Dunelm Group plc

Annual Report and Accounts

for the period ended 2 July 2016

Stock code: DNLM

About us

Dunelm is the UK's No. 1 Homewares retailer offering over 26,000 quality products across more than 28 different departments. The business operates from 152 'out-of-town' superstores, five high streets and provides further 'multi-channel' convenience through online, mobile, catalogue, telephone ordering and reserve & collect propositions.

We create value through our products, customer focus, people and business strength (as demonstrated in our business model on page 5). This underpins our three-pillar strategy through which we intend to achieve our overall objective of growing sales by 50% in the medium term (see our strategy on pages 6 to 9).

Dunelm

INVESTMENT PROPOSITION

Customer Offer
We provide customers with unrivalled choice with over 26,000 lines across all key homewares categories, offering excellent value for money, and supported by friendly and knowledgeable customer service.

Property Portfolio
Our portfolio of 152 UK superstores comprises good quality trading locations at low average rents.

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

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

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

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

Revenue
£880.9m
(2015: £822.7m†)

Operating profit
£129.3m
(2015: £121.3m†)

Profit before tax
£128.9m
(2015: £122.6m*)

Net cash from operations
£148.2m
(2015: £118.2m*)

6 new stores opened

Like-for-like sales **up 2.5%**

Home delivery sales up **23.2%**

Continued investment in our infrastructure

Special distribution of **31.5p** per share

Dividend policy change to reduce ordinary dividend cover to a range of 1.75× to 2.25×

* 2016 was a 52 week accounting period whilst the comparative was a 53 week accounting period. The additional 53rd week contributed £13.1m of revenue and £1.2m of operating profit.

† 52 weeks

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Navigating the report

Look out for these icons

Read more in this report

Find more information online at www.dunelm.com

Strategic report

Chairman's Statement

Andy Harrison Chairman

Read more online at
dunelm.production.investis.com

I am pleased to report another year of good progress for Dunelm. On a consistent 52-week basis, we grew our total sales by 7.1%, driven by the opening of six new stores, 1.0% growth in our like-for-like store sales and 23.2% growth in our home delivery sales. We converted this revenue growth into 6.2% growth (5.1% growth on a 53-week basis) in pre-tax profits and 7.5% growth (6.3% growth on a 53-week basis) in earnings per share, notwithstanding our sustained investment in the business.

This profit growth, coupled with strong cash flow, allows us to propose a 19.4% increase in the final dividend, which would increase the full year dividend by 16.7%. In addition, we paid a special dividend of 31.5 pence per share during the year, bringing the total dividend proposed for the year to 56.6 pence per share, some £115m in shareholder distributions. In view of the scale of the special dividends in recent years, the Board has refined our dividend policy to provide a slightly higher ordinary dividend pay-out ratio, the details of which are included in the Chief Financial Officer's report.

Dunelm has become the UK's leading homewares retailer by offering customers an unrivalled proposition through our national network of 152 superstores and website, providing an extensive choice of good quality, great value products, backed up by the knowledge and expertise of nearly 9,000 colleagues. Let me thank all our colleagues for their tremendous contribution to our continuing success. We really appreciate their hard work and dedication.

Our Chief Executive, John Browett, describes in the following report the key initiatives which our teams are implementing to further strengthen our business and support future growth. These initiatives, which represent a considerable investment in the business, include exciting new store designs, investment in our online shop and its supporting infrastructure, and improved supply chain and warehousing which will improve product availability and efficiency. In addition, we shall continue to invest in our people with increased training and talent development programmes. In short, we aim to give our customers even more reasons to shop at Dunelm and to make Dunelm a better place for our colleagues to work.

We have successfully navigated a year of considerable change in our Board, with John Browett formally taking the CEO reins in January 2016, Keith Down becoming our new CFO in December 2015 and two new Non-Executive Directors, William Reeve and Peter Ruis, joining our Board. John has also strengthened our Executive team with a number of new appointments, which are central to delivering our plans. We are pleased to have brought in strong new leadership whilst maintaining Dunelm's distinct business principles and culture, which have sustained our growth since the business was founded by Bill and Jean Adderley in 1979. We are proud of our culture which is exemplified by our Deputy Chairman, Will Adderley.

The competitive landscape in retail continues to change at a fast pace with the growth of new competition, especially online. Our operating model has allowed us to gain market share in times of uncertainty, and post-Brexit, we are confident the same opportunities exist now. We have ambitious plans to continue to grow our business and we intend to grasp the opportunities to further strengthen our competitive position. We remain confident in the Dunelm proposition and look forward to reporting further progress.

Andy Harrison
Chairman
14 September 2016

Marketplace

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

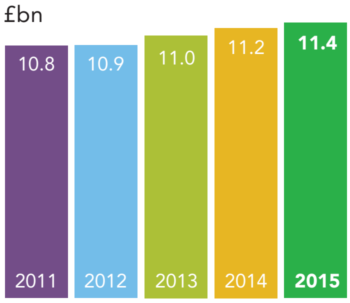
Read more online at dunelm.production.investis.com

MARKET SIZE AND GROWTH

The market has seen continued growth in the past year. There has been no immediate impact of Brexit but it is too early to ascertain longer term impact on demand in the homewares market. The UK homewares market is estimated to reach £11.6bn in 2016.

Market size

£bn



Source: Verdict Retail

MARKET SHARE

Dunelm continues to grow share and affirm its position with clear market leadership. Whilst the market remains fragmented, the top three retailers continue to grow share and now have a combined share of 19.2% vs 15.1% four years ago.

Market share

%

	Calendar Year	
	2011	2015
Dunelm	5.9%	8.1%
John Lewis	5.5%	6.4%
IKEA	3.7%	4.7%
Top 10	42.2%	47.3%

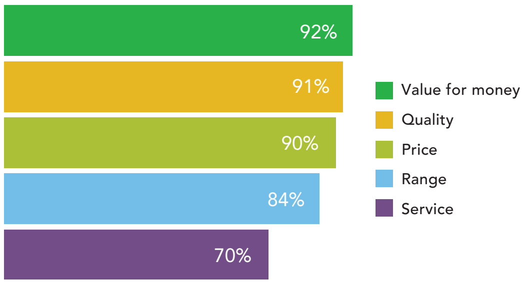
Source: Verdict Retail

DRIVERS OF RETAILER SELECTION

Value for money is the most important consideration for a homewares customer, followed by quality and price. Dunelm's proposition enables customers to buy across a broad spectrum of both price and quality. Dunelm has a market leading range and its key customer service metric, net promoter score, is consistently high.

Top five drivers of homewares retail selection

% of customers citing reasons as important when selecting homewares retailers



Source: Verdict Retail

Business Model

WHAT WE DO...

Dunelm is the market leader in the £11.6bn United Kingdom Homewares market. We currently operate 157 stores, of which 152 are out-of town superstores and five are located on high streets, and an online store to be found at **www.dunelm.com**.

PRODUCT

We source over **26,000 homewares products** across all key homewares categories, the majority under our own brands.

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

CUSTOMER FOCUS

We provide customers with an unrivalled **range of products**, offering excellent **value for money**, which they can purchase at their **convenience** (in one of our 152 nationwide superstores, from our website or our catalogue for home delivery or collection in store).

Our depth of range is supported by friendly and knowledgeable customer service.

Value

Delivering value for our:

- **Customers**
- **Colleagues**
- **Shareholders**
- **Communities**

PEOPLE

We employ almost **9,000 people**, the majority in our stores, but also in our store support centre, in our warehouse and in our contact centre.

Our Board, Executive Board and Senior Management Team comprise a range of high calibre individuals with a depth of retail experience, supported by our enthusiastic, hardworking, knowledgeable colleagues across the business.

We offer competitive remuneration and great prospects for training, development and promotion.

BUSINESS STRENGTH

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

Our portfolio of superstores comprises good quality trading locations at low average rents, and our online offer combines value, choice and convenience.

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

We aim to deliver shareholder value through long-term, sustainable, profitable growth. As such, we have adopted a three-pillar growth strategy underpinned by eight core initiatives in order to achieve our objective of 50% sales growth in the medium term.

We'll achieve our target of

50% Growth

...via our three strategic pillars:

1 LFL STORES SALES GROWTH

- Range development (including Dorma)
- Colleague engagement and 'Customer First' programme
- Investments in store environment ('Great place to shop')
- Emphasis on stronger seasonal campaigns

2 NATIONAL COVERAGE THROUGH ROLLING OUT NEW STORES

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

3 GROWING SALES AND PROFIT THROUGH THE HOME DELIVERY CHANNEL

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

...which are supported by eight core initiatives:

ONLINE	LONDON	STORE OPERATIONS	STORE FORMAT	MADE TO MEASURE	FURNITURE	SUPPLY CHAIN	PRODUCT
1 3	2	1 2 3	1 2	1 3	1 3	1 3	1 3

...and our four key enablers:

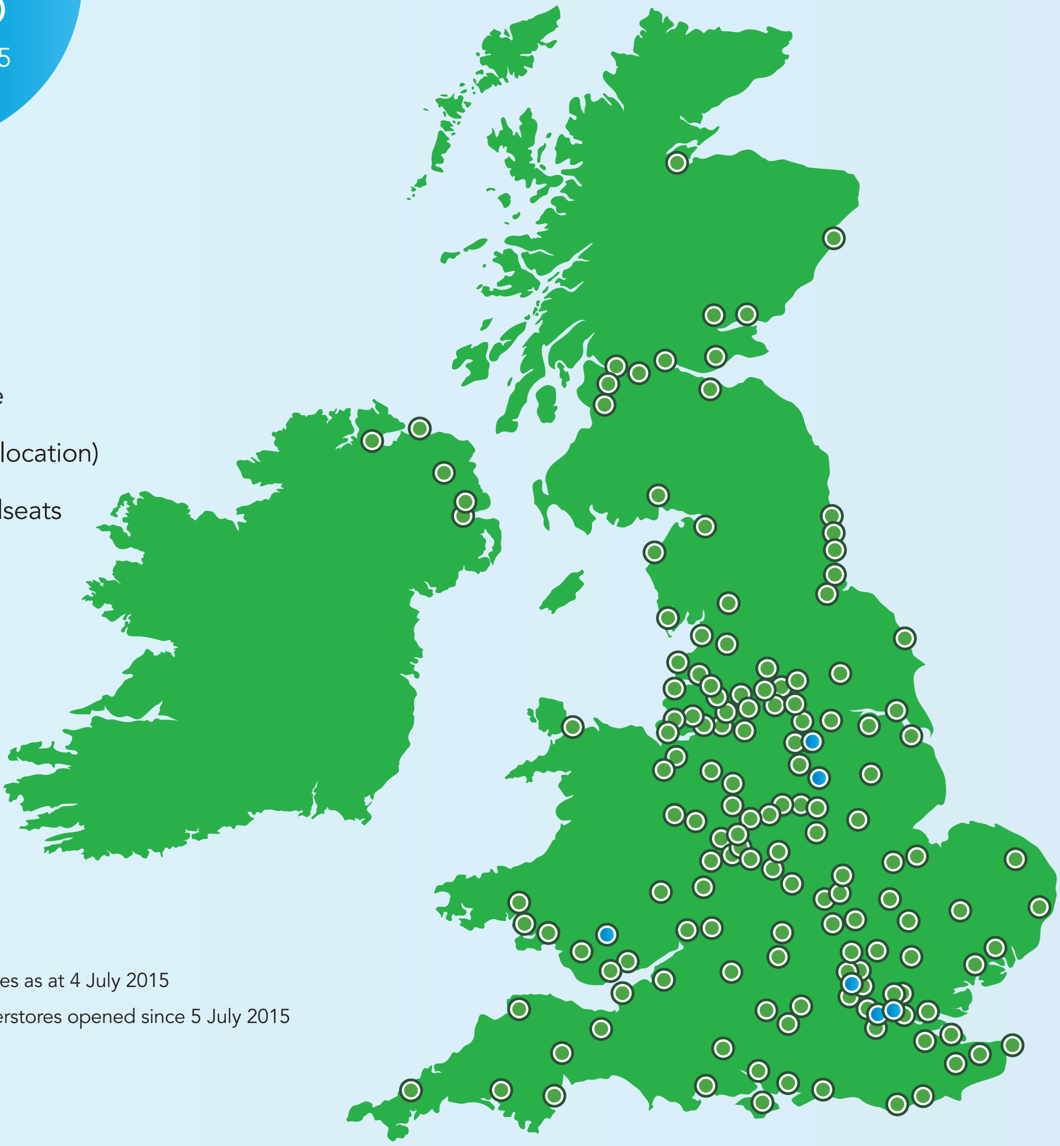
PRODUCT	CUSTOMER FOCUS	PEOPLE	BUSINESS STRENGTH

See pages 8 to 9 for more information

UK Store Locations

NEW
SUPERSTORES
OPENED
since 5 July 2015

- Pontypridd
- Colliers Wood
- Catford
- High Wycombe
- Nottingham (relocation)
- Sheffield Woodseats (relocation)

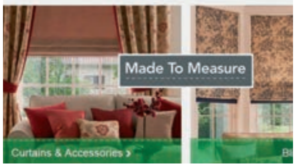


KEY
- Superstores as at 4 July 2015
- New superstores opened since 5 July 2015

Strategic Initiatives

ONLINE

We are working on making our website easier to access. We want to make the range and relevant content broader and provide an improved site experience. We also want to provide greater convenience through an increase in collection points, times and availability.



Link to strategy

1 LFL STORES SALES GROWTH

3 HOME DELIVERY

LONDON

We currently have eight stores in the Greater London area and we are expanding this number with a sharper focus on catchment potential as a significant part of our target of establishing a portfolio of 200 superstores.

Link to strategy

2 NEW STORES

STORE OPERATIONS

We have reviewed all activities carried out in store and found several opportunities to help our colleagues work more effectively. As a result, we have reduced task in the business and reinvested colleagues' time into helping customers, improving service and driving sales.

Link to strategy

1 LFL STORES SALES GROWTH

2 NEW STORES

3 HOME DELIVERY

STORE FORMAT

We are trialling several new category merchandising initiatives and continue to improve the store format design as we open new stores, reflecting a lighter, more open environment with lower shelving and easier navigation.

Link to strategy

1 LFL STORES SALES GROWTH

2 NEW STORES

MADE TO MEASURE

We offer a bespoke service that differentiates us from most of our competitors. We manufacture the majority of our Made to Measure curtains ourselves and offer great value for money. We are working to improve our customer offer and the efficiency of our business.

Link to strategy

1 LFL STORES SALES GROWTH

3 HOME DELIVERY

FURNITURE

We are working hard to improve our offer through delivery of new ranges with better quality and greater choice. We are trialling new formats in store using room-sets and new ways to display products. We are working on an improved service model and our new point of sale system will help our colleagues to sell our entire online range in store.

Link to strategy

1 LFL STORES SALES GROWTH

3 HOME DELIVERY

SUPPLY CHAIN

We have successfully opened our new warehouse in Stoke, which doubles our capacity and provides a purpose-built platform for reducing costs over time. We are correspondingly reducing our third party storage requirements which are costly and inefficient. Improved efficiency also enables us to offer better availability to our customers.

Link to strategy

1 LFL STORES SALES GROWTH

3 HOME DELIVERY

PRODUCT

Great product is the lifeblood of our business. We have started working on a new strategic initiative (replacing stock management) to further improve our product ranges. We see major opportunities in product design, innovation and sourcing.

The work on product should enable us to grow by appealing to a broader set of customers across more categories. Our sourcing work should also improve our value for money proposition.

Link to strategy

1 LFL STORES SALES GROWTH

3 HOME DELIVERY

Chief Executive's Review

John Browett Chief Executive

Read more online at dunelm.production.investis.com

One of the great things about Dunelm is that we are able to offer tremendous value for money for our customers and an unrivalled range whilst remaining a low cost retailer. In the last year we have continued to strengthen our offer and expand our store base, allowing us to further increase market share and enhance our market leading position. We are confident that our ambitious plans will bring further improvements for customers and underpin our prospects, even if the market proves to be difficult.

Customers love what we do; our wide product ranges are suitable for all budgets and tastes. Our prices are always competitive or market leading. We have fantastic colleagues in our stores, in the supply chain and our support centre who give great service. We have high on-shelf availability in-store and online. Indeed, our offer is unmatched by our competitors.

Our low cost model is a critical part of making our business work for customers. Our store costs are low because we have built a network of stores that work for customers but have been rented on sensible terms. We have modern IT systems that are cost effective and easy to upgrade. By running a defined contribution pension scheme we have clear costs and no legacy liabilities. We always endeavour to run a lean operation so we can invest more in lower prices and better products.

Last year, we continued to improve the shopping trip for our customers. We have improved our ranges, have become more competitive on price, made our stores easier to shop and launched a vastly improved website. I think almost all our customers have noticed the work we have done to clear the aisles, put the product back into logical places and run our promotions much more tightly and effectively. These may seem like small things, but through customer feedback we know they make a major difference.

The improvements in the customer offer are paid for by running our business more effectively. We continue to work on developing our IT platform to provide more efficient processes as well as a better customer experience in-store and online. Our internal 'Keep it Simple' programme looks at activity in our head office to ensure that we are eliminating unnecessary work or improving broken processes. Last year, we invested heavily in our logistics infrastructure to enable better customer service at lower costs in the future. The store teams have also made great progress in simplifying their operation to free up hours to serve customers.

In the year ahead it may be that the economy proves to be difficult. However, even if there are short term problems, life continues and for a business like Dunelm this is almost sure to bring new opportunities. Our 'Simply Value for Money' proposition becomes even more appealing if consumers feel under financial pressure. In addition, our business is not significantly reliant on big-ticket purchases; our average basket size remains around £30.

Dunelm is a strong business due to the level of profit and cash flow generated, combined with its low leverage, even including our lease liabilities. None of that changes because of Brexit. Indeed, in uncertain times our strengths become even more of an advantage. It should mean that we can expand faster and offer even more to our customers.

At the end of my first year, I'd like to express what a tremendous privilege it is to work with all of our colleagues at Dunelm and I want to thank them for all their effort, enthusiasm and dedication to making Dunelm a great place to shop and work. It is hard to get everything right every day, but it is both pleasurable and rewarding to find a company which is always trying to do the right thing.

Growth Strategy

When we reported our half year results in February, we reiterated our commitment to our three-part growth strategy; growing like-for-like sales, rolling out new stores and growing our home delivery channel. We also identified eight key initiatives that I believe will enable us to achieve this and will be the key method by which we improve our business substantially for our customers and shareholders over the medium term.

Online

Whilst we continue to work towards increasing our store estate to 200 stores, we still believe in a multi-channel world for homewares and continue to see online as a critical part of our shopping trip.

We are working on making our website easier to access; for example allowing customers to browse and order in-store. We want to make the range and relevant content broader and provide an improved site experience. We also want to provide greater convenience through an increase in collection points, times and availability.

We have also made progress in multiple other areas. The integration of our one-man fulfilment process into our Stoke distribution centre is a significant step towards broader fulfilment options. We have grown our email database to over two million customers, an increase of 18%. We have an online Made to Measure service, and are building a more comprehensive solution, due to be launched later this year.

Over the coming year, we are looking to extend our range through a new DSV (drop shipped vendor) service. We are also rolling out tablet devices and associated chip and pin payment options in-store and are working towards a full Click & Collect service.

