executive during the financial year to 1 July 2017. He resigned from the Board on 29 August 2017.

Chairman's Letter

Dear Shareholder

We continue to believe strongly that good corporate governance is a central pillar of building a strong business which delivers sustainable value creation for all our stakeholders. Our approach has always been to apply best practice in a practical way which adds value to our business. Furthermore, good governance is an integral part of our corporate culture, which is centred around our customers, our colleagues and the family origins of our business. Taking long term decisions and treating our customers, colleagues, suppliers and communities with respect will always be an integral part of how we conduct our business.

In 2016 we carried out our regular external Board review, just after the appointment of two new Non-Executives, as well as my appointment as Chairman. This year we asked Lorna Parker, the independent Board Evaluation specialist who carried out the 2016 review, to do a follow-up evaluation. This concluded that while the Group has faced the expected challenges in a fast moving and increasingly competitive retail market, our Board processes have been effective, efficient and thorough, and we have clarity, alignment and a mutual excitement around the medium term strategy. A number of actions were agreed, and further details are set out in the report below.

In August, John Browett, our Chief Executive, stepped down from the Board. I would like to thank John for his contribution to the business and the strategic progress made under his leadership, most notably the exciting acquisition of Worldstores. The Nominations Committee has commenced a search for his successor, to lead the Group in the next stage of our growth, with a leadership style that is fully consistent with our culture.

This year the Board's focus has been on the implementation of the Business Plans developed by the executive team in January 2016, together with the important strategic acquisition of the Worldstores Group in November 2016. Worldstores brings an important new dimension and new skills to Dunelm. We have used this opportunity to refine our vision and rearticulate our strategy, which you can see set out in the Strategic Report.

We asked Simon Emeny to serve an additional year beyond the expiry of his nine year term and to continue as our Senior Independent Director and Chair of our Remuneration Committee, providing continuity and stability as our new Board members and myself settle into our roles. Simon will be leaving us as planned at the AGM in November and we are well advanced with the appointment of his successor. Details of the new Non-Executive Director, and the rearrangement of committee responsibilities, will be announced in due course.

The past year has seen a great deal of change to the environment in which we are operating. The government has recently outlined its proposed regulatory changes which are designed to build on the strong governance regime in the United Kingdom, to ensure that business in general maintains the trust of the public after some high profile corporate failures.

Other bodies, such as the Financial Reporting Council and the Business, Energy and Industrial Strategy Committee, have also issued guidance about the importance of instilling a strong corporate culture, and made recommendations about how Boards should engage with their employees, customers, suppliers and other stakeholders, as well as the conduct of Boards and executive remuneration. We are always keen to improve how we operate, and so we will be reviewing these with interest.

During the year, we have refreshed our Business Principles first articulated by Will Adderley to describe our corporate culture. We shall take further steps to embed these more deeply in our recruitment, appraisal and colleague communication processes. We are looking further at practical ways that the Board can monitor and influence the positive culture which already exists in the business.

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.

I look forward to meeting shareholders at the AGM.

Yours sincerely,

Andy Harrison
Chairman

13 September 2017

Corporate Governance Report

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 April 2016 (the 'Corporate Governance Code'), which is available from the website of the Financial Reporting Council, www.frc.org.uk.

The Board considers that it has fully complied with the Corporate Governance Code during the financial year covered by this annual report. In making its determination, consideration was given to the independence of Simon Emeny, who has served ten years on the Board in June 2017. Further details are given in the section below headed 'Independence of Non-Executive Directors'.

Overview

We share the Government's view that good governance helps companies to take better decisions, for their own long term benefit and that of the UK economy overall. Our approach, which has not changed since the flotation of the Company in 2006, is summarised below:

- 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 copies of the presentations that we made to our major institutional investors and shareholder representatives, available in the 'Reports and Presentations' section of our website, www.dunelm.com.

Board role and composition

The Board has three roles:

Strategy

- Set the strategy to secure the continued growth of the Group over the long term in the interests of our shareholders, taking account of our responsibilities to colleagues, customers, the communities 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 and operational goals and the performance of management
- Ensures that Board balance and committee membership are appropriate and effective, and fully compliant with the requirements of the Corporate Governance Code

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

CHAIRMAN – **ANDY HARRISON***

EXECUTIVES/NON-INDEPENDENTS	INDEPENDENT NON-EXECUTIVES
Will Adderley Deputy Chairman	**Simon Emeny** Senior Independent Director
Keith Down Chief Financial Officer	**Liz Doherty** Non-Executive Director
Marion Sears Non-Executive Director	**William Reeve** Non-Executive Director
	Peter Ruis Non-Executive Director

* Following the resignation of John Browett in August 2017, Andy Harrison is providing interim executive leadership, supported by Will Adderley, the Deputy Chairman, and Keith Down, the CFO, until a new Chief Executive has been appointed.

Board responsibilities

The Board has adopted written statements setting out the respective responsibilities of the Chairman, the Deputy Chairman and the Chief Executive; these are available on the Group's website or from the Company Secretary. A summary of the names and responsibilities of the Directors is set out below:

CHAIRMAN

Andy Harrison is responsible for:

- The leadership, effectiveness and governance of the Board
- Setting the agenda, style and tone of Board discussions with a particular focus on strategic matters
- Ensuring each Non-Executive Director makes an effective contribution to the Board
- Ensuring that the Directors receive accurate, timely and clear information
- Chairing the Nominations Committee

DEPUTY CHAIRMAN

Will Adderley is responsible for:

- Maintaining a close dialogue with the Chairman and the CEO
- Leading the preservation of the culture and values of the Company through visible demonstration of the key business principles
- Assisting the CEO in strategic and operational activities as requested
- Supporting and deputising for the Chairman as required
- Member of the Nominations Committee

SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

Simon Emeny is responsible for:

- Acting as a 'sounding board' for the Chairman and an intermediary for the other Directors
- Leading the Non-Executive Directors in their annual assessment of the Chairman's performance
- Making himself available to shareholders, particularly if they have concerns that the normal channels have failed to resolve, or for which such contact would be inappropriate
- Chairing the Remuneration Committee

CHIEF EXECUTIVE OFFICER

The Chief Executive is responsible for:

- Proposing the strategic objectives of the Group for approval by the Board, and delivering the strategic and financial objectives in line with the agreed strategy
- Leading the Executive Board and senior management in managing the operational requirements of the business
- Providing clear and visible leadership in business conduct
- Effective and ongoing communication with shareholders

NON-EXECUTIVE DIRECTORS

Simon Emeny, Liz Doherty, William Reeve, Peter Ruis and Marion Sears are responsible for:

- Constructive contribution and challenge to the development of strategy
- Monitoring operational and financial performance and scrutiny of management performance in the delivery of strategic objectives
- Oversight of financial and other controls and processes for risk management
- Liz Doherty chairs the Audit and Risk Committee
- With the exception of Andy Harrison and Marion Sears, all Non-Executive Directors chair or sit on all Board Committees

CHIEF FINANCIAL OFFICER

Keith Down is responsible for:

- Working with the CEO to develop and implement the Group's strategic objectives
- The financial delivery and performance of the Group
- Ensuring that the Group remains appropriately funded to pursue the strategic objectives
- Ensuring proper financial controls and risk management of the Group and compliance with associated regulation
- Investor relations activities, and communications with investors

COMPANY SECRETARY

Dawn Durrant is responsible for:

- Supporting the Chairman and the Non-Executive Directors with their responsibilities
- Advising on regulatory compliance and corporate governance
- Facilitating individual induction programmes for Directors and assisting with their development as required
- Communications with shareholders and organisation of the AGM
- Overseeing the Corporate Responsibility activities of the Group

Corporate Governance Report
CONTINUED

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 independent 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 2017 and we confirmed that Andy Harrison was independent on appointment and that Simon Emeny, Liz Doherty, William Reeve and Peter Ruis are independent. Simon Emeny will retire at the AGM in November 2017.

The Board has treated Marion Sears as a 'non-independent' Director since September 2015 in view of her tenure of more than nine years on the Board, and her subsequent appointment as a director of WA Capital Limited in March 2016. WA Capital Limited is a private limited company established by Will Adderley (the Deputy Chairman, and a major shareholder) to act as a long term holding company for his beneficial interest in the Company and various other investments. The Dunelm Board has determined that this appointment does not affect her judgement as a Director of Dunelm, and that any potential conflict of interest has been cleared on the basis that WA Capital Limited and Will Adderley are parties to a Relationship Agreement (referred to below in the section headed 'Conflicts of Interest') which regulates their conduct.

Marion will put herself forward for reappointment at the AGM by shareholders independent of the Adderley family as well as a full shareholder vote.

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 part of our succession planning. Our policy on Board diversity is explained in the Nominations Committee report.

Change of Non-Executive Director responsibilities

There were no changes to the responsibilities of the Non-Executive Directors during the year. Following the planned retirement of Simon Emeny at the AGM in November, committee responsibilities will change when a new Non-Executive Director is appointed. A search process is well advanced and an announcement will be made in due course.

Board attendance

The Board held 11 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	11/11
John Browett	11/11
Liz Doherty*	10/11
Keith Down	11/11
Simon Emeny	11/11
Andy Harrison*	10/11
Peter Ruis	11/11
William Reeve	11/11
Marion Sears	11/11

* Andy Harrison and Liz Doherty were unable to attend one unscheduled Board meeting in connection with the Worldstores acquisition; however, they communicated their views in advance to Will Adderley, who chaired the meeting.

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 Annual 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 areas of focus discussed by the Board in 2016/17 are set out below.

Areas of focus

Strategy	• Group strategy, including our vision, goals and business plans • Budget • Impact of Brexit • Worldstores acquisition and integration • Customer insight and brand strategy • Competitors	• Digital strategy • Furniture strategy • Product strategy • Capital and Dividend policy • Tax policy
Governance and risk	• Board succession • Board independence, composition and diversity • Investor feedback via advisers • AGM voting and feedback • Update on Directors' duties and responsibilities • Corporate governance reform • Risk reviews and "what keeps us awake at night"	• Gender pay • Culture and values • Health and safety • Ethical sourcing and modern slavery • Internal Audit • IT security and cyber security • Market Abuse Regulation • The General Data Protection Regulation
Operational	• Customer insight • Store operating model • Format development	• People strategy, colleague engagement and succession planning • Supply chain strategy • Integration of the Worldstores business

We measure the time spent on strategy, governance and operational performance at each meeting. Over the year, the biggest part 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 circulated for approval. Any unresolved concerns raised by a Director are recorded in the minutes.

Non-Executive Director meetings

We adopted one of the recommendations of our Board Evaluation in 2016, to have timetabled "Non-Executive Only" time at the end of each Board meeting, attended by the Chairman and the Non-Executive Directors. This has proved to be a useful way of exchanging views and dealing with any concerns or questions. In addition to this, the Chairman and the other Non-Executive Directors regularly have informal, individual, meetings with the Executive Directors and other senior managers in the business, usually at a store location.

Four of the Non-Executive Directors gave a presentation to colleagues in the Store Support Centre which covered their area of expertise and interest and its relevance to Dunelm's business.

Corporate Governance Report
CONTINUED

Board committees

The Board has 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.

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.

No new Directors were appointed during the year, but typically, a new Director will meet with the Chairman, the Deputy Chairman and other Directors and receive a briefing from the Company Secretary on the duties of PLC directors. They will visit stores and other Company sites, accompanied by a member of the Executive Board. They will be given access to past Board papers and to the auditors and other professional advisers, and to members of the Executive Team and senior management, based on their area of expertise and responsibilities.

We have an open culture and Non-Executive Directors are free to make direct contact with senior management and store teams. 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 a wide range of governance topics. Our corporate brokers, UBS, attended our January Board meeting to provide an update on Directors' duties and responsibilities under company law, the Listing Rules and the Market Abuse Regulation.

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 50 to 52 for details of the specific skills and experience of each Director.

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.

2016 External evaluation

The recommendations arising from the 2016 review conducted by Lorna Parker, an independent Board Evaluation specialist, and actions implemented in response are set out below:

Recommendation	Action taken
Focus more of the Board's agenda on key aspects of the strategy where the Board can add most value to the Executive team, with sufficient time on each topic to allow a free flowing debate.	Time allocated on agenda to strategy topics doubled. One debate held over dinner.
Build more structured Non-Executive time into the Board timetable; additional Non-Executive only dinners and scheduled Non-Executive only sessions at the end of each Board meeting.	Non-Executive Director only session timetabled at the end of each Board meeting. Dinners attended by the full Board rather than NEDs only to allow time to debate strategic topics. NED only dinners scheduled for next year.
Maximising value from the Non-Executive Directors by informal "mentoring" of Executives and continuing to share their specialist knowledge and leadership experience through presentations to the Senior Management Team.	Each Non-Executive Director informally "mentors" one member of the Executive Board. Presentations given by the Chairman and four of the Non-Executives to the Executive Board and Senior Management team on Leadership, Governance, Introduction to the City, Brand / Marketing, and How to succeed with an online business.
The Company Secretary to facilitate more formal governance training for the Non-Executive Directors.	Details circulated of external seminars. Brokers attended a Board meeting to provide an update on directors' legal and regulatory responsibilities.

2017 External evaluation

There were a number of changes to our Board in 2015/16, and when the 2016 external review was held, new relationships and ways of working were still being established. We therefore decided to ask Lorna Parker, who carried out the external evaluation in 2016, to do a follow-up review in 2017. Lorna does not have any other connection with the Group or any of its Directors.

The 2017 review noted that in the year the Group has faced the expected strategic challenges in a fast moving and increasingly competitive retail environment, but Board processes have been effective, efficient and thorough, and the Board believes that there is clarity, alignment and genuine excitement around the medium term strategy. A number of actions were agreed, including:

- Review the structure of Board meetings and the rolling agenda again to ensure that the Board is allowing enough time for discussion of the external environment, and other "softer" matters such as people and culture
- Improve meeting dymanics, in particular to promote more open discussion and focused debate
- Review Board papers to ensure that they reflect the rearticulated, customer-centric strategy and objectives, and contain only relevant detail and KPIs
- Consider whether an additional Non-Executive Director should be appointed, to strengthen the overall skill base amongst the Non-Executive Directors

These actions will be progressed during the year and we will report back on them in next year's report.

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 Every one or two years	Chairman, Deputy Chairman and Non-Executive Directors
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 advisers 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.

Every two years or so, we hold a Corporate Governance meeting, attended by Will Adderley, the Non-Executive Directors, the Company Secretary and myself, to which our major institutional shareholders are invited. This gives the corporate governance representatives of our shareholders an opportunity to discuss with us a range of governance topics. Matters discussed in the past have included Board composition, the work of the Audit and Risk Committee, remuneration, the Rule 9 waiver and corporate social responsibility. We are planning to hold another meeting in January 2018.

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

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

Corporate Governance Report
CONTINUED

How the Board engages with its other stakeholders

Our "Business Principles" identify customers, colleagues, suppliers, the environment and communities as our principal stakeholders in addition to our shareholders, and our Corporate Responsibility report sets out more detail on how we manage our relationships with them. The table below sets out how the Board engages with each of these:

Customers	• Customer insight report in Board packs • Customer KPIs in Board pack • CEO / Deputy Chairman reply personally to a number of high level customer contacts • All Directors visit stores regularly
Colleagues	• People Director updates the Board twice a year including the results of our colleague engagement survey • Colleague KPIs in Board pack • Annual conference for Store Managers and senior support colleagues, attended by Chairman, Chief Executive, Chief Financial Officer and Company Secretary • All Directors visit stores regularly accompanied by a member of the Executive or Senior Management Team • Non-Executive Director presentations to the Senior Management Team on leadership topics • Executive Directors and Company Secretary attend a selection of Colleague Council meetings
Suppliers	• Annual supplier conference held, attended by Deputy Chairman and Chief Executive • Key suppliers attend the annual Store Managers conference • Chief Executive and Deputy Chairman meet regularly with key suppliers • Annual Board presentation on ethical trading / modern slavery
Environment/community	• Chief Financial Officer and the Company Secretary attend the Sustainability Committee, which considers matters relating to the environment, community and other topics • A representative of the Company-sponsored charity attends the annual Store Managers conference • All Directors visit stores regularly

The "Governance in Action" case study on page 62 shows how the interests of stakeholders have been considered in connection with the construction of our new distribution centre at Stoke (DC2).

Rule 9 waiver

In April 2016, Will Adderley, our Deputy Chairman and a major shareholder, disposed of part of his shareholding. As his shareholding is now below 30%, and the combined Adderley shareholding is above 50%, we are no longer required to seek a Rule 9 waiver at the AGM to support our policy to buy back shares to satisfy employee share option entitlements, so long as this situation remains the case after the Company share purchase. The Rule 9 waiver vote caused a policy difficulty for a number of our institutional shareholders, which can now be avoided.

The Board has reviewed whether our policy to purchase shares in the market to satisfy share option entitlements (as opposed to issuing shares) is still appropriate; we believe that it is in the interests of our shareholder base as a whole as it avoids dilution of shareholdings, and it is supported by the majority of our institutional shareholders. I would like to reassure shareholders again that shares bought back by the Company will be held in treasury and used only to satisfy share option entitlements, and not cancelled.

Significant shareholders

The Group's significant shareholders are listed in the Directors' Report on page 103 and voting rights are stated on page 102.

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 matters 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
- Marion Sears is a director of WA Capital Limited, a private limited company established by Will Adderley to act as a long term holding company for his beneficial interest in the Company and various other investments. Authorised on the basis that WA Capital Limited is party to the Relationship Agreement referred to above

Any actual or potential 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 they are 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 2017 Annual General Meeting. 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 expense 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

Details of the Group's risk management framework, systems and controls and internal control framework are set out in the Strategic report on pages 28 to 29.

This report was reviewed and approved by the Board on 13 September 2017.

Andy Harrison
Chairman

Governance in Action

Building our supply chain for the future in Stoke-on-Trent

AS A LONG TERM BUSINESS, WE MAKE DECISIONS THAT WILL PROVIDE FUTURE BENEFITS OVER THE YEARS TO COME AS WE CONTINUE TO GROW. WE'RE CAREFUL TO ENSURE WE DO THINGS THE RIGHT WAY, FOR OUR CUSTOMERS AND SUPPLIERS, OUR COLLEAGUES AND THEIR COMMUNITIES

Distribution Centre 2 "DC2" – Stoke-on-Trent

In June 2016, we opened our new Distribution Centre, a stone's throw from our existing facilities in Stoke-on-Trent.

Building and opening the new site, was a substantial project with capital investment of over £12m involving a cross-functional team of colleagues working together, alongside external contractors, for a period of two years to get the new facility ready.

The Board's involvement began at the conception of this project. Reviewing and approving the original business plans, and then providing ongoing challenge throughout the development process ensured that the right long term decisions were being made in the interests of the Company's employees and its other stakeholders.

Relationships with existing suppliers were encouraged, and new supplier relationships fostered. The Board gave thoughtful input to ensuring that Dunelm maximised the customer benefits from the new build, and carefully considered the impact of the new operations on both the local community and the environment. As is the Dunelm way, ensuring that we do the right thing from a business conduct and ethical perspective was a key area of governance focus.

Long term decisions

We opened our first Distribution Centre ("DC1") in Stoke in 2006, and doubled its size to 500,000 sq ft in 2010. In 2011 Dunelm appointed a Supply Chain Executive Director, who developed a long term supply chain strategy. In 2013 planning began to open further warehouse capacity, to support the growth of the business and the increase in direct-sourced product volumes. At the Board's strategy discussion in 2014 the decision was made to prioritise growth in our online and furniture businesses which accelerated the need to increase our warehouse capacity and supply chain capability.

In February 2015 the Board approved the business plan to lease the DC2 site and begin the project. The new DC doubled our warehouse capacity to 1,000,000 sq ft, which was anticipated to fulfil our needs for at least the next five years. It would also enable us to bring outsourced distribution operations onto one site to improve operational efficiency, improving crisis management capability, and importantly improving our customer offer, especially relating to online sales orders. In July 2016, we moved our Home Delivery fulfilment operation into DC2.

In November 2016 we acquired the Worldstores business. Pleasingly, the new DC has provided the capacity in Stoke to allow Dunelm to move the Kiddicare and Achica operations from their existing site in Peterborough. This is anticipated to deliver efficiencies of between £1m and £2m per year from FY19.

DC2 – Facts at a Glance

350 new jobs created in Stoke

CO_2 **-13.8%** Reduction

£12m CAPITAL INVESTMENT

100% Landfill diversion

418 Planet Mark Award Acres of rainforest protected

500k sq ft DEVELOPED

260,000 ANNUAL PALLET THROUGHPUT CAPACITY

Developing our supply chain proposition for our stakeholders

Our Colleagues

Our commitment to Stoke-on-Trent has resulted in Dunelm becoming a significant employer in the city with over 600 colleagues working in our two DCs and our local store. During peak times, additional colleagues are engaged to support the volume of activity in the DCs.