London

As part of our challenge to find 50 new stores to reach our 200 target, we recognise that London and the South East will provide a significant proportion of this opportunity.

Encouragingly, we have legally committed to nine new stores in the coming year, of which three are within

the M25; an excellent result given that we have only eight stores currently in this area.

We are also focusing on improving the capability of our colleagues in the region and will be looking to increase our online participation in London, aided by the increased store presence.

Store Operations

We have reviewed all activities carried out in-store and found several opportunities to help our colleagues work more effectively. As a result, we have reduced hours worked on certain tasks in the business, partially to mitigate the cost of introducing the National Living Wage, but more importantly to reinvest back into helping customers, improving service and driving sales.

We see this as a continual process, with several rounds of improvements that will allow us to continue to reinvest in wages and service.

Store Format

Our customers love our stores, but they do tell us that we could make them easier to shop, particularly in terms of navigation and making our displays more attractive.

We are trialling several new category merchandising initiatives, and are particularly pleased with the work that we have done around rugs, lighting and the till area. We will continue to roll these out across the estate in the coming year.

We also continue to improve the store format design as we open new stores. Our recent openings in Nottingham and Sheffield in particular reflect a lighter, more open environment with lower shelving and easier navigation. We are aiming to refit around 15 stores in FY17 in this new format, as well as using the format in our new store openings.

Made to Measure

Made to Measure is a service that differentiates us from most of our competitors. We manufacture the majority of our curtains ourselves and offer great value for money.

We are trialling new operations in-store and developing a greater understanding of how investment in service, presentation and range can enhance our offer. We are looking to improve our manufacturing performance by creating more efficiency in our processes. We are also working on a new IT system to manage customer orders and make things easier for customers.

Furniture

Dunelm continues to develop its furniture offer across all channels. We are working hard to deliver new ranges, with better quality and greater choice. We are trialling new formats in-store using room-sets and new ways to display products. We are also working on an improved service model and our new POS system will help our colleagues to sell our entire range in-store.

Supply Chain

We have successfully opened our new warehouse in Stoke, which doubles our capacity and provides a purpose-built platform for reducing costs over time. We are correspondingly reducing our third party storage requirements which are costly and inefficient.

We are near the end of the process of moving our one-man delivery operation into Stoke, which is a precursor to moving to a Click & Collect offer. This will enhance the attractiveness of our online offer by providing greater choice and ease to customers.

We will look to further integrate our e-commerce and direct-to-store distribution over time. This will enable improved availability, productivity and a cleaner end of season clearance.

Stock Management

To meet customer expectations, we rely on having full ranges available in-store which previously resulted in a high stock holding. We are working towards reducing the amount of stock that we hold whilst improving availability. This will make us more efficient and enable us to reinvest in the customer offer.

We have reduced our stock holding by £16.5m (12.4%) during the course of the year by focussing on sensible retail disciplines such as reducing minimum order quantities, reducing pack sizes and through the better use of order replenishment systems. In-store we have focused on better stock management, both on shelf and back of house, by enhancing stock control processes.

Although we believe we can reduce stock levels further in time, we consider this to be business as usual and stock management will therefore no longer form one of our strategic initiatives in FY17.

Product

Great product is the lifeblood of our business. We have started work on a new strategic initiative (replacing stock management) to further improve our product ranges. We see major opportunities in product design, innovation and sourcing.

The work on product should enable us to grow by appealing to a broader set of customers across more categories. Our sourcing work should also improve our value for money proposition.

Enablers

While our key initiatives are the focus for improving the business for customers, there are several initiatives we are working on to make the business more effective. This work ranges from 'Keep it Simple' changes in the Store Support Centre and Contact Centre, to developing our IT systems to support the key initiatives and customer offer. We could also talk at length about the use of better customer insight, service and sales training in stores and investment in skills and training across the Company.

At Dunelm we are always looking for opportunities and working on making our business better for customers and a more fulfilling place to work. The agenda is always ambitious.

Outlook

Whatever the market brings us, our strategy remains unchanged. Indeed, we may be able to achieve more in a difficult economy. We can't forecast what will happen to the broader market but we know we will be busy improving our Company, through our self-help initiatives and also by continuing to roll-out and reinvest in our stores.

As we have seen in previous years, hot weather can have a dampening effect on footfall, so the start to the new financial year has inevitably seen some impact here. However, the weather is outside of our control and our job is to trade through such periods.

Encouragingly, we believe that we continue to outperform the homewares market as a whole and therefore are confident of continuing to deliver on our growth ambitions, including new store openings which should number at least nine this year. We have the key infrastructure in place, the right team, a great heritage and a continued focus on product and people.

John Browett
Chief Executive
14 September 2016

Key Performance Indicators

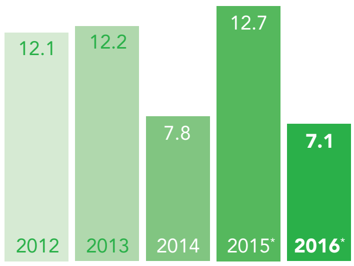
The following key performance indicators are considered to be the most appropriate for measuring how successful the business has been. A number of them are also relevant to our remuneration strategy, as set out in the Remuneration Report.

Read more about remuneration on pages 52 to 77

Link to strategy

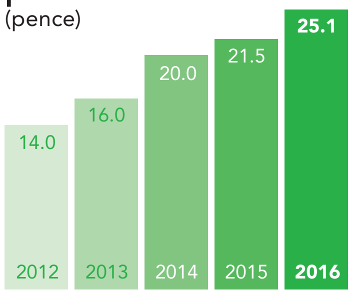
1. LFL STORES SALES GROWTH
2. NEW STORES
3. HOME DELIVERY

Sales growth
%



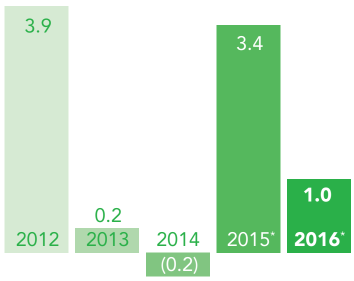
Strategic link 1 2 3

Ordinary dividends per share
(pence)



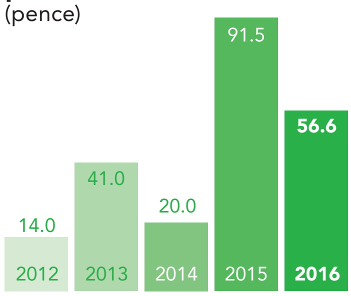
Strategic link 1 2 3

Like-for-like store sales growth %



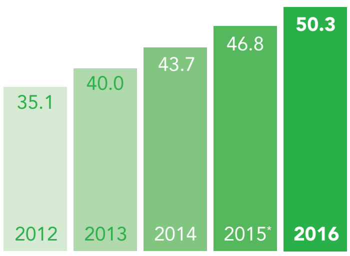
Strategic link 1

Total distributions per share
(pence)



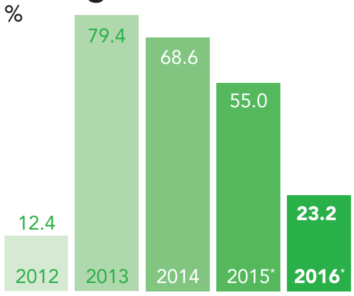
Strategic link 1 2 3

Earnings per share (diluted)
(pence)



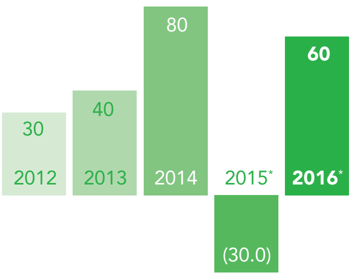
Strategic link 1 2 3

Home delivery sales growth
%

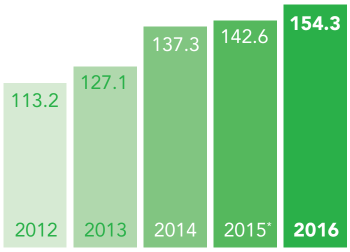


Strategic link 3

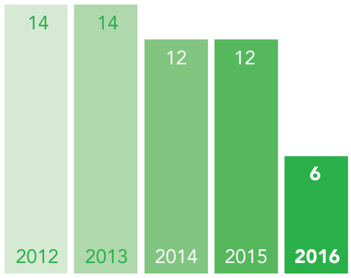
Gross margin change
(basis points)



EBITDA
(£m)

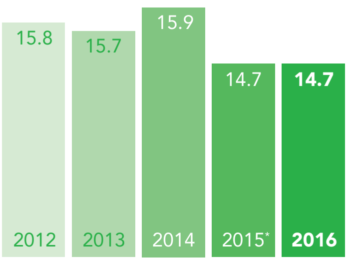


New store openings
(number)

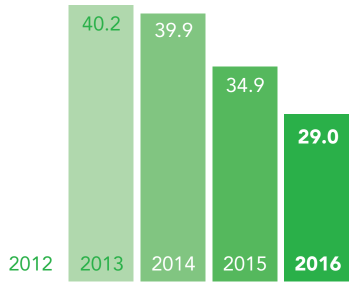


Strategic link 2

Operating margin
%

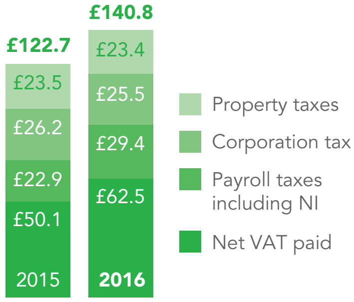


Emissions (tCO2e per £1m Group Revenue) %



Strategic link 2

Total tax contributions
(£m)



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

Chief Financial Officer's Review

Keith Down Chief Financial Officer

Read more online at dunelm.production.investis.com

The year ended 2 July 2016 was a 52 week accounting period but the comparative year ended 4 July 2015 was a 53 week accounting period. The additional 53rd week last year contributed £13.1m of revenue and £1.2m of operating profit. Unless otherwise stated, reference to 2015 or the comparative year relates to this 53 week period.

Revenue

Group revenue for FY16 was £880.9m (FY15: £835.8m), an increase of 5.4% for the full financial year and 7.1% on a 52 week basis. Like-for-like ('LFL') sales grew by 2.5% on a 52 week basis as a result of growth in both in-store LFL sales (+1.0%) and home delivery sales (+23.2%). Over the financial year as a whole, home delivery sales represented 7.0% of total business (FY15: 6.1%).

Our store expansion programme continued with six new openings in the year (of which two were relocations). We also closed our high street store in Coalville, leaving a portfolio of 152 superstores and five stores in high street locations.

	Revenue £'m	Year on year growth*
Like-for-like stores	729.0	1.0%
Home delivery	61.9	23.2%
Total like-for-like	790.9	2.5%
Non-like-for-like stores	90.0	
	880.9	7.1%

*2015 is treated as a 52 week period.

Gross Margin

Gross margin increased by 60 basis points to 49.8% (FY15: 49.2%). Gross margin in FY15 was impacted by a high level of markdown needed to clear excess stocks (particularly furniture). In FY16, however, we have improved our product life cycle management, stock turn and absolute stock levels.

Operating Costs

Operating costs in FY16 grew by 7.1% compared with the prior year, an increase of £20.5m, or by 9.1% on a 52 week basis, an increase of £25.7m. The main drivers of this increase were:

- Store portfolio growth – six new store openings and two closures;
- Multi-channel fulfilment – the value of business through this channel rose by 23.2% compared with the previous year;
- Warehousing infrastructure – we invested £3.0m in transition costs associated with the opening of our new Distribution Centre ('DC') in Stoke. This DC will significantly increase our ability to deliver multi-channel fulfilment operations and negates the need to operate additional third party storage facilities;
- Store labour – the increase in the National Living Wage has been offset by productivity savings;
- IT capability – recognising the importance of IT in our business, we have again significantly increased the scale and capability of our internal IT function. We have also seen the first year of amortisation relating to our web re-platform;
- Marketing – increased spend on digital marketing to replace loss of natural search following web re-platform; and
- Administration – we have invested in the Board and Executive team to support the continued growth of the business.

Looking ahead, a number of these cost drivers will continue to apply in the new financial year as we open new stores, look to refit 15 stores into our new format, grow our home delivery business further and continue to invest in IT and management to support our key initiatives.

Operating Profit

Group operating profit for the financial year was £129.3m (FY15: £122.5m), an increase of £6.8m (5.6%). On a 52 week basis operating profit increased by £8.0m, an increase of 6.6%. Operating profit margin was 14.7% (FY15: 14.7%). In the year the business invested in operating costs (described above) to enhance key infrastructure and capabilities to deliver future growth.

EBITDA

Earnings before interest, tax, depreciation and amortisation were £154.3m (FY15: £144.2m, £142.6m on a 52 week basis).This represents an increase of 7.1% on the previous financial year, or 8.2% on a 52 week basis. The EBITDA margin achieved was 17.5% of sales (FY15: 17.3%, 17.3% on a 52 week basis).

Financial Items

The Group incurred a net financial expense of £0.4m in FY16 (FY15: £0.1m income). Interest and amortisation of costs arising from the Group's revolving credit facility amounted to £1.6m (FY15 £0.7m). These costs were partially offset by interest earned on cash deposits of £0.2m (FY15: £0.5m) and gains of £1.0m (FY15: £0.3m) resulting from foreign exchange differences on the translation of dollar denominated assets and liabilities.

As at 2 July 2016 the Group held $90.5m (FY15: $91.5m) in US dollar forward contracts, representing approximately 61% of the anticipated US dollar spend over the next financial year. Surplus US dollar cash deposits amounted to $1.6m (FY15: $3.2m).

Hedging

Due to the Brexit vote that took place close to the Group's period end, the hedging balance was material at 2 July 2016, and additional disclosures have been included in the notes to the financial statements. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described below. In addition, note 16 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk objectives, details of its financial instruments and hedging activities, and its exposures to credit and liquidity risk.

PBT

After accounting for interest and foreign exchange impacts, profit before tax for the financial year amounted to £128.9m (FY15: £122.6m), an increase of 5.1%. On a comparable 52 week basis this represents an increase of 6.2% over FY15.

Taxation

The tax charge for the year was 20.6% of profit before tax, compared with 21.6% in the prior year. This reflects the reduction in the headline rate of corporation tax from 20.75% in FY15 to 20.0% this year. The tax charge is expected to trend approximately 75-80 bps above the headline rate of corporation tax going forward, principally due to depreciation charged on non-qualifying capital expenditure.

PAT and EPS

Profit after tax was £102.3m (FY15: £96.1m), an increase of 6.5%.

Basic earnings per share (EPS) for the 52 weeks ended 2 July 2016 was 50.5p (FY15: 47.5p), an increase of 6.3%. Fully diluted EPS increased by 6.3% to 50.3p (FY15: 47.3p). This is a rise of 7.5% on a comparable 52 week basis (FY15 52 week: 46.8p).

Operating Cash Flow

Dunelm continues to deliver strong cash returns. In FY16 the Group generated £148.2m (FY15: £118.2m) of net cash from operating activities, an increase of 25.4%.

Year-end working capital decreased by £18.3m compared with the previous year-end. This reflects our drive to improve product life cycle management and increase stock turn. At the end of the year the Group had £16.5m lower inventories than the prior year despite the investment in new stores. Trade and other payables due within one year increased by £7.4m primarily as a result of an increase in the capital creditor as a result of the completion of our new DC in Stoke at the end of the year.

Capital Expenditure

Gross capital expenditure in the financial year was £42.5m compared with £31.5m in FY15. Significant investments were made in the opening of our second distribution centre in Stoke (£11.9m), IT infrastructure (£7.2m) and in acquiring the Fogarty brand (£4.8m). In addition we invested £18.0m in the continued growth and development of the store portfolio with the addition of six new superstores and seven major refits.

We expect higher capital expenditure in the next financial year of approximately £50m to support the business' growth strategy. We expect to open more new stores (requiring an average investment of £1.2m per store), we plan to carry out a number of major store refits (approximately £20m in total), and will continue to invest in IT systems development (estimated at £6m) and supply chain improvements (estimated at £5m). We will also consider freehold store acquisitions on an opportunistic basis, with FY17 having already seen the purchase of a freehold property in Shoreham for £5.5m.

Banking Agreements and Net Debt

The Group has in place a £150m syndicated Revolving Credit Facility ('RCF') 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 1.5× fixed charges), both of which were met comfortably as at 2 July 2016.

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

Net debt at 2 July 2016 was £79.3m (0.51x historical EBITDA) compared with £73.6m in FY15 (0.51× historical EBITDA). Daily average net debt in FY16 was approximately £50.0m. This compares with an average of £75.4m in FY15 from the date of the special distribution (20 March 2015) following the inception of our RCF.

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. At the year end, net debt/EBITDA was 0.51× (FY15: 0.51×).

The Board's policy on dividends in FY15 was 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 2 and 2.5× in the full year in respect of which the dividend is paid. The Board has decided to move the targeted range of dividend cover to a range of 1.75 and 2.25×, reflecting the strong cash generation in the business and the Board's confidence in the growth prospects of the business.

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.

Dividend and Special Dividend Paid

Reflecting the capital and dividend policy, an interim dividend of 6.0p per share was paid in March 2016 (FY15: 5.5p). It is proposed to pay a final dividend of 19.1p per share (FY16: 16.0p), subject to shareholder approval. The total dividend of 25.1p represents an increase of 16.7% over the previous year, giving a dividend cover of 2.0× (FY15: 2.2×). The final dividend will be paid on 25 November 2016 to shareholders on the register at the close of business on 4 November 2016.

During the year, the Group returned excess capital of £63.8m (31.5p per share) to shareholders in the form of a special dividend.

In total the Group returned £108.4m to shareholders by way of dividend in the year, the equivalent of 53.5p per share.

Distributable Reserves

During the current 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 has retained earnings of £242.8m as at 2 July 2016.

Share Buy-back

During the year, the Group invested £7.8m to buy 841,359 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, 846,455 shares were held in treasury, equivalent to approximately 42% of options outstanding. Over time, we expect to increase our holding in treasury to be equivalent to approximately 60% of outstanding options.

Since the year end £4.2m has been invested to purchase an additional 500,000 shares into treasury.

Tax Policy

The Group has a 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. HMRC has recently renewed 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 in the form of corporation tax, property taxes, PAYE and NICs and VAT were £140.8m (FY15: £122.7m).

Treasury Management

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

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

Key Performance Indicators

In addition to the traditional financial measures of sales and profits, the Directors review business performance each month using a range of other KPIs. These include measures shown on pages 12 and 13.

Keith Down
Chief Financial Officer
14 September 2016

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 shareholding
- 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 on-going 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 accounts;
- 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 'what keeps us awake at night' ▶ Key risk topics reviewed through regular timetabled presentations or papers ▶ Monitor 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 external 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 ▶ Review risk register once a year ▶ Key risk topics reviewed through regular timetabled presentations or papers ▶ Monitor 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 external assurance programme ▶ Receives reports generated through the external 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	▶ Reviews specific 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 external 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 apprised 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.

Following a review of the risks as part of the process to support the viability statement, the Board decided to amend the description of some of the risks set out below; the categorisation used in last year's report is recorded in the table. The risks themselves have not changed materially, with the exception of the addition of the risks associated with the United Kingdom's exit from the European Union.

Risk	Description	How we mitigate	Progress in 2015/16
Competition, market and customers **Link to strategy:** 1 2 3 **Performance Indicator:** Market share **Strategic initiative link:** Store format, Online (Marketing Director); Furniture (Product Director); Made to Measure business (Stores Director); Product (Product Director) **Executive responsibility:** Marketing Director **Reports to:** Chief Executive **Impact compared to 2014/15:** Increasing **Previous category:** Competition and customers	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.	• 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. Strategic initiative review once per annum.	▶ Dunelm continues to lead the UK homewares market with an increased share of 8.1% in 2015 (7.7% in 2014). ▶ New Marketing Director appointed to the Executive Board to lead our customer insight, marketing, store format and multichannel activities. ▶ Enhancement of our store format to improve the customer experience is one our eight strategic initiatives. ▶ Additional investment in customer insight activity and resource. ▶ Continuing product innovation in existing categories and strengthened seasonal campaigns. New strategic initiative for 2016-17 to focus on 'Product'. ▶ One of our eight strategic initiatives is development of our online offer following the successful launch of a new web platform. ▶ Strategic initiatives in place to develop our furniture and made to measure business as part of the growth of our competitive offer.

Trend Direction:
INCREASING UNCHANGED DECREASING

Link to strategy
1 LFL STORES SALES GROWTH
2 NEW STORES
3 HOME DELIVERY

Risk	Description	How we mitigate	Progress in 2015/16
Brand damage **Link to strategy:** 1 2 3 **Performance Indicator:** Product complaints and recalls **Strategic initiative link:** Product **Executive responsibility:** Product Director **Reports to:** Chief Executive **Impact compared to 2014/15:** Unchanged **Previous category:** Brand reputation, product and service quality	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 and consumers, colleagues and other stakeholders losing confidence in the Dunelm brand.	• We have a range of policies specifying the quality of products and production processes which suppliers must adopt. • We operate a full test schedule for all new products and on a sample basis for on-going 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 Codes of Conduct which is in line with international guidelines, and also specifically covers modern slavery. • We conduct periodic audits on all stock suppliers 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 to make the improvements. ▶ Food Safety manual reviewed and updated, and all food suppliers signed up to Anti-Bribery and Ethical Codes of Practice. ▶ Timber policy adopted. ▶ Policy on Modern Slavery adopted and awareness programme launched with colleagues and key partners. For further information please see the Corporate Social Responsibility Report.

Trend Direction:

INCREASING   UNCHANGED   DECREASING

Link to strategy

1 LFL STORES SALES GROWTH   2 NEW STORES   3 HOME DELIVERY

Risk	Description	How we mitigate	Progress in 2015/16
Portfolio expansion Link to strategy: 2 Performance Indicators: Number of new store openings and pipeline Strategic initiative link: London Executive responsibility: Property Director Reports to: Chief Executive Impact compared to 2014/15: INCREASING Previous category: Portfolio expansion	Availability of vacant or new retail space in the right location is essential to deliver our growth plans. Inability to secure or develop the required retail trading space to deliver our superstore format will limit our pace of expansion or force us to compromise our offer.	• Our property team actively monitors availability of retail space with the support of professional advisers. • Financial modelling helps us assess the viability of potential sites. • The Group's strong cash generation and funding headroom provide an attractive covenant to landlords and the ability to acquire freehold units if appropriate. **Board oversight:** Property strategy reviewed annually by the Board.	▶ We have opened six new stores in the year, including two in the London area. ▶ We have legally completed on nine new stores due to open in 2016/17 and beyond, of which three are within the M25. ▶ 'Project London' to specifically source stores in the London area, where we are relatively under-represented, is one of our eight strategic initiatives.
People and culture Link to strategy: 1 2 3 Performance Indicator: Colleague retention Strategic initiative link: All Executive responsibility: People Director Reports to: Chief Executive Impact compared to 2014/15: DECREASING Previous category: Management team and key personnel	The success of Dunelm is dependent upon the availability of talented senior management and specialist colleagues. The success of the business could be impacted if it fails to attract, retain and motivate high calibre colleagues.	• The composition of the Executive team is 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 55 to 59 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.	▶ Our new Chief Executive and Chief Financial Officer have been appointed. ▶ The Executive Board has been further strengthened through the appointments of a Stores Director, a Supply Chain Director and a Marketing Director (all new roles). ▶ Formal people plan and talent management process adopted. ▶ Significant investment in training and development programme for the senior management team. ▶ Further investment has been made in both depth and capability of teams in key areas such as IT, Buying & Merchandising and Logistics. ▶ Key business principles reinforced through communication and incorporation into induction processes.

Trend Direction:
INCREASING — UNCHANGED — DECREASING

Link to strategy
1 LFL STORES SALES GROWTH
2 NEW STORES
3 HOME DELIVERY

Risk	Description	How we mitigate	Progress in 2015/16
Regulatory, Environment & Compliance **Performance Indicators:** Prosecution and other regulatory action **Link to strategy:** 1 2 3 **Strategic initiative link:** All **Executive responsibility:** Company Secretary **Reports to:** Chief Financial Officer **Impact compared to 2014/15:** Unchanged **Previous category:** Regulatory, Environment & Compliance	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.	▶ Health and safety policies and audit procedures reviewed and refocused on highest risk areas by new Health and Safety Manager. ▶ Operational audit updated to focus on key risk areas. ▶ New training programme for commercial teams includes focus on pricing and marketing law. ▶ Data protection compliance strengthened through colleague training and awareness programme. ▶ New procedures adopted to address requirements of the Market Abuse Regulation.
IT Systems, Sensitive Data and Cyber Risk **Link to strategy:** 1 2 3 **Performance Indicator:** Number of major incidents **Strategic initiative link:** All **Executive responsibility:** Chief Information Officer **Reports to:** Chief Executive **Impact compared to 2014/15:** Increasing **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.	• All business critical systems are based on established, industry leading package solutions, with full support in place. • A detailed IT 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 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.

Trend Direction:
INCREASING UNCHANGED DECREASING

Link to strategy
1 LFL STORES SALES GROWTH 2 NEW STORES 3 HOME DELIVERY

Risk	Description	How we mitigate	Progress in 2015/16
Supply chain disruption Link to strategy: 1 2 3 Performance Indicator: Service levels in respect of store service Strategic initiative link: Supply chain Executive responsibility: Supply Chain Director Reports to: Chief Executive Impact compared to 2014/15: Decreasing Previous category: Business interruption and infrastructure	Supply chain disruption could disrupt stock flows to store and customers leading to an impact on trading or cost / efficiency implications. Loss of the store support centre, workroom or contact centre could impact our ability to trade and divert focus from long term strategy and planning.	• 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.	▶ Supply Chain Director recruited to develop and lead our supply chain strategy. ▶ Major project completed to construct a new warehouse facility at Stoke to increase capacity and provide a further fall-back facility for our existing warehouse – one of our eight strategic initiatives. ▶ Desk-top simulation exercises completed to increase Crisis Management Team capability.
Business efficiency Link to strategy: 1 2 3 Performance Indicator: Gross margin Strategic initiative link: Store operations, stock management Executive responsibility: Chief Financial Officer, Stores Director (Store Operations), Supply Chain Director (Stock Management) Reports to: Chief Executive Impact compared to 2014/15: Increasing Previous category: Commodity prices	Failure to operate the business in an efficient manner leads to additional cost and margin pressure, and could constrain our profitability, 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 managed by the Board and Executive Board through the budget and forecast process. • Strategic initiatives 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 initiatives and budget reviewed by the Board at least annually.	▶ Store operating procedures and stock management are two of our eight strategic initiatives. ▶ Impact of living wage offset by productivity improvements generated by leaner store operating procedures. ▶ Project in place to reduce cost of product returns.

Trend Direction: INCREASING UNCHANGED DECREASING

Link to strategy 1 LFL STORES SALES GROWTH 2 NEW STORES 3 HOME DELIVERY

Risk	Description	How we mitigate	Progress in 2015/16
Finance and treasury Link to strategy: 1 2 3 Performance Indicators: Operating cash conversion Banking covenants Loan headroom Strategic initiative link: All Executive responsibility: Chief Financial Officer Reports to: Chief Executive Impact compared to 2014/15: ↑ Previous category: Finance and treasury	Lack of access to appropriate levels of cash resources or exposure to significant variations in interest rates or exchange rates could have an impact on the Group's operations and growth plans.	• The Group has a £150m, five-year revolving credit facility in place until March 2020. • Further, uncommitted borrowing facilities have been agreed for possible short-term working capital requirements. • Dunelm works with a syndicate of long-term, committed partner banks. • A Group Treasury Policy is in place to govern levels of debt, cash management strategies and to control foreign exchange exposures. 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 £79.3m (0.51× EBITDA). ▶ Foreign currency hedges are in place covering c 60% of expected purchases in FY17. ▶ The fall in the value of sterling following the United Kingdom's vote to exit from the European Union will potentially impact the Group's gross margin if this is long term and cannot be mitigated.
Brexit risk Link to strategy: 1 2 3 Performance Indicator: Sales and gross margin Strategic initiative link: All Executive responsibility: Chief Financial Officer Reports to: Chief Executive Previous category: New	Failure to anticipate and manage the potential impact of Britain leaving the European Union.	Assessment of potential impact made and mitigating actions taken, including: • Implementation of plan to address potential cost inflation arising from the fall in the value of sterling • Modelling of impact of a short term recession on FY17 sales • Product range and marketing to be positioned appropriately • Identification of potential profit protection opportunities. **Board oversight:** Board receives monthly management accounts and quarterly management updates on likely out-turn for the financial year.	▶ Mitigating actions taken as described.

Trend Direction:
INCREASING · UNCHANGED · DECREASING

Link to strategy
1 LFL STORES SALES GROWTH · 2 NEW STORES · 3 HOME DELIVERY

Going concern

The Directors have made appropriate enquiries and formed a judgement at the time of approving the financial statements that it is appropriate to adopt the going concern basis of accounting in preparing the financial information.

Viability statement

In accordance with provision 2.2 of the 2014 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 3 July 2021.

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 mitigation 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 2016 when the five year plan and the budget for the following year was considered and again at the September 2016 meeting, when the potential effect of the United Kingdom's exit from the European Union was also considered.

The Board considers that the risk most likely to occur in the near future is a reduction of sales due to a fall in consumer confidence following the Brexit vote, and an increase in its cost base as a result of the fall in the value of sterling against the US dollar. However, it also 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 resultant weakening in gross margin.

As a result, a number of sales and gross margin based 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).

HOW WE MANAGE OUR CORPORATE SOCIAL RESPONSIBILITY ("CSR")

Although we report on CSR topics separately, they are part of how we do business and so 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 CSR is managed by us:

BOARD

OVERALL RESPONSIBILITY FOR CSR

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

EXECUTIVE BOARD

MEMBERS HAVE LINE RESPONSIBILITY FOR MANAGING SPECIFIC CSR TOPICS

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

HOW WE MANAGE OUR CSR DIALOGUE AND COMMUNICATION

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

Our key areas of focus – why these matter

OUR CUSTOMERS

See page 28

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

Who manages this for Dunelm: Marketing Director

OUR COLLEAGUES

See page 29

We believe that a 'Great Place to Work = Great Place to Shop'. Our success is founded on the hard work and dedication of our colleagues; our aim is to preserve our culture and values as embodied in our 'Key Business Principles' as we grow, to provide our colleagues with more opportunities and more training, and to celebrate their success.

Who manages this for Dunelm: People Director

OUR HEALTH AND SAFETY

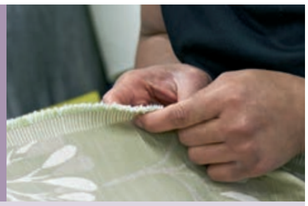
See page 30

We have a duty of care which we take very seriously to ensure the health and safety of customers, colleagues, contractors and all other visitors to our premises. The Group's Health and Safety manager regularly reports to Board and Executive Boards, and there is an on-going programme of education and training for colleagues.

Who manages this for Dunelm: Chief Executive

OUR SUPPLIERS AND HUMAN RIGHTS

See page 31



We do not manufacture the vast majority of the products that we sell; therefore we need to maintain relationships with suppliers and manufacturers worldwide who can meet our high standards for design, innovation, quality and value. These suppliers must also demonstrate that they operate in accordance with recognised standards that uphold human rights and safety and prohibit modern slavery.

Who manages this for Dunelm: Product Director

OUR COMMUNITY

See page 32

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

Who manages this for Dunelm: Marketing Director

OUR ENVIRONMENT

See page 33

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

Who manages this for Dunelm: Chief Financial Officer

Link to strategy

1 LFL STORES SALES GROWTH   2 NEW STORES   3 HOME DELIVERY

Customers

Executive responsibility:
Marketing Director

Link to strategy:
1 2 3

What do we do?

We aim to provide to our customers:

- Market leading choice of products, fantastic availability and great value.
- An enjoyable shopping experience, whether in store, online or through our catalogue.
- Excellent service in-store, online and through our contact centre.
- Stores which are convenient, safe and accessible.
- Fair and truthful marketing.

WHAT HAVE WE ACHIEVED THIS YEAR?

All of our strategic initiatives are aimed at improving our customer offer, but two will have particular impact on customers: our Store Format initiative will deliver a more exciting and inspiring in-store experience; our online initiative will deliver greater access to Dunelm, broader choice and a range of convenient delivery and collection options. Both of these are being led by our Marketing Director who was appointed in September 2015.

2015/2016 objectives	Achievements
Further develop our product ranges, including more market beating value offers and exciting new products	We have increased our seasonal offer. Web exclusives have been added in core categories to extend choice.
Enhance our "made to measure" curtains and blinds proposition	Development of our made to measure proposition is one of our eight strategic initiatives – a plan is in place to improve our offer in-store and online.
Further improvements to our home delivery service, including named day delivery options	Successful launch of our new web platform, giving better functionality and experience. Significant growth in home delivery.

Awards

- Which? Recommended Provider for Furnishings and Homeware 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.
- Runner up – British Sandwich Association 'Sammies' award Café / Coffee Bar Sandwich Retailer of the Year 2016.

Other achievements

- Clearer communication of value in store through new point of sale materials.
- Investment in dedicated customer insight resource and launch of a new customer feedback mechanism ('How Do We Measure Up?') to help us better understand how to improve our offer.
- Project commenced to help us better define and communicate the Dunelm brand through our marketing, product offer and people.

2016/17 objectives

- Continued trial of a new store format in selected new and existing stores and a delivery of a significant refit programme across the estate.
- Launch of a wider range online via a drop ship vendor service in partnership with key suppliers.
- An increase in delivery/collection options for customers.
- Launch of a new way of talking about the Dunelm brand to customers across all channels.

Colleagues

Executive responsibility:
People Director

Link to strategy:
1 2 3

What do we do?

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

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

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

	Male	Female	% Female
Group Board	7	2	22%
Executive Board	6	4	40%
Senior Management Team	22	11	33%
All colleagues	2,880	6,088	68%

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

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

WHAT HAVE WE ACHIEVED THIS YEAR?

2015/2016 objectives	Achievements
Further graduate intake in September 2015	New graduate scheme launched, recruiting five graduates, each of whom reports to an Executive Board member and rotates around different functions, to gain a broad understanding of the business.
Review pay and benefits structure to ensure that it remains competitive and meets the needs of the business, taking into account the implications of the new National Living Wage	Agreed new Pay & Benefits principles for our Retail and Store Support Centre colleagues. In Retail, we re-contracted all colleagues and increased our established pay rate significantly above the National Living Wage. At the Store Support Centre we have introduced levels and pay banding to ensure fairness and consistency.
Respond to issues and opportunities arising from the engagement surveys to take place in September 2015 and March 2016	Survey held in September 2015 with over 80% response rate and improved overall engagement each time. Actions to address issues agreed and implemented by the Executive Board. The March 2016 survey was deferred pending appointment of a new third party provider.
Implement a new Learning Management System to enable training to be delivered at the touch of a button	Implemented in February 2016, giving all colleagues access to interactive training and development materials and support.

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

These include:

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

Other 2015/2016 achievements

- As part of our initiative to provide more opportunities for our store based colleagues we have promoted 116 colleagues to Retail Management positions, filling 68% of vacancies from homegrown talent.
- Increased capability in our Executive Board and Senior Management Team by recruiting 14 new senior colleagues.
- Invested in a leadership development programme for our Senior Management Team, with contributions from external experts including our Non-Executive Directors.

2016/17 objectives

- Deliver a 'Sell More' programme to colleagues to support them in being able to serve and sell.
- A new approach to colleague engagement, using the same method as for customer feedback, which allows colleagues to give feedback more regularly and at their convenience.
- Reinforce the Key Business Principles aligning the way we attract, reward and develop colleagues.
- Evolve our recruitment and training programmes, such as introducing a 'Dunelm degree' offering the chance to work and study towards a degree level qualification as an alternative to attending a fee-paying university; and developing our high-potential graduate schemes.

Health and Safety

Executive responsibility:
Chief Executive

Link to strategy:
1 2 3

What do we do?

The Board is ultimately responsible for the creation and implementation of our health and safety policy and procedures, which include an effective system of 'upward' and 'downward' communication, 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.

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

In our stores, each store manager is responsible for ensuring the implementation of health and safety policy and procedures in his or her store, supported by the area manager and the Group Health and Safety Manager. At our Stoke distribution centre 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 complete an online self-audit monthly and area managers audit each of their stores at least once a year. This is backed up by our in-house operational audit team and followed up by the Health and Safety Manager. Regular review meetings are held between the Group's Health and Safety Manager and senior management from key operational functions.

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

WHAT HAVE WE ACHIEVED THIS YEAR?

2015/2016 objectives	Achievements
Implement a new health and safety management system for our new Stoke distribution centre	▶ Full time Health and Safety Adviser now in place within our Stoke DC operation, covering both the new and old sites. Risk Assessments all reviewed and brought up to date and safety practices significantly strengthened.
Roll out 'in house' first aid training	▶ Not implemented – we use St John's Ambulance training instead.
Review of specific safety risks in Pausa coffee shops	▶ Pausa accident records are now analysed on a monthly basis. Identified risks have now formed the basis of the Pausa section of the new health and safety audit.
Specific health and safety guidance for our Dunelm at Home service	▶ Health and safety folder produced and is given out to all fitters. New H&S audit process covers risks specific to the role of consultants.
Update legionella database and produce action plan	▶ Legionella testing commenced in August 2016 throughout all stores.
New St Johns Ambulance First Aid Booking Portal	▶ All stores can now book directly with and certificates can be uploaded from the site.

Other achievements

- Policy, risk assessments and method statements reviewed across all Group sites.
- New store audit devised with additional focus on coffee shop safety and five "red" risks which result in automatic failure.
- Review of safety practices of third party contractors and logistics partners.
- Significant reduction in liability claims received.
- Decision taken to phase out use of forklift trucks in store warehouses by 2021 to reduce risk to colleagues.

2016/17 objectives

- Start implementing the programme to eliminate forklift truck usage in store warehouses.
- Strengthen procedures relating to contractors working in stores, with a focus on working at height and roof working.
- Continue to review the current health and safety processes with specific focus on areas of highest risk such as the new Stoke warehouse, and where needed, implement further training materials and support.
- Provide IOSH "Managing Safety" training to Area People Managers and Shift Managers at Stoke and our Workroom operations.
- Implement a simplified and focused induction DVD and validation quiz for all store colleagues.