Colleague well-being was a major consideration for the Board in the planning of our new facilities:

- A team of colleagues helped design the look and feel of the building, with product and store imagery and product display areas to showcase current ranges
- We built a large training area, and a comfortable Pausa coffee shop serving a range of subsidised hot and cold food, drinks and snacks
- We ran a series of welcome activities for new colleagues and to engage existing colleagues with the changes being made, including fund-raising activities for our nominated charities (Roald Dahl/ Home-Start UK). A free Christmas lunch for all was served by the leadership team!
- Colleague health and safety is a major consideration for the Board and a complete review of our processes was undertaken. A new Health and Safety Manager was appointed and over 50 colleagues received National Examination Board in Occupational Safety and Health (NEBOSH) training

Our Customers

Making shopping experiences easy for our customers is a big focus for Dunelm. The new DC2 was developed with a range of customer benefits in mind:

- We have been able to improve availability in store and reduce lead times for Reserve & Collect from 24 to 3 hours due to improved replenishment from our DCs and better store processes
- Locating our Home Delivery fulfilment in Stoke has improved online availability and enabled quicker delivery to customers' homes
- DC2 will be a key enabler for us to launch a Click and Collect service in 2017/18. This will enable customers to access a significantly extended range of products for next day delivery to their local store
- Increased operational efficiencies through modern logistics technology allows us to continue to offer great value products to our customers, when and where they want to shop
- The additional capacity has allowed us to bring in more seasonal ranges for customers, as well as accommodate Kiddicare and Achica

Our Suppliers

Great supplier relationships have been key to supporting Dunelm's growth. During the development of DC2 we were able to draw on the broad experience of our suppliers to help:

- Many of our committed store development suppliers were able to support us with the build and fit-out of DC2
- Supporting our Home Delivery fulfilment partner's relocation into DC2, by helping them relocate existing colleagues and recruit new colleagues locally

All of our suppliers are required to sign our Anti-Bribery Policy and our Code of Conduct, by which they commit to ensure that their employees and those of their contractors adhere to international standards on the welfare and treatment of employees.

As part of the rigorous work we do to tackle modern slavery, we retrained colleagues in Stoke and employees of our supply chain partners to raise awareness. We also developed a number of safeguards, including extra colleague checks and have deliberately reduced our use of agency labour.

Caring for our environment and community

Developing a sustainable DC2 was a priority for the Board and we're proud to receive the Planet Mark award highlighting the 416 acres of rainforest protected as a result of the DC2 development compared to benchmark sites. Local primary school environmental awareness workshops run by the Eden Project were funded by this award.

As part of the build, we carefully diverted natural waterways and developed new sanctuaries for wildlife onsite to ensure minimal disruption to the local habitat.

To help aid traffic congestion, we built a large bike shelter and showers / locker rooms, and also arranged with the local council for a bus stop to be put outside the warehouse, and for the route to drop off and pick up around shift start / finish times.

Our DC operations handle recycling from our stores enabling us to achieve high landfill diversion rates. The two DCs in Stoke themselves achieve 100% landfill diversion due to careful planning of materials being used inside.

Letter from the Chair of the Audit and Risk Committee

Dear Shareholder

There have been no changes to the Committee since I last wrote to you, and Keith Down, our Chief Financial Officer, has been in role for the entire financial year. We have therefore been able to continue building on the strong foundations that were already in place.

From a controls and risk perspective, the most significant event of the year was the acquisition of the Worldstores Group, a relatively young and entrepreneurial business, in November 2016. This is the first large acquisition made by Dunelm. The Committee was therefore keen to see that management had an appropriate integration plan in place, and to ensure that financial and other controls were implemented as soon as practicable. I am pleased to report that the Committee (and the Board) have been satisfied on both fronts. The Committee has also closely reviewed the specific items in the Group financial statements relating to the acquisition.

Our programme of internal audit activity, supported by external assurance providers, continued throughout the year. Specific reviews were conducted of Customs and Duty, and tax risks arising from use of a mobile workforce. In June 2017, we adopted a plan to move to a formal internal audit function by the end of the 2019 financial year, reflecting the increased complexity in the business. The work of the new function will be aligned to the risk register.

The Committee has continued its oversight of the controls in place to address cyber risks which continue to pose a risk to all businesses, and noted that further progress has been made in this area. I am pleased to note that we were not impacted by either the Wannacry or Petya ransomware attacks. We have also reviewed the plan in place to address the requirements of the General Data Protection Regulation which comes into force in May 2018, and will monitor progress against this.

We paid our auditors PricewaterhouseCoopers LLP advisory fees of £15,000 in the financial year in respect of the half year results review (a service now classified as 'non-audit'). This compares to the audit fee of £167,000. We have also adopted a new policy on use of our auditor for non-audit services which came into effect for the financial year commencing July 2017, and is in line with recently adopted regulations. As required by the regulatory guidance we formally reviewed the 2016 audit and found it to be satisfactory.

The Financial Reporting Council (FRC) reviewed the Group's 2016 annual report and financial statements as part of its routine monitoring activity. I am pleased to report that the FRC found no material error in compliance with relevant reporting requirements and did not require any corrections. They did however alert us to the fact that the Company had committed a technical breach of the Companies Act in respect of the payment of the final dividend in November 2015. The breach has been remediated and the Committee noted that management have taken steps to ensure that such a breach could not happen again.

We also formally reviewed the Committee's performance during the year.

Looking forward, there are developments in corporate reporting coming into effect within the next two years, including alternative performance measures, gender pay gap reporting, IFRS 15 and 16, all of which we will review as required.

I look forward to meeting shareholders at the AGM.

Yours sincerely,

Liz Doherty
Chair of the Audit and Risk Committee

13 September 2017

Audit and Risk Committee Report

Summary of Principal Activities

- Approval of the Board's dividend policy statement
- Approval of the Board's tax policy statement
- Approval of revised policy on use of auditor to provide non-audit services
- Review of controls implemented following the acquisition of the Worldstores Group
- Plan to develop a more formal internal audit function adopted
- Reviews of the following:
  - Annual financial statements for FY16 and interim results for FY17
  - Internal controls and the process for the identification and mitigation of principal risks
  - The plan to address the requirements of the General Data Protection Regulation and the duty to report on Payment Practices
  - External assurance reviews of Customs and Duty, end to end import processes and tax risk arising from use of a mobile workforce
  - Findings from the FRC review of FY16 financial statements which revealed no material errors in the financial statements
- Since the year end, approval of the full year annual financial statements for FY17.

This report provides details of the role of the Audit and Risk Committee and the work it has undertaken during the year and at its meeting in September 2017 when this annual report and financial statements were approved.

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
- Hold the relationship with the external auditor and oversee the external audit process
- Oversee the internal audit process
- Monitor the effectiveness of financial controls and the process for identifying and managing risk throughout the group
- Monitor the financial reporting process and submit recommendations
- Monitor the statutory audit of the annual report and financial statements
- Review and monitor the external auditor's independence and the provision of additional services

The full terms of reference for the Committee can be found on the Group's website, www.dunelm.com. These terms were last reviewed by the Committee in June 2017.

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 May 2013	To date
Simon Emeny	25 June 2007	To date
William Reeve	1 July 2015	To date
Peter Ruis	10 September 2015	To date

The Company Secretary acts as secretary to the Committee.

The Chief Executive, Chief Financial Officer and the Chairman of the Board usually attend meetings by invitation, along with a representative from the external auditor. Other Directors attend by invitation as required.

The Board considers that I have recent and relevant financial experience to chair the committee, by virtue of my professional qualification and my previous executive roles, including as Chief Financial Officer of Reckitt Benckiser Group plc. Members of the Committee can also demonstrate a breadth of experience across the retail and consumer goods sector through their current and previous roles – please see the Directors' biographies on pages 50 to 52 for full details.

Audit and Risk Committee Report
CONTINUED

Committee activities in 2016/17

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

Name	Meetings attended
Liz Doherty	3
Simon Emeny	3
William Reeve	3
Peter Ruis	3

The activities of the Committee included:

Routine items

- Approval of the full year results issued in September 2016 and the half year results issued in February 2017
- Review of the process for identifying and managing risk and a full review of the principal risks and how they are managed in September 2016, and a mid year review in February 2017
- 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, which are standing agenda items for each meeting
- Receipt of external assurance reports (see below)
- Approval of the annual Audit and Risk Committee report
- Review of whether the FY16 and FY17 annual reports are 'fair, balanced and understandable'
- Annual review of tax policy, business control framework and committee terms of reference
- Formal review of auditor performance
- Formal review of Committee effectiveness

Specific topics

- Review of how controls have been implemented in the newly acquired Worldstores Group
- The FRC letter and actions taken to address the payment of an unlawful dividend
- Review and approval of dividend policy statement
- Approval of updated policy on use of auditors for non-audit work
- Consideration of the plans to address the requirements of the General Data Protection Regulation and the duty to report on Payment Practices
- Plan to develop a more formal internal audit function adopted
- External assurance reviews of Customs and Duty, and tax risk arising from use of a mobile workforce

Committee effectiveness

At its meeting in June 2017, the Committee carried out a review of its own effectiveness, using a checklist prepared by one of the major accounting firms. The conclusion was that the Committee is broadly functioning well, in accordance with regulatory and "best practice" requirements, and providing appropriate assurance to the Board.

Significant areas of judgement

Within its terms of reference, the Committee monitors the integrity of the annual and interim reports, including a review of the significant financial reporting issues and judgements contained in them.

At its meetings in September 2016 and 2017, 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 information to support the Directors' viability and going concern statements. The Committee also considered a paper prepared by the external auditor, which included significant reporting and accounting matters.

The major accounting issues discussed by the Committee in September 2017 in relation to the FY17 Annual Report and Accounts were as follows:

Provisions for inventory

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.

Acquisition treatment of Worldstores and subsequent exceptional items

The Committee considered the approach to acquisition accounting taken by management, explained in a detailed paper prepared by management for the Committee and discussed at Committee meetings post acquisition, which were also attended by the auditor. The approach to identify, measure and disclose exceptional items was also considered and the Committee concluded that the approach taken and the values reported in the financial statements are appropriate.

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 Business Review and Financial Review 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 to the Board that in its view the FY17 annual report was fair, balanced and understandable.

External auditor

The report and financial statements were audited by PricewaterhouseCoopers LLP, following that firm's appointment as statutory auditor in January 2014. Mark Smith has been the audit partner since the firm's appointment.

PricewaterhouseCoopers LLP attended the Committee meetings in September 2016, February, June and September 2017. The Committee also met privately with them during the September meetings, and as Chair of the Committee I had dialogue with the audit partner on a number of occasions.

Audit effectiveness

It is the responsibility of the Audit and Risk Committee to assess the effectiveness of the external audit process.

The Chief Financial Officer and his team presented their review of the FY16 audit in February 2017. This covered a number of aspects including:

- The quality of reports provided to the Committee and the Board and the quality of advice given
- The level of understanding demonstrated by the audit team 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 judgement
- The findings from the FRC's annual inspection of auditors published in May 2016

The conclusion was that the audit had been effective and that no significant issues had been highlighted; this was endorsed by the Committee.

Auditor appointment for FY17

It is the Committee's responsibility to make recommendations to the Board in relation to the appointment, reappointment and removal of the external auditor, and to agree the audit fee.

In February 2017, the external auditor presented their strategy for the 2016/17 audit to the Committee. The Committee reviewed and agreed with the external auditor's assessment of risk. The Committee also reviewed and agreed the audit approach and the approach to assessing materiality for the Group.

The fee proposed by PricewaterhouseCoopers LLP for the statutory audit of the Group and Company financial statements and the audit of Group subsidiaries pursuant to legislation was £167,000.

Taking into account the review of the FY16 audit and the proposed plan and fee, the Committee agreed that PricewaterhouseCoopers LLP be reappointed as auditor for the FY17 audit for the fee proposed. Resolutions to reappoint PricewaterhouseCoopers LLP as auditor 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.

Following the issue of the EU Audit Directive in June 2016, we reviewed our policy on the use of auditors for non-audit work in September 2016. The full policy is available on our website, www.dunelm.com, but in summary from FY17:

- Fees for non-audit services provided by the statutory auditor in any year may not exceed 70% of the average fees for the Group statutory audit in the three previous years

Audit and Risk Committee Report
CONTINUED

- The auditor is prohibited from providing certain non-audit services, including:
  - almost all tax work
  - internal audit
  - corporate finance
  - involvement in management activities, including working capital and cash management and the provision of financial information

The external auditor may not be engaged to provide any non-audit services without the agreement of the Audit and Risk Committee Chair. During the period we paid PricewaterhouseCoopers LLP £182,000, of which £15,000 was for their review of the interim financial statements. Fees paid to PricewaterhouseCoopers LLP for audit work were £167,000.

Auditor rotation
It is our policy to tender the statutory audit at least every five years, and to rotate auditors at least every 20 years within the requirements of the EU Audit Directive that require a tender at least every ten years. 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. I can confirm that the Company has complied with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 during the financial year.

Risk management
The Committee is responsible for assessing the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks, and to consider the level of assurance.

The Committee carried out a formal risk review in September 2016 and February 2017. At the September review, the principal risks were rephrased to align the terminology more closely to our strategic and financial planning process to ensure that all elements are appropriately aligned. In February 2017, following the acquisition of the Worldstores business in November 2016, we included a new "principal risk" of "failure to successfully integrate the Worldstores business", acknowledging that this activity will be a significant focus for management during the year. The Board has closely monitored the integration plan, developed with expert external assistance, and the resource put in place to deliver it.

The Committee also asked for the register to include details of the assurance activities which assess the strength of mitigating factors in respect of principal risks.

The Committee discussed the fact that, during the year to July 2017, the Directors became aware that a dividend paid in November 2015 totalling £32.4m had been made otherwise than in accordance with the Companies Act 2006, because interim accounts had not been filed at Companies House prior to payment. At a General Meeting of the Company's shareholders held on 2 March 2017, a resolution was passed which authorised the appropriation of distributable profits to the payment of the relevant dividend and removed any right for the Company to pursue shareholders or Directors for repayment. This constituted a related party transaction under IAS 24. The overall effect of the resolution being passed was to return all parties so far as possible to the position they would have been in had the relevant dividends been made in full compliance with the Act. The Committee noted that management had subsequently taken steps to ensure that such a breach could not happen again, including a capital restructuring exercise (referred to in last year's financial statements).

Internal control framework
In 2015 the Committee adopted a formal internal control framework, covering the following areas: 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. The framework and the controls in place are reviewed annually, the last review was in June 2017; no significant control weaknesses have been identified.

During the year the framework was updated to include details of internal and external assurance; the Committee concluded that the assurance in place is sufficient given the current size, scale and complexity of the business. However, as mentioned below, in June 2017 a plan to develop a more formal internal audit function was agreed. The June 2017 review also considered how the controls have been implemented in the Worldstores business which was acquired in November 2016, and agreed that as a result of work undertaken and planned as part of the integration, adequate controls were in place.

Viability statement and risk management

In September 2017, the Committee reviewed the viability statement given by the Board in this report and the process in place to support the assurance given and confirmed that it is appropriate and in compliance with regulatory requirements. This review took into account the principal risks facing the Group and the process by which they are managed by the Board and management.

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 2017 the Committee discussed and agreed that while this approach to internal audit remains satisfactory for the time being, a plan to develop a more formal internal audit function by the end of the 2019 financial year was agreed in June 2017, reflecting the increased complexity of the business.

At the Committee's suggestion, the Executive Board was involved in making recommendations for future topics to be addressed, in conjunction with the risk review process.

Reviews completed in the year are set out below:

	Reviewed by
Customs & Duty	KPMG
Risks associated with the use of mobile workers	KPMG

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 2015–16 financial year from external assurance providers and noted that these had been completed.

FRC review of FY16 financial statements

The Financial Reporting Council (FRC) reviewed the Group's 2016 annual report and financial statements as part of its routine monitoring activity. The FRC found no material error in compliance with relevant reporting requirements and did not require any corrections. They did however alert us to the fact that the Company had committed a technical breach of the Companies Act in respect of the payment of the final dividend in November 2015. The breach has been remediated and the Committee noted that management have taken steps to ensure that such a breach could not happen again.

The FRC has requested that we advise shareholders that their review provides no assurance that the annual report and financial statements are correct in all material respects, as its purpose is not to verify the information provided but to consider compliance with reporting requirements. As such, the FRC and its officers, employees and agents accept no liability for any reliance on its review by third parties, including but not limited to shareholders and investors.

Cyber security and data protection

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 Board's principal risks, as outlined in the 'Risks and Uncertainties' section of this annual report. The Committee received an update from the Chief Information Officer at each meeting, and was pleased to note that progress to strengthen controls had been made at each stage. The Committee also reviewed the plan in place to secure compliance with the General Data Protection Regulation by May 2018, and will receive regular updates on this matter going forward.

Approved by the Board of Dunelm Group plc on 13 September 2017.

Liz Doherty
Chair of the Audit and Risk Committee

Letter from the Chair of the Remuneration Committee

Dear Shareholder

The year under review was difficult with challenging market conditions, and we made a number of significant investments in the business, including opening a second distribution centre and the acquisition of the Worldstores Group, a loss-making online business. While we are confident that these investments will create value they, together with a difficult marketplace, have impacted the financial performance of the Group this year, and both profits and the share price have declined.

Given these circumstances and reflecting the financial performance of the Group, the variable elements of pay of executives has been lower than last year. The annual bonus entitlement was 14% of the maximum. No payment was made in respect of the financial targets which were linked to delivery of budgeted PBT and which was not achieved. The remainder of the bonus was linked to delivery of our Business Plans, against which good progress has been made, and personal performance. No awards were due to vest under our Long Term Incentive Plan. Will Adderley's basic salary was reduced to £1 from 1 July 2015 at his request, and he has also requested that he not be considered for entitlement to an award under the Long Term Incentive Plan. Total executive pay was therefore £1.3m, 1.2% of PBT.

Since the year end, John Browett stepped down from the Board. Severance terms are still to be finalised, but will be in accordance with our Remuneration Policy and will be posted on our website once agreed in final form.

Our 2015 Remuneration Policy requires Executive Directors to invest two-thirds of performance pay earned (after payment of tax and national insurance) in Dunelm shares, and to build a personal shareholding equivalent to 1× salary after three years and 2× salary after five years. After one year and nine months Keith Down holds 21,610 shares (35% of salary). Due to the fall in Dunelm's share price over the year, this does not reflect the personal investment made of 42% of salary. This includes investment of at least two-thirds of bonus earned in FY16 under the "Lifetime Lock-in" requirement described in the Remuneration Policy. Keith Down intends to invest at least two-thirds of bonus received in respect of FY17 in Dunelm shares, and he is also due to receive the second instalment of his shares under his Joining Award in September, which he will retain after payment of tax and national insurance.

Remuneration continues to be an issue of focus for shareholders and governance analysts, particularly where executive reward earned is out of line with profits and shareholder returns. Our policy has always been to devise a simple and transparent remuneration structure designed to reward shareholder value creation over the long term, the majority of which is performance based, according to stretching targets. The Committee is aware that increasingly attention is turning to the overall levels of executive pay compared to the remainder of the employee population and we have acknowledged this by decreasing the maximum pension entitlement for newly appointed Executive Directors (see over).

Last year, we left the targets applicable to our Long Term Incentive Plan (LTIP) unchanged, but I mentioned that we would keep this under review as the potential impact of Brexit and other external factors on consumer behaviour and the cost structure of the business became clear. In light of the impact of changes to our business model, the investments we are making to accelerate our growth, and the challenging market conditions, the Committee reviewed the likely vesting profile for the LTIP. After careful consideration, we determined that this is no longer aligned to our policy to reward strong performance; the targets have become far more stretching than originally envisaged, and full payout is now virtually unachievable. We have therefore decided to recommend to shareholders that our 2015 Policy be changed to reduce the top end of the performance range so that it remains stretching, but is achievable: under the new Policy the maximum vesting will occur when compound annual growth in EPS equals RPI+12% over the three year performance period. We also propose moving back to an award based on percentage of salary rather than a fixed number of shares.

These changes will only apply to awards made from 2018 onwards in respect of the three financial years commencing in June 2018.

To ensure executive alignment, we propose that we pay dividend equivalents in respect of special dividends that are paid during the performance period of an LTIP award, in respect of shares which vest only.

Mindful of the views of investors and the government in relation to pension entitlement of executive directors, we have also proposed that we reduce the maximum pension entitlement for new Executive Directors from 20% of salary, to 15%. We consulted with our major shareholders in respect of all of the above changes and the majority of them were wholly supportive.

Further details of these changes and the rationale for them are set out in the Policy report on the following pages. Subject to shareholder approval, this new Remuneration Policy will remain binding until our AGM in 2020.

I hope that shareholders will understand the reasons for these changes and support them at the AGM.

As I am retiring from the Board following the AGM, I shall be handing over the chairmanship of the Committee and full details will be announced in due course.

I look forward to meeting shareholders at the AGM.