Suppliers and Human Rights

Executive responsibility:
Product Director

Link to strategy:
1 3

What do we do?

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

All suppliers of product for resale have been made aware of the growing risk of modern day slavery and have been reissued with the Dunelm Ethical Code of Conduct, based on the Ethical Trading Initiative ('ETI') base code which has a strengthened section on slavery. New ethical audits will be semi-announced, 4 Pillar SMETA audits. This is to gain a more realistic view of the manufacturer and learn more about the ethical stance of the company.

We have assessed the remainder of our supply base for modern slavery risk and have required the major providers to sign our revised Code of Conduct. Our statement made pursuant to Section 54, Part 6 of the Modern Slavery Act 2015, which contains further information, is available at www.dunelm.com.

We work with our suppliers to ensure that our products are produced in clean and safe environments, that workers are treated with respect and earn a reasonable wage and that suppliers work within the relevant local laws and regulations. All manufacturers with whom we trade directly are required to sign up to our Code of Conduct. No new factory source is taken on without a satisfactory audit being in place, and audits are repeated at least every two years.

WHAT HAVE WE ACHIEVED THIS YEAR?

2015/2016 objectives	Achievements
Monthly audit corrective action reporting to be introduced for high volume Far East suppliers	▶ Improved corrective action report format introduced to simplify and improve the progress on signing off corrective actions with suppliers.
Include training on ethical matters in induction for all members of the Buying Team, with annual refresher training	▶ Ethical Auditing and Modern Day Slavery training for the Product Team, UK Suppliers and Far East Suppliers.
Increase the proportion of factories with 'green', 'amber' or 'branded' audits against our Ethical Code of Conduct	▶ Score increased to 72% of product supply base (70% in 2014-15).
Monitor developments in anti-slavery legislation and practice and adapt our processes accordingly	▶ Reviewed the business overall to highlight the biggest slavery risks internally and for both stocked and non-stocked products. Investigated the core routes for high risks of slavery depending on country of origin and material sourcing.

Where non-compliance is discovered we have a formal procedure for working with a supplier to help them achieve compliance, usually within three months. Critical non-conformances such as use of child labour, working against choice/ 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.

We aim to treat all of our suppliers fairly and consistently. We ask all of our suppliers to sign our standard terms and conditions in advance of commencing trade.

We have signed up to the Prompt Payment Code which requires companies to pay suppliers in accordance with agreed terms, with a default period of 60 days. The number of days' purchases outstanding for payment at 2 July 2016 was 38 days (2015: 42 days).

Other achievements

- Clearer communication to suppliers about corrective actions and what is expected to make the improvements.
- Black audits (critical failures) reduced from 27 in 2015 to 5 in 2016.
- Ethical audits standardised to SMETA audit style.

2016/17 objectives

- Introduce semi-announced (within a four week period) 4 Pillar SMETA audits for stock products.
- Extend audit regime to major coffee shop suppliers and non-stocked product suppliers.
- New product development not to be granted to factories with a "red" rating, unless they are new to Dunelm or have shown a marked improvement in their corrective actions.
- Include training on ethical and slavery matters in induction for all members of the Buying Team, with annual refresher training.
- Introduce Factory Profile Questionnaire for potential vendors.
- Roll out Technical Audits to top 30% of factories for stock products.
- Obtain clarity on high risk countries of origin and materials for sustainability and slavery issues.
- Monitor developments in anti-slavery legislation and practice and adapt our processes accordingly.

Community

Executive responsibility:
Marketing Director

Link to strategy:
1 2 3

What do we do?

We and our colleagues believe that the Company should contribute to the communities in which we operate, both nationally and in the local store community.

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.

We have a Charity Committee which adopts a 'charity of the year', for which collections are made in-store, specific fund-raising events are organised and the Group makes its own donations. Each store has a 'Charity Champion' and amounts raised by store are reported monthly, with the top three recognised in the Dunelm Gazette.

We also support colleagues who are raising money for charities of their choice, often by matching the sums raised. All colleagues are entitled to an extra day's paid leave to undertake charitable activities.

We donate funds raised from English and Scottish carrier bag sales to Roald Dahl's Marvellous Children's Charity, and from Welsh carrier bag sales to GroundWork. GroundWork is a charitable organisation which brings people and the environment together with practical local action to build stronger communities, create more green spaces and get people back into work through creating green jobs.

The total value of charitable donations made by the Group in the period ended 2 July 2016 was £58,541 (2015: £98,000). Total funds raised for charity by the Group and colleagues was £231,328 (2015: £366,000).

WHAT HAVE WE ACHIEVED THIS YEAR?

2015/2016 objectives	Achievements
Support our charity of the year, Roald Dahl's Marvellous Children's Charity	Funds were raised through a variety of ways including: ▶ The annual Charity Day, (a themed fancy dress fundraising event in-store); ▶ Team fundraising events in-stores across the business; ▶ Regular local donations including supporting schools, the local community, the town of Syston when Dunelm Store Support Centre is based, and communities where colleagues have expressed passion for a local cause.
Continue to support our colleagues in their charitable fundraising efforts and by offering an annual day's leave to support charitable activities	▶ Colleagues regularly volunteer their time thanks to the 'Charity Day' annual leave colleague benefit. ▶ Colleagues have been participating in marathons bungee jumps, mountain treks and skydives to raise money for our charity of the year and charities within local communities. ▶ National and international donations with funds being sent to a variety of charities including: LOROS, Marie Curie, Cancer Research, Childreach International.
Sponsor for the '7 days 7 irons' challenge, supporting an individual who will complete seven triathlons from Land's End to John O'Groats in seven days, and passing by 23 of our stores en route	▶ Full sponsorship of a colleague across various channels whilst he participated in the 7 days 7 irons challenge, with stores supporting him all the way through his seven day journey.

2016/17 objectives

- During the Summer of 2016 we embarked on a Company-wide Dunelm Relay Challenge involving 160 locations within the estate and key suppliers. Our goal was to raise funds to support Roald Dahl's Marvellous Children's Charity with this Company-wide challenge beginning in July 2016 and ending in August 2016.
- From Autumn 2016 we have a new charity partnership with Homestart. Our goal is to support Homestart for a two year partnership and support their mission to help families create a nurturing, loving and stable family and home environment.
- Continue to support our colleagues in their charitable fundraising efforts by offering an annual day's leave to support charitable activities.
- We will 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 strategy:
1 2 3

Dunelm is committed to controlling and minimising the impact of its business on the environment.

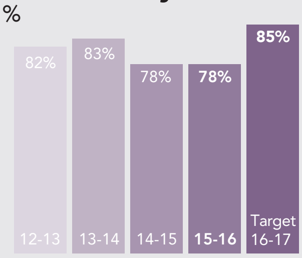
The Group has an Environment Committee responsible for the development and implementation of strategies to maximise waste recycling and to reduce energy consumption and carbon (CO_2) emissions.

WHAT HAVE WE ACHIEVED THIS YEAR?

2015/2016 objectives	Achievements
Eliminate glass drinks packaging within our coffee shops	▶ Plastic packaging has now replaced glass packaging in all coffee shops. ▶ Plastic bottles are now segregated in store and back-hauled to our DC for re-cycling.
Deliver full LED lighting systems to at least 50% of our stores and re-lamp all lighting department display canopies	▶ 87 stores (55%) of the estate have full LED lighting installed. ▶ LED systems and budgets have been approved for an additional 40 stores. ▶ All lighting canopies have been re-lamped and a greater range of LED bulbs are now on sale to customers.
Fully test voltage-optimisation technology and reduce site capacity requirements	▶ Voltage optimisation has been successfully implemented in three stores. ▶ Opportunities for voltage-optimisation have been identified in 15 additional sites. ▶ An electricity capacity review has been completed with many sites being reduced.
Launch web-based compliance audits	▶ Web-based compliance audits have been developed and are now live. ▶ 15 store audits have been completed identifying improvements to site set-up and raising colleague awareness.

WASTE RECYCLING

Waste Recycled
%



What we do

Dunelm operates a 'Recycle at Work' initiative across the business aimed at achieving high levels of recycling. All sites have balers for cardboard and colour-coded bins to segregate waste and are supported by training programmes that increase colleague awareness and compliance.

Our national distribution centre in Stoke recycles all of our cardboard, plastics, paper, bottles, cans, metal and wooden-pallets. In addition all electrical waste is recycled through a WEEE compliant scheme. Any waste that is not directly recycled within the business is sent offsite for further sortation.

The Group achieves a direct recycling rate of 78%. This increases to circa 90% following offsite sortation.

Key objectives

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

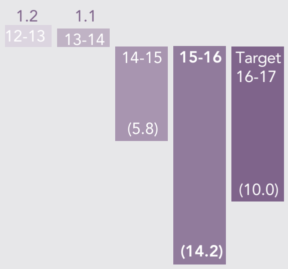
2016/17 objectives

- We will audit all sites to ensure that the latest equipment, signage and training is in place.
- We will engage colleagues to promote greater awareness and to drive consistently high standards.
- We will launch a new scheme to recycle all take-away coffee cups in support sites.

Environment

ENERGY USE

Year on year reduction in electricity usage %



What we do

Dunelm targets energy reduction on a site-by-site basis. 'Smart' meters are fitted to electricity and gas supplies and measure energy consumption on a half-hourly basis. Building Management Systems ('BMS') designed to optimise energy use, are also standard across the estate.

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

The business has prioritised a programme to invest in full LED lighting at all sites. All new stores are 100% LED and we have retro-fitted 69 stores to this efficient technology. 87 stores (55% of the estate) now have LED lighting fitted.

The Group was fully compliant with the Energy Savings & Opportunities Scheme ('ESOS') newly launched this year. In addition, we have partnered with a specialist energy provider in this area to maximise the benefit and to ensure our on-going compliance.

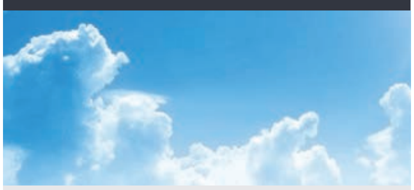
Our key objectives

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

2016/17 objectives

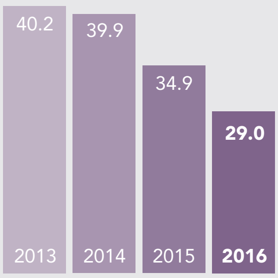
- Continue our programme of LED investments to all sites.
- To reduce like-for-like energy consumption by in excess of 10%.
- To monitor performance of our solar powered stores and assess future investment potential.

GREENHOUSE GAS EMISSIONS



CO_2e emissions

tCO2e per £1m Group Revenue



CRC Annual Report Data

What we do

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 source electricity from 'Green Energy' supplies such as combined heat and power sources where CO_2 emissions are 30% lower than the national average.

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

Our company car fleet is graded on emissions and we encourage the use of fuel efficient vehicles in all schemes. Average emissions in 2016 were 108 CO_2 g/km (2015: 110 CO_2 g/km).

Our key objectives

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

Our current performance

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

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

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

Governance

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.

JOHN BROWETT
Chief Executive

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

Dunelm role: Leads the Group and the Executive Board and liaises with the Remuneration Committee in respect of below Board remuneration. Attends Audit and Risk Committee meetings by invitation.

Joined Dunelm Board: July 2015.

Previous experience: Various leadership positions at Tesco PLC between 1999 and 2007, including appointments as Strategy Director, CEO of Tesco.com, and Group Operations Development Director. CEO of Dixons Retail plc between 2007 and 2012. Senior Vice President Apple Retail. CEO of Monsoon 2012 to 2015.

Other commitments: Non-Executive Director of Octopus Capital Limited and Octopus Investments Limited.

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.

LIZ DOHERTY
Non-Executive Director

A N R
Chair of 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.

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: Executive 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.

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.

WILLIAM REEVE
Non-Executive Director

A N R

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

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

Joined Dunelm Board: July 2015.

Previous experience: 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: Co-CEO of Hubbub.co.uk.

PETER RUIS
Non-Executive Director

A N R

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

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

Joined Dunelm 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.

Committee memberships

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

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 WA Capital Limited.

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.

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.

Committee memberships

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

Notes:

David Stead was Chief Financial Officer until he was succeeded by Keith Down on 7 December 2015. David retired from the Board on 31 December 2015.

Geoff Cooper, former Chairman, retired from the Board on 7 July 2015 and was succeeded as Chairman by Andy Harrison on 8 July 2015.

Chairman's Letter

Andy Harrison Chairman

Dear Shareholder

The last fifteen months have been a period of renewal for the Dunelm Board, with new appointments to both the Executive and Non-Executive teams. This has been spurred partly by the natural retirement process and partly by the Board's desire to bring in new skills and experiences to deliver our ambitious plans. The new team is settling down remarkably well, helped by our Deputy Chairman and the experience of our longer serving Non-Executive Directors.

We remain totally committed to maintaining our track record of good governance, supporting best practice guidelines and seeking to apply them in a pragmatic way that adds value to Dunelm.

Marion Sears has played a central role in our Board renewal and I am delighted that she will continue as a Non-Executive Director. To comply with best practice she has retired from the Audit and Risk and Remuneration Committees, and as chair of the Nominations Committee.

We have asked Simon Emeny to continue as our Senior Independent Director and Chair of our Remuneration Committee for one more year. We really appreciate the continuity and experience that he brings to our Board. Although he has served nine years, we believe his independence has been in no way compromised by his length of service.

In January we held a Corporate Governance meeting, attended by Will Adderley, the Non-Executive Directors and myself, to which our major institutional shareholders were invited. We had a useful exchange of views on a number of governance topics, which we have taken into account in our subsequent Board discussions.

We have carried out our regular Board evaluation process, with the help of an external expert. This confirmed that your new Board is working well together and brought some helpful insights to make us more effective.

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.

In April, Will Adderley, our Deputy Chairman and a major shareholder, disposed of part of his shareholding to the point where it is no longer necessary for us to seek a Rule 9 waiver to support our policy to buy back shares to satisfy employee share option entitlements. When we asked for this waiver in previous years it has caused a policy difficulty for a number of our institutional shareholders, although the Board believes that it has been in the interests of our shareholders as a whole.

I look forward to meeting shareholders at the AGM.

Yours sincerely

Andy Harrison
Chairman
14 September 2016

Corporate Governance Report

2015/16 SUMMARY OF PRINCIPAL ACTIVITIES

7 JULY 2015
Geoff Cooper retired as Chairman

8 JULY 2015
Andy Harrison succeeded Geoff Cooper as Chairman

10 SEPTEMBER 2015
Peter Ruis appointed as a Non-Executive Director

11 SEPTEMBER 2015
Simon Emeny succeeded Marion Sears as Chair of the Remuneration Committee

24 NOVEMBER 2015
AGM – revised Remuneration Policy approved by shareholders

7 DECEMBER 2015
Keith Down succeeded David Stead as Chief Financial Officer

31 DECEMBER 2015
David Stead retired from the Board

1 JANUARY 2016
John Browett succeeded Will Adderley as Chief Executive; Will became Deputy Chairman

7 JANUARY 2016
Corporate Governance presentation to shareholders

11 MARCH 2016
Andy Harrison succeeded Marion Sears as Chair of the Nominations Committee

MARCH TO JUNE 2016
External Board evaluation

Overview

Our approach to governance has been unchanged since flotation in 2006, and can be summarised as follows:

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

For more information please see the copy of the presentations that we made to our major institutional investors and shareholder representatives in January 2012, 2013, 2014, 2015 and 2016, available in the 'Reports and Presentations' section of our corporate website.

Code compliance

This report explains how we have applied the principles of good governance and code of best practice set out in the Corporate Governance Code published in September 2014 (the 'Corporate Governance Code').

The Board considers that it has fully complied with the Corporate Governance Code during the financial year covered by this annual report, with the exception of the fact that Marion Sears, determined by the Board in September 2015 to be no longer independent, continued to chair the Nominations Committee during a transitional period until March 2016. The Nominations Committee did not meet during this time.

The Board considers that it has continued to comply with the Corporate Governance Code since the financial year end. In making its determination, particular consideration was given to the independence of Simon Emeny, who has served nine years on the Board in June 2016. Further details are given in the section below headed 'Independence of Non-Executive Directors'.

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 community in which we operate and the interests of our other stakeholders.

Ensure that resources are in place to deliver the strategy.

GOVERNANCE

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

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

Set an effective remuneration policy.

Maintain good relationships with shareholders.

PERFORMANCE

Review progress towards strategic and operational goals and the performance of management.

Board balance and committee membership is 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:

ANDY HARRISON CHAIRMAN

EXECUTIVES/NON-INDEPENDENTS

Will Adderley Deputy Chairman
John Browett Chief Executive
Keith Down Chief Financial Officer
Marion Sears Non-Executive Director

INDEPENDENT NON-EXECUTIVES

Simon Emeny Senior Independent Director
Liz Doherty Non-Executive Director
William Reeve Non-Executive Director
Peter Ruis Non-Executive Director

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

Name	Position at period end	Committee Chair	Note
Andy Harrison	Chairman	Nominations	Succeeded Geoff Cooper as Chairman on 8 July 2015.
Will Adderley	Deputy Chairman	None	Was Chief Executive until he was succeeded by John Browett on 1 January 2016.
John Browett	Chief Executive	None	Became Chief Executive on 1 January 2016. Prior to that was Chief Executive Designate.
Keith Down	Chief Financial Officer	None	Appointed on 7 December 2015.
Simon Emeny	Senior Independent Director	Remuneration	Chair of Remuneration Committee from 11 September 2015.
Marion Sears	Non-Executive Director	None	Retired as Remuneration Committee Chair on 11 September 2015 and as Nominations Committee Chair on 11 March 2016.
Liz Doherty	Non-Executive Director	Audit and Risk	
William Reeve	Non-Executive Director	None	
Peter Ruis	Non-Executive Director	None	Appointed on 10 September 2015.
Geoff Cooper	None	None	Former Chairman, retired from the Board on 7 July 2015.
David Stead	None	None	Former Chief Financial Officer. Succeeded by Keith Down on 7 December 2015 and retired from the Board on 31 December 2015.

Chairman, Deputy Chairman and Chief Executive 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. In general terms, the Chairman is responsible for running the Board and the Chief Executive is responsible for running the Group's business. The Deputy Chairman supports the Chairman and the Chief Executive and undertakes activities to promote the long term interests of the business and preserve its culture.

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 2016 and we confirmed that Andy Harrison was independent on appointment and that Simon Emeny, Liz Doherty, William Reeve and Peter Ruis are independent.

As noted above, in the Board's annual review of the independence of the Non-Executive Directors in September 2016, particular consideration was given to the assessment of Simon Emeny's independence in view of his nine year tenure. To help preserve continuity following changes to the Board in the past year, Simon has been asked to stay on until the AGM in 2017, at which point we would anticipate the appointment of an additional independent Non-Executive Director to succeed him. The Board determined that Simon's tenure has in no way affected his independence of character and judgement, and therefore he should continue to be considered as 'independent'. 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. In March 2016 she was appointed a director of WA Capital Limited. 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. One of the factors set out in the Corporate Governance Code to indicate that a director may not be independent is the existence of a 'relationship which is likely to affect or could appear to affect the director's judgement' and/or 'cross-directorships or significant links to other directors through involvement in other companies'. The Dunelm Board considered the matter prior to Marion's appointment to the Board of WA Capital and decided that it would not affect her judgement as a Director of Dunelm; and that any potential conflict of interest could be 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. Further, as Marion is already treated as non-independent, there are no implications for Board composition. The Board therefore gave prior consent to the appointment, and considered and cleared the potential conflict of interest.