Yours sincerely,

Simon Emeny
Chair of the Remuneration Committee

13 September 2017

Remuneration Report

How Our Policy is linked to Our Strategy

GROUP STRATEGY
DELIVER SHAREHOLDER VALUE THROUGH LONG TERM, SUSTAINABLE, PROFITABLE GROWTH

Remuneration strategy

- Pay fairly for an individual's role and responsibilities
- Reward strong performance
- Focus on long term value creation
- Align Executives with shareholders through share ownership

Remuneration structure

- Base pay and benefits at median or below
- Annual bonus at median
- Long Term Incentive Plan at upper quartile
- Two thirds of variable pay retained in shares for duration of employment and half of these for a further two years

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

The majority 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 the creation of long term, sustainable growth in shareholder value through delivery of the objectives set out in our corporate strategy, which are all long term in nature; namely to become the UK customer's number one choice for homewares and furniture, and to double our sales and profit over the medium term. 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.

Proposed changes to our 2015 Remuneration Policy

Our current Remuneration Policy (the "2015 Policy") was approved at the Annual General Meeting on 24 November 2015 with over 97% of the votes cast in favour of it, and has been applied to remuneration paid to Executive Directors in FY 2016 and FY2017.

We are now proposing to make some changes to our 2015 Policy as set out below. We wrote to shareholders representing 90% of our share register in the early summer of 2017 proposing the changes set out below, as well as to their representative bodies, and followed this up with conference calls with the Chair of the Remuneration Committee, the Board Chairman, and the Company Secretary where requested. The shareholders and their representatives who wished to engage with us were supportive of the changes.

The following changes to our 2015 Policy are being proposed for approval at the Annual General Meeting in November 2017 although, with the exception of the changes proposed regarding Special Dividend equivalents under the LTIP, and the pension entitlement for new Directors, these changes will not be effected until September 2018.

Policy change	Rationale for change
Long Term Incentive Plan – performance criteria The 2015 Policy states that the performance criteria applicable to each award will be growth in EPS compared with growth in RPI over the three year performance period. The performance range is stated to be EPS growth of RPI plus 3% per annum (threshold, 10% of award to vest) to EPS growth of RPI plus 15% per annum (100% of award to vest). The proposal in the 2017 Policy is for the top end of the EPS range to be reduced, so that the performance range would be annual EPS growth of RPI plus 3% to annual EPS growth of RPI plus 12%. Vesting for achieving the threshold level of performance will remain at 10% of the maximum. This will apply to awards made **from 2018 onwards** in respect of the FY19–FY21 performance period, and future performance periods only. The targets in the 2015 Policy will be retained for the awards to be made in 2017 for the FY18–FY20 performance period.	Since the 2015 Policy was introduced, the Group has reviewed and refined its strategy. As we move towards our target of 200 stores, the ability to grow rapidly through store openings reduces, and delivering growth in percentage terms from a larger business becomes more demanding. We have therefore implemented and invested in a number of strategic initiatives designed to grow and strengthen the Group's business over the medium and long term. We expect that our recent Worldstores acquisition will re-energise our growth, transforming the business into a multichannel retailer. Our earnings growth has been impacted by the maturity of our business model and the investments we are making to revitalise future growth, including our acquisition of the Worldstores businesses. As a result, the Remuneration Committee now considers that the top end of the performance range of RPI plus 15% is no longer in line with our policy to pay our Executive Directors fairly and reward them for strong performance. Our view is that to provide a fair and meaningful incentive the top of the range is too high. **Our proposal therefore is that, for the awards to be made from the autumn of 2018 for the FY19–FY21 performance period onwards, the top end of the performance range (only) will be reduced to EPS growth of RPI plus 12% per annum.** Our view is that from FY19, delivery of compound annual earnings growth of RPI plus 12% will result in the same level of stretch performance being required to achieve full vesting as was intended in our 2015 Policy. If achieved, it would also deliver returns to shareholders substantially above current analyst expectations. **The Remuneration Committee has decided not to implement this change until 2018 for the following reasons:** In the financial year ended June 2017 (FY17), the investments that we have made in our core business, and the costs of integrating and absorbing the losses in Worldstores, have meant that profits declined year on year. We have also incurred an exceptional item of £17m in the year relating to the Worldstores acquisition, and expect a further exceptional item of £7m in the year to June 2018. We have agreed that for the purposes of measuring performance against LTIP targets we will use the statutory EPS figure. While we expect profit growth to resume in 2018, the profit and EPS decline in 2017 will mean that LTIP awards due to vest in 2017 will lapse. It is also likely that awards due to vest in 2018 and 2019 will lapse. Consequently, it is likely that no LTIP share based awards will vest to the Executive Directors and senior management until 2020. This also means that the EPS for the base year of measurement in respect of the awards to be made in 2017 (for the performance period FY18–FY20) of 36.1p is unusually low. If management complete their objectives of integrating and turning around the Worldstores businesses, delivering the other strategic business plans described in this report, and continuing to grow the core business ahead of the market, this would result in a double digit CAGR in EPS over the three year period to June 2020 in view of this low base. Recognising the scale of the management challenge required to deliver this performance and the current uncertain market conditions, the Remuneration Committee considers that a target range of RPI plus 3% to RPI plus 15% continues to be appropriately stretching for the 2017 award, but that the reduction in the top of the range should commence with effect from the 2018 award.

Remuneration Report
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Policy change	Rationale for change
Long Term Incentive Plan – fixed number of shares The 2015 Policy provides for each of the Chief Executive and Chief Financial Officer to receive an award over a fixed number of shares each year (rather than an award determined as a percentage of salary). The fixed number of shares contained in the 2015 Policy was based on a number equivalent to 200% of salary for the Chief Executive and 160% of salary for the Chief Financial Officer, based on the share price at the start of the performance period for the FY16–FY18 awards. Our 2017 proposal is to revert to a more standard structure of granting an award over shares with a value equivalent to a percentage of salary (up to 200% of salary per annum). This will apply to awards made from **2018 onwards** in respect of the FY19–FY21 performance period and future performance periods. No change will be made to "in-flight" awards.	Our 2015 Policy provided that each of our Executive Directors should receive a fixed number of shares under the LTIP, rather than the usual number linked to a percentage of salary. This means that the number of shares is highly geared to the share price, with a greater potential upside and downside. When we introduced the fixed number of shares in our 2015 Policy, we agreed to review this practice in 2018. Since the 2015 Policy was adopted, the Brexit vote has resulted in a general market downgrade of shares in the UK retail sector, recognising the specific impact that slower sales and increased costs are likely to have on this sector due to the devaluation of sterling. As a result, the potential value of an LTIP award based on the fixed numbers in the 2015 Policy is now significantly lower than 200% / 160% of salary respectively, and no longer in line with the policy objectives to pay fairly and appropriately and reward strong performance. The Remuneration Committee therefore considers that it would be appropriate to revert to a more usual arrangement based on awards equivalent to a percentage of shares (and we propose up to 200% of salary for each of the Chief Executive and the Chief Financial Officer). We have increased the potential award for our Chief Financial Officer, Keith Down, to reflect the increased size of his role in co-ordinating the Business Plans and the integration of the Worldstores businesses. Recognising that the 2015 Policy provided for the fixed number of shares to remain in place for three years, **the Remuneration Committee has decided to implement the change in respect of the awards to be made in 2018 for the FY19-FY21 performance period, in line with our original review timetable**. We are seeking approval for the policy change now to avoid making piecemeal changes to the policy.
Long term incentive plan – special dividend equivalents We propose to include in the 2017 Policy the ability to pay dividend equivalents in respect of special dividends that are paid between the start of the performance period and up to the vesting date of an LTIP award. Dividend equivalents would be paid in respect of shares which vest only. This change will apply to awards which vest after the 2017 Policy comes into effect. The policy will not apply to ordinary dividends.	To align the reward delivered to management with the returns achieved by shareholders, and to ensure that management are not disincentivised from taking actions which are in the best interests of shareholders. We are applying this to in-flight awards as well as future awards because we consider that failure to include the ability to pay special dividend equivalents was an oversight in our 2015 Policy. The Committee recognises that the inclusion of dividend accruals on any vested awards increases the expected value of the award. However, the Committee is comfortable that the proposed amendment is appropriate as it is in line with practice adopted by other companies, it provides a relatively modest benefit to participants, and its effect is to align further the position of LTIP award holders with that of shareholders.
Pension entitlement We propose to reduce the maximum pension entitlement of Executive Directors from 20% of salary to 15% of salary, for newly appointed directors only (please note that Keith Down's current pension entitlement is 15% of salary).	The Remuneration Committee has taken into account the views recently expressed by a number of institutional shareholders and their representatives that there should be greater alignment of the pension entitlement of Executive Directors with that of other employees.

Introduction

This Directors' Remuneration Report is divided into three sections: **the Letter from the Chair of the Remuneration Committee**, set out on page 70; the **Policy Report**; and the **Annual Report on Implementation**.

The **Policy Report** sets out the proposed 2017 Remuneration Policy to apply with effect from the close of the Annual General Meeting in 2017, subject to shareholder approval.

The **Annual Report on Implementation** sets out how the policies approved in November 2014 and November 2015 have been applied during the financial year being reported on and how policy will be applied in the coming year. This report will be put to shareholders for approval at the Annual General Meeting in November 2017, 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) Regulations 2013 (as amended), as well as the UK Corporate Governance Code and the UKLA Listing Rules.

The Policy Report

Directors' Remuneration Policy 2017

The policy in place at the date of this report (the "2015 Policy") took binding effect from the date of its approval by shareholders at the Annual General Meeting on 24 November 2015.

The policy set out below (the "2017 Policy") is the policy that is proposed to apply from November 2017, subject to shareholder approval being obtained at the Annual General Meeting. The differences between the 2015 Policy and the 2017 Policy are summarised above in the section headed "Proposed changes to our 2015 Remuneration Policy".

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 ▷ 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 monetary limit on the 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 15% of base salary (for Executive Directors appointed from November 2017 onwards. For Executive Directors appointed prior to that the maximum is 20% of base salary). No element other than base salary is pensionable
Performance metrics	• None • No recovery provisions apply to retirement benefits

Executive Directors continued

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 87 • 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 Will Adderley, who has requested that he not be considered for annual bonus.	
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 • Awards are 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 claw back 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

Executive Directors continued

Long Term Incentive Plan – awards to be made to Executive Directors other than Will Adderley, who has requested that he not be considered for LTIP awards.	
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, the majority of which (after payment of tax liabilities) are retained
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 • Two-thirds of all shares vesting must be retained by the Executive (after sale of shares to meet tax and national insurance obligations)
Maximum opportunity	• For awards to be made in respect of the FY18–FY20 performance period, the maximum annual award is 110,000 shares for the Chief Executive 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 • For awards to be made in respect of the FY-19–FY21 performance period and awards to be made in future years, the maximum annual award for Executive Directors is shares with a value up to 200% of salary, calculated by reference to the market price of Dunelm shares on the date preceding the date of grant • 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 • Dividend accruals may be made in respect of special dividends paid during the performance period applicable to an award and up to the vesting date. Payment would only be made in respect of shares vesting after applying performance criteria. This will apply to all awards vesting after the 2017 Policy comes into effect
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 are: ▷ No part of the award will vest until compound annual EPS growth exceeds RPI growth by 3%. ▷ For awards to be made in respect of the FY18–FY20 performance period, 10% of the award vests at compound annual EPS growth in excess of RPI plus 3%. 100% of the award vests at compound annual EPS growth in excess of RPI plus 15%. ▷ For awards to be made in respect of the FY19–FY21 performance period, and for awards made in future years, 10% of the award vests at compound annual EPS growth in excess of RPI plus 3%. 100% of the award vests at compound annual EPS growth in excess of RPI plus 12%. ▷ 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, 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 claw back 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

Remuneration Report
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Executive Directors continued

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 • A personal investment in Dunelm shares should be made on appointment as an Executive Director (subject to closed periods) • Two-thirds of amounts earned under the annual bonus and the LTIP (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 the date of invitation to join the plan • 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

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 out 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. This includes the satisfaction of the Joining Award granted to Keith Down on 7 December 2015 to compensate him for deferred shares earned with his previous employer which were forfeited when he resigned.

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 the financial year 2017/18, 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

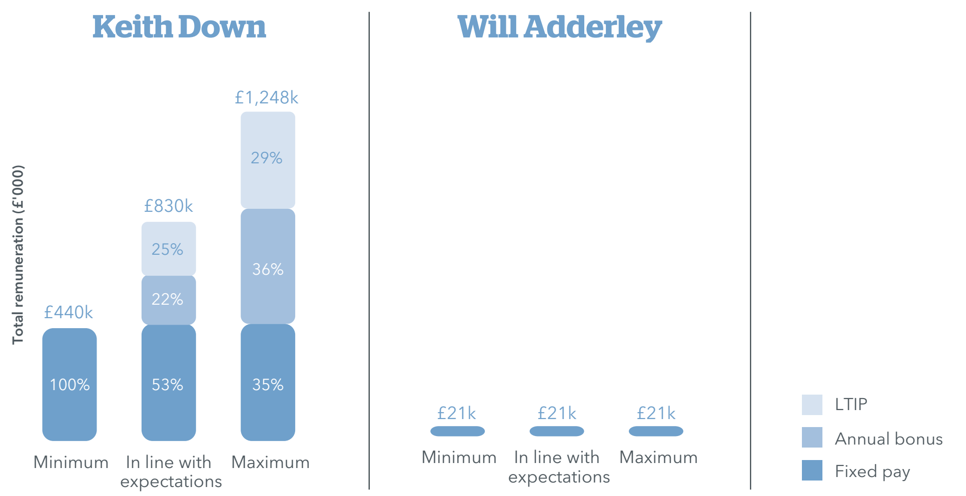
The EPS target for the LTIP is based on growth in fully diluted EPS compared to the increase in the Index of Retail Prices (RPI) over each performance period. The targets that apply to awards are set out in the Policy table on page 77.

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 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.

Illustrative performance scenarios

Following the year end John Browett stepped down as Chief Executive. Interim leadership will be provided by Andy Harrison, Chairman, and Will Adderley, Deputy Chairman, but both have requested that their current remuneration arrangements remain unchanged during this temporary period. Therefore, the following graphs set out what each of the executives could earn in the financial year 2017/18 under the following scenarios:



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

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

	Base (last known salary) £'000	Benefits (as in single figure table) £'000	Pension (20%/15% of last known salary) £'000
Will Adderley	–	21	–
Keith Down	364	21	55[1]

1 15% of salary reflecting pension provision for 2017/18.

In line with expectations – Fixed pay plus annual cash bonus at on target performance of 40% of maximum opportunity (i.e. 50% of salary) and vesting of 59% of the award of shares under the LTIP.

Maximum performance – Fixed pay plus 100% of maximum annual bonus opportunity (i.e. 125% of salary) and 100% of shares vesting under the LTIP.

Please note that two-thirds of performance pay earned by Keith Down (after payment of 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 maintained at £1 per annum, and he has waived his entitlement to receive an LTIP award.

It should be noted that the illustrative performance number is likely to be different to the actual pay that is earned by Keith Down during the year:

- Actual pay will reflect Company and personal performance over the relevant performance period
- We are required to show the value of the LTIP awards that are expected to be made in the year, not those which will actually vest. This valuation is based on the expected face value of the date of grant without making any assumptions for share price growth, and assuming that the award vests in full at the end of the three year performance period
- The value of the LTIP award to be made is based on the average price of a Dunelm share over the three months to 1 July 2017, which was 587.9p and the grant to Keith Down of an award over 60,000 shares – the actual share price at date of award is likely to differ
- No adjustment is made for payment of special dividend equivalents as the level of these cannot be determined at the date of this report

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 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.

Salary, pension, 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 is 12 months from either party, and for 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 pro-rated 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 on 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 (former Finance Director) 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 the 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 from the cessation of employment due to death, injury, disability, retirement, or redundancy (or 12 months in the case of death), 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 granted to Keith Down on 7 December 2015

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 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 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 granted to Keith Down on 7 December 2015

If there is a change of control or winding up of the Company, shares subject to 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 plan, 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 Committee also has formal oversight of the remuneration of Executive Board members.

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 our engagement survey, which includes a specific question relating to fairness of pay relative to other colleagues. Recent engagement surveys have not identified executive pay to be a concern to colleagues. The Committee will be considering how it can engage directly with colleagues during the coming year.

Shareholder views

The Board is committed to ongoing engagement with shareholders in respect of all governance matters, including executive remuneration.

In addition to this, the Company holds a Corporate Governance Day, usually every two years, hosted by the Chairman, the Deputy Chairman and the other Non-Executive Directors, to which all major shareholders are invited. This enables both parties to discuss governance topics informally, including remuneration. 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 Pension and Lifetime Savings Association, 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. Shareholders were consulted prior to putting forward both the 2015 Policy and the 2017 Policy for approval.

Approach to recruitment remuneration

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
- In accordance with the policy, the maximum pension entitlement (or cash allowance) for a newly appointed Executive Director will be 15% of salary
- 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
  - Where 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 make 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

As stated above, newly recruited Executive Directors would now be subject to a reduced maximum pension entitlement of 15% of base salary.

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, would normally be in line with the policy table set out on pages 76 to 78. 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.

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.

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').

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.

Remuneration Report
CONTINUED

Annual Report on Implementation

This section of the report sets out how the Directors' Remuneration Policy which was approved by shareholders on 24 November 2015 has been applied in the financial year being reported on.

Committee membership and meetings

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

Table 1 – Committee membership

Member	Period from:	To:
Simon Emeny (Chair)	25 June 2007	To date
Liz Doherty	1 May 2013	To date
Andy Harrison	1 September 2014	To date
William Reeve	1 July 2015	To date
Peter Ruis	10 September 2015	To date

The Company Secretary acts as secretary to the Committee.

Five 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:
Simon Emeny (Chair)	5/5
Liz Doherty	5/5
Andy Harrison	5/5
William Reeve	5/5
Peter Ruis	5/5

No Director ever participates 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. 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 £10,780 (2016: £6,400).

The Chief Executive attends Committee meetings by invitation to make recommendations as to the remuneration payable to below Board executives. The People Director attends all meetings by invitation to advise on remuneration related issues and provide details of the remuneration applied throughout the Group so that a consistent approach can be adopted.

Single figure for total remuneration (audited information)

The following table sets out total remuneration for Directors for the period ended 1 July 2017:

Table 3 – Directors' remuneration – single figure table

	Salary/fees[7] £'000		Benefits[3] £'000		Bonus[4] £'000		LTIP awards[5] £'000		Pension[6] £'000		Total £'000	
Director	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Executive												
John Browett	**510**	500	**21**	21	**89**	361	**–**	–	**102**	100	**722**	982
Keith Down[1]	**357**	199	**21**	31	**62**	144	**66**	–	**54**	30	**560**	404
Will Adderley	**–**	–	**21**	21	**–**	–	**–**	–		–	**21**	21
David Stead[2]	**–**	140	**–**	10	**–**	81	**–**	144	**–**	14	**–**	389
Non-Executive												
Andy Harrison	**204**	198	**–**	–	**–**	–	**–**	–	**–**	–	**204**	198
Marion Sears	**49**	53	**–**	–	**–**	–	**–**	–	**–**	–	**49**	53
Simon Emeny	**61**	59	**–**	–	**–**	–	**–**	–	**–**	–	**61**	59
Liz Doherty	**55**	54	**–**	–	**–**	–	**–**	–	**–**	–	**55**	54
William Reeve	**49**	48	**–**	–	**–**	–	**–**	–	**–**	–	**49**	48
Peter Ruis[2]	**49**	39	**–**	–	**–**	–	**–**	–	**–**	–	**49**	39
Total	**1,334**	1,290	**63**	83	**151**	586	**66**	144	**156**	144	1,770	2,247

1 Keith Down joined the Board on 7 December 2015. His basic salary, benefits, pension and bonus for 2016 are pro-rated from that date.

2 David Stead retired from the Board on 31 December 2015. His basic salary, benefits and pension for 2016 are pro-rated to that date. He has received a time pro-rated percentage of his 2016 annual bonus entitlement, after applying the financial performance criteria over the full performance period and the personal performance criteria to the date of his cessation of employment.

Peter Ruis joined the Board on 10 September 2015. His fees for 2016 are pro-rated from that date

3 Benefits include the cost to the Company of a car allowance and private health insurance for the individual and their family.

4 Annual bonus is the amount earned in respect of the financial year 2016–17. Details of how this was calculated are set out below. John Browett left the Group on 29 August 2017 and the terms of his severance package, including whether or not he will be paid bonus for the 2017 financial year, have yet to be agreed. Full disclosure will be made on the Company's website once terms have been agreed, and in next year's annual report.

5 The LTIP award number for 2017 is the value of the LTIP award vesting whose three year performance period ends on the last day of the financial period being reported (2016–17). Details of how this value was calculated are set out in the note to table 5. The first LTIP grant to John Browett and Keith Down was made in December 2015. Therefore, there are no LTIP awards vesting to them for 2017.