Both Marion and Simon will put themselves 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

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

Date	Role	Previous	New
8 July 2015	Chairman	Geoff Cooper	Andy Harrison
11 September 2015	Chair of Remuneration Committee	Marion Sears	Simon Emeny
11 March 2016	Chair of Nominations Committee	Marion Sears	Andy Harrison

Board attendance

The Board held ten 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	10
John Browett	10
Geoff Cooper[1]	1
Liz Doherty	10
Keith Down[2]	6
Simon Emeny	10
Andy Harrison	10
Peter Ruis[2]	8
William Reeve	9
Marion Sears	10
David Stead[1]	4

1. Geoff Cooper and David Stead attended all meetings prior to their retirement.
2. Peter Ruis and Keith Down attended all meetings subsequent to their appointment.

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

Board meetings

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

At each meeting, the Chief Executive and the Chief Financial Officer report on operational performance (including health and safety) and the Chief Financial Officer reports on financial performance. There is a rolling agenda of other operational, strategic and risk topics which is regularly refreshed to reflect the most up-to-date strategy and 'live' issues in the business. The principal topics discussed by the Board in 2015/16 were:

Areas of focus

Strategy	▶ Group strategy, including our eight strategic initiatives ▶ Property strategy ▶ Budget	▶ Culture and values ▶ Treasury policy ▶ Capital and Dividend policy ▶ Tax policy
Governance and risk	▶ Board succession ▶ Board independence, composition and diversity ▶ Investor feedback via advisors ▶ AGM voting and feedback	▶ Risk reviews and "what keeps us awake at night" ▶ Health and safety ▶ Ethical sourcing ▶ Modern slavery ▶ IT security and cyber security ▶ Market abuse regulation
Operational	▶ Competitor activity ▶ Customer insight ▶ Store operating model ▶ Format development	▶ People strategy and colleague engagement ▶ Supply chain strategy ▶ Product quality

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 committee secretary respectively and circulated for approval. Any unresolved concerns raised by a Director are recorded in the minutes.

Non-Executive Director meetings

The Chairman and the other Non-Executive Directors formally met once during the year without Executive Directors being present and regularly have informal, individual, meetings with the Executive Directors and other senior managers in the business, usually at a store location.

Board committees

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

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

Training and induction

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

This year four new Directors joined the Board, two Executives and two Non-Executives.

- John Browett, Chief Executive, had a six month period as Chief Executive designate, which he spent gaining a detailed knowledge of the business. This included time working in stores and our distribution centre and meeting with advisers and key suppliers, as well as getting to know Board members and senior management. This work enabled him to formulate the Senior Management Team and devise the eight strategic initiatives that will drive forward the Board's strategy.
- Keith Down, Chief Financial Officer, had a short handover period with his predecessor David Stead. He had a formal induction programme which included time with Board members and other senior managers in store, as well as meetings with advisers and our auditors.
- William Reeve and Peter Ruis, Non-Executive Directors, both met with the Chairman and other Directors and have met other senior management in store. They received a briefing from the Company Secretary on the duties of PLC directors.

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.

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 36 to 38 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.

2015 Evaluation

The actions arising from the 2015 review conducted by Andy Harrison, as incoming Chairman, were:

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

The Board considered that these objectives, which were necessarily broad in a year of change in the composition of the Board, have been met. This was confirmed by the 2016 external Board evaluation.

2016 Evaluation

An external evaluation was conducted by Lorna Parker in April to June of 2016. Lorna Parker does not have any other connection with the Group or any of its Directors.

The conclusion of this evaluation was that the Board and its committees are functioning well and dynamics are good, with all members actively engaged, proud to be associated with Dunelm and ambitious for its future. A number of recommendations were made and accepted by the Board to build on this and make the Board even more effective. The key recommendations were:

- Refocusing the Board's agenda so that more time is spent discussing 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.
- 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.
- 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.
- The Company Secretary to facilitate more formal governance training for the Non-Executive Directors.

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, Non-Executive Directors and Will Adderley
Analyst and shareholder presentation at store Every two or three years	Chief Executive and Chief Financial Officer Other senior managers as appropriate

The Chief Executive and the Chief Financial Officer report back to the Board after the investor roadshows. The Group's brokers and financial PR 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.

In January we held a Corporate Governance meeting, attended by Will Adderley, the Non-Executive Directors, the Company Secretary and myself, to which our major institutional shareholders were invited. This was the first opportunity for the corporate governance representatives of our shareholders to meet with the new Non-Executive team following the changes that have taken place during 2015. We had a useful exchange of views on a number of governance topics, including Board composition, the work of the Audit and Risk Committee, remuneration, the Rule 9 waiver and corporate social responsibility. The views expressed were considered by the full Board and have been taken into account in our subsequent Board discussions.

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

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

Rule 9 waiver

In April, 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 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 83 and voting rights are stated on page 82.

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 2016 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 cost if they consider it necessary in connection with their duties.

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

Articles of Association

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

Governance and risk

Details of our risk management framework, systems and controls and internal control framework are set out in the Strategic report on pages 17 to 25.

This report was reviewed and approved by the Board on 14 September 2016.

Andy Harrison
Chairman

Letter from the Chair of the Audit and Risk Committee

Liz Doherty Chair of the Audit and Risk Committee

Dear Shareholder

This has been a year of change for the Board and for the Audit and Risk Committee. Keith Down was appointed as our new Chief Financial Officer in early December 2015, succeeding David Stead who retired from the Board at the end of that month. I am pleased to report that the transition has been a smooth one, reflecting the calibre of both individuals and the strength of the finance team and the controls and systems in place.

Marion Sears retired from the Committee in September 2015 to comply with corporate governance guidelines, following the Board's determination that she is no longer 'independent' due to her tenure on the Board. I thank her for her vigilant and dedicated service to the Committee during the previous ten years. Andy Harrison also retired from the Committee when he was appointed Chairman in July 2015, again to comply with governance guidelines. Both continue to make themselves available for attendance as requested. The Committee has also welcomed our two new Non-Executive Directors, William Reeve and Peter Ruis, who joined the Board in July 2015 and September 2015 respectively. We therefore have a healthy mix of old and new members to bring both 'corporate knowledge' and continuity as well as fresh perspectives.

We have spent time this year overseeing the preparations for the Board's statements on long term viability, going concern and risk management. This work has involved looking again at our principal risks and ensuring that the process for reviewing and assessing them is expressly linked to our financial planning process, and to our annual report disclosures.

The Board has responded to the FRC's Financial Reporting Lab's paper in November 2015 on 'Disclosure of dividends – policy and practice', and has provided a more detailed description of its capital and dividend policy. This was reviewed by the Committee prior to being adopted by the Board.

All businesses continue to be exposed to cyber risks, and this continues to be a standing agenda item for the Committee. Following a number of high profile data security breaches at other businesses, the Committee carried out a 'deep dive' review of the processes in place at Dunelm to manage a data breach.

Our programme of internal audit activity, supported by external assurance providers, continued throughout the year. Specific reviews were conducted of the way in which we account for supplier income and the accounting processes used with 'drop ship' vendors.

We paid our auditors PricewaterhouseCoopers LLP advisory fees of £70,500 in the financial year, as against the audit fee of £75,000. This relates to the review work carried out on our interim results which we requested for the first time this year to reflect the growing size and complexity of the business; to some follow up work on senior management remuneration from a previous year; and to a technical piece of work to support the future availability of distributable reserves. We have adopted a new policy on use of our auditors for non-audit services for the FY17 financial year which is in line with recently adopted regulations.

Looking forward, we have noted the recent revisions to the Corporate Governance Code which relate to Audit Committees and also the Financial Reporting Council's guidance issued in June, and we will be taking steps to ensure that we can demonstrate that we are adhering to these.

I look forward to meeting shareholders at the AGM.

Yours sincerely,

Liz Doherty
Chair of the Audit and Risk Committee
14 September 2016

Audit and Risk Committee Report

2015/16 SUMMARY

Principal activities

- Review of annual financial statements for FY15 and interim results for FY16
- Review of the process for the identification and mitigation of principal risks including the development of an assurance framework and the process for Board oversight
- Review of approach to the viability statement
- Review of processes in place to minimise the risk of a data security breach and the process for handling one in the event that one occurred
- External assurance reviews of supplier income and the accounting processes used for 'drop ship' vendors

Since the year end

- Approval of the full year annual financial statements for FY16
- Approval of the Board's dividend policy statement
- Approval of the Board's tax policy statement
- Approval of revised policy on use of auditors to provide non-audit services

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 2016 when the 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 auditors 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

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 September 2016.

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
Marion Sears[3]	18 January 2005	11 September 2015
Simon Emeny	25 June 2007	To date
William Reeve	1 July 2015	To date
Andy Harrison[1]	1 September 2014	7 July 2015
Peter Ruis[2]	10 September 2015	To date

1. Andy Harrison stepped down from the Committee due to his appointment as Chairman on 8 July 2015.
2. Peter Ruis was appointed to the Board and the Committee on 10 September 2015.
3. Marion Sears stepped down from the Committee on 11 September 2015.

The Company Secretary acts as secretary to the Committee.

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

The Board considers that I have recent and relevant financial experience by virtue of my professional qualification and my previous executive roles, including as Chief Financial Officer of Reckitt Benckiser Group plc. 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 36 to 38 for full details.

Committee activities in 2015/16

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

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

1. Andy Harrison stepped down from the Committee on 8 July 2015 and Marion Sears retired on 11 September 2015. They attended all meetings during their tenure on the Committee.

2. Peter Ruis was appointed to the Board on 10 September 2016. He has attended all meetings since then.

The activities of the Committee included:

Routine items

- Approval of the full year results issued in September 2015 and the half year results issued in February 2016
- Review of the process for identifying and managing risk within the business in September 2015, and a full review of the principal risks and how they are managed by the Board in February 2016
- 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 FY15 and FY16 annual reports are 'fair, balanced and understandable'
- Annual review of tax policy, business control framework and terms of reference

Specific topics

- Review of the process used to support the viability statement to be given in the FY16 annual report
- Review of processes in place to manage a data security breach
- Review and approval of dividend policy statement
- Revision of our policy on use of auditors for non-audit work
- External assurance review of supplier income and the process used with 'drop ship' vendors

Significant areas of judgement

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

At its meetings in September 2015 and 2016, 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 auditors, which included significant reporting and accounting matters.

The major accounting issues discussed by the Committee in September 2016 in relation to the FY16 Annual Report and Financial Statements were as follows:

Provisions for inventory, returns and property

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

Complex supplier arrangements

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

"Fair, balanced and understandable"

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

- Does the narrative of the Chief Executive's and Chief Financial Officer's reviews fairly reflect the performance of the Group over the period reported on?

- Are the narrative sections consistent with each other, and with the financial statements?
- Is the connection between strategy and remuneration clearly described?
- Can readers easily identify key events that happened during the year?

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

Following its review, the Committee confirmed that the FY16 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.

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

- The quality and scope of the planning of the audit. In February 2016, the external auditors presented their strategy for 2015/16 to the Committee. The Committee reviewed and agreed with the external auditors' assessment of risk. The Committee also reviewed the audit approach and the approach to assessing materiality for the Group;
- The quality of reports provided to the Committee and the Board and the quality of advice given;
- The level of understanding demonstrated of the Group's businesses and the retail sector;
- The objectivity of the external auditor's views on the controls around the Group and the robustness of challenge and findings on areas which required management judgement;
- The findings from the FRC's annual inspection of auditors published in May 2016.

The fee paid to PricewaterhouseCoopers LLP for the statutory audit of the Group and Company financial statements and the audit of Group subsidiaries pursuant to legislation was £75,000. A breakdown of non-audit fees paid to PricewaterhouseCoopers LLP during the financial year is set out below.

PricewaterhouseCoopers LLP attended the Committee meetings in September 2015, February, June and September 2016. 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.

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

Use of auditors for non-audit work

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

We have a relatively flat management structure and all advisory work commissioned from our auditor is required to be sanctioned by the Chief Financial Officer, who obtains the prior approval of the Committee (or between meetings of myself as Committee Chair). Consent would only be given if there are no issues regarding independence. Much of the advisory work that we outsource is tax related, and we have retained the services of KPMG for this purpose.

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.
- The auditor will be 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.

During the period we paid PricewaterhouseCoopers LLP £70,500, of which £15,000 related to their review of the interim financial statements and £40,000 to a technical piece of work to support the future availability of distributable reserves. The remainder was in relation to an executive salary benchmarking exercise for below Board Executives. In each case they were considered to be the best firm to provide the work in view of their expertise and knowledge of the Group. Their appointment was made in line with the policy applicable during the financial year, and was approved by me as Committee Chair.

Fees paid to PricewaterhouseCoopers LLP for audit work were £75,000.

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, in line with the requirements of the EU Audit Directive. 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.

Viability statement and risk management

The Company is required to provide a viability statement for the first time in this year's annual report. The Committee reviewed the process in place to support the assurance given. This included a full review of the principal risks facing the Group and the process by which they are managed by the Board and management. We also reviewed the risks in the context of our strategic and financial planning process to ensure that all elements are appropriately aligned. As a result of this review, we revised the 'Principal Risks and Uncertainties' statement set out in this report to make it more consistent with the terminology used by management.

The Committee formally reviewed the process in place to support the viability statement and for the identification and management of risks in September 2016 and confirmed that it is appropriate and in compliance with regulatory requirements.

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 2016 the Committee discussed and agreed that this approach to internal audit remains satisfactory.

Topics reviewed in the year are set out below:

Review topic	Reviewed by
Review of supplier income	KPMG
'Drop ship' vendor processes	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 2014-15 financial year from external assurance providers in relation to pensions auto-enrolment. All agreed actions are now completed.

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 were reviewed by the Committee in June 2016, together with progress that had been made against actions agreed in 2015. Although no significant control weaknesses have been identified, we agreed that we would look at how assurance of performance against the controls is gained to identify whether any further assurance is needed.

Information security

Information security remains one of the most important risk areas and it is a standing Committee agenda item, as well as being one of the Board's principal risks, as outlined in the 'Risks and Uncertainties' section of this annual report. In view of the high profile data breaches suffered by certain retailers, and the tougher data protection regime that will shortly come into force under the terms of the Data Protection Directive, this year the Committee also reviewed the processes we have in place to minimise the risk of a data breach and also the steps that we would take in the event that a breach occurred, and found them to be appropriate.

Approved by the Board of Dunelm Group plc on 14 September 2016 and signed on its behalf by

Liz Doherty
Chair of the Audit and Risk Committee

Letter from the Chair of the Remuneration Committee

Simon Emeny Chair of the Remuneration Committee

Dear Shareholder

This is my first letter as Chair of the Committee, and I would like to start by thanking Marion Sears, my predecessor, for the detailed and dedicated work she has carried out chairing the Committee over the past ten years; and for putting in place the principles behind our remuneration structure, which have been largely unchanged since flotation in 2006. I have been a member of the Committee for the past nine years, and intend to continue to apply these principles, which have the support of our shareholders and are in line with best practice.

Last year we put forward a revised Remuneration Policy for approval at the AGM. We needed to update the performance-related elements of Executive remuneration following the appointment of our new Executive team, John Browett (Chief Executive) and Keith Down (Chief Financial Officer). I am pleased that the policy was approved by 97.7% of our shareholders, reflecting the positive feedback that we had received through prior consultation with our major institutional shareholders. This policy is set out on the following pages of this report, although we are not asking for shareholder approval this year.

The Committee is aware that 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 structure remuneration so as to reward shareholder value creation over the long term, so that the majority is performance based according to stretching targets. We consider that this remains relevant and are pleased that our simplicity of approach and execution is in line with recent policy statements issued by institutional investor bodies, and the Executive Remuneration Working Group.

At the time of writing this report, the effects of the United Kingdom's vote to leave the European Union is unclear. A sustained economic slowdown or a significant increase in our cost base could have a material effect on the potential outcome of our performance based incentive schemes, particularly the Long Term Incentive Plan. Although we have left the targets unchanged for the LTIP awards to be granted this year, we will review these before we make awards in 2017 to ensure that they continue to be in line with our policy to provide fair reward for strong performance. We would consult with major shareholders before proposing any change.

In the financial year under review, our Chief Executive and Chief Financial Officer have earned an annual bonus equal to 58% of the maximum, reflecting the financial performance of the business, the work that has been carried out to further our eight strategic initiatives, and their own personal performance. Although both have received awards under our Long Term Incentive Plan, these awards will not vest until 2018, subject of course to performance conditions. Will Adderley's basic salary was reduced to £1 from 1 July 2015 at his request, and he has also waived his entitlement to an award under the Long Term Incentive Plan. Total executive pay was therefore £1.8m, 1.4% of PBT.

Our 2015 policy also requires that newly appointed Executive Directors are required to make an investment in Dunelm shares on appointment (subject to Company closed periods). I am pleased to report that in October 2015 John Browett purchased 21,606 shares for £200,227 and Keith Down purchased 5,265 shares for £49,500; Keith made a further purchase of 3,246 shares in April 2016 for £29,700. Since the year end John and Keith have purchased 4,534 and 5,629 shares respectively, taking their total holdings at the date of this report to: John Browett: 27,785 shares and Keith Down: 14,140 shares.

For completeness I should add that Will Adderley and David Stead did not receive any payment in respect of loss of office when John Browett and Keith Down assumed the roles of Chief Executive and Chief Financial Officer respectively. David Stead, who retired as a good leaver after 12 years, has been permitted to benefit from performance-related bonus and LTIP options earned during his employment, pro-rated to his service and after applying performance criteria. Full details were disclosed on his retirement and are set out in the report and in last year's report, and are in line with our approved policy.

I look forward to meeting shareholders at the AGM.

Yours sincerely,

Simon Emeny
Chair of the Remuneration Committee
14 September 2016

Executive Remuneration Structure – at a glance

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

Policy element	Will Adderley Deputy Chairman	John Browett Chief Executive	Keith Down Chief Financial Officer	Note
Base salary	£1	£500,000	£350,000	CEO and CFO base salary increased by 2% on 1 July 2016 in line with Group award
Pension	n/a	20% of base salary	15% of base salary	
Annual bonus maximum	n/a	125% of base salary		
Annual bonus performance measures	n/a	80% PBT 20% strategic and personal targets		
Long Term Incentive Plan	n/a	110,000 shares per annum	60,000 shares per annum	Awards made in December 2015: performance period FY16–FY18 Further awards planned in October 2016 for performance period FY17–FY19.
Long Term Incentive Plan performance measures	n/a	Growth in EPS relative to RPI growth over three years		
'Lifetime lock-in'	n/a	At least two thirds of all performance pay (after payment of income tax and NI) invested in Dunelm shares to be held for duration of employment; half of holding retained for 2 years after that		
Shareholding requirement	n/a as Will is a major shareholder	100% of salary by July 2018 200% by July 2020	100% of salary by December 2018 200% by December 2020	Does not include unvested shares in LTIP or joining award
Shareholding (as percentage of salary) at year end	54,161,779 shares	23,251 shares 37% of salary	8,511 shares 19% of salary	
Performance pay earned in FY16	n/a	58% of maximum annual bonus earned in FY16 No LTIP shares were due to vest	58% of maximum annual bonus earned in FY16 No LTIP shares were due to vest	Keith Down's annual bonus was pro-rated from his appointment on 7 December 2015
FY16 'single figure' remuneration	£21,000	£981,600	£403,703	Keith Down's remuneration dates from his appointment on 7 December 2015
FY16 total Board 'single figure' remuneration	£2.26m 1.8% of PBT			
Company EPS growth FY16	7.5%			

Note: from 1 July 2015, Will Adderley requested that his annual base salary be reduced to £1 and he has waived all performance-related benefits including LTIP awards.