The comparable figure for 2015–16 is the actual value of the 2013 LTIP award which crystallised in favour of David Stead on 7 October 2016, based on the number of shares due after applying the performance criteria and pro-rating for time served, multiplied by the mid-market price on 7 October 2016, of 799.5p. The comparable figure in the 2015–16 annual report was based on the number of shares in the 2012 LTIP award due to vest in favour of David Stead calculated using the average share price over the three months preceding the end of the performance period on 2 July 2016, which was 869.95p. Note that this award is subject to a two year holding period, and David Stead may not exercise the award until 7 October 2018.

The figure shown for Keith Down in 2017 reflects the value of tranche 1 of his Joining Award which vested on 15 September 2016.

6 Pension is 20% of base salary for John Browett, and 15% of base salary for Keith Down and 10% for David Stead. Will Adderley waived his entitlement to pension from 1 July 2015.

7 From 1 July 2017, John Browett and Keith Down's base salary was increased by 2%, in line with the Company-wide award. Will Adderley's base salary is held at £1 per annum. The fee for the Chairman and the base fee for the other Non-Executive Directors were also increased by 2%. The fee for chairing the Remuneration Committee and the Audit Committee was increased to £10,000. The SID fee was increased by 2%.

Annual bonus

John Browett and Keith Down were awarded an annual performance-related cash bonus for 2016–17 with a maximum potential payment of 125% of salary. The performance condition was linked to PBT versus budget (80%), and performance against personal and strategic objectives (20%). Although not exercised this year, the Committee has the ability to apply judgement to increase or decrease the amount payable by application of the formula, although no more than the maximum potential opportunity would be paid.

As stated in note 4 to table 3 above, John Browett left the Group on 29 August 2017 and the terms of his severance package, including whether or not he will be paid bonus for the 2017 financial year, have yet to be agreed. Full disclosure will be made on the Company's website once terms have been agreed, and in next year's annual report.

Will Adderley has waived his entitlement to bonus.

Financial target – 80% of bonus opportunity

For the period ended 1 July 2017, budget PBT was £134.0m. The financial target set was such that no bonus would be paid until PBT reached £127.3m and maximum bonus would be paid at £140.7m. Between those numbers, bonus would be payable calculated on a straight-line basis. Market consensus for 2016–17 PBT at the date the target was set in early September 2016 was £133.6m.

PBT for 2016–17 was £92.4m, and pre exceptional items was £109.3m. There was no payment in respect of this PBT element of the bonus. In considering performance against targets for the purposes of the annual bonus, the Remuneration Committee has decided that PBT pre exceptional items should be used. This is considered appropriate because exceptional items relating to the Worldstores acquisition were not known or contemplated when the original budget and targets were set. However, this made no difference to the overall bonus outcome in 2016/17.

Strategic and personal objectives – 20% of bonus opportunity

The strategic and personal bonus targets were linked to progress against the eight Business Plans agreed by the Board in May 2016 and set out in last year's annual report, and other supporting objectives.

Performance against these strategic and personal objectives was assessed as follows:

Target	Performance
Delivery of material financial benefit from the eight Business Plans	A number of the planned milestones were achieved but overall performance was mixed, partly due to conscious re-prioritisation of resource to focus on integration of the Worldstores businesses. Information on progress against the eight Business Plans is set out in the Strategic Report
Delivery of an exciting growth plan for FY19–FY21	The Worldstores acquisition has accelerated the potential for online growth and development of the business. A revised five year plan was agreed by the Board in May 2017.
Reinforce low cost culture	A number of activities were progressed but there was a shortfall against targeted cost savings.
Deliver a clear articulation of the Dunelm Brand	A new Brand identity was delivered and incorporated into the marketing programme. Some planned brand marketing activity was deferred due to budget constraints.
Strengthen and develop the executive team	A stable executive team is in place with a strengthened succession plan. Key Worldstores management have been retained.
Upgrade the investor relations strategy (Keith Down only)	Some progress made. Planned Capital Markets Day deferred to October 2017 due to the Worldstores acquisition.

It was determined that 70% (2016: 100%) of this element of the bonus had been earned, giving rise to a payment of £62,475 to Keith Down (2016: £49,774, pro-rated to service during the year). As John Browett stepped down from the Board on 29 August 2017, his bonus of £89,250 (2016: £125,000) may be paid in the discretion of the Remuneration Committee as part of his severance settlement. At the date of this report severance terms are yet to be agreed and therefore it is not known whether some or all of this will be paid.

Total bonus earned is set out in the table below:

Table 4 – Annual bonus earned in respect of 2016–17 performance

	Bonus awarded £	Percentage of maximum award £
Keith Down	£62,475	14%
Will Adderley (waived entitlement)	–	N/A

Note: As John Browett, Chief Executive during the financial year, stepped down from the Board on 29 August 2017, his bonus of £89,250 (2016: £125,000) may be paid in the discretion of the Remuneration Committee as part of his severance settlement. At the date of this report severance terms are yet to be agreed and therefore it is not known whether some or all of this will be paid.

LTIP – awards earned in respect of performance in 2014–17

The only LTIP award which is due to mature in respect of 2014–17 performance is that granted to the former Chief Financial Officer, David Stead in 2017, who retired on 31 December 2015. The Remuneration Committee determined that as a 'good leaver', David would be entitled to receive part of this award, subject to performance criteria, and pro-rated by time served over the performance period (the three financial years ended 1 July 2017). In the case of the award maturing on 9 October 2017, and exercisable from 9 October 2019, this would equate to a maximum of 27,035 shares. The performance criteria applicable to this award was based on growth in fully diluted EPS over the performance period. For further information please see the policy report on page 77.

Over the three year performance period which ended on 1 July 2017, reported fully diluted EPS declined at a compound annual rate of 6.9%. This is 8.2% below the compound annual growth in RPI over the same period. Accordingly, the award granted to David Stead in October 2014 will lapse.

Table 5 – LTIP awards earned in respect of performance in 2015–17

	Shares vesting	Percentage of maximum award
David Stead	0	0%

Will Adderley waived his entitlement to receive an LTIP award in 2014. John Browett and Keith Down joined the business in 2015 and no awards under the LTIP are due to vest to them until 2018.

The 2014 LTIP award for FY15–FY17 to David Stead as described above is included in the single number for total remuneration for 2016/17 set out in table 3.

Remuneration Report
CONTINUED

LTIP awards made to Directors during 2016–17

LTIP awards were made on 19 October 2016 to John Browett and Keith Down as set out below. As John Browett resigned on 29 August 2017, unless permitted by the Remuneration Committee under the terms of his severance settlement, this award will lapse.

Table 6 – LTIP awards made to Directors during 2016–17

Name	Award	Number of shares	Face value at date of award (percentage of salary where relevant)	Performance condition	Performance period	Vesting date	% vesting at threshold performance
John Browett	Nil cost option under LTIP	110,000	£849,750[1]	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 compound annual EPS growth exceeds RPI growth by 3%. 10% of the award vests when compound annual growth in EPS exceeds RPI growth by 3%. 100% of the award vests when compound annual growth in EPS exceeds RPI by 15%. Between those figures the award will vest on a straight-line basis. Two-thirds of shares vesting (after payment of tax and national insurance) must be held for the duration of employment, and 50% of these retained for two years following termination	July 2016 to June 2019	19 October 2019	10%
Keith Down	Nil cost option under LTIP	60,000	£463,500[1]	As for John Browett	July 2016 to June 2019	19 October 2019	10%

1 Based on the closing share price on 18 October 2016, of 772.5p per share.

Joining award made to Keith Down in 2015

Following approval by shareholders at the AGM on 24 November 2015, and as noted in last year's annual report, a joining award was made to Keith Down on 7 December 2015 over 33,958 shares in the form of a nil cost option, under the terms of the Share Award Agreement approved by shareholders on 24 November 2015. The market value of the award was £335,000 based on the closing share price on 4 December 2015, of 986.5p per share. 7,470 (22%) of these shares vested on 15 September 2016, and 26,488 (78%) of these shares are due to vest on 15 September 2017.

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

David Stead

David Stead retired from the Board on 31 December 2015. David received his salary, benefits and pension allowance as usual until his leaving date of 31 December 2015, at the rate set out in the Annual Report for 2014/15.

At 31 December 2015, David had three outstanding awards under the LTIP:

Table 7 – David Stead's LTIP awards at his retirement date (31 December 2015):

Award date	Performance period	Normal vesting date	No. of shares	No. of shares pro-rated to 31 December 2015	No. of shares to vest after applying performance condition
7 October 2013	FY14–FY16	7 October 2018*	49,216	40,976	18,029
9 October 2014	FY15–FY17	9 October 2019*	53,922	27,035	Nil
15 October 2015	FY16–FY18	15 October 2020*	44,592	7,350	n/a

* Includes two year holding period following the end of the three year performance period.

The Remuneration Committee determined that as a 'good leaver' with 12 years' service during a time of substantial growth in shareholder value, David may exercise the above awards, subject to time pro-rating, and after applying the applicable performance criteria over the full performance period. The maximum possible vesting, if performance conditions are fully met, is set out in the table above (column headed "No. of shares pro-rated to 31 December 2015").

The awards may be exercised within six months of the normal vesting date specified above.

The above arrangements are fully in line with the Remuneration Policy approved at the AGM in November 2015. The LTIP award made to David Stead in October 2015 was disclosed in the 2015 and 2016 remuneration reports which were approved by shareholders. The Remuneration Committee's decision reflects the service provided by David over the financial years covered by the applicable performance periods and has been pro-rated according to that service over those periods.

No further payments have been or are being made to David Stead in respect of loss of office or the termination of his employment.

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). In addition, they are required to make a personal investment in Dunelm shares on appointment (subject to Company close periods); and to invest two-thirds of any annual bonus paid and LTIP awards earned (after payment of tax and national insurance liability on exercise) in Dunelm shares.

Will Adderley complies with this requirement at the financial year end.

John Browett was appointed on 1 July 2015 and Keith Down was appointed on 7 December 2015.

Table 8 and Table 9 show the interests of the Directors in shares of the Company at 1 July 2017.

Remuneration Report
CONTINUED

Table 8 – Directors' beneficial shareholdings (audited)

	At 1 July 2017 1p Ordinary Shares	At 2 July 2016 1p Ordinary Shares
Will Adderley	**54,161,779**	54,161,779
Andy Harrison	**202,932**	108,133
Marion Sears	**105,000**	101,313
John Browett	**55,030**	23,251
Simon Emeny	**28,555**	28,555
Keith Down	**21,610**	8,511
William Reeve	**7,000**	2,500
Liz Doherty	**2,500**	2,500
Peter Ruis	**–**	–

Between the financial year end and the date of this report Directors have purchased shares as follows:

Name	**Date of purchase**	**No. purchased**	**Price**	**Total beneficial holding following purchase**
John Browett	12 July 2017	9,098	546.5p	64,128
William Reeve	14 July 2017	3,000	559p	10,000
Simon Emeny	17 July 2017	2,685	556p	31,240

Table 9 – Directors' interests in options at the period end (audited)

Director	Date of award	Nature of award	**Share options at 1 July 2017**	End of performance period	Option price	Market price of shares at date of award
Will Adderley	–	–	Nil	–	–	–
John Browett	Dec 2015	2016–18 LTIP	110,000	June 2018	Nil	986.5p
	Oct 2016	2017–19 LTIP	110,000	June 2019	Nil	772.5p
	Nov 2015	2016/18 Sharesave	2,385	Dec 2018	754.5p	942.5p
Keith Down	Dec 2015	2016–18 LTIP	60,000	June 2018	Nil	986.5p
	Oct 2016	2017–19 LTIP	60,000	June 2019	Nil	772.5p
	Dec 2015	Joining award	26,488	Sept 2017	Nil	986.5p
	Nov 2016	2017–19 Sharesave	2,910	Dec 2019	618.5p	772.5p

The LTIP awards above are subject to the performance condition noted in Table 6 above.

Further details of Keith Down's joining award are set out in last year's annual report, and details of the Sharesave scheme are set out in the policy table.

Details of options held by David Stead, former Chief Financial Officer, who retired from the Board on 31 December 2015, are set out in Table 7.

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 2.4% 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 Will Adderley, and six months for John Browett and Keith Down. 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
Keith Down	7 December 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	19 months	1 month
Andy Harrison	1 September 2014	23 months	3 months
William Reeve	1 July 2015	9 months	1 month
Peter Ruis	10 September 2015	12 months	1 month

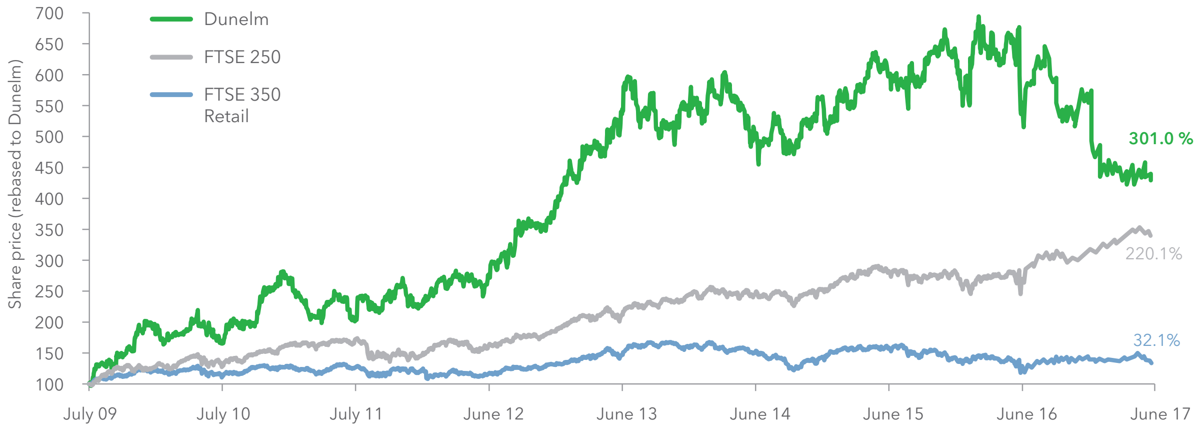
Since Marion Sears has now served 13 years on the Board (11 of which are post flotation of the Company in 2006), and Simon Emeny has served ten years on the Board, their contracts are renewed for one year terms (rather than three), with the notice period referred to above.

Remuneration Report
CONTINUED

Relative TSR performance

The graph below shows the Group's performance over seven 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 2 July 2009 = 100)



The shares traded in the range 591.5p to 909p during the year and stood at 601.5p at 1 July 2017.

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 eight financial years:

		CEO Single figure of total remuneration £'000	Annual bonus payment against maximum opportunity %	Long term incentive vesting rates against maximum opportunity %
FY16/17	John Browett	722[5]	14.0%[5]	n/a
FY15/16	John Browett[1]	489	57.7%	n/a
FY15/16	Will Adderley[1]	10	n/a	n/a
FY14/15	Will Adderley[2]	507	5%	n/a
FY14/15	Nick Wharton	110	n/a	n/a
FY13/14	Nick Wharton[3]	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[4]	429	6.0%	n/a
FY10/11	Will Adderley[4]	1,413	4.0%	100.0%
FY09/10	Will Adderley	1,366	100.0%	100.0%

1 Will Adderley was succeeded by John Browett as Chief Executive on 1 January 2016. The data for each Director for 2015/16 is pro-rated by time of service as Chief Executive. Will Adderley's base salary was reduced to £1 on 1 July 2015.

2 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 pro-rated by time of service as Chief Executive.

3 Nick Wharton's first LTIP award vested and was exercised in December 2013. No LTIP awards have vested to John Browett since his appointment.

4 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 pro-rated by time of service as Chief Executive.

5 John Browett left the Group on 29 August 2017. The "single figure" and bonus payment in this table reflect the position that will apply if the Remuneration Committee allows payment of all of his bonus for the financial year to 1 July 2017 as part of his severance settlement.

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 2015/16 to 2016/17	Change in benefits 2015/16 to 2016/17	Bonus earned as % of salary 2016/17	Bonus earned as % of salary 2015/16	% change in bonus earned 2015/16 to 2016/17	% change in bonus earned 2014/15 to 2015/16
Chief Executive	2%	Nil	14%[1]	72%	-75.3%	+1340%
All colleagues (per capita)	3.3%	24.3%	5.4%	19%	-71.6%	+138%

1 John Browett left the Group on 29 August 2017. The bonus payment in this table reflects the position that will apply if the Remuneration Committee allows payment of all of his bonus for the financial year to 1 July 2017 as part of his severance settlement.

Table 14 – Relative spend on pay

The table below shows the all employee pay cost and returns to shareholders by way of dividends (including special dividends) and share buyback for 2016–17 and 2015–16.

	2016/17 £'m	2015/16 £'m	% Increase
Total spend on pay	**129.3**	115.4	12.1%
Ordinary dividend to shareholders	**51.6**	44.6	15.7%
Distributions to shareholders via treasury share purchases	**4.2**	7.8	-46.2%
Special distributions to shareholders	**–**	63.8	-100%
Total distributions to shareholders	**55.8**	116.2	-52%

This information is based on the following:

Total spend on pay – total employee costs from note 6 on page 128, including salaries and wages, social security costs, pension and share based payments.

Dividends taken from note 9 on page 129.

Share buyback taken from Consolidated Statement of Changes in Equity on page 118.

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.

John Browett was a Director of Octopus Capital Limited and Octopus Investments Limited (effectively one external role) during the period. He retained his Director fees (£50,000).

Keith Down was a Non-Executive Director of Topps Tiles plc during the period. He retained his Director fees (£42,926).

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 Executive Board and Senior Management Team are eligible for awards under the LTIP.

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 2017/18 financial year
Base salary, benefits and pension

Base salary and benefits for each of the Executive Directors for 2017/18 are set out in the table below:

Table 15 – Base salary, benefits and pension for 2017/18

	Base salary	Increase to base salary year on year	Benefits	Increase to benefits year on year	Pension	Increase to pension year on year
Keith Down	£364,140	+2%	Car allowance; private health insurance for the individual and their family; permanent health cover; life assurance; mobile phone	Nil	£54,621	+2%
Will Adderley	£1	Nil	As above	Nil	Nil	n/a

Basic salary increase for Keith Down is in line with the Company-wide award of 2%.

Annual bonus

Keith Down has been awarded a bonus opportunity of up to 125% of base salary. The performance conditions attached to the bonus are:

80% linked to achievement of Budget PBT pre budgeted exceptional items;

20% linked to achievement of strategic and personal targets, aligned to the Group strategy.

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

Keith Down has 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.

LTIP

An award is expected to be made to Keith Down under the Long Term Incentive Plan in October 2017 over 60,000 shares.

The award 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.

As in the past five years, Will Adderley has asked that he not be considered for an LTIP award.

Sharesave

An invitation will be issued in October 2017 to all eligible employees, to apply for options to be granted under the Sharesave scheme 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 the eligibility date may apply for Sharesave options, subject to the plan rules.

Non-Executive Director fees for 2017/18

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

Table 17 – 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	£208,000	Nil	2%	n/a	
Simon Emeny	SID and Remuneration Committee Chair	£49,939				
	Committee chair fee		£10,000		63%	Increase in Committee Chair fee reflects review of fee against the market
	SID fee		£6,244		2%	
Marion Sears	Non-Executive Director	£49,939	Nil	2%	n/a	
Liz Doherty	Audit and Risk Committee Chair	£49,939	£10,000	2%	63%	Increase in Committee Chair fee reflects review of fee against the market.
William Reeve	Non-Executive Director	£49,939	Nil	2%	n/a	
Peter Ruis	Non-Executive Director	£49,939	Nil	2%	n/a	

Base fee and Senior Independent Director (SID) fee increases with effect from 1 July 2017 were in line with the Company-wide increase of 2%. Committee Chair fees were reviewed against the market in view of the increased workload undertaken by Committee Chairs in the light of changing governance requirements, and increased to the median.

Statement of shareholder voting

At the Annual General Meeting on 22 November 2016, the total number of shares in issue with voting rights (excluding treasury shares) was 202,479,676. The resolution to approve the Annual Report on Implementation of the Remuneration Policy received the following votes from shareholders:

Table 18 – Voting on remuneration related resolutions at the 2016 AGM

Resolution	Votes for	% of votes cast	Votes against	% of votes cast	Votes withheld	% withheld
Approve Annual Remuneration Report	178,879,529	99.09%	1,643,656	0.91%	10,122	0.01%

Approved by the Board on 13 September 2017.

Simon Emeny
Chair of the Remuneration Committee

Letter from the Chair of the Nominations Committee

Dear Shareholder

We are fortunate to have a high quality Board, with strong Non-Executive Directors who provide valuable advice and counsel, and we benefit from the breadth and quality of their business experience. This has been particularly helpful to me as I have settled into my role as Chairman.

I would like to thank Simon Emeny, our Senior Independent Director, who has served the Group admirably over the last ten years. As noted last year, we asked Simon to serve an additional year beyond his nine year term to provide continuity. Simon will step down as planned at this year's AGM, and we are well advanced with the appointment of his successor.

This year we held a follow-up to last year's externally facilitated Board evaluation, which was completed shortly before the financial year end. The results are described in the Corporate Governance Report and the overall conclusion was that the Board has continued to work effectively. We obtained some helpful insights to improve this further.

In August, John Browett, our Chief Executive, stepped down from the Board. I would like to thank John for his contribution to the business and the strategic progress made under his leadership, most notably the exciting acquisition of Worldstores. The Nominations Committee has commenced a search for his successor, to lead the Group in our next stage of growth, with a style of leadership that is fully consistent with our special Dunelm culture.

Our Board combines experience and different perspectives with complementary retail, consumer and online expertise. At least once a year we review the skills and Board balance, as well as our succession plan, in the light of the strategy and requirements of the Board. We have used this to help us formulate the role and personal specification for our new Chief Executive and the Non-Executive Director who will succeed Simon Emeny. After that, our next scheduled rotation of Non-Executive Directors is in 2019 at the earliest; however, we are considering the appointment of an additional NED to strengthen the breadth of expertise, particularly in finance.

This year the Financial Reporting Council issued a paper emphasising the importance of Board oversight of the culture of companies. Nurturing Dunelm's culture has always been a central area of focus for the Board. Its maintenance is one of our "principal risks", and a particular accountability of our Deputy Chairman, Will Adderley, whose family founded the Group and, together with Will, remain majority shareholders. I have included in this report a summary of recent activities which have been discussed by the Board.

I look forward to meeting shareholders at the AGM.

Yours sincerely,

Andy Harrison
Chair of the Nominations Committee

13 September 2017

Nominations Committee Report

Summary of principal activities

- Search for new Non-Executive Director at an advanced stage
- External Board review held
- Formal review of Board skills and balance
- Since the year-end, search commenced for new Chief Executive

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 against objective criteria and with due regard for the benefits of diversity of the Board, 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:
Andy Harrison (Chair)	1 September 2014	To date
Marion Sears	18 January 2005	To date
Simon Emeny	25 June 2007	To date
Will Adderley	17 February 2011	To date
Liz Doherty	1 May 2013	To date
William Reeve	1 July 2015	To date
Peter Ruis	10 September 2015	To date

There was one formal Committee meeting held in the year and members' attendance was as shown in the table below. The Company Secretary acts as secretary to the Committee.

No Director attended that part of a meeting during which his or her own position was discussed.

Member	Meetings attended:
Andy Harrison (Chair)	1
Will Adderley	1
Liz Doherty	1
Simon Emeny	1
Marion Sears	1
William Reeve	1
Peter Ruis	1

Committee Activities in 2016–17

Board Succession Planning

For a number of years we have had a formal, long range plan for how Board membership should develop. As usual, we aim to balance continuity with regular refreshment of skill and experience.

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 part of our Board evaluation process, we conducted an analysis of the balance of skills on the Board as a whole, taking account of the future needs of the business, 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.

Nominations Committee Report
CONTINUED

Board changes in 2016–17

There were no changes to the Board during the year. We are at an advanced stage of our search for a new Non-Executive Director to succeed Simon Emeny, who will retire from the Board at the 2017 Annual General Meeting. We engaged an external search consultant to seek candidates based on a specification agreed by the Nominations Committee and the Board. We asked the consultant to shortlist at least an equal number of female and male candidates.

In August 2017, after the financial year end, John Browett, our Chief Executive, stepped down from the Board. A search for his successor has commenced. In the meantime, I am providing interim executive leadership, supported by Will Adderley, our Deputy Chairman, and Keith Down, our Chief Financial Officer.

Board evaluation

There were a number of changes to our Board in 2015/16, and when the 2016 external review was held new relationships and ways of working were still being established. We therefore decided to ask Lorna Parker, an independent Board evaluation consultant who carried out the external evaluation in 2016, to do a follow-up review in 2017.

Separately I carried out a formal evaluation of the Non-Executive Directors and the Chief Executive; the Chief Executive reviewed the performance of the Chief Financial Officer; and the Non-Executive Directors reviewed my performance.

The results of the evaluation are described in the Corporate Governance report.

Culture and values – our Business Principles

Dunelm was founded by the Adderley family, and Will Adderley, our Deputy Chairman, has a particular interest and accountability for ensuring that the Dunelm culture is preserved. Will formulated the Business Principles which describe the Dunelm culture, and during the financial year these have been reinvigorated, and now form part of induction, appraisal and colleague communications. We are taking steps in the coming year to embed them more deeply into the Group. A key theme running through our principles is to "do the right thing", whether this relates to our decisions, or how we deal customers, colleagues, suppliers, the community, investors, and regulators. Our approach is also reflected in our Code of Business Conduct, our Anti-bribery policy, our Ethical Policy and our Tax Policy. The Board has oversight of these through our risk management procedures, regular presentations from the People Director, and through regular meetings with senior management and visits to stores and other company operations. As part of our formal Board review, we have also agreed to have a formal discussion of how our culture is embedded in the business.

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:

- Our overriding concern is to ensure the Board comprises outstanding individuals who can lead the Group, and we believe the Group's best interests are served by ensuring that these individuals represent a range of skills, experiences, backgrounds and perspectives, including gender. Naturally it is our policy is that the Board should always be of mixed gender
- We support the objective of promoting diversity on our Board and throughout the Group. Quotas are a blunt instrument but they do bring focus, as well as the risk of compromised decisions on Board membership, quality and size, particularly with a small and collegiate Board
- We shall continue 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, regardless of gender and background, to enjoy career progression within Dunelm

Details of the gender balance within the Group are set out in the Corporate Responsibility report on page 40. The Committee is pleased that there is a good level of gender diversity at Board, Executive Board and senior management level (22%, 36% and 30% respectively).

In the financial year we will be making our first gender pay disclosures. Reflecting the McGregor Smith review, we will also be collecting data about ethnic diversity within our business and considering whether there is more action needed in this area.

Tenure and Re-election of Directors

The tenure of the Non-Executive Directors is set out below.

	Appointment	Current term (years)	Next renewal	Additional Board role
Andy Harrison	September 2014	3	September 2020	Chairman
Marion Sears	July 2004	13	July 2018	
Simon Emeny	June 2007	10	n/a	SID, RemCo
Liz Doherty	May 2013	4	May 2019	Audit and Risk
William Reeve	July 2015	2	July 2018	
Peter Ruis	September 2015	2	September 2018	

Marion Sears has served 13 years on the Board. Marion is now considered by the Board to be 'non-independent' in view of her tenure. As noted in last year's report, we asked Simon Emeny to stay for an extra year at the end of his nine year term to provide continuity during the period of change in 2015-16; it is expected that he will retire at the 2017 AGM following the appointment of a successor.

In accordance with the UK Corporate Governance Code, all Directors with the exception of Simon Emeny, who will retire at that date, will seek re-election at the 2017 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.

Executives below Board

The Committee has for some years had both formal and informal oversight of the Executive team below Board. Dunelm Board members have regular contact with these Executives, both through formal Board presentations, attendance of the Executive Board at the annual Strategy Days, and in regular store visits, where a Non-Executive Director meets a member of the Executive Board on a less formal basis. The Board receives an annual Talent Management presentation from the People Director which provides an assessment of performance of the Executive Board and Senior Management Team, together with succession planning. As part of the development of the Senior Management Team, we have implemented a programme of presentations by Non-Executive Directors to this group of 40 or so senior managers, to share their leadership experience.

Although these activities are not formally conducted as part of the work of the Nominations Committee, we see this as a useful way of preserving our culture and an important aspect of our oversight of the Executive team development and succession process.

Approved by the Board on 13 September 2017.

Andy Harrison
Chair of the Nominations Committee

Directors' Report

The Directors present their report together with the audited financial statements for the period ended 1 July 2017.

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

Strategic Report

The Group's Strategic Report is set out on pages 8 to 38. 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 £73.1m (2016: £102.3m). The results are discussed in greater detail in the Financial Review on pages 23 to 27.

A final dividend of 19.5p per share (2016: 19.1p) is proposed in respect of the period ended 1 July 2017 to add to an interim dividend of 6.5p per share paid on 13 April 2017 (2016: 6.0p). The final dividend will be paid on 24 November 2017 to shareholders on the register at 3 November 2017.

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:

- Conduct all transactions and relationships with any member of the Group on arm's length terms and on a normal commercial basis
- 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)
- 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
- 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
- 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
- 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 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
- 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 closed 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.

UK Listing Authority Listing Rules (LR) – compliance with LR 9.8.4C

The majority of the disclosures required under LR 9.8.4 are not applicable to Dunelm. The table below sets out the location of those requirements that are applicable:

Applicable sub-paragraph within LR 9.8.4	Disclosure provided
(14) A statement made by the Board that the Company has entered into an agreement under LR 9.2.2A, that the Company has, and as far as it is aware, the other parties to the agreement have, complied with the agreement.	See above section headed 'Shareholder and Voting Rights'.

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 1 July 2017, the Company held 1,150,369 Ordinary Shares in treasury (2016: 846,455).

During the period the Company purchased 500,000 Ordinary Shares into treasury. 195,813 shares were transferred to employees who exercised options under a share incentive scheme or Directors under the LTIP scheme. Details of option exercises by Directors are set out in the Remuneration Report.

Since the financial year end, nil Ordinary Shares have been moved out of treasury to employees who exercised options under a share incentive scheme.

Substantial Shareholders

At 1 July 2017 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	54,161,779	26.9
Bill Adderley	48,070,000	23.8
Royal London Asset Management Limited	6,190,630	6.07

Will Adderley is also deemed to hold a legal interest in 967,250 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.

Since the period end date, we have been notified by Royal London Asset Management Limited that their holding is now 10,075,612 Ordinary shares, 5.0% of the issued share capital.

There have been no other changes in the holdings of substantial shareholders between the period end date and 13 September 2017.

Directors' Report
CONTINUED

Directors
The Directors of the Company and their biographies are set out on pages 50 to 52. Details of changes to the Board during the period are set out in the Corporate Governance Report on page 54.

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 54.

Employee Information
Information relating to employees of the Group is set out in the Corporate Responsibility report on page 40.

Share incentive schemes in which employees participate are described in the Remuneration Report on pages 77 to 78.

Donations
The Group does not make any political donations.

Greenhouse Gas Emissions
The Corporate Responsibility report on page 47 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 35 and note 18 to the annual 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 reappointment of PricewaterhouseCoopers LLP as auditor of the Group.

Disclaimer
This Directors' Report, Strategic Report 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 Strategic Report or in these Financial Statements should be construed as a profit forecast.

Annual General Meeting
The Annual General Meeting will be held at 9.30am on Tuesday 21 November 2017 at the Dunelm Stoke 2 Distribution Centre, Whiterock Road, Prologis Park, Stoke-on-Trent, ST4 4FA. A formal notice of meeting, explanatory circular and a form of proxy will accompany this annual report and financial statements.

This report was reviewed and signed by order of the Board on 13 September 2017.

Dawn Durrant
Company Secretary

Statement of Directors' Responsibilities

IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and Accounts and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial 52 week period. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 Parent Company and of the profit or loss of the Group and Parent Company for that period. In preparing the financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company 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.

The Directors are also responsible for safeguarding the assets of the Group and Parent Company 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 Parent 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 Group and Parent Company's performance, business model and strategy.

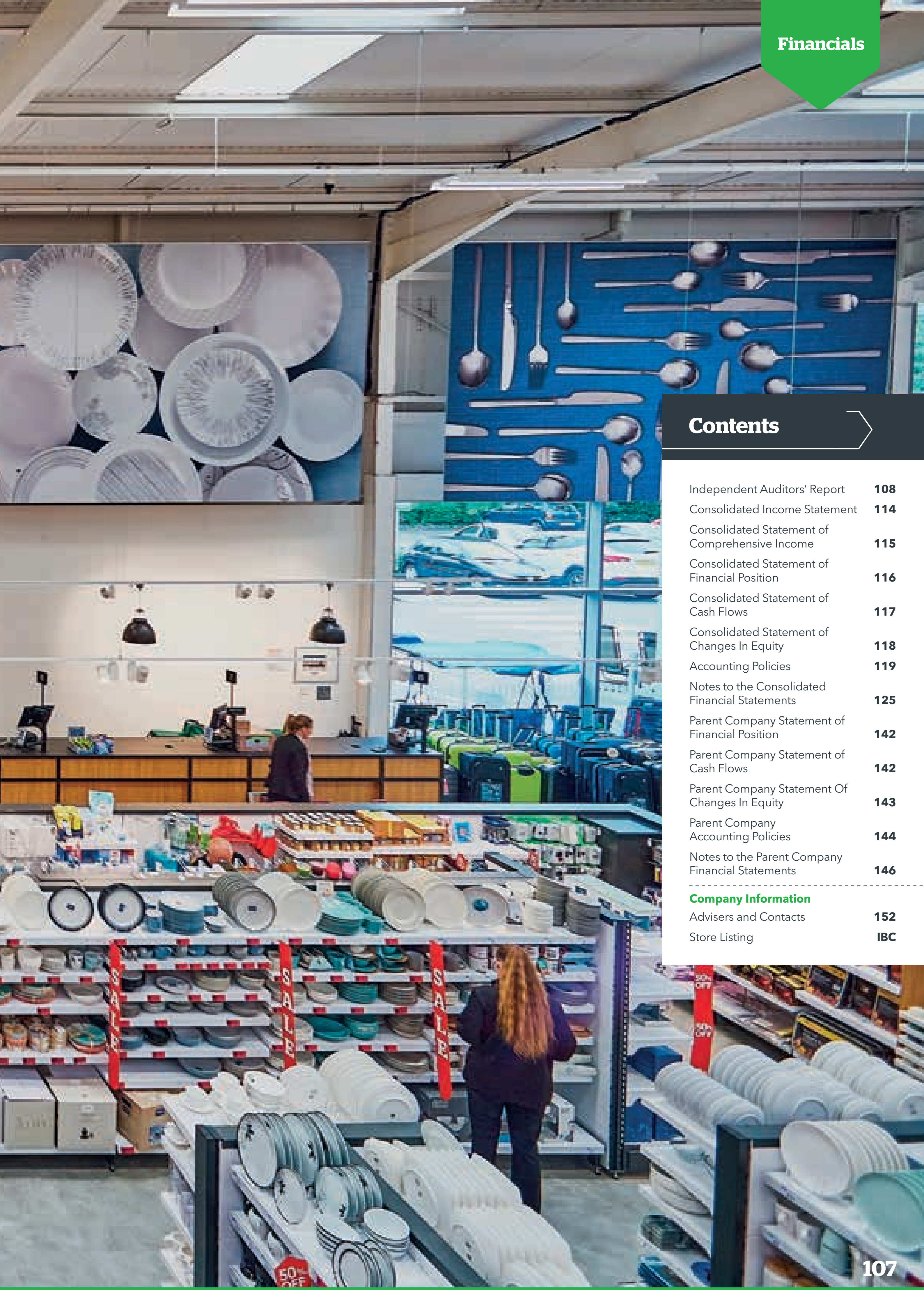
Each of the Directors, whose names and functions are listed in Corporate Governance Report, confirm that, to the best of their knowledge:

- the Parent Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Parent Company, 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:

- so far as the Director is aware, there is no relevant audit information of which the Group and Parent Company's auditors are unaware;
- and they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Parent Company's auditors are aware of that information.

Financials



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Independent Auditors' Report

TO THE MEMBERS OF DUNELM GROUP PLC

Report on the audit of the financial statements

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 1 July 2017 and of the Group's profit and the Group's and the Parent Company's cash flows for the 52 week period (the "period") then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- 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.

We have audited the financial statements, included within the Annual Report and Accounts, which comprise: the consolidated and Parent Company statements of financial position as at 1 July 2017; the consolidated income statement and statement of comprehensive income, the consolidated and Parent Company statements of cash flows, and the consolidated and Parent Company statements of changes in equity for the 52 week period then ended; the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

Other than those disclosed on page 68, we have provided no non-audit services to the Group or the Parent Company in the period from 3 July 2016 to 1 July 2017.

Our audit approach

Overview

- £5.5m (2016: £6.4m) – Group financial statements.
- Based on 5% of profit before tax, adjusting for the non-recurring costs.
- £1.2m (2016: £1.5m) – Parent Company financial statements.
- Based on 0.5% of total assets.

The Group is structured with one segment which comprises a consolidation of seven legal entities.

We conducted an audit of the complete financial information of these seven legal entities, together with additional procedures performed, including over the Group consolidation.

Inventory provisions (Group).

Acquisition of Worldstores and related exceptional items (Group).

The scope of our audit

As part of designing our audit, we determined materiality and assessed 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.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Inventory provisions Refer to the Audit and Risk Committee Report on page 66 and the use of estimates and judgements in the Accounting Policies on page 119. 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 determination of the NRV provision involves judgement in assessing slow moving or obsolete inventory. The Group's accounting policy is to determine a provision 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.	We tested the inputs to the provision calculation, including the classification 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 historical 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.
Acquisition of Worldstores and related exceptional items Refer to the Audit and Risk Committee Report on page 66 and the use of estimates and judgements in the Accounting Policies on page 119. The trade and certain assets and liabilities of the Worldstores Group were acquired by Dunelm Group plc on 28 November 2016. Provisional fair values were attributed to each of the assets acquired and liabilities assumed, including intangible assets in relation to brands. Costs relating to the acquisition and the subsequent restructuring and integration within the Dunelm Group have been separately disclosed as exceptional items.	We have assessed the fair values ascribed to the assets and liabilities that were purchased as part of the acquisition of the Worldstores Group. In particular, we tested the valuation of acquired intangible assets and property, plant and equipment. We have verified the costs that are disclosed as exceptional items to ensure they meet the criteria supporting separate disclosure and have obtained comfort over the accuracy of these balances.

Independent Auditors' Report CONTINUED

TO THE MEMBERS OF DUNELM GROUP PLC

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 structure of the Group and the Parent Company, the accounting processes and controls, and the industry in which they operate.

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.

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 seven 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 three legal entities: Dunelm Soft Furnishings Limited, Globe Online 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 four 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 seven 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 on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

	Group financial statements	Parent Company financial statements
Overall materiality	£5.5m (2016: £6.4m).	£1.2m (2016: £1.5m).
How we determined it	5% of profit before tax, adjusting for the non-recurring costs.	0.5% of total assets.
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 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.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £0.08m and £5.18m. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £0.25m (Group audit) (2016: £0.05m) and £0.25m (Parent Company audit) (2016: £0.05m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Parent Company's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Parent Company's ability to continue as a going concern.
We are required to report if the Directors' statement relating to going concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report and Accounts other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 1 July 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. *(CA06)*

In light of the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. *(CA06)*

Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 54 to 69) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ("DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. *(CA06)*

In light of the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit, we did not identify any material misstatements in this information. *(CA06)*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 54 to 69) with respect to the Parent Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. *(CA06)*

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Parent Company. *(CA06)*

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 37 of the Annual Report and Accounts that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity
- The disclosures in the Annual Report and Accounts that describe those risks and explain how they are being managed or mitigated
- The Directors' explanation on page 37 of the Annual Report and Accounts as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit. *(Listing Rules)*

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 105, that they consider the Annual Report and Accounts taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Parent Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Parent Company obtained in the course of performing our audit
- The section of the Annual Report and Accounts on page 66 describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee
- The Directors' statement relating to the Parent Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. *(CA06)*

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 105, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Parent 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.

Other required reporting

Companies Act 2006 exception reporting

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
- certain disclosures of Directors' remuneration specified by law are not made; 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.

Appointment

Following the recommendation of the Audit and Risk Committee, we were appointed by the members on 14 January 2014 to audit the financial statements for the year ended 28 June 2014 and subsequent financial periods. The period of total uninterrupted engagement is four years, covering the years ended 28 June 2014 to 1 July 2017.