Remuneration Report

HOW OUR POLICY IS LINKED TO OUR STRATEGY

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

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

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

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

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

Introduction

This Directors' Remuneration Report is divided into three sections: the **Letter from the Chair of the Remuneration Committee**, set out on page 52; the **Policy Report**; and the **Annual Report on Implementation**.

The **Policy Report** sets out the Directors' remuneration policy, which was approved by shareholders at the Annual General Meeting on 24 November 2015, and took effect from that date. This was a binding vote and the policy remains in place until the AGM in 2018.

No payment may be paid to a Director or past Director unless it is consistent with the approved policy unless shareholder approval is sought.

The **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 2016, although the vote on the implementation report is advisory.

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

THE POLICY REPORT

Directors' Remuneration Policy 2015

The policy set out below took binding effect from the date of its approval by shareholders at the Annual General Meeting on 24 November 2015, to replace the policy that was approved in 2014. It remains in force for three years from the date of approval, and will be due for renewal at the latest at the 2018 AGM.

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

Future policy table

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

Executive Directors

Base salary

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

Retirement benefits

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

Benefits

Purpose and link to strategic objectives	▶ To provide a competitive benefits package. ▶ To attract and retain the high-calibre talent necessary to develop and deliver the business strategy.
Operation	▶ A range of benefits are provided, which may include car or car allowance; private health insurance for the individual and their family; permanent health cover; life assurance; mobile phone; use of a car and driver in connection with the role; colleague discount. ▶ Additional benefits, such as relocation expenses, housing allowance and school fees may also be provided in certain circumstances if considered reasonable and appropriate by the Committee. ▶ For non-UK Executives (none at present) the Committee may consider additional allowances in accordance with standard practice.
Maximum opportunity	▶ Current benefits provided are described in the Annual Report on Implementation on page 67. ▶ 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 waived his entitlement.

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.

Annual bonus – award made to David Stead in 2015 only – retired on 31 December 2015.
Please note – this award was made under the terms of the 2014 approved policy.

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

Long Term Incentive Plan – awards to be made to Executive Directors other than Will Adderley, who has waived his entitlement.

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 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	▶ Maximum annual award is 110,000 shares for the Chief Executive Officer and 60,000 shares for the Chief Financial Officer, subject in either case to such adjustment as the Committee determines to take account of any variation in the Company's share capital. ▶ The Committee will review the fixed number of shares set out above every three years. ▶ For threshold performance: 10% of the award will vest. ▶ For maximum performance: 100% of the award will vest. ▶ Straight-line vesting between the threshold and maximum levels will apply for performance between threshold and maximum points.
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 EPS growth exceeds RPI growth by 3%. ● 10% of the award vests at RPI growth plus 3%. 100% of the award vests at RPI plus 15%. ● Between those figures the award will vest on a straight-line basis. ▶ Awards are subject to recovery provisions (malus) at the discretion of the Committee if there has been a misstatement of results for the performance period to which the award relates, 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.

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

Please note – this award was made under the terms of the 2014 approved policy.

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

Lifetime lock-in and personal shareholding targets

Purpose and link to strategic objectives	▶ Aligns with shareholder interests through shareholding and promotes long term thinking.
Operation	▶ Executive Directors are required to build a beneficial holding of shares equal to 100% of salary after three years and 200% of salary after five years from appointment. ▶ From the date of approval of this Policy the following additional requirements apply: ▶ A personal investment in Dunelm shares should be made on appointment as an Executive Director (subject to close periods). ▶ Other than for the award made to David Stead referred to on page 67, 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 scheme. ▶ Invitations are normally issued annually at the discretion of the Remuneration Committee, which also has discretion to set the minimum service requirement, maximum discount, maximum monthly savings and any other limits (such as scaling back) within the terms of the scheme rules.
Maximum opportunity	▶ Maximum participation limits are set by the UK tax authorities. Currently the maximum limit is savings of £500 per month.
Performance metrics	None.

Keith Down joining award

Purpose and link to strategic objectives	▶ Keith Down was granted an award of restricted stock to compensate him for deferred shares earned with his previous employer which were forfeited when he resigned. This represents a small proportion of his benefits left behind.
Operation	▶ Nil cost option vesting as to 22% in 2016 and 78% in 2017 (reflecting the proportion and vesting dates of the deferred shares that have been forfeited).
Maximum opportunity	▶ Award over 33,958 shares with a face value at grant of £335,000 (based on the market value of Dunelm shares at the date of grant).
Performance metrics	▶ No performance conditions apply in relation to this award as the deferred shares in respect of which he is being compensated are not subject to a performance condition. ▶ Awards are subject to recovery provisions (malus) at the discretion of the Committee if there has been a misstatement of results for a financial period from 2015-16 onwards or in the case of gross misconduct. ▶ The Remuneration Committee also has the discretion to 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.

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.

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 2015-16 and 2016-17, 80% of the annual bonus is linked to PBT and 20% to personal and strategic objectives. Each Director's annual bonus is therefore linked primarily to delivery of Group financial performance, but also to personal performance and contribution to the strategic progress of the Group. The PBT target is set by the Remuneration Committee each year, taking into account market consensus and broker expectations. Personal and strategic objectives are set at the commencement of the year and assessed by the Remuneration Committee.

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

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

LTIP

The Remuneration Committee considered the use of EPS as a performance measure carefully when the Company was floated in 2006, and has discussed it with shareholders regularly. EPS is believed to be closely aligned to the drivers of growth for the business and in the long term, EPS performance is expected to be reflected in shareholder value. EPS is a more suitable performance measure for Dunelm than for many other companies and it is therefore considered appropriate to use it as a single measure for the LTIP. The use of EPS as a primary measure for Dunelm's LTIP is considered appropriate because of the low level of leverage in the business and because the capital expenditure controls exercised by the Board are sufficiently rigorous to avoid EPS accretion by means of ineffective investment of capital.

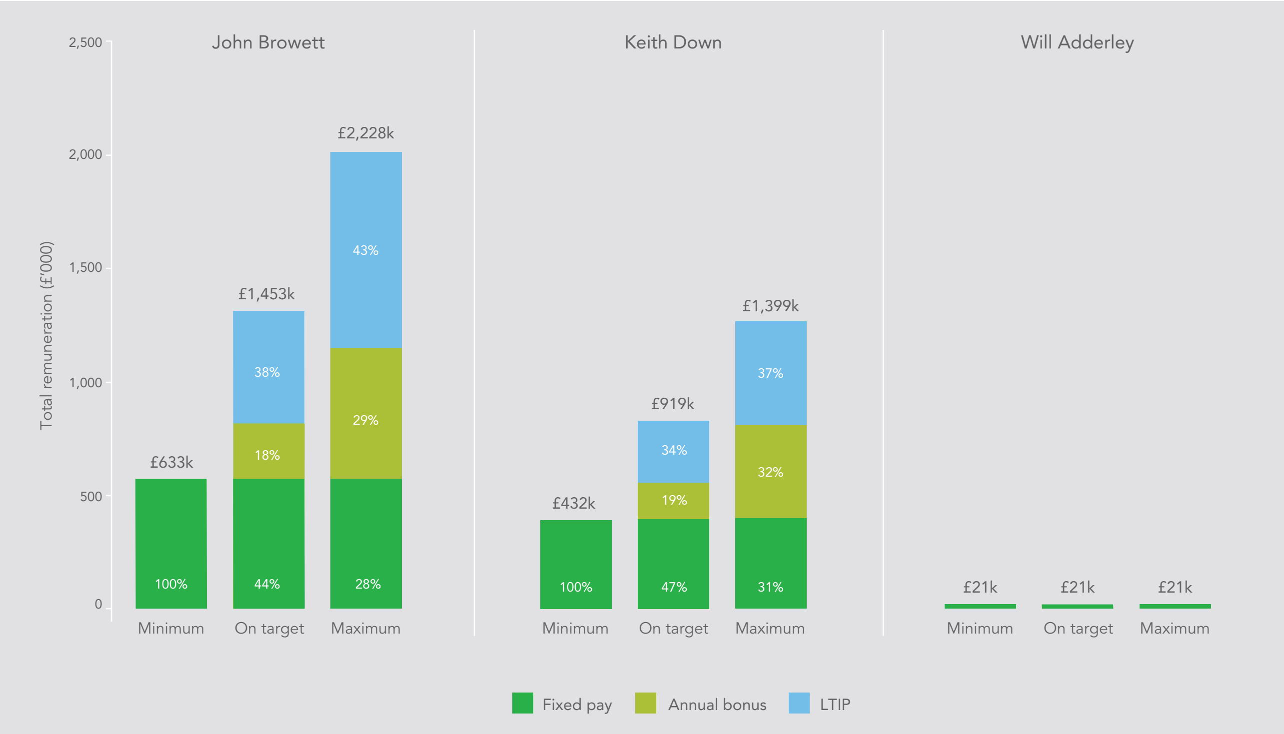
The EPS target for the LTIP is based on growth in EPS compared to the increase in the Index of Retail Prices (RPI) over the performance period. The targets that apply to awards that are outstanding are set out in the Policy table on pages 55 to 59.

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

LTIP awards made to Executive Directors prior to approval of 2015 policy may vest on their original terms.

Illustrative performance scenarios

The following graphs set out what each of the Executive Directors could earn in the financial year 2016-17 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 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
John Browett	510	21	102[1]
Will Adderley	–	21	–
Keith Down	357	21	54[2]

1. 20% of salary reflecting pension provision for 2016–17.
2. 15% of salary reflecting pension provision for 2016–17.

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 John Browett and Keith Down (after payment of their tax and national insurance liability) must be invested in Dunelm shares pursuant to the 'Lifetime Lock-in'.

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

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

- Actual pay will reflect Company and personal performance over the relevant performance period.
- 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 awards to be made is based on the average price of a Dunelm share over the three months to 2 July 2016, which is 869.95p – the actual share price at date of award is likely to differ.
- We are not required to show Keith Down's joining award which was granted on 7 December 2015, and included in the illustrative performance graph in last year's annual report. 7,470 shares will vest on 15 September 2016 pursuant to this award.

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.

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

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

Service contracts and loss of office payments

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

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

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

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

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

Exercise of LTIP and Sharesave options following termination of employment

LTIP

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

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

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

Sharesave

If a participant leaves the Group, options granted under the Sharesave will normally lapse, but may be exercised within six months 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

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

Change of control and other corporate events

LTIP

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

- Any vested but unexercised options may be exercised.
- Any options in respect of which the performance period has elapsed and to which the performance condition has been applied will vest and may be exercised.
- Any options in respect of which the performance period has not elapsed may be exercised at the discretion of the Remuneration Committee, subject to any adjustment to take into account the amount of time that has elapsed through the performance period and the extent to which any performance criteria have been met.
- The Executive Director may agree that his awards are 'rolled over' into shares of the acquiring company as an alternative.

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

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

Sharesave

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

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

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

Joining award

If there is a change of control or winding up of the Company, shares subject 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 scheme, which enables them to become shareholders at a discounted rate. Participation is usually offered annually at the maximum price discount permitted (currently 20%), at the discretion of the Remuneration Committee.

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

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

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

Shareholder views

The Board is committed to on-going 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 informally discuss governance topics, 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.

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.
- Remuneration should be in line with the policy approved by shareholders set out above; however, the Committee reserves the discretion to make appropriate remuneration decisions outside the standard policy to meet the individual needs of the recruitment provided the Committee believes the relevant decisions are in the best interests of the Company.

These circumstances might include:

- — Where an interim appointment is made on a short term basis, including where the Chairman or another Non-Executive Director has to assume an executive position.
- — Employment commences at a time in the year when it is inappropriate to provide a bonus or share incentive award as there is insufficient time to assess performance the quantum for the subsequent year might be increased proportionately instead.
- — An executive is recruited from a business or location that offered benefits that the Committee considers it appropriate to 'buy out' but cannot do so under the specific terms of the Regulations, or which the Committee considers it appropriate to offer.

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

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

The maximum level of variable pay that could be awarded to a new Executive Director in the first year of employment, excluding any buyout arrangements and awards in the first year of employment, would normally be in line with the policy table set out on pages 53 to 59. The Committee would explain the rationale for the remuneration package in the next annual report of the Company.

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

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

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

ANNUAL REPORT ON IMPLEMENTATION

Directors' Remuneration – Report on Implementation 2016

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)[2]	25 June 2007	To date
Geoff Cooper[1]	18 January 2005	7 July 2015
Marion Sears[2]	18 January 2005	11 September 2015
Liz Doherty	1 May 2013	To date
Andy Harrison	1 September 2014	To date
William Reeve	1 July 2015	To date
Peter Ruis[3]	10 September 2015	To date

1. Geoff Cooper resigned from the Committee on 7 July 2015, upon his retirement from the Board.
2. Simon Emeny succeeded Marion Sears as Committee Chair on 11 September 2015.
3. Peter Ruis was appointed to the Board and the Committee on 10 September 2015.

The Company Secretary acts as secretary to the Committee.

Six 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)	6
Liz Doherty	6
Andy Harrison	6
William Reeve	6
Peter Ruis[1]	4
Geoff Cooper[1]	1
Marion Sears[1]	2

1. Geoff Cooper, Marion Sears and Peter Ruis attended all meetings held during their tenure on the Committee.

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 £6,400.

Single figure for total remuneration (audited information)

The following table sets out total remuneration for Directors for the period ended 2 July 2016:

Table 3 – Directors' remuneration – single figure table

	Salary/fees[8,9] £'000		Benefits[4] £'000		Bonus[5] £'000		LTIP awards[6] £'000		Pension[7] £'000		Total £'000	
Director	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Executive												
John Browett	500	7	21	–	361	–	–	–	100	1	982	8
Keith Down[1,2]	199	–	31	–	144	–	–	–	30	–	404	–
Will Adderley	–	502	21	17	–	25	–	–	–	45	21	589
David Stead[3]	140	275	10	12	81	14	157	353	14	27	402	681
Nick Wharton	–	596	–	18	–	–	–	–	–	8	–	622
Non-Executive											–	–
Andy Harrison	198	34	–	–	–	–	–	–	–	–	198	34
Geoff Cooper	–	122	–	–	–	–	–	–	–	–	–	122
Marion Sears	53	49	–	–	–	–	–	–	–	–	53	49
Simon Emeny	59	45	–	–	–	–	–	–	–	–	59	45
Liz Doherty	54	45	–	–	–	–	–	–	–	–	54	45
William Reeve	48	–	–	–	–	–	–	–	–	–	48	–
Peter Ruis	39	–	–	–	–	–	–	–	–	–	39	–
Matt Davies	–	24	–	–	–	–	–	–	–	–	–	24
Total	1,290	1,699	83	47	586	39	157	353	144	81	2,260	2,219

1. Keith Down joined the Board on 7 December 2015. His basic salary, benefits, pension and bonus are pro-rated from that date.
2. As disclosed in last year's report, the Committee agreed to pay Keith Down relocation expenses of up to £35,000. The actual amount paid of £19,365 is included in the 'benefits' column above.
3. David Stead retired from the Board on 31 December 2015. His basic salary, benefits and pension are pro-rated to that date. He has received a time pro-rated percentage of his FY16 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.
4. Benefits include the cost to the Company of a car allowance and private health insurance for the individual and their family (health insurance waived by David Stead). The 2014-15 value also includes the taxable benefit in respect of the car and chauffeur provided to Will Adderley in connection with his role prior to 10 September 2015.
5. Annual bonus is the amount earned in respect of the financial year 2015-16. Details of how this was calculated are set out below.
6. The LTIP award number for 2016 is the value of the LTIP award vesting whose three year performance period ends on the last day of the financial period being reported (2015-16). 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 2016.

   The comparable figure for 2014-15 is the actual value of the 2012 LTIP award which vested in favour of David Stead on 20 November 2015 based on the mid-market price on 20 November 2015, of 965.5p. The comparable figure in the 2014-15 annual report was based on the number of shares in the 2012 LTIP award due to vest in favour of David Stead on 20 November 2015 calculated using the average share price over the three months preceding the end of the performance period on 4 July 2015, which was 915.7p.
7. Pension is 20% of base salary for John Browett, 15% of base salary for Keith Down and 10% for David Stead. Will Adderley waived his entitlement to pension from 1 July 2015.
8. From 1 July 2015 the following changes to base salary/fee were implemented: Will Adderley's salary was reduced to £1 per annum; David Stead's salary increased by 2% in line with the Company-wide award; the base fee for Non-Executive Directors was increased to £48,000 and the Committee Chair and SID fee increased to £6,000 per annum. Andy Harrison's fee was increased to £200,000 per annum with effect from 8 July 2015 when he assumed his position as Chairman.
9. From 1 July 2016, 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 fees for the Chairman and the other Non-Executive Directors were also increased by 2%.

Annual bonus

Executive Directors were awarded an annual performance-related cash bonus for 2015-16 with a maximum potential payment of 125% of salary for John Browett and Keith Down, and 100% of salary for David Stead (the bonus for both David Stead and Keith Down being pro-rated by time in line with service over the financial year). For all three Directors, the performance condition was linked to PBT versus budget (80%), and performance against personal and strategic objectives (20%). 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.

Financial target – 80% of bonus opportunity

For the period ended 2 July 2016, budget PBT was £128.2m. The financial target set was that no bonus would be paid until PBT reaches £120.5m and maximum bonus will be paid at £134.6m. Between those numbers, bonus would be payable calculated on a straight-line basis. Market consensus for 2015-16 PBT at the date the target was set in early September 2015 was £130.6m.

Reported PBT of £128.9m for 2015-16 has therefore given rise to a bonus payable of 47.12% of the maximum for this element of the bonus, meaning £235,600 to John Browett, £93,813 to Keith Down (pro-rated from 7 December 2015) and £52,809 for David Stead (pro-rated to 31 December 2015).

Strategic and personal objectives – 20% of bonus opportunity

Both John Browett and Keith Down were new in role during the financial year, and the strategic initiatives which underpin delivery of the Group's strategy were in the course of being formalised by the Executives during the second part of the year. Their strategic and personal bonus targets were linked to progress against these initiatives, albeit that in view of their stage of development hard KPIs could not be set for all of them. The Committee therefore recognised that as a result they would need to form a holistic view of performance. The FY17 bonus objectives are also linked to delivery of specific strategic objectives and have firm KPIs.