Mark Smith (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
13 September 2017

Consolidated Income Statement

FOR THE 52 WEEKS ENDED 1 JULY 2017

	Note	2017 52 weeks Underlying £'m	2017 52 weeks Exceptional Items £'m	2017 52 weeks Reported £'m	2016 52 weeks Reported £'m
Revenue	1	**955.6**	–	**955.6**	880.9
Cost of sales		**(488.0)**	**(0.5)**	**(488.5)**	(442.4)
Gross profit		**467.6**	**(0.5)**	**467.1**	438.5
Operating costs	5	**(355.9)**	**(16.4)**	**(372.3)**	(309.2)
Operating profit	4	**111.7**	**(16.9)**	**94.8**	129.3
Financial income	7	**0.2**	–	**0.2**	1.2
Financial expenses	7	**(2.6)**	–	**(2.6)**	(1.6)
Profit before taxation		**109.3**	**(16.9)**	**92.4**	128.9
Taxation	8	**(22.4)**	**3.1**	**(19.3)**	(26.6)
Profit for the period		**86.9**	**(13.8)**	**73.1**	102.3
Earnings per Ordinary Share – basic	10	**43.1p**		**36.3p**	50.5p
Earnings per Ordinary Share – diluted	10	**42.8p**		**36.1p**	50.3p

Consolidated Statement of Comprehensive Income

FOR THE 52 WEEKS ENDED 1 JULY 2017

	2017 52 weeks £'m	2016 52 weeks £'m
Profit for the period	**73.1**	102.3
Other comprehensive income/(expense):		
Items that may be subsequently reclassified to profit or loss:		
Movement in fair value of cash flow hedges	**1.4**	10.3
Transfers of cash flow hedges to inventory	**(9.4)**	(2.9)
Deferred tax on hedging movements	**1.4**	(1.3)
Other comprehensive income for the period, net of tax	**(6.6)**	6.1
Total comprehensive income for the period	**66.5**	108.4

Consolidated Statement of Financial Position

AS AT 1 JULY 2017

	Note	1 July 2017 £'m	2 July 2016 £'m
Non-current assets			
Intangible assets	11	**27.5**	18.6
Property, plant and equipment	12	**195.2**	168.9
Deferred tax assets	13	**0.2**	0.6
Derivative financial instruments	18	**–**	0.8
Total non-current assets		**222.9**	188.9
Current assets			
Inventories	14	**165.3**	116.6
Trade and other receivables	15	**26.4**	19.2
Deferred tax assets	13	**0.1**	–
Derivative financial instruments	18	**1.1**	6.8
Cash and cash equivalents	16	**17.4**	14.9
Total current assets		**210.3**	157.5
Total assets		**433.2**	346.4
Current liabilities			
Trade and other payables	17	**(133.1)**	(95.4)
Liability for current tax		**(7.0)**	(12.8)
Derivative financial instruments	18	**(0.4)**	–
Total current liabilities		**(140.5)**	(108.2)
Non-current liabilities			
Bank loans	19	**(139.5)**	(94.2)
Trade and other payables	17	**(39.8)**	(41.4)
Deferred tax liabilities	13	**–**	(0.8)
Provisions	20	**(1.7)**	(2.0)
Derivative financial instruments	18	**(1.6)**	(0.2)
Total non-current liabilities		**(182.6)**	(138.6)
Total liabilities		**(323.1)**	(246.8)
Net assets		**110.1**	99.6
Equity			
Issued share capital	21	**2.0**	2.0
Share premium account		**1.6**	1.6
Capital redemption reserve		**43.2**	43.2
Hedging reserve		**(0.7)**	5.9
Retained earnings		**64.0**	46.9
Total equity attributable to equity holders of the Parent		**110.1**	99.6

The financial statements on pages 114 to 141 were approved by the Board of Directors on 13 September 2017 and were signed on its behalf by:

Keith Down
Chief Financial Officer

Consolidated Statement of Cash Flows

FOR THE 52 WEEKS ENDED 1 JULY 2017

	Note	2017 52 weeks £'m	2016 52 weeks £'m
Profit before taxation		**92.4**	128.9
Adjustment for exceptional operating costs	3	**16.9**	–
Adjustment for net financing costs		**2.4**	0.4
Operating profit before exceptional operating costs		**111.7**	129.3
Depreciation and amortisation	4	**29.3**	25.3
Loss/(profit) on disposal of non-current assets		**1.2**	(0.3)
Operating cash flows before exceptional operating costs and movements in working capital		**142.2**	154.3
(Increase)/decrease in inventories		**(45.0)**	16.5
(Increase)/decrease in receivables		**(4.6)**	(1.2)
Increase in payables		**23.4**	3.0
Net movement in working capital before exceptional operating costs		**(26.2)**	18.3
Share-based payments (credit)/expense	6	**(0.3)**	1.4
Interest received		**0.1**	0.1
Tax paid		**(25.0)**	(25.9)
Net cash generated from operating activities before exceptional operating costs		**90.8**	148.2
Cash flows in respect of exceptional operational costs	3	**(11.3)**	–
Net cash generated from operating activities		**79.5**	148.2
Cash flows from investing activities			
Acquisition of intangible assets	11	**(11.4)**	(10.2)
Proceeds on disposal of property, plant and equipment		**0.2**	2.0
Acquisition of property, plant and equipment	12	**(46.6)**	(29.6)
Amounts due to secured creditor on acquisition	2	**(7.5)**	–
Net cash used in investing activities		**(65.3)**	(37.8)
Cash flows from financing activities			
Proceeds from re-issue of treasury shares	22	**0.9**	1.3
Purchase of treasury shares	22	**(4.2)**	(7.8)
Drawdowns on revolving credit facility	19	**50.0**	39.0
Repayments of revolving credit facility	19	**(5.0)**	(35.0)
Interest paid	7	**(1.4)**	(1.6)
Ordinary dividends paid	9	**(51.6)**	(44.6)
Special dividends / distributions to shareholders	9	**–**	(63.8)
Net cash flows used in financing activities		**(11.3)**	(112.5)
Net increase/(decrease) in cash and cash equivalents		**2.9**	(2.1)
Foreign exchange revaluations		**(0.4)**	0.8
Cash and cash equivalents at the beginning of the period	16	**14.9**	16.2
Cash and cash equivalents at the end of the period	16	**17.4**	14.9

Consolidated Statement of Changes in Equity

FOR THE 52 WEEKS ENDED 1 JULY 2017

	Note	Issued share capital £'m	Share premium account £'m	Capital redemption reserve £'m	Hedging reserve £'m	Retained earnings £'m	Total equity £'m
As at 4 July 2015		**2.0**	**1.6**	**43.2**	**(0.2)**	**58.5**	**105.1**
Profit for the period		–	–	–	–	102.3	102.3
Fair value gains of cash flow hedges	18	–	–	–	10.3	–	10.3
Gains on cash flow hedges transferred to inventory	18	–	–	–	(2.9)	–	(2.9)
Deferred tax on hedging movements	13	–	–	–	(1.3)	–	(1.3)
Total comprehensive income for the period		–	–	–	6.1	102.3	108.4
Purchase of treasury shares	22	–	–	–	–	(7.8)	(7.8)
Proceeds from issue of treasury shares	22	–	–	–	–	1.3	1.3
Share-based payments	23	–	–	–	–	1.4	1.4
Deferred tax on share-based payments	13	–	–	–	–	(0.6)	(0.6)
Current tax on share options exercised	8	–	–	–	–	0.2	0.2
Ordinary dividends paid	9	–	–	–	–	(44.6)	(44.6)
Special distributions to shareholders	9	–	–	–	–	(63.8)	(63.8)
Total transactions with owners, recorded directly in equity		–	–	–	–	(113.9)	(113.9)
As at 2 July 2016		**2.0**	**1.6**	**43.2**	**5.9**	**46.9**	**99.6**
Profit for the period		–	–	–	–	73.1	73.1
Fair value gains of cash flow hedges	18	–	–	–	1.4	–	1.4
Gains on cash flow hedges transferred to inventory	18	–	–	–	(9.4)	–	(9.4)
Deferred tax on hedging movements	13	–	–	–	1.4	–	1.4
Total comprehensive income for the period		–	–	–	(6.6)	73.1	66.5
Purchase of treasury shares	22	–	–	–	–	(4.2)	(4.2)
Proceeds from issue of treasury shares	22	–	–	–	–	0.9	0.9
Share-based payments	23	–	–	–	–	(0.3)	(0.3)
Deferred tax on share-based payments	13	–	–	–	–	(0.6)	(0.6)
Current tax on share options exercised	8	–	–	–	–	(0.2)	(0.2)
Ordinary dividends paid	9	–	–	–	–	(51.6)	(51.6)
Total transactions with owners, recorded directly in equity		–	–	–	–	(56.0)	(56.0)
As at 1 July 2017		**2.0**	**1.6**	**43.2**	**(0.7)**	**64.0**	**110.1**

Accounting Policies

FOR THE 52 WEEKS ENDED 1 JULY 2017

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 142 to 151 present information about the Company as a separate entity and not about its Group.

Dunelm Group plc and its subsidiaries are incorporated and domiciled in the UK. Dunelm Group plc is a listed public company, limited by shares and the company registration number is 04708277. The registered office is Watermead Business Park, Syston, Leicestershire, LE7 1AD.

The primary business activity of the Group is the sale of homewares in the UK through a network of stores and websites.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS and these are presented on pages 114 to 141.

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 (including derivative financial instruments and share-based payments), which have been stated at fair value. The financial statements are prepared in pounds sterling, rounded to the nearest hundred 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. In their consideration of going concern, the Directors have reviewed the Group's future cash forecasts and profit projections, which are based on market data and past experience. The Directors are of the opinion that the Group's forecasts and projections, which take into account reasonably possible changes in trading performance, show that the Group is able to operate within its current facilities and comply with its banking covenants for the foreseeable future.

As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully. Having reassessed the principal risks, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial information.

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 on pages 8 to 37. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 23 to 27. In addition, note 18 to the Annual Report and Accounts 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:

Estimate: 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 cost. NRV is calculated as the expected selling price. 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.

Estimate: Acquisition valuations

The Group makes an assessment of the fair value of assets and liabilities acquired in a business combination as at the acquisition date. Non-current tangible assets are recognised at net book value and subject to a review for impairment. Acquired non-current intangible assets are valued recognised when separately identifiable and the fair value measurable based on historical cost or with reference to common industry valuation methods. The fair value of finished goods inventory is assessed with reference to the current selling price, less any costs of disposal, and a reasonable profit allowance for selling effort, based on the profit for similar finished goods.

Judgement: Exceptional items

The Group exercises its judgement in the classification of certain items as exceptional and outside of the Group's underlying results. The determination of whether an item should be separately disclosed as an exceptional item or other adjustments requires judgement on its materiality, nature and incidence, as well as whether it provides clarity on the Group's underlying trading performance. In exercising this judgement, the Group takes appropriate regard of IAS 1 'Presentation of financial statements' as well as guidance issued by the Financial Reporting Council on the reporting of exceptional items and alternative performance measures. The overall goal of the Group is to present the Group's underlying performance without distortion from one-off or non-trading events regardless of whether they are favourable or unfavourable to the underlying result. Further details of the individual exceptional items, and the reasons for their disclosure treatment, are set out in note 3.

Basis of consolidation

Business Combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for an acquisition is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquired assets and any equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition related costs are expenses as they are incurred.

Subsidiaries

Subsidiaries are entities controlled by the Company. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group 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 and related goods and services through the Group's stores and websites. Revenue therefore represents the proceeds from sales of goods and related services, excluding sales between Group companies and is after deducting returns, any discounts given and VAT. Revenue is recognised when risk and reward passes to the customer, which is predominantly at the point of sale.

The exceptions to this are for: custom made products, where revenue is recognised at the point that the goods are collected; gift vouchers, where revenue is recognised when the vouchers are redeemed; and web sales, where revenue is recognised at the point of delivery. Revenue is settled in cash at the point of sale.

Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are items that are material either because of their size or their nature, or are non-recurring and are considered as exceptional items and are presented with the line items to which they best relate.

Expenses

Property leases

Lease incentives received in respect of operating leases 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 account 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.

Financial income and expenses

Financial income and expenses comprise interest payable on borrowings calculated using the effective interest 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 payments
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 condition (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.

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 in financial income and expenses.

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. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset of liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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.

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.

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

Separately acquired brands and customer lists are shown at historical cost. Software, brands and customer lists acquired in a business combination are recognised at fair value at the acquisition date. These assets are deemed to 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 over their estimated useful lives.

Accounting Policies CONTINUED

FOR THE 52 WEEKS ENDED 1 JULY 2017

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
Rights to trademarks and brands and customer lists	5 to 15 years

Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at historical 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 condition 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 to write down the cost to its estimated residual value. Land is not depreciated. The estimated useful lives are as follows:

Freehold buildings	50 years
Leasehold improvements	over the period of the lease
Plant and machinery	4 years
Refit improvements	7 years
Fixtures and fittings	3 to 5 years

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.

Derivative financial instruments

Derivative financial instruments used are forward foreign exchange contracts and structured foreign exchange options. These 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. These 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 the 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 hedged 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.

Financial assets

Classifications

The Group classifies its financial assets in the following categories: at fair value through profit or loss; loans and receivables; and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (notes 2.14 and 2.15).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Other (losses)/gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'Gains and losses from investment securities'.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and then carried at amortised cost using the effective interest method, 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 and for stock losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits. All cash equivalents have an original maturity of three months or less.

Trade and other payables

Trade and payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Bank borrowings and borrowing costs

Interest-bearing bank loans are initially recorded at their fair value and subsequently held at amortised cost. Transaction costs incurred are amortised over the term of the loan.

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

Accounting Policies CONTINUED

FOR THE 52 WEEKS ENDED 1 JULY 2017

Impairment

The carrying amounts of the Group's assets are reviewed annually 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 fair value less costs of disposal, 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 assets grouped at the lowest levels for which there are largely independent cash flows, i.e. 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 transaction 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, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount has been reliably measured. 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.

Operating leases

The Group leases certain property, plant and equipment and motor vehicles. Where a significant portion of the risks and rewards of ownership are retained by the lessor, these leases are classified as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

New standards and interpretations

No new standards, amendments or interpretations, effective for the first time for the period beginning on or after 2 July 2016 have had a material impact on the Group or Parent Company.

At the balance sheet date there are a number of new standards and amendments to existing standards in issue but not yet effective. None of these are expected to have a significant effect on the financial statements of the Group or Parent Company, except the following, set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and liabilities, and replaces IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets. It is effective for periods beginning on or after 1 January 2018, i.e. the Group's financial year ending June 2019, and work to assess the impact of the change on the Group is underway.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 i.e. the Group's financial year ending June 2019, and earlier application is permitted, subject to EU endorsement. An initial assessment of the impact of IFRS 16 has been reviewed by management and further preparatory work is underway.

IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on the balance sheet for lessees. The standard replaces IAS 17 'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019, i.e. the Group's financial year ending June 2020, and earlier application is permitted, subject to EU endorsement and the entity adopting IFRS 15 'Revenue from contracts with customers' at the same time. An initial assessment of the impact of IFRS 16 has been reviewed by management and further preparatory work is underway.

Notes to the Consolidated Financial Statements

FOR THE 52 WEEKS ENDED 1 JULY 2017

1 Segmental reporting

The Group has one reportable segment, in accordance with IFRS 8 - Operating Segments, which is the retail of homewares in the UK.

Customers access the Group's offer across multiple channels and often their journey involves more than one channel. Therefore internal reporting focuses on the Group as a whole and does not identify individual segments.

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 Acquisition

On 28 November 2016 the Group acquired the whole of the trade and certain assets and liabilities of the Worldstores Group (Worldstores Limited (in administration), Kiddicare Limited (in administration) and Achica Limited (in administration)) for a cash consideration of £1 through Globe Online Limited, a 100% owned subsidiary of Dunelm Limited. A payment of £7.5m was made to a secured creditor as part of the terms of the acquisition.

The Worldstores Group was one of the UK's largest online retailers of products for the home and garden, with over 300,000 products on the site. Achica is a members-only online store offering furniture, homewares and accessories, often at significant discounts to RRPs for limited periods through flash sales. Kiddicare is a multichannel retailer, selling nursery supplies and merchandise for children and young families. The Group anticipates significant benefits to be realised from the acquisition, particularly in relation to:

- A next day delivery proposition for a much wider range of products, including furniture;
- Ability to offer an improved two-man, owned and branded delivery service that is more reliable for customers and cheaper to operate;
- Potential to offer Kiddicare products in Dunelm stores and to a greater number of customers online; and
- Access to a new proprietary technology platform that will enable much faster development of products and services for customers.

The purchase has been accounted for as a business combination. The provisional fair value amounts recognised in respect of the identifiable assets acquired and liabilities assumed, are set out below. The Group anticipates full cash collection of all receivables acquired.

	As at 28 November 2016 £'m
Intangible assets – software	5.2
Intangible assets – brands	2.2
Intangible assets – customer lists	0.1
Property, plant and equipment	0.8
Inventories	4.2
Trade and other receivables	2.9
Accruals and deferred income	(6.5)
Provisions	(1.4)
Amounts due to secured creditor	(7.5)
Total identifiable assets / (liabilities)	–
Cash consideration	–
Goodwill	–

2 Acquisition continued

Since the acquisition date, the acquiring company, Globe Online Limited, generated revenues of £54.5m and made an operating loss of £10.7m before exceptional items. Exceptional items of £16.9m relating to the acquisition and subsequent integration are set out in note 3.

If the acquisition had taken place on 3 July 2016, the Group adjusted operating profit would have been reduced by a further £10.4m and revenue would have been increased by a further £53.7m.

On 1 July 2017, the trade and net assets of Globe Online Limited were transferred to another Group company, Dunelm (Soft Furnishings) Limited, the main trading entity of the Group at nil gain or loss. All assets and liabilities were transferred at book value.

3 Exceptional items

Exceptional items have arisen as a result of the acquisition and subsequent integration of the Worldstores Group as set out in note 2.

	2017 52 weeks £'m	2016 52 weeks £'m
Acquisition costs – administrator fees	**0.9**	–
Acquisition costs – other professional fees	**0.4**	–
Welcome payments for continuation of supply	**7.3**	–
Fair value adjustments in respect of acquired inventory	**0.5**	–
Key management retention bonuses	**2.7**	–
Asset write-offs, impairments and accelerated depreciation	**2.9**	–
Other integration costs	**2.2**	–
	16.9	–

Capital acquisition of £1.3m costs includes £0.9m of the administrator's fees and £0.4m of other professional advisory costs in relation to the acquisition of the Group from administration.

Welcome payments of £7.3m were made to suppliers to ensure continuation of supply and were part of the expected initial working capital outflow.

Fair value adjustments in respect of acquired inventory have unwound as the inventory has been sold.

Key management retention bonuses are potentially payable over a three-year period, and have both retention and performance conditions attached.

As a result of the acquisition, a review of the websites and other intangible IT assets of both the existing Dunelm business and the acquired business has been undertaken. Decisions have been made to integrate the available assets, and as a result, certain assets have been written off and others' useful economic lives have been reduced resulting in accelerated depreciation. Such cost items have been judged as exceptional and one-off in nature and not part of the underlying trading performance of the Group.

Other integration costs include professional advisory support, and costs associated with the exit of the Peterborough site and transfer into Stoke of the Kiddicare and Achica logistics operations.

Of the above exceptional cost items, £11.3m are cash outflows in the period. Exceptional costs items of approximately £7m are anticipated in the next financial year, of which approximately £3-4m will be cash outflows.

	Profit before tax £'m	Taxation £'m	Profit after tax £'m
Underlying Dunelm trading performance	120.0	(24.6)	95.4
Globe Online Limited trading performance	(10.7)	2.2	(8.5)
Exceptional items	(16.9)	3.1	(13.8)
	92.4	(19.3)	73.1

4 Operating profit

Operating profit is stated after charging/(crediting) the following items:

	2017 52 weeks Underlying £'m	2017 52 weeks Exceptional Items £'m	2017 52 weeks Reported £'m	2016 52 weeks £'m
Cost of inventories included in cost of sales	**483.9**	–	**483.9**	439.9
Amortisation of intangible assets	**7.3**	**1.0**	**8.3**	5.6
Depreciation of owned property, plant and equipment	**22.0**	–	**22.0**	19.7
Loss/(profit) on disposal of property, plant and equipment and intangible assets	**1.2**	**1.9**	**3.1**	(0.3)
Operating lease rentals	**45.2**	–	**45.2**	41.3
Net foreign exchange gains	**(2.9)**	–	**(2.9)**	(1.8)

The cost of inventories included in cost of sales includes the adverse impact of a net increase in the provision for obsolete inventory of £0.8m (FY16: £0.9m benefit).

The analysis of auditors' remuneration is as follows:

	2017 52 weeks £'000	2016 52 weeks £'000
Fees payable to the Company's auditors for the audit of the Parent and consolidated annual financial statements	**18**	18
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	**82**	57
– audit of Globe Online Limited and opening balance sheet	**67**	–
– other services (See Audit and Risk Committee Report on page 68 for further information)	**15**	71

5 Operating costs before exceptional items

	2017 52 weeks £'m	2016 52 weeks £'m
Selling and distribution costs	**304.9**	273.9
Administrative expenses	**51.0**	35.3
	355.9	309.2

6 Employee numbers and costs

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

	2017 52 weeks Number of heads	2017 52 weeks Full time equivalents	2016 52 weeks Number of heads	2016 52 weeks Full time equivalents
Selling	**7,759**	**4,823**	8,035	4,757
Distribution	**651**	**615**	439	431
Administration	**752**	**718**	494	487
	9,162	**6,156**	8,968	5,675

6 Employee numbers and costs continued

The aggregate remuneration of all employees including Directors comprises:

	2017 52 weeks £'m	2016 52 weeks £'m
Wages and salaries including termination benefits	**135.0**	120.0
Social security costs	**8.3**	7.0
Share options granted to directors and employees (note 23)	**(0.3)**	1.4
Pension costs – defined contribution plans	**1.8**	1.5
	144.8	129.9

Details of Directors' remuneration, share options, long term incentive schemes and pension entitlements are disclosed in the Remuneration Report on pages 72 to 97.