Assessment of performance against strategic and personal objectives was made as follows:

Director	Target	Performance and bonus earned
John Browett	▶ Satisfactory performance against the eight strategic initiatives during the financial year, measured by reference to milestones set out in the project plan for each initiative. ▶ Personal objectives linked to establishment of a strengthened and highly engaged senior management team, and development of a strong relationship with the Board.	The Committee assessed that these strategic and personal objectives had been met in full during the year, resulting in delivery of 20% of total bonus opportunity. FY16 initiative milestones were substantially met. Information on progress against the eight strategic initiatives is set out in the CEO's Review on pages 10 to 11. A new Executive Board is in place and the Board is working well (as confirmed by the external Board evaluation).
Keith Down	▶ Ensure that the strategic initiatives have clear plans with a supporting business case, and that all of the plans are aligned. ▶ Departmental objectives to strengthen the finance function.	The Committee assessed that these strategic and personal objectives had been met in full during the year, resulting in delivery of 20% of total bonus opportunity. All of the strategic initiatives have a formal project plan which contains a summary of deliverables, milestones and financial targets. These have been integrated into the FY17 budget and aligned to the IT Roadmap. Departmental objectives have been drafted and planned actions completed.
David Stead	▶ Completing the FY15 year end process in a satisfactory manner. ▶ Facilitating a smooth handover to Keith Down.	The Committee assessed that these strategic and personal objectives had been met in full during the year, resulting in delivery of 20% of total bonus opportunity. Year end process and handover to Keith Down all completed smoothly.

As set out above, the Committee determined that all three Executives had met the personal and strategic targets applicable to their bonus in full. This has given rise to payments of £125,000 to John Browett, £49,774 to Keith Down (pro-rated from 7 December 2015) and £28,019 to David Stead (pro-rated to 31 December 2015) in respect of this element of the bonus.

Total bonus earned is set out in the table below:

Table 4 – Annual bonus in respect of 2015-16 performance

	Bonus awarded £	Percentage of maximum award £
John Browett	360,600	57.7%
Keith Down	143,587	57.7%
Will Adderley	–	57.7%
David Stead	80,828	57.7%

LTIP – awards earned in respect of performance in 2015–16

The only award which will mature in respect of 2015-16 performance is that granted to the former Chief Financial Officer, David Stead in 2013. 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 2 July 2016). In the case of the award maturing on 7 October 2016, this would equate to a maximum of 40,976 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 pages 55 to 65.

Please note that this award is subject to a two year holding period, and therefore will not vest until October 2018.

Over the three year performance period which ended on 2 July 2016, reported fully diluted EPS grew at a compound annual rate of 7.9%. This is 6.1% above the compound annual growth in RPI over the same period. Accordingly, 44% of the October 2013 LTIP award will vest in October 2018 as follows:

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

	Shares vesting	Percentage of maximum award
David Stead	18,029*	44%

* The original award was in respect of 46,087 shares, this was increased by 6.79% to 49,216 following the return of capital to shareholders in March 2015. Please see the note to table 7. The maximum award was pro-rated by service over the performance period (30/36 months) before applying the performance criteria.

Will Adderley waived his entitlement to receive an LTIP award in 2013. 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 2013 LTIP award which vests in favour of David Stead as described above is included in the single number for total remuneration for 2015/16 set out in table 3. The value has been calculated using the average share price over the three months preceding the end of the performance period on 2 July 2016, which was 869.95p.

LTIP awards made to Directors during 2015–16

LTIP awards were made to Executive Directors on 15 October 2015 to David Stead, and on 7 December 2015 to John Browett and Keith Down as set out below:

Table 6 – LTIP awards made to Directors during 2015–16

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	£1,085,150[2]	Growth in fully diluted EPS over the three year performance period compared with growth in the index of retail prices (RPI) over the same period. No part of the award will vest until EPS growth exceeds RPI growth by 3%. 10% of the award vests at RPI growth plus 3%. 100% of the award vests at RPI plus 15%. Between those figures the award will vest on a straight-line basis. 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 2015 to June 2018	7 December 2018	10%
Keith Down	Nil cost option under LTIP	60,000	£591,900[2]	As for John Browett	July 2015 to June 2018	7 December 2018	n/a
David Stead	Nil cost option under LTIP	44,592[1]	£420,278 (150%)	Growth in fully diluted EPS over the three year performance period compared with growth in the index of retail prices (RPI) over the same period. No part of the award will vest until EPS growth exceeds RPI growth by 3%. 25% of the award vests at RPI growth plus 3%. 100% of the award vests at RPI plus 15%. Between those figures the award will vest on a straight-line basis. Subject to a two year deferral period following the end of the performance period.	July 2015 to June 2018	15 October 2020	25%

1. David Stead's original award will be pro-rated to service over the performance period (6/36 months), and therefore the maximum shares to vest in 2020 would be 7,350.
2. Based on the closing share price on 4 December 2015, of 986.5p 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 will vest on 15 September 2016, and 26,488 (78%) of these shares are due to vest on 15 September 2017. Further details are set out in the policy report on page 59.

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

Geoff Cooper

Geoff Cooper retired from his position as Chairman and stepped down from the Board on 7 July 2015. Geoff continued to receive a fee for his role on the Board up to and including 7 July 2015 at the rate of £122,400 per annum. He did not receive any payment in lieu of notice or for loss of office. As a Non-Executive Chairman, Geoff Cooper was not entitled to participate in the Company's bonus, employee share plans or pension arrangements.

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 worked for six months of the 12 month performance period applicable to his FY16 annual bonus. The Remuneration Committee determined that he would receive 50% of his FY16 annual bonus entitlement in September 2016, after applying the financial performance criteria over the full performance period and the personal performance criteria to the date of cessation of employment. Details of the amount paid are included in tables 3 and 4.

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
7 October 2013	FY14-16	7 October 2018*	49,216	40,976
9 October 2014	FY15-17	9 October 2019*	53,922	27,035
15 October 2015	FY16-18	15 October 2020*	44,592	7,350

* 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 last year's remuneration report which was 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 purchased 21,606 shares for £200,227 in October 2015 (after the end of the close period). Keith Down was appointed on 7 December 2015; he purchased 5,265 shares for £49,500 in October 2015, and a further 3,246 shares in April 2016 for £29,700.

The following tables show the interests of the Directors in shares of the Company at 2 July 2016 as follows:

Shares held beneficially – table 8.

Interests in options – table 9.

Table 8 – Directors' beneficial shareholdings (audited)

	At 2 July 2016 1p Ordinary Shares	At 4 July 2015 1p Ordinary Shares
Will Adderley	54,161,779	61,961,779
Marion Sears	101,313	101,313
Andy Harrison	108,133	–
Simon Emeny	28,555	26,400
John Browett	23,251	1,645
Keith Down	8,511	n/a
Liz Doherty	2,500	2,500
William Reeve	2,500	–
Peter Ruis	–	n/a

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
Keith Down	5 August 2016	5,629	865p	14,140
John Browett	12 August 2016	4,534	865p	27,785

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

Director	Date of award	Nature of award	Share options at 2 July 2016	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
	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
	Dec 2015	Joining award	7,470	Sept 2016	Nil	986.5p
	Dec 2015	Joining award	26,488	Sept 2017	Nil	986.5p

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

Further details of Keith Down's joining award and 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 and in the policy table.

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 2.5% of the Company's issued share capital. The Group does not hold any shares in an employee benefit trust.

Service contracts

In accordance with the Group's policy, the service contracts of the Executive Directors have no fixed term, the notice period for termination is 12 months from either party for contracts entered into before 1 July 2015, and six months for contracts entered into on or after that date. 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
John Browett	1 July 2015	n/a	6 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	31 months	1 month
Andy Harrison	17 July 2014	11 months	3 months
William Reeve	1 July 2015	21 months	1 month
Peter Ruis	10 September 2015	24 months	1 month

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

Relative TSR performance

The graph below shows the Group's performance over 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 760p to 1,023p during the year and stood at 797p at 2 July 2016.

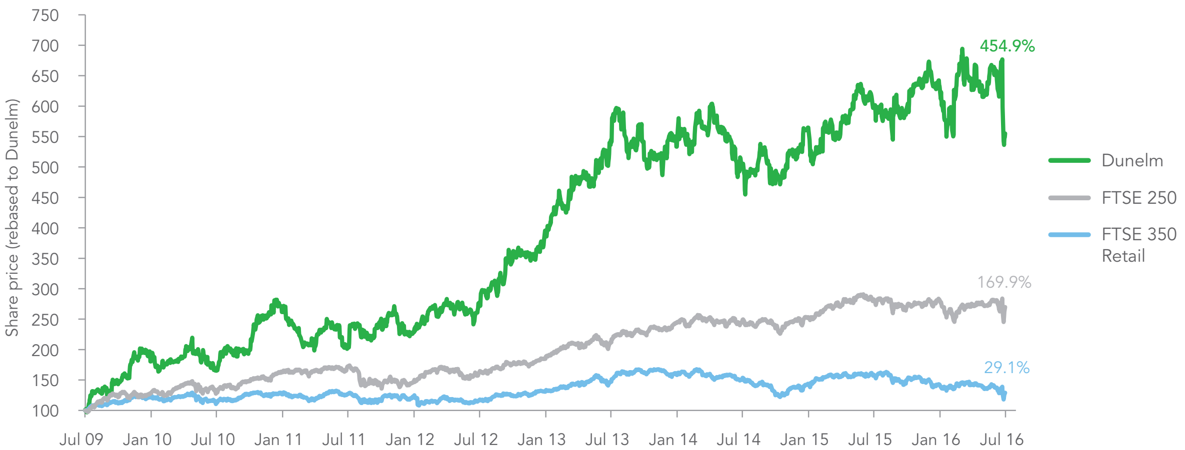


Table 12 – Historic Chief Executive pay

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 seven financial years:

		CEO Single figure of total remuneration £'000	Annual bonus payment against maximum opportunity %	Long-term incentive vesting rates against maximum opportunity %
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.
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.

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 2014/15 to 2015/16	Change in benefits 2014/15 to 2015/16[2]	Bonus earned as % of salary 2015/16	Bonus earned as % of salary 2014/15	% change in bonus earned 2015/16	% change in bonus earned 2014/15
Chief Executive[1]	−3.7%	+24.8%	72%	5%	+1,340%	−73%
All colleagues (per capita)	−1.2%	+7.5%	19%	8%	+138%	+2

1. John Browett was appointed Chief Executive on 1 January 2016 with a base salary of £500,000 per annum. He succeeded Will Adderley who had been appointed Chief Executive on 11 September 2014. During the financial year Will Adderley received a base salary of £1 per annum. In the prior year, he received a base salary of £560,000 per annum. Nick Wharton, Will's predecessor, had a base salary of £424,485 in 2014-15. A pro-rated base salary of each has been used in the table above for both 2015/16 and 2014/15.
2. The 2014-15 value included the additional taxable benefit in respect of the car and chauffeur provided to Nick Wharton in connection with his role. Will Adderley waived this entitlement.

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 2015-16 and 2014-15.

	2015/16 £'m	2014/15 £'m	% increase
Total spend on pay	**115.4**	107.3	7.5%
Ordinary dividend to shareholders	**44.6**	41.5	7.5%
Distributions to shareholders via treasury share purchases	**7.8**	–	n/a
Special distributions to shareholders	**63.8**	141.7	-55.0%
Total distributions to shareholders	**116.2**	183.2	-36.6%

This information is based on the following:

- Total spend on pay – total employee costs from note 4 on page 101, including salaries and wages, social security costs, pension and share based payments.
- Dividends taken from note 7 on page 103.
- Share buyback taken from consolidated statement of changes in equity on page 95.

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.

On joining the Company on 1 July 2015, John Browett was a Non-Executive Director of easyJet plc, and retained this position until 31 December 2015. He was also a Director of Octopus Capital Limited and Octopus Investments Limited (effectively one external role) during the period. He retained his Director fees (easyJet £30,000 to 31 December 2015; Octopus £50,000).

Keith Down was appointed as a Non-Executive Director of Topps Tiles plc on 1 July 2015, prior to his appointment to the Board of Dunelm. He retained his Director fees (£24,000 from 7 December 2015 in 2015-16).

David Stead was a Non-Executive Director of Card Factory plc on 12 May 2014. He retained his Director fee (£26,000 to 31 December 2015).

Senior Executive remuneration

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

Members of the Senior Management Team are eligible for awards under either the LTIP or the Company Share Option scheme (market priced options).

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

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

Statement of implementation of policy in the 2016/17 financial year

Base salary, benefits and pension

Base salary and benefits for each of the Executive Directors for 2016/17 are set out in the table below:

Table 15 – Base salary, benefits and pension for 2016/17

	Base salary	Increase to base salary year on year	Benefits	Increase to benefits year on year	Pension	Increase to pension year on year
John Browett	£510,000	+2%	Car allowance; private health insurance for the individual and their family; permanent health cover; life assurance; mobile phone	Nil	£102,000	+2%
Keith Down	£357,000	+2%	As above	n/a	£53,550	+2%
Will Adderley	£1	Nil	As above	Nil	Nil	n/a

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

Annual bonus

John Browett and Keith Down have 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;
- 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.

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

LTIP

An award is expected to be made to John Browett and Keith Down under the Long Term Incentive Plan in October 2016. The award to John Browett will be over 110,000 shares, and to Keith Down over 60,000 shares.

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

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

Sharesave

An invitation will be issued in October 2016 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.

Non-Executive Director fees for 2016/17

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

Table 16 – Non-Executive Director Fees

	Position	Base Fee	Committee/ SID Fee	Increase in base fee year on year	Increase in Committee fee year on year	Comment
Andy Harrison	Chairman	£204,000	Nil	2%	n/a	
Simon Emeny	Senior Independent Director and Remuneration Committee Chair	£48,960	£12,240	2%	2%	Increase in Committee Chair fee reflects full year fee for 2016-17 (10 months in 2015-16).
Marion Sears	Non-Executive Director	£48,960	Nil	2%	−100%	Reduction in Committee Chair fee follows retirement as Chair of Remuneration and Nominations Committees in 2015/16.
Liz Doherty	Audit and Risk Committee Chair	£48,960	£6,120	2%	2%	Audit and Risk Committee Chair since 12 September 2014.
William Reeve	Non-Executive Director	£48,960	Nil	2%	n/a	
Peter Ruis	Non-Executive Director	£48,960	Nil	2%	n/a	Base fee for 2015-16 pro-rated from appointment in September 2015.

Fee increases with effect from 1 July 2016 were in line with the Company-wide increase of 2%.

Statement of shareholder voting

At the Annual General Meeting on 24 November 2015, the total number of shares in issue with voting rights (excluding treasury shares) was 202,479,676. The resolution to approve the Directors' Remuneration Policy, the Annual Report on Implementation of the Remuneration Policy, and to approve the revised Long Term Incentive Plan and the Share Award Agreement in respect of the Joining Award to be made to Keith Down received the following votes from shareholders:

Table 17 – Voting on remuneration related resolutions at the 2015 AGM

Resolution	Votes for	% of votes cast	Votes against	% of votes cast	Votes withheld	% withheld
Approve Remuneration Policy	179,735,245	97.7	4,278,572	2.3	4,460	0.0
Approve Annual Remuneration Report	180,631,706	99.1	1,600,216	0.9	1,786,355	1.0
Approve Long Term Incentive Plan	178,948,744	97.4	4,700,818	2.6	368,715	0.2
Approve Share Award Agreement	176,125,499	96.2	7,016,262	3.8	876,516	0.5

Approved by the Board of Dunelm Group plc on 14 September 2016 and signed on its behalf by

Simon Emeny
Chair of the Remuneration Committee

Letter from the Chair of the Nominations Committee

Andy Harrison Chair of the Nominations Committee

Dear Shareholder

Last year we announced a number of changes to our Board as part of our long term succession plan as Dunelm moves into its next chapter of growth. This has been a year of transition for the Board during which these changes have taken effect.

I succeeded Geoff Cooper as Chairman of the Board at the start of the financial year in July 2015, and became Chair of this Committee in March of this year. The previous chair, Marion Sears, played a major part in shaping the Board that we have today during her ten years as Committee Chair and I thank her on behalf of the Board and shareholders for her diligent and committed work.

As we announced last year, our Executive team changed during the year. In January 2016, John Browett formally succeeded Will Adderley as Chief Executive, after a six month induction during which he spent time working in all parts of the business, developing the eight strategic initiatives which underpin our growth strategy, and making a number of new appointments to strengthen the Executive team. The Board and the business are already benefiting from John's clear leadership and experience, which, combined with that of Will Adderley, means we now have two top retailers on our Board.

Keith Down succeeded David Stead as Chief Financial Officer in December 2015. David retired from the Board after twelve years on the Board. During this period he built and led the finance team (and, until recently, the IT and HR functions) through the Group's IPO in 2006 and the sustained growth which followed. Keith has brought a wealth of experience from his previous roles in the consumer, hospitality and transport sectors, and he has already made an impact at the Board and with the wider Executive team.

We were also joined by two new Non-Executives: William Reeve in July 2015 and Peter Ruis in September 2015.

We now have a Board with a combination of experience and fresh ideas, with complementary retail, consumer and online expertise. The Board is already working well together, and I expect that we will continue to build on this over the coming months and years.

This year we held an externally facilitated Board evaluation, which was completed shortly before the financial year end. This confirmed that your new Board is working well together and brought some helpful insights to make us more effective.

A number of external bodies have commented during the year on the importance of the work of the Nominations Committee in overseeing succession planning in particular, including the Financial Reporting Council and the report produced through a collaboration between Ernst & Young and the Institute of Company Secretaries and Administrators. We have a number of the recommended best practice processes in place, including a formal Board succession plan, and oversight of the composition and changes to the Executive team below the Board. This focus will continue and grow over the coming years.

Looking forward, as part of our normal succession process, we expect to appoint an additional Non-Executive Director during 2017 to succeed Simon Emeny, who is expected to step down at the 2017 AGM after ten years on the Board.

Yours sincerely,

Andy Harrison
Chair of the Nominations Committee
14 September 2016

Nominations Committee Report

2015/16 SUMMARY OF PRINCIPAL ACTIVITIES

- Andy Harrison succeeded Geoff Cooper as Chairman
- John Browett succeeded Will Adderley as Chief Executive in January 2016; Will Adderley becomes Deputy Chairman
- Keith Down succeeded David Stead as Chief Financial Officer on his retirement in December 2015
- Peter Ruis appointed as a Non-Executive Director
- Changes to Remuneration Committee and Nominations Committee Chairs
- External Board evaluation

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

Principal duties

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

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

Committee Membership

The following Directors served on the Committee during the year:

Member	Period from:	To:
Andy Harrison (Chair)	1 September 2014	To date
Marion Sears[2]	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
Geoff Cooper[1]	18 January 2005	7 July 2015

1. Geoff Cooper resigned from the Committee on 7 July 2015, upon his retirement from the Board.
2. Marion Sears was Chair of the Committee until 11 March 2016, when she was succeeded by Andy Harrison.

There were two formal Committee meetings 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)	2
Simon Emeny	2
Will Adderley	2
Liz Doherty	2
Marion Sears[1]	2
William Reeve	2
Peter Ruis[3]	0
Geoff Cooper[2]	1

1. Marion Sears chaired the Committee until 11 March 2016.
2. Geoff Cooper retired from the Board and the Committee on 7 July 2015. There was one meeting during his tenure.
3. Peter Ruis was appointed to the Board and the Committee on 10 September 2015. No meetings were held during his tenure.

Committee Activities in 2015–16

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.

In 2015-16 a number of changes planned and announced in the previous year took effect.

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.