7 Financial income and expenses

	2017 52 weeks £'m	2016 52 weeks £'m
Finance income		
Interest on bank deposits	**0.2**	0.1
Net foreign exchange gains	**–**	1.1
	0.2	1.2
Finance expenses		
Interest on bank borrowings	**(1.6)**	(1.3)
Amortisation of issue costs of bank loans	**(0.3)**	(0.3)
Net foreign exchange losses	**(0.6)**	–
	(2.6)	(1.6)
Net finance expense	**(2.4)**	(0.4)

8 Taxation

	2017 52 weeks £'m	2016 52 weeks £'m
Current taxation		
UK corporation tax charge for the period	**19.8**	26.6
Adjustments in respect of prior periods	**(0.8)**	(0.2)
	19.0	26.4
Deferred taxation		
Origination of temporary differences	**0.1**	–
Adjustments in respect of prior periods	**0.2**	–
Impact of change in tax rate	**–**	0.2
	0.3	0.2
Total tax expense	**19.3**	26.6

8 Taxation continued

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

	2017 52 weeks £'m	2016 52 weeks £'m
Profit before taxation	**92.4**	128.9
UK corporation tax at standard rate of 19.75% (2016: 20.00%)	**18.2**	25.8
Factors affecting the charge in the period:		
Non-deductible expenses	**1.5**	1.1
Profit on disposal of non-qualifying assets	**0.2**	(0.3)
Adjustments in respect of prior periods	**(0.6)**	(0.2)
Effect of change in standard rate of corporation tax	**–**	0.2
Tax charge	**19.3**	26.6

The taxation charge for the period as a percentage of profit before tax is 20.9% (2016: 20.6%).

A reduction in the UK corporation tax from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 March 2016, and a further reduction to 18% (effective from 1 April 2020) was substantively enacted on the same day.

Further changes were announced in the Chancellor's budget on 16 March 2016 reducing the UK corporation tax by a further 1% to 17% from 1 April 2020, enacted in September 2016.

9 Dividends and special distributions to shareholders

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

		2017 52 weeks £'m	2016 52 weeks £'m
Final for the period ended 4 July 2015	– paid 16.0 pence	**–**	32.4
Interim for the period ended 2 July 2016	– paid 6.0 pence	**–**	12.2
Special dividend for the period ended 2 July 2016	– paid 31.5 pence	**–**	63.8
Final for the period ended 2 July 2016	– paid 19.1 pence	**38.5**	–
Interim for the period ended 1 July 2017	– paid 6.5 pence	**13.1**	–
		51.6	108.4

The Directors are proposing a final dividend of 19.5 pence per Ordinary Share for the period ended 1 July 2017 which equates to £39.6m. The dividend will be paid on 24 November 2017 to shareholders on the register at the close of business on 3 November 2017.

In the prior year, the Group made a special distribution to shareholders. The amount paid to shareholders on 24 March 2016 was 31.5 pence per share, which equated to £63.8m.

The Board became aware during the period of a technical issue in respect of the final dividend of 16 pence per share paid on 27 November 2015. Whilst the Company had sufficient profits and other distributable reserves to pay this dividend, it had not filed relevant accounts to demonstrate this at the time that the dividend was paid. The Company has taken the steps needed to (i) appropriate the November 2015 dividend to the distributable profits of the Company as set out in the Annual Report and Accounts of the Company made up to 2 July 2016 and adopted by its shareholders on 22 November 2016; and (ii) ensure that all potentially affected parties are placed so far as possible in the position in which they were always intended to be, had the relevant procedures been complied with. This required shareholder approval which was obtained on 7 March 2017.

10 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 22).

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:

	2017 52 weeks '000	2016 52 weeks '000
Weighted average number of shares in issue during the period	201,622	202,456
Impact of share options	956	795
Number of shares for diluted earnings per share	202,578	203,251

	2017 52 weeks £'m	2016 52 weeks £'m
Profit for the period	73.1	102.3
Profit for the period before exceptional costs	86.9	102.3
Earnings per Ordinary Share – basic	36.3p	50.5p
Earnings per Ordinary Share – basic before exceptional costs	43.1p	50.5p
Earnings per Ordinary Share – diluted	36.1p	50.3p
Earnings per Ordinary Share – diluted before exceptional costs	42.8p	50.3p

11 Intangible assets

	Software development and licences £'m	Rights to brands and customer lists £'m	Total £'m
Cost			
At 4 July 2015	19.9	5.0	24.9
Additions	6.4	4.8	11.2
Disposals	(0.1)	–	(0.1)
At 2 July 2016	26.2	9.8	36.0
Additions	11.2	–	11.2
Assets purchased on acquisition of business (note 2)	5.2	2.3	7.5
Disposals	(1.1)	(0.5)	(1.6)
At 1 July 2017	**41.5**	**11.6**	**53.1**
Accumulated amortisation			
At 4 July 2015	6.8	5.0	11.8
Charge for the financial period	5.3	0.3	5.6
At 2 July 2016	12.1	5.3	17.4
Charge for the financial period	8.0	0.3	8.3
Disposals	(0.1)	–	(0.1)
Impairment	–	–	–
At 1 July 2017	**20.0**	**5.6**	**25.6**
Net book value			
At 4 July 2015	13.1	–	13.1
At 2 July 2016	14.1	4.5	18.6
At 1 July 2017	**21.5**	**6.0**	**27.5**

Intangible assets acquired on acquisition include brands, customer lists and software. All amortisation is included within operating costs in the income statement.

During the year, the Group acquired the rights to the Worldstores, Achica and Kiddiecare brands which will be amortised over a five year period. The Worldstores brand has subsequently been impaired as a result of decisions taken by management to phase out the brand as it is fully integrated into the existing Dunelm business. In the prior year, the Group acquired the Fogarty brand which is being amortised over 15 years.

12 Property, plant and equipment

	Land and buildings £'m	Leasehold improvements £'m	Refit improvements £'m	Plant and machinery £'m	Fixtures and fittings £'m	Total £'m
Cost						
At 4 July 2015	84.3	113.5	–	4.0	74.5	276.3
Additions	–	21.8	–	0.6	8.9	31.3
Disposals	(0.8)	(3.6)	–	–	(3.0)	(7.4)
At 2 July 2016	83.5	131.7	–	4.6	80.4	300.2
Additions	13.0	16.0	4.3	0.3	15.7	49.3
Assets purchased on acquisition of business (note 2)	–	–	–	0.2	0.6	0.8
Disposals	(0.2)	(2.6)	–	(0.1)	(2.9)	(5.8)
At 1 July 2017	**96.3**	**145.1**	**4.3**	**5.0**	**93.8**	**344.5**
Accumulated depreciation						
At 4 July 2015	10.4	47.8	–	2.9	56.3	117.4
Charge for the financial period	1.4	8.4	–	0.5	9.4	19.7
Disposals	(0.4)	(2.5)	–	–	(2.9)	(5.8)
At 2 July 2016	11.4	53.7	–	3.4	62.8	131.3
Charge for the financial period	1.6	10.0	0.2	0.5	9.7	22.0
Disposals	(0.2)	(1.4)	–	–	(2.4)	(4.0)
At 1 July 2017	**12.8**	**62.3**	**0.2**	**3.9**	**70.1**	**149.3**
Net book value						
At 4 July 2015	73.9	65.7	–	1.1	18.2	158.9
At 2 July 2016	72.1	78.0	–	1.2	17.6	168.9
At 1 July 2017	**83.5**	**82.8**	**4.1**	**1.1**	**23.7**	**195.2**

All depreciation and impairment charges have been included within operating costs in the income statement.

Assets acquired on the acquisition of the Worldstores Group have been depreciated over the remaining useful economic life of the asset.

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13 Deferred tax

Deferred tax is provided in full on temporary differences under the liability method using a taxation rate of 17% (2016: 18%).

Deferred taxation assets are attributable to the following:

	Assets		Liabilities		Net assets/(liabilities)	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m
Property, plant and equipment	**0.4**	0.4	**–**	–	**0.4**	0.4
Share-based payments	**–**	0.7	**(0.2)**	–	**(0.2)**	0.7
Hedging	**0.1**	–	**–**	(1.3)	**0.1**	(1.3)
	0.5	1.1	**(0.2)**	(1.3)	**0.3**	(0.2)

	Assets		Liabilities		Net assets/(liabilities)	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m
Deferred tax recoverable/(payable) after more than 12 months	**0.4**	0.8	**(0.2)**	(0.2)	**0.2**	0.6
Deferred tax recoverable/(payable) within 12 months	**0.1**	0.4	**–**	(1.2)	**0.1**	(0.8)
	0.5	1.2	**(0.2)**	(1.4)	**0.3**	(0.2)

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

	Balance at 4 July 2015 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 2 July 2016 £'m
Property, plant and equipment	0.6	(0.2)	–	0.4
Share-based payments	1.3	–	(0.6)	0.7
Hedging	–	–	(1.3)	(1.3)
	1.9	(0.2)	(1.9)	(0.2)

	Balance at 2 July 2016 £'m	Recognised in income £'m	Recognised in equity £'m	**Balance at 1 July 2017 £'m**
Property, plant and equipment	0.4	–	–	**0.4**
Share-based payments	0.7	(0.3)	(0.6)	**(0.2)**
Hedging	(1.3)	–	1.4	**0.1**
	(0.2)	(0.3)	0.8	**0.3**

14 Inventories

	2017 £'m	2016 £'m
Goods for resale	**165.3**	116.6

15 Trade and other receivables

	2017 £'m	2016 £'m
Trade receivables	0.4	0.2
Other receivables	4.3	3.0
Prepayments and accrued income	21.7	16.0
	26.4	19.2

All trade receivables are due within one year from the end of the reporting period.

A total of £10.8m of prepayments and accrued income are property related (2016: £10.0m).

No impairment was incurred on trade and other receivables and no provision is held at period end (2016: nil). Materially, no amounts are overdue (2016: none).

16 Cash and cash equivalents

	2017 £'m	2016 £'m
Cash at bank and in hand	17.4	14.9

The Group deposits funds only with institutions that have a credit rating of 'A' and above and the term is less than three months.

17 Trade and other payables

	2017 £'m	2016 £'m
Current		
Trade payables	78.7	52.9
Accruals and deferred income	42.4	32.2
Taxation and social security	10.7	10.0
Other payables	1.3	0.3
Total current trade and other payables	133.1	95.4
Non-current		
Accruals and deferred income	39.8	41.4
Total non-current trade and other payables	39.8	41.4
Total trade and other payables	172.9	136.8

Current accruals and deferred income include lease incentives of £4.8m (FY16: £4.1m) and capital accruals of £4.9m (FY16: £2.6m).

The maturity analysis of non-current accruals and deferred income, all of which relate to lease incentives, is as follows:

	2017 £'m	2016 £'m
One to two years	5.9	5.2
Two to five years	15.6	15.7
After five years	18.3	20.5
	39.8	41.4

18 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.

There are no changes to exposures to risk and how they arise and the Group objectives, policies and procedures for managing the risk and methods used to measure the risk from the previous period.

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, and as such, credit risk is considered to be low.

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 the carrying amount of financial assets. At the period end the maximum exposure is detailed in the table below.

	2017 £'m	2016 £'m
Cash and cash equivalents	**17.4**	14.9
Trade and other receivables	**4.3**	3.2
Derivative financial instruments	**1.1**	7.6
Total financial assets	**22.8**	25.7

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. Further details of the Group's available facilities can be found in note 19.

The table below analyses estimated future contractual cash flows in respect of the Group's financial liabilities, according to the earliest date on which the Group could be required to settle the liability. Floating rate interest payments are estimated based on market interest rates prevailing at the balance sheet date.

At 1 July 2017	**Total £'m**	Less than one year £'m	One to two years £'m	Two to five years £'m	More than five years £'m
Borrowings	**140.0**	140.0	–	–	–
Derivative financial instruments	**2.0**	0.4	1.6	–	–
Accruals and other payables (excluding deferred income)	**76.5**	36.8	5.9	15.6	18.2
Trade and other payables	**78.7**	78.7	–	–	–

At 2 July 2016	Total £'m	Less than one year £'m	One to two years £'m	Two to five years £'m	More than five years £'m
Borrowings	95.0	95.0	–	–	–
Derivative financial instruments	0.2	0.2	–	–	–
Accruals and other payables (excluding deferred income)	70.0	28.6	5.2	15.7	20.5
Trade and other payables	52.9	52.9	–	–	–

Borrowings of £140m (2016: £95m) above reflect the level of facility drawdown at the period end on the Group's revolving credit facilities.

Interest rate risk

The Group's bank borrowings incur variable interest rate charges. The Group's policy aims to manage the interest cost of the Group within the constraints of its financial covenants. The Group will continue to monitor movements in the interest rate swap market.

At the year end, if Libor interest rates had been 10 basis points higher/lower with all other variables held constant, post tax profit would have been £0.1m lower/higher (2016: £0.1m) as a result of higher/lower interest expense on floating rate borrowings.

Foreign currency risk

All of the Group's revenues are in pounds 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 1 July 2017.

The Group uses various means to cover its exposure to US dollars: holding US dollar cash balances and taking out forward foreign exchange contracts for the purchase of US dollars.

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.

Cash flow hedges are in place to manage foreign exchange rate risk arising from forecast purchases denominated in US dollars. At the balance sheet date, the fair value of US dollar foreign exchange forward contracts held in cash flow hedges was £0.9m liability (2016: £7.2m asset) which relates to a commitment to purchase $140.0m (2016: $90.5m) for a fixed sterling amount. A fair value movement of £1.4m (2016: £10.3m) was recognised in other comprehensive income and no ineffectiveness (2016: nil) was noted on cash flow hedges during the period. In the period, a gain of £9.5m (2015: £2.9m gain) was recycled from the cash flow hedge reserve to inventory to offset foreign exchange movements on purchases. The remaining hedge reserve balance will be recycled to the income statement to offset future purchases occurring after the balance sheet date, the majority of which expire in the next 12 months.

The outstanding US dollar liabilities at the period end were $0.3m (2016: $0.4m).

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, renegotiating terms with suppliers or sourcing from alternative markets.

At the year end, if GBP had strengthened by 10% against USD with all other variables held constant, post tax profit would have been £0.2m higher (2016: £0.2m) as a result of foreign exchange gains on translation of USD denominated trade payables compensated by foreign exchange losses on translation of USD cash and cash equivalents. Other components of equity would have been £7.7m lower (2016: £5.0m lower) as a result of a decrease in fair value of derivatives designated as cash flow hedges.

Conversely, if GBP had weakened by 10% against USD with all other variables held constant, post tax profit for the year would have been £0.2m lower (2016: £0.2m) and other components of equity would have been £9.4m higher (2016: £6.1m higher).

The US dollar period end exchange rate applied in the above analysis is 1.3002 (2016: 1.3265).

Capital management

The Company considers equity plus debt as the capital. There are no externally imposed capital requirements on the Company.

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 FY15, the Board reviewed its policy on capital structure and dividends. The original policy was established at the time of the flotation of the Company in 2006 and in the Board's opinion had 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 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. There are no changes from the previous period.

18 Financial risk management continued

The gearing ratio and net debt as a percentage of EBITDA was as follows:

	2017 £'m	2016 £'m
Total borrowings (note 19)	**140.0**	95.0
Less: unamortised debt issue costs (note 19)	**(0.5)**	(0.8)
Less: cash and cash equivalents (note 16)	**(17.4)**	(14.9)
Net debt	**122.1**	79.3
Total equity	**110.1**	99.6
Total capital	**232.2**	178.9
Gearing ratio	**53%**	44%
EBITDA before exceptional operating costs	**142.2**	154.3
Net debt as % of EBITDA	**86%**	51%

Fair values

The fair value of the Group's financial assets and liabilities are equal to their carrying value. The fair value of foreign currency contracts are amounts required by the counterparties to cancel the contracts at the end of the period.

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.

Financial assets/(liabilities)

The carrying value of all financial assets and financial liabilities was materially equal to their fair value.

At 2 July 2017	Loans and receivables £'m	Other financial liabilities at amortised costs £'m	Derivatives used for hedging £'m	Financial assets/liabilities at fair value through profit and loss £'m	Total £'m
Cash and cash equivalents	17.4	–	–	–	**17.4**
Trade receivables	0.4	–	–	–	**0.4**
Forward exchange contracts	–	–	1.1	–	**1.1**
Total financial assets	17.8	–	1.1	–	**18.9**
Trade payables	–	(78.7)	–	–	**(78.7)**
Accruals and other payables (excluding deferred income)	–	(76.5)	–	–	**(76.5)**
Bank borrowings	–	(139.5)	–	–	**(139.5)**
Forward exchange contracts	–	–	(2.0)	–	**(2.0)**
Total financial liabilities	–	(294.7)	(2.0)	–	**(296.7)**
Net financial assets/(liabilities)	17.8	(294.7)	(0.9)	–	**(277.8)**

At 2 July 2016	Loans and receivables £'m	Other financial liabilities at amortised costs £'m	Derivatives used for hedging £'m	Financial assets/liabilities at fair value through profit and loss £'m	Total £'m
Cash and cash equivalents	14.9	–	–	–	14.9
Trade receivables	0.2	–	–	–	0.2
Forward exchange contracts	–	–	7.2	0.4	7.6
Total financial assets	15.1	–	7.2	0.4	22.7
Trade payables	–	(52.9)	–	–	(52.9)
Accruals and other payables (excluding deferred income)	–	(70.0)	–	–	(70.0)
Bank borrowings	–	(94.2)	–	–	(94.2)
Forward exchange contracts	–	–	–	(0.2)	(0.2)
Total financial liabilities	–	(217.1)	–	(0.2)	(217.3)
Net financial assets/(liabilities)	**15.1**	**(217.1)**	**7.2**	**0.2**	**(194.6)**

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

	2017 £'m	2016 £'m
Sterling	16.8	13.9
US dollar	0.3	1.0
Euro	0.3	–
	17.4	14.9

19 Bank loans

	2017 £'m	2016 £'m
Total borrowings	140.0	95.0
Less: unamortised debt issue costs	(0.5)	(0.8)
	139.5	94.2

The Group has medium term bank revolving credit facilities of £150m (2016: £150m) committed until 9 February 2020. £140m of this facility was drawn down at 1 July 2017 (2016: £95m). The carrying amount of bank borrowings is equal to fair value. The Group also has an accordion option with a maximum facility of £75m, as well as an overdraft facility of £20m.

20 Provisions

	Balance at 2 July 2016 £'m	Utilised in the period £'m	Created in the period £'m	Released in the period £'m	Balance at 1 July 2017 £'m
Property related	2.0	(0.3)	–	–	1.7

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.

Notes to the Consolidated Financial Statements CONTINUED

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21 Issued share capital

	2017 Number of Ordinary Shares of 1p each	2016 Number of Ordinary Shares of 1p each
In issue at the start of the period	**202,833,931**	202,833,931
In issue at the end of the period	**202,833,931**	202,833,931

	2017 Number of shares	**2017 £'m**	2016 Number of shares	2016 £'m
Ordinary shares of 1p each:				
Authorised	**500,000,000**	**5.0**	500,000,000	5.0
Allotted, called up and fully paid	**202,833,931**	**2.0**	202,833,931	2.0

Proceeds received in relation to shares issued during the period were £nil (2016: £nil).

22 Treasury shares

	2017 Number of shares	**2017 £'m**	2016 Number of shares	2016 £'m
Outstanding at the beginning of the period	**846,455**	**7.8**	357,158	3.3
Purchased during the period	**500,000**	**4.2**	841,359	7.8
Reissued during the period in respect of share option schemes	**(195,813)**	**(1.7)**	(352,062)	(3.3)
Outstanding at the end of the period	**1,150,642**	**10.3**	846,455	7.8

The Group acquired 500,000 of its own shares through purchases on the London Stock Exchange during the year (2016: 841,359). These shares are held by the Group for the purpose of delivery to employees under employee share schemes. The total amount, including fees, paid to acquire shares was £4.2m (2016: £7.8m) and the consideration was deducted from retained earnings within shareholders' equity.

The Group reissued 195,813 (2016: 352,062) treasury shares during the period for a total value of £1.7m (2016: £3.3m).

Proceeds from the issue of treasury shares included in the consolidated statement of cash flows of £0.9m (2016: £1.3m) is the amount employees contributed.

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

23 Share-based payments

As at 1 July 2017, 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 79,168 exercisable options in total under these schemes as at 1 July 2017 (2016: 9,399).

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 1 July 2017 were as follows:

	Number of shares under option 2017	**Weighted average exercise price 2017**	Number of shares under option 2016	Weighted average exercise price 2016
Outstanding at beginning of the period	**76,114**	**851.0p**	121,781	815.6p
Granted during the period	**20,000**	**772.5p**	–	–
Exercised during the period	**–**	**–**	(33,540)	714.4p
Lapsed during the period	**(14,456)**	**873.0p**	(12,127)	873.0p
Outstanding at end of the period	**81,658**	**828.0p**	76,114	851.0p

No options were exercised during the year.

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 1 July 2017 was as follows:

	Number of shares under option 2017	**Weighted average exercise price 2017**	Number of shares under option 2016	Weighted average exercise price 2016
Outstanding at beginning of the period	**1,152,090**	**704.8p**	961,720	638.8p
Granted during the period	**759,151**	**618.5p**	563,823	754.5p
Exercised during the period	**(139,973)**	**696.7p**	(201,727)	545.7p
Lapsed during the period	**(495,016)**	**692.6p**	(171,726)	685.0p
Outstanding at end of the period	**1,276,252**	**659.1p**	1,152,090	704.8p

The weighted average share price at the time of exercise was 758.2p.

23 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 2018, 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 72 to 97.

The number and weighted average exercise price of options under the LTIP at 1 July 2017 is as follows:

	Number of shares under option 2017	Weighted average exercise price 2017	Number of shares under option 2016	Weighted average exercise price 2016
Outstanding at beginning of the period	**772,013**	**–**	709,083	–
Granted during the period	**532,240**	**–**	518,428	–
Exercised during the period	**(55,840)**	**–**	(116,795)	–
Lapsed during the period	**(202,038)**	**–**	(338,703)	–
Outstanding at end of the period	**1,046,375**	**–**	772,013	–

The weighted average share price at the time of exercise was 783.9p.

Impact on income statement

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

	2017 £'m	2016 £'m
GSOP	**–**	0.1
Sharesave	**0.5**	0.8
LTIP	**(0.8)**	0.5
	(0.3)	1.4

24 Commitments

As at 1 July 2017 the Group had entered into capital contracts for new stores amounting to £14.5m (2016: £4.2m).

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

	2017 Motor vehicles £'m	2017 Land and buildings £'m	2017 Plant and machinery £'m	2016 Motor vehicles £'m	2016 Land and buildings £'m	2016 Plant and machinery £'m
Within one year	**0.8**	**48.8**	**1.0**	1.0	43.5	0.7
In the second to fifth year inclusive	**0.8**	**175.2**	**2.4**	1.3	164.0	2.0
After five years	**–**	**167.2**	**0.5**	–	174.0	0.8
	1.6	**391.2**	**3.9**	2.3	381.5	3.5

The Group has 164 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.

25 Contingent liabilities

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

26 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 51.4% (2016: 51.3%) of the voting shares of the Company.

Disclosures relating to remuneration of Directors are set out in the Remuneration Report on pages 72 to 97. The remuneration of the key management personnel is set out below:

	2017 £'m	2016 £'m
Short term employee benefits	**4.3**	2.9
Post employment benefits	**0.5**	0.3
Share-based payments	**(0.4)**	0.4
	4.4	3.6

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.

27 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.

28 Subsequent events

There are no reportable subsequent events for Dunelm Group plc.

Parent Company Statement of Financial Position

AS AT 1 JULY 2017

	Note	1 July 2017 £'m	2 July 2016 £'m
Non-current assets			
Investment in subsidiaries	4	**52.2**	52.3
Deferred tax asset	5	**0.1**	0.2
Total non-current assets		**52.3**	52.5
Current assets			
Trade and other receivables	6	**191.0**	244.3
Current tax asset		**191.0**	244.3
Total current assets		**243.3**	296.8
Total assets			
Current liabilities			
Trade and other payables	7	**(0.1)**	(0.1)
Liability for current tax	8	**(0.3)**	–
Total current liabilities		**(0.4)**	(0.1)
Total liabilities		**(0.4)**	(0.1)
Net assets		**242.9**	296.7
Equity			
Issued capital	11	**2.0**	2.0
Share premium account		**1.6**	1.6
Non-distributable reserves		**7.0**	7.1
Capital redemption		**43.2**	43.2
Retained earnings		**189.1**	242.8
Total equity attributable to equity holders of the Parent		**242.9**	296.7

The Company made a profit after tax of £1.5m (2016: £356.8m).

The financial statements on pages 142 to 151 were approved by the Board of Directors on 13 September 2017 and were signed on its behalf by:

Keith Down
Director

Company number 4708277

Parent Company Statement of Cash Flows

FOR THE 52 WEEKS ENDED 1 JULY 2017

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 52 WEEKS ENDED 1 JULY 2017

	Note	Issued share capital £'m	Share premium account £'m	Capital redemption reserve £'m	Non-distributable reserve £'m	Retained earnings £'m	Total equity £'m
As at 4 July 2015		**2.0**	**1.6**	**43.2**	**6.0**	**0.7**	**53.5**
Profit for the period		–	–	–	–	356.8	356.8
Total comprehensive income for the period		–	–	–	–	356.8	356.8
Purchase of treasury shares		–	–	–	–	(7.8)	(7.8)
Issue of treasury shares	12	–	–	–	–	1.3	1.3
Share-based payments	13	–	–	–	1.1	0.3	1.4
Deferred tax on share-based payments	5	–	–	–	–	(0.1)	(0.1)
Dividends	3	–	–	–	–	(108.4)	(108.4)
Total transactions with owners, recorded directly in equity		–	–	–	1.1	(114.7)	(113.6)
As at 2 July 2016		**2.0**	**1.6**	**43.2**	**7.1**	**242.8**	**296.7**
Profit for the period		–	–	–	–	1.5	1.5
Total comprehensive income for the period		–	–	–	–	1.5	1.5
Purchase of treasury shares	12	–	–	–	–	(4.3)	(4.3)
Issue of treasury shares		–	–	–	–	0.9	0.9
Share-based payments	13	–	–	–	(0.1)	(0.1)	(0.2)
Deferred tax on share-based payments	5	–	–	–	–	–	–
Current corporation tax on share options exercised	8	–	–	–	–	(0.1)	(0.1)
Dividends	3	–	–	–	–	(51.6)	(51.6)
Total transactions with owners, recorded directly in equity		–	–	–	(0.1)	(55.2)	(55.3)
As at 1 July 2017		**2.0**	**1.6**	**43.2**	**7.0**	**189.1**	**242.9**

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

FOR THE 52 WEEKS ENDED 1 JULY 2017

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

No new standards, amendments or interpretations, effective for the first time for the period beginning on or after 3 July 2016, have had a material impact on the Parent Company.

At the balance sheet date there are a number of new standards and amendments to existing standards in issue but not yet effective. None of these is expected to have a significant effect on the financial statements of the Parent Company.

Notes to the Parent Company Financial Statements

FOR THE 52 WEEKS ENDED 1 JULY 2017

1 Income statement

The Company made a profit after tax of £1.5m (2016: £356.8m). The Directors have taken advantage of the exemption available under section 408 of the 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 auditor in accordance with the Companies (Disclosure of Auditors' Remuneration) Regulations 2005.

2 Employee costs

The Company has no employees other than the three Executive Directors and the Non-Executive Directors. Full details of the Directors' remuneration and interests are set out in the Remuneration Report on pages 72 to 97. Share-based payments details are given in note 13 on pages 150 to 151.

The Parent Company does not receive any recharge in respect of Directors' remuneration.

3 Dividends and special distributions to shareholders

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

		2017 52 weeks £'m	2016 52 weeks £'m
Final for the period ended 4 July 2015	– paid 16.0 pence	**–**	32.4
Interim for the period ended 2 July 2016	– paid 6.0 pence	**–**	12.2
Special dividend for the period ended 2 July 2016	– paid 31.5 pence	**–**	63.8
Final for the period ended 2 July 2016	– paid 19.1 pence	**38.5**	–
Interim for the period ended 1 July 2017	– paid 6.5 pence	**13.1**	–
		51.6	108.4

The Directors are proposing a final dividend of 19.5 pence per Ordinary Share for the period ended 1 July 2017 which equates to £39.6m. The dividend will be paid on 24 November 2017 to shareholders on the register at the close of business on 3 November 2017.

In the prior year, the Company made a special distribution to shareholders. The amount paid to shareholders on 24 March 2016 was 31.5 pence per share, which equated to £63.8m.

The Board became aware during the period of a technical issue in respect of the final dividend of 16 pence per share paid on 27 November 2015. While the Company had sufficient profits and other distributable reserves to pay this dividend, it had not filed relevant accounts to demonstrate this at the time that the dividend was paid. The Company has taken the steps needed to (i) appropriate the November 2015 dividend to the distributable profits of the Company as set out in the Annual Report and Accounts of the Company made up to 2 July 2016 and adopted by its shareholders on 22 November 2016; and (ii) ensure that all potentially affected parties are placed so far as possible in the position in which they were always intended to be had the relevant procedures been complied with. This required shareholder approval which was obtained on 7 March 2017.

4 Investment in subsidiaries

On 28 June 2016, the Company transferred its interest in the share capital of Dunelm (Soft Furnishings) Limited and Dunelm Estates Limited to Dunelm Limited by way of a share for share exchange.

No gain or loss arose on this transaction as the carrying value of the investment in Dunelm Limited increased by an amount equivalent to the carrying value of the previous investments in Dunelm (Soft Furnishings) Limited and Dunelm Estates Limited.

Shares in subsidiary undertakings:

	£'m
As at 4 July 2015	51.2
Share-based payments	1.1
As at 2 July 2016	52.3
Share-based payments	(0.1)
As at 1 July 2017	**52.2**

The following were subsidiaries as at 1 July 2017:

Subsidiary	Proportion of ordinary shares held	Nature of business
Dunelm Limited	100%	Holding company
Dunelm (Soft Furnishings) Limited*	100%	Retailer of soft furnishings
Dunelm Estates Limited*	100%	Property holding company
Zoncolan Limited*	100%	Property holding company
Fogarty Holdings Limited*	100%	Non-trading company
Globe Online Limited*	100%	Retailer of soft furnishings
Achica Brand Management Limited (Registered in Cyprus)*	100%	Intellectual property holding company

* Share Capital held by subsidiary undertaking.

Dunelm Group plc, the Parent Company and its subsidiaries (excluding Achica Brand Management Limited) are incorporated and domiciled in the UK. The registered office is Watermead Business Park, Syston, Leicestershire, LE7 1AD.

The company Achica Brand Management Ltd was incorporated in Cyprus on 27 June 2011 as a private limited liability company under the provisions of the Cyprus Companies Law, Cap. 113. Its registered office is at 28 Oktovriou, 261, VIEW POINT TOWER, 3035, Limassol, Cyprus.

Notes to the Parent Company Financial Statements CONTINUED

FOR THE 52 WEEKS ENDED 1 JULY 2017

5 Deferred tax assets

	Assets	
	2017 £'m	2016 £'m
Employee benefits	**0.1**	0.2

The movement in deferred tax assets is as follows:

	Balance at 4 July 2015 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 2 July 2016 £'m
Employee benefits	0.2	0.1	(0.1)	0.2

	Balance at 2 July 2016 £'m	Recognised in income £'m	Recognised in equity £'m	**Balance at 1 July 2017 £'m**
Employee benefits	0.2	(0.1)	–	**0.1**

6 Trade and other receivables

	2017 £'m	2016 £'m
Amounts owed by subsidiary undertakings	**191.0**	244.3
Prepayments and accrued income	**–**	–
	191.0	244.3

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

	2017 £'m	2016 £'m
Accruals and deferred income	**–**	–
Other taxation and social security	**0.1**	0.1
	0.1	0.1

8 Taxation

	2017 52 weeks £'m	2016 52 weeks £'m
Current taxation		
UK corporation tax charge for the period	**0.2**	–
Adjustments in respect of prior periods	**–**	–
	0.2	–
Deferred taxation		
Origination of temporary differences	**0.1**	–
Adjustments in respect of prior periods	**–**	–
Impact of change in tax rate	**–**	–
	0.1	–
Total tax expense	**0.3**	–

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

	2017 52 weeks £'m	2016 52 weeks £'m
Profit before taxation	**1.8**	–
UK corporation tax at standard rate of 19.75%	**0.4**	–
Factors affecting the charge in the period:		
Non-deductible expenses	**(0.1)**	–
Profit on disposal of non-qualifying assets	**–**	–
Adjustments in respect of prior periods	**–**	–
Effect of change in standard rate of corporation tax	**–**	–
Tax charge	**0.3**	–

The taxation charge for the period as a percentage of profit before tax is 20.9% (2016: 20.6%).

A reduction in the UK corporation tax from 20% to 19% (effective from1 April 2017) was substantively enacted on 26 March 2016, and a further reduction to 18% (effective from 1 April 2020) was substantively enacted on the same day.

Further changes were announced in the Chancellor's budget on 16 March 2016 reducing the UK corporation tax by a further 1% to 17% from 1 April 2020, enacted in September 2016.

9 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 on behalf of the Company.

10 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.

11 Issued share capital

	Number of Ordinary Shares of 1p each 2017	Number of Ordinary Shares of 1p each 2016	Number of B Shares of 0.001p each 2017	Number of C Shares of 0.001p each 2016
In issue at the start of the period	**202,833,931**	202,833,931	**–**	–
B/C share issued via bonus issue	**–**	–	**–**	128,710,152
B shares cancelled the year	**–**	–	**–**	(128,710,152)
C shares redeemed in the year	**–**	–	**–**	–
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 (2016: £nil).

	2017 Number of shares	2017 £'m	2016 Number of shares	2016 £'m
Ordinary shares of 1p each:				
Authorised	**500,000,000**	**5.0**	500,000,000	5.0
Allotted, called up and fully paid	**202,833,931**	**2.0**	202,833,931	2.0

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

12 Treasury shares

	2017 Number of shares	2017 £'m	2016 Number of shares	2016 £'m
Outstanding at the beginning of the period	**846,455**	**7.8**	357,158	3.3
Purchased during the period	**500,000**	**4.2**	841,359	7.8
Reissued during the period in respect of share option schemes	**(195,813)**	**(1.7)**	(352,062.0)	(3.3)
Outstanding at the end of the period	**1,150,642**	**10.3**	846,455	7.8

The Company acquired 500,000 of its own shares through purchases on the London Stock Exchange during the year (2016: 841,359). These shares are held by the Company for the purpose of delivery to employees under employee share schemes. The total amount, including fees, paid to acquire shares was £4.2m (2016: £7.8m) and the consideration was deducted from retained earnings within shareholders' equity.

The Company reissued 195,813 (2016: 352,062) treasury shares during the period for a total value of £1.7m (2016: £3.3m).

Proceeds from the issue of treasury shares included in the consolidated statement of cash flows of £0.9m (2016: £1.3m) is the amount employees contributed.

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

13 Share-based payments

As at 1 July 2017, the Company operated one share award plan:

Long Term Incentive Plan ('LTIP')

There were no exercisable options under this scheme as at 1 July 2017 (2016: 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 December 2018, 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 72 to 97.

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 20 days prior to the grant date.

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

	October 2016	February 2016	December 2015	October 2015	October 2014
Share price at date of grant	772.5p	934.5p	986.5p	942.5p	816.0p
Volatility	27.45%	31.71%	31.31%	31.90%	35.11%
Dividend yield	4.0%	4.0%	4.0%	4.0%	4.0%
Option life	3 years	3 years	3 years	3 years	3 years
Risk-free interest rate	0.48%	0.63%	1.10%	1.00%	1.44%
Discount factor, based on dividend yield to vesting date	0.670	0.670	0.670	0.670	0.670
Fair value of option	517.7p	626.2p	661.1p	631.6p	546.8p

The fair value of additional options granted and the assumptions used in the calculations are as follows:

	October 2014	October 2013
Share price at date of grant	861.0p	876.5p
Volatility	32.78%	32.78%
Dividend yield	4.0%	4.0%
Remaining option life	27 months	15 months
Risk-free interest rate	1.40%	1.40%
Discount factor, based on dividend yield to vesting date	0.690	0.718
Fair value of option	594.0p	629.5p

The number and weighted average exercise price of options under the LTIP at 1 July 2017 is as follows:

	Number of shares under option 2017	Weighted average exercise price 2017	Number of shares under option 2016	Weighted average exercise price 2016
Outstanding at beginning of the period	**279,320**	**–**	169,058	–
Granted during the period	**170,000**	**–**	248,551	–
Adjusted during the period	**–**	**–**	–	–
Exercised during the period	**(7,470)**	**–**	(36,915)	–
Lapsed during the period	**(22,946)**	**–**	(101,374)	–
Outstanding at end of the period	**418,904**	**–**	279,320	–

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

	2017 £'m	2016 £'m
LTIP	**(0.1)**	0.3

14 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.

15 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:

	2017 £'m	2016 £'m
Cash paid to Group undertakings	**0.9**	2.6
Cash received from Group undertakings	**(6.8)**	(120.4)
Dividends received	**(51.6)**	(359.0)
Net interest receivable	**4.3**	1.4

Key management personnel

All employees of the Company are key management personnel.

Directors of the Company and their close relatives control 51.4% (2016: 51.3%) of the voting shares of the Company.

Disclosures relating to remuneration of Directors are set out in the Remuneration Report on pages 72 to 97.

16 Subsequent events

There are no reportable subsequent events for Dunelm Group plc.

Advisers and Contacts

Corporate Brokers and Financial Advisers	**UBS Investment Bank** 1 Finsbury Avenue London EC2M 2PP Tel: 020 7567 8000
	Stifel Nicolaus Europe Limited 150 Cheapside London EC2V 6ET Tel: 020 7710 7600
Legal Advisers	**Allen & Overy LLP** One Bishops Square London E1 6AO Tel: 020 3088 0000
Independent Auditors	**PricewaterhouseCoopers LLP** Cornwall Court 19 Cornwall Street Birmingham B3 2DT Tel: 0121 265 5000
Principal Bankers	**Barclays Bank PLC** Midlands Corporate Banking PO Box 333 15 Colmore Row Birmingham B3 2WN Tel: 0345 755 5555
Registrars	**Equiniti** Aspect House Spencer Road Lancing West Sussex BN99 6DA Tel: 0371 384 2030[1]
Financial Public Relations	**MHP Communications** 60 Great Portland Street London W1W 7RT Tel: 020 3128 8100
Registered Office	**Store Support Centre** Watermead Business Park Syston Leicestershire LE7 1AD Company Registration No: 4708277
Investor Relations	investorrelations@dunelm.com Tel: 0116 2644439

1 If dialling internationally, call +44 121 415 7047. The helpline is open Monday to Friday 8.30 am to 5.30 pm, excluding bank holidays.

Store Listing

Superstores

Aberdeen
Altrincham
Ashford
Aylesbury
Ballymena
Banbury
Bangor
Barnet
Barnsley
Barnstaple
Barrow-in-Furness
Basingstoke
Bedford
Belfast
Birmingham Bordesley
Birmingham Erdington
Blackburn
Blackpool
Bolton
Bournemouth
Bradford
Bridgend
Bristol Brislington
Broadstairs
Bromborough
Burton
Bury St Edmunds
Cambridge
Cannock
Canterbury
Cardiff
Carlisle
Carmarthen
Catford
Cheltenham
Chester
Chesterfield
Colchester
Coleraine
Colliers Wood
Coventry
Cramlington
Crewe
Croydon
Dartford
Derby
Doncaster
Dumfries
Dundee
Dunstable
Eastbourne
Edinburgh Straiton
Enfield
Exeter
Falkirk
Fareham
Glasgow Clydebank
Glasgow Paisley
Glasgow Uddingston
Gloucester
Grantham
Grimsby
Halifax
Harlow
Hartlepool
Hastings
Hemel Hempstead
Hereford
High Wycombe
Horsham
Huddersfield
Hull
Huntingdon
Ilkeston
Inverness
Ipswich
Keighley
Kettering
Kidderminster
Kilmarnock
Kirkcaldy
Lancaster
Leeds
Leicester Thurmaston
Lincoln
Liverpool Garston
Liverpool Sefton
Llanelli
Londonderry
Loughborough
Lowestoft
Maidstone
Manchester Ashton under Lyne
Manchester Radcliffe
Manchester Trafford
Mansfield
Milton Keynes
Newbury
Newport
Newport Isle of Wight
Newtownabbey
North Shields
Northampton
Norwich
Nottingham
Nuneaton
Oldbury
Oxford
Perth
Peterborough
Plymouth
Pontypridd
Preston
Reading
Redditch
Rochdale
Romford
Rotherham
Rugby
Rustington
Salisbury
Scarborough
Scunthorpe
Sheffield Kilner Way
Sheffield Woodseats
Shoreham
Shrewsbury Sundorne
Sittingbourne
Solihull
Southampton
Southport
St Albans
St Helens
Stafford
Stevenage
Stockport
Stockton-on-Tees
Stoke-on-Trent Fenton
Sunderland
Swansea
Swindon
Taunton
Telford
Thurrock
Torquay
Truro
Wakefield
Walsall
Warrington
Wellingborough
West London Greenford
West London Harrow
Weston-super-Mare
Wisbech
Wolverhampton
Worcester
Workington
Wrexham
York

High Street

Boston (2 stores)
Hinckley
Newcastle-under-Lyme
Sheffield Hillsborough

Online

dunelm.com
Worldstores.com
Achica.com
Kiddicare.com

Consultation, design and production by:
jonesandpalmer.co.uk

dunelm.com
Tel: 0116 264 4439
Email: investorrelations@dunelm.com

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