Summary of Board changes in 2015–16

- July 2015: Andy Harrison succeeded Geoff Cooper as Chairman.
- September 2015: Peter Ruis appointed as a Non-Executive Director.
  Simon Emeny succeeded Marion Sears as Chair of the Remuneration Committee.
- December 2015: Keith Down succeeded David Stead as Chief Financial Officer.
  David Stead retired.
- January 2016: John Browett succeeded Will Adderley as Chief Executive.
  Will Adderley become Deputy Chairman.
- March 2016: Andy Harrison succeeded Marion Sears as Chair of the Nominations Committee.

All of these changes were described in last year's Nominations Committee report.

Board evaluation

This year we appointed a third party, Lorna Parker, to carry out a formal evaluation of the Board and its processes. The review confirmed that there is a good balance of complementary skills and experiences on the Board, and that compared to many other companies the Chairman and Non-Executive Directors are especially hard-working, committed and involved.

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.

Diversity

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

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

Details of the gender balance within the Group are set out in the Corporate Social Responsibility report on page 29. The Committee is pleased that there is a good level of gender diversity at Board, Executive Board and senior management level (22%, 40% and 33% respectively).

Tenure and Re-election of Directors

In accordance with the UK Corporate Governance Code, all Directors will seek re-election at the 2016 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.

Marion Sears and Simon Emeny have served eleven and nine years on the Board respectively. Marion is now considered by the Board to be 'non-independent' in view of her tenure. As noted in last year's report, we have asked Simon to stay for an extra year at the end of his nine year term to provide continuity during the recent period of change; it is expected that he will retire at the 2017 AGM following the appointment of a successor. I am mid-way through my first three year term, and Liz Doherty is now in the fourth year since appointment, with both William Reeve and Peter Ruis in their first term.

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 and in regular store visits, where a Non-Executive Director meets a member of the Executive Board on a less formal basis. This year the Board also received a Talent Management presentation from the People Director, which will become part of the Board's rolling agenda going forward. 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 of Dunelm Group plc on 14 September 2016 and signed on its behalf by

Andy Harrison
Chair of the Nominations Committee

Directors' Report

The Directors present their report together with the audited financial statements for the period ended 2 July 2016.

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

Strategic Report

The Group's Strategic Report is set out on pages 3 to 34. 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 £102.3m (2015: £96.1m). The results are discussed in greater detail in the Chief Financial Officer's review on pages 14 to 16.

A final dividend of 19.1p per share (2015: 16.0p) is proposed in respect of the period ended 2 July 2016 to add to an interim dividend of 6.0p per share paid on 24 March 2016 (2015: 5.5p). The final dividend will be paid on 25 November 2016 to shareholders on the register at 4 November 2016.

Special Distribution

On 24 March 2016, 31.5p per Ordinary Share was paid to shareholders by way of a special dividend.

Shareholder and Voting Rights

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

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

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

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

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

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

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

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

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

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

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 2 July 2016, the Company held 846,455 Ordinary Shares in treasury (2015: 357,158).

During the period the Company purchased 841,359 Ordinary Shares into treasury. 352,062 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, the Company has purchased 500,000 shares and 8,010 Ordinary Shares have been moved out of treasury since the period end to employees who exercised options under a share incentive scheme.

Substantial Shareholders

At 2 July 2016 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	26.8
Bill Adderley	48,070,000	23.8

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.

There have been no changes in the holdings of substantial shareholders since the period end date and 14 September 2016.

Directors

The Directors of the Company and their biographies are set out on pages 36 to 38. Details of changes to the Board during the period are set out in the Corporate Governance Report on page 40.

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 46.

Employee Information

Information relating to employees of the Group is set out in the Corporate Social Responsibility report on page 29.

Share incentive schemes in which employees participate are described in the Remuneration Report on pages 53 to 77.

Donations

The Group does not make any political donations.

Greenhouse Gas Emissions

The Corporate Social Responsibility report on page 34 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 24 and note 16 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 auditors of the Group.

Disclaimer

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

Annual General Meeting

The Annual General Meeting will be held at 9.00 am on Tuesday 22 November 2016 at the Dunelm Store Support Centre, Watermead Business Park, Syston, Leicester, LE7 1AD. A formal notice of meeting, explanatory circular and a form of proxy will accompany this report and accounts.

This report was reviewed and signed by order of the Board of Directors on 14 September 2016.

Dawn Durrant
Company Secretary

Statement of Directors' Responsibilities

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

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

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

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

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

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

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

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

Disclosure of information to auditors

In accordance with Section 418, the Directors' report shall include a statement, in the case of each Director in office at the date the Directors' report is approved, that:

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

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

Financials

Report on the financial statements

Our opinion

In our opinion:

- Dunelm Group plc's Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 2 July 2016 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;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the consolidated and Parent Company statements of financial position as at 2 July 2016;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated and Parent Company statements of cash flows for the period then ended;
- the consolidated and Parent Company statements of changes in equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report and Accounts 2016 (the 'Annual Report'), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

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

Our audit approach

Overview

- Overall Group materiality: £6.4 million which represents 5% of profit before tax.

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

- Inventory provisions.

The scope of our audit and our areas of focus

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

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

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

Area of focus	How our audit addressed the area of focus
Inventory provisions Refer to the Audit and Risk Committee Report on page 49 and the use of estimates and judgements in the Accounting Policies on page 96. Inventory represents a significant asset on the Group's balance sheet and is carried at the lower of cost and net realisable value ("NRV"). The NRV provision involves judgement in assessing slow moving or obsolete inventory. The Group accounting policy is based upon an analysis of the number of weeks' cover of inventory (i.e. number of weeks' sales held in inventory) based upon an average of the previous 26 weeks of sales. Provisions are recorded according to the number of weeks' cover, type of inventory, certain classifications (such as whether inventory is a continuity line or discontinued) and management's assessment of the expected realisable value for each category of inventory.	We tested the inputs to the provision calculation, including the classification (for example continuity line or discontinued) of inventory to reports from the buying department, which is segregated from the finance department, and found them to be consistent. We also re-performed the weeks' cover calculation, identifying no exceptions. We challenged the expected realisable value of inventory by reference to the historic experience of selling inventory at below cost and management's intended plans for future routes of clearance. We found that the provision rates were consistent with the evidence obtained, based on past activity, and appropriately applied.

How we tailored the audit scope

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

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

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

In addition, we also conducted the statutory audits of the remaining 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 six 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 on the financial statements as a whole.

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

Overall Group materiality	£6.4 million (2015: £6.1 million).
How we determined it	5% of profit before tax.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, as we believe this is the key measure used by the shareholders in evaluating the performance of the Group.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.05 million (2015: £0.05 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 25, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

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

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

Other required reporting

Consistency of other information

Companies Act 2006 opinions

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 40 to 46 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

ISAs (UK & Ireland) reporting

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

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

We have no exceptions to report.

- the statement given by the Directors on page 83, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Parent Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Parent Company acquired in the course of performing our audit

We have no exceptions to report.

- the section of the Annual Report on page 48, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

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

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

- the Directors' confirmation on page 83 of the Annual Report, in accordance with provision C.2.1 of the Code, 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.

We have nothing material to add or to draw attention to.

- the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.

We have nothing material to add or to draw attention to.

- the Directors' explanation on page 83 of the Annual Report, in accordance with provision C.2.2 of the Code, 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 material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the directors' 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 enquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

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

Other Companies Act 2006 reporting

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

Corporate governance statement

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

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 84, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

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

Mark Smith (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
14 September 2016

Consolidated Income Statement
For the 52 weeks ended 2 July 2016

	Note	2016 52 weeks £'m	2015 53 weeks £'m
Revenue	1	880.9	835.8
Cost of sales		(442.4)	(424.6)
Gross profit		438.5	411.2
Operating costs	3	(309.2)	(288.7)
Operating profit	2	129.3	122.5
Financial income	5	1.2	0.8
Financial expenses	5	(1.6)	(0.7)
Profit before taxation		128.9	122.6
Taxation	6	(26.6)	(26.5)
Profit for the period attributable to owners of the parent		102.3	96.1
Earnings per Ordinary Share – basic	8	50.5p	47.5p
Earnings per Ordinary Share – diluted	8	50.3p	47.3p

Consolidated Statement of Comprehensive Income

For the 52 weeks ended 2 July 2016

	2016 52 weeks £'m	2015 53 weeks £'m
Profit for the period	102.3	96.1
Other comprehensive income/(expense):		
Items that may be subsequently reclassified to profit or loss:		
Movement in fair value of cash flow hedges	10.3	1.0
Transfers of cash flow hedges to inventory	(2.9)	1.7
Deferred tax on hedging movements	(1.3)	(0.6)
Other comprehensive income for the period, net of tax	6.1	2.1
Total comprehensive income for the period attributable to owners of the parent	108.4	98.2

Consolidated Statement of Financial Position
As at 2 July 2016

	Note	2 July 2016 £'m	4 July 2015 £'m
Non-current assets			
Intangible assets	9	18.6	13.1
Property, plant and equipment	10	168.9	158.9
Deferred tax assets	11	0.6	1.9
Derivative financial instruments	16	0.8	–
Total non-current assets		188.9	173.9
Current assets			
Inventories	12	116.6	133.1
Trade and other receivables	13	19.2	18.0
Derivative financial instruments	16	6.8	–
Cash and cash equivalents	14	14.9	16.2
Total current assets		157.5	167.3
Total assets		346.4	341.2
Current liabilities			
Trade and other payables	15	(95.4)	(88.0)
Liability for current tax		(12.8)	(12.5)
Derivative financial instruments	16	–	(0.3)
Total current liabilities		(108.2)	(100.8)
Non-current liabilities			
Bank loans	17	(94.2)	(89.8)
Trade and other payables	15	(41.4)	(42.4)
Deferred tax liabilities	11	(0.8)	–
Provisions	18	(2.0)	(3.1)
Derivative financial instruments	16	(0.2)	–
Total non-current liabilities		(138.6)	(135.3)
Total liabilities		(246.8)	(236.1)
Net assets		99.6	105.1
Equity			
Issued share capital	19	2.0	2.0
Share premium account		1.6	1.6
Capital redemption reserve		43.2	43.2
Hedging reserve		5.9	(0.2)
Retained earnings		46.9	58.5
Total equity attributable to equity holders of the parent		99.6	105.1

The financial statements on pages 91 to 115 were approved by the Board of Directors on 14 September 2016 and were signed on its behalf by:

Keith Down
Chief Financial Officer

Consolidated Statement of Cash Flows

For the 52 weeks ended 2 July 2016

	Note	2016 52 weeks £'m	2015 53 weeks £'m
Profit before taxation		**128.9**	122.6
Adjustment for net financing costs		**0.4**	(0.1)
Operating profit		**129.3**	122.5
Depreciation and amortisation	2	**25.3**	21.5
Impairment charge on non-current assets	10	**–**	0.1
(Profit)/loss on disposal of non-current assets	2	**(0.3)**	0.1
Operating cash flows before movements in working capital		**154.3**	144.2
Decrease/(increase) in inventories	12	**16.5**	(17.6)
(Increase)/decrease in receivables	13	**(1.2)**	1.5
Increase in payables	15	**3.0**	16.2
Net movement in working capital		**18.3**	0.1
Share-based payments expense	21	**1.4**	0.3
		174.0	144.6
Interest received	5	**0.1**	0.5
Tax paid		**(25.9)**	(26.9)
Net cash generated from operating activities		**148.2**	118.2
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment	10	**2.0**	–
Acquisition of property, plant and equipment	10	**(29.6)**	(25.3)
Acquisition of intangible assets	9	**(10.2)**	(5.9)
Net cash used in investing activities		**(37.8)**	(31.2)
Cash flows from financing activities			
Proceeds from reissue of treasury shares	20	**1.3**	0.8
Purchase of treasury shares	20	**(7.8)**	–
Drawdowns on revolving credit facility	17	**39.0**	127.0
Repayments of revolving credit facility	17	**(35.0)**	(36.0)
Loan transaction costs	17	**–**	(1.3)
Interest paid	5	**(1.6)**	(0.1)
Ordinary dividends paid	7	**(44.6)**	(41.5)
Special dividends/distributions to shareholders	7	**(63.8)**	(141.7)
Net cash flows used in financing activities		**(112.5)**	(92.8)
Net decrease in cash and cash equivalents		**(2.1)**	(5.8)
Foreign exchange revaluations		**0.8**	0.3
Cash and cash equivalents at the beginning of the period		**16.2**	21.7
Cash and cash equivalents at the end of the period	14	**14.9**	16.2

Consolidated Statement of Changes in Equity

For the 52 weeks ended 2 July 2016

	Note	Issued share capital £'m	Share premium account £'m	Capital redemption reserve £'m	Hedging reserve £'m	Retained earnings £'m	Total equity £'m
As at 28 June 2014		**2.0**	**1.6**	**43.2**	**(2.3)**	**145.2**	**189.7**
Profit for the period		–	–	–	–	96.1	96.1
Fair value gains on cash flow hedges	16	–	–	–	1.0	–	1.0
Loss on cash flow hedges transferred to inventory	16	–	–	–	1.7	–	1.7
Deferred tax on hedging movements	11	–	–	–	(0.6)	–	(0.6)
Total comprehensive income for the period		–	–	–	2.1	96.1	98.2
Issue of treasury shares	20	–	–	–	–	0.8	0.8
Share based payments	21	–	–	–	–	0.3	0.3
Deferred tax on share based payments	11	–	–	–	–	(0.8)	(0.8)
Current tax on share options exercised	6	–	–	–	–	0.1	0.1
Ordinary dividends paid	7	–	–	–	–	(41.5)	(41.5)
Special distributions to shareholders	7	–	–	–	–	(141.7)	(141.7)
Total transactions with owners, recorded directly in equity		–	–	–	–	(182.8)	(182.8)
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 on cash flow hedges	16	–	–	–	10.3	–	10.3
Gains on cash flow hedges transferred to inventory	16	–	–	–	(2.9)	–	(2.9)
Deferred tax on hedging movements	11	–	–	–	(1.3)	–	(1.3)
Total comprehensive income for the period		–	–	–	6.1	102.3	108.4
Purchase of treasury shares	20	–	–	–	–	(7.8)	(7.8)
Issue of treasury shares	20	–	–	–	–	1.3	1.3
Share based payments	21	–	–	–	–	1.4	1.4
Deferred tax on share based payments	11	–	–	–	–	(0.6)	(0.6)
Current tax on share options exercised	6	–	–	–	–	0.2	0.2
Ordinary dividends paid	7	–	–	–	–	(44.6)	(44.6)
Special dividends	7	–	–	–	–	(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**

Accounting Policies

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 91 to 115 present information about the Company as a separate entity and not about its Group.

The Group and its subsidiaries are domiciled, and are incorporated as limited companies, in the UK.

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 91 to 115.

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

The annual financial statements are prepared under the historical cost convention except for financial assets and financial liabilities, which have been stated at fair value. The financial statements are prepared in pounds sterling, rounded to the nearest 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. 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 and Business Review on pages 3 to 34. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chief Financial Officer's review on pages 14 to 16. In addition note 16 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:

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 less any cost to sell the goods. 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.

Basis of consolidation

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

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

Revenue

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

Foreign currencies

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

Intangible assets

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

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

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

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

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

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

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

Amortisation

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

software development and licences	3 years
trademarks and brands	5 to 15 years

Property, plant and equipment

Owned assets

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

Trade and other receivables

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

Inventories

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

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.

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

Impairment

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

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

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

Share capital

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

Provisions

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

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

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.

Expenses

Property leases

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

Where leases for land and buildings provide for fixed rent review dates and amounts, the Group financial statements 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.

Financing income/expense

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

Retirement benefits

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

Share-based payment transactions

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

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

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

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

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

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

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

Dividends

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

Taxation

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

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

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

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

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

New standards and interpretations

No new standards, amendments or interpretations, effective for the first time for the period beginning on or after 5 July 2015 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 is 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', which is effective for periods beginning on or after 1 January 2018, replaces IAS 39 and addresses the classification, measurement and recognition of financial assets and financial liabilities.

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 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 and earlier application is permitted, subject to EU endorsement and the entity adopting IFRS 15 'Revenue from contracts with customers' at the same time. The full impact of IFRS 16 has not yet been assessed.

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 Operating profit

Operating profit is stated after charging/(crediting) the following items:

	2016 52 weeks £'m	2015 53 weeks £'m
Cost of inventories included in cost of sales	**439.9**	421.3
Amortisation of intangible assets	**5.6**	2.0
Depreciation of owned property, plant and equipment	**19.7**	19.5
Impairment charge on non-current assets	**–**	0.1
(Profit)/loss on disposal of property, plant and equipment and intangible assets	**(0.3)**	0.1
Operating lease rentals	**41.3**	38.9
Net foreign exchange gains	**(1.8)**	(0.9)

The cost of inventories stated above includes the benefit of a net reduction in the provision for obsolete inventory of £0.9m (FY15: £0.8m).

The analysis of auditors' remuneration is as follows:

	2016 52 weeks £'000	2015 53 weeks £'000
Fees payable to the Company's auditors for the audit of the Parent and consolidated annual financial statements	**18**	17
Fees payable to the Company's auditors and their associates for other services to the Group		
— audit of the Company's subsidiaries pursuant to legislation	**57**	55
— other services (see Audit and Risk Committee Report on page 48 for further information)	**71**	55

3 Operating costs

	2016 52 weeks £'m	2015 53 weeks £'m
Selling and distribution costs	273.9	262.6
Administrative expenses	35.3	26.1
	309.2	288.7

4 Employee numbers and costs

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

	2016 52 weeks Number of heads	2016 52 weeks Full time equivalents	2015 53 weeks Number of heads	2015 53 weeks Full time equivalents
Selling	8,035	4,757	7,757	4,425
Distribution	439	431	382	377
Administration	494	487	417	410
	8,968	5,675	8,556	5,212

The aggregate remuneration of all employees including Directors comprises:

	2016 52 weeks £'m	2015 53 weeks £'m
Wages and salaries including termination benefits	120.0	109.5
Social security costs	7.0	6.5
Share options granted to directors and employees (note 21)	1.4	0.3
Pension costs — defined contribution plans	1.5	1.3
	129.9	117.6

Details of Directors' remuneration, share options, long-term incentive schemes and pension entitlements are disclosed in the Remuneration Report on pages 54 to 77.

5 Financial income and expenses

	2016 52 weeks £'m	2015 53 weeks £'m
Finance income		
Interest on bank deposits	0.1	0.5
Foreign exchange gains (net)	1.1	0.3
	1.2	0.8
Finance expenses		
Interest on bank borrowings	(1.3)	(0.6)
Amortisation of issue costs of bank loans	(0.3)	(0.1)
	(1.6)	(0.7)
Net finance (expense)/income	(0.4)	0.1

6 Taxation

	2016 52 weeks £'m	2015 53 weeks £'m
Current taxation		
UK corporation tax charge for the period	26.6	26.3
Adjustments in respect of prior periods	(0.2)	(0.3)
	26.4	26.0
Deferred taxation		
Origination of temporary differences	–	0.2
Adjustments in respect of prior periods	–	0.3
Impact of change in tax rate	0.2	–
	0.2	0.5
Total tax expense	26.6	26.5

6 Taxation continued

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

	2016 52 weeks £'m	2015 53 weeks £'m
Profit before taxation	128.9	122.6
UK corporation tax at standard rate of 20.00% (2015: 20.75%)	25.8	25.4
Factors affecting the charge in the period:		
Non-deductible expenses	1.1	1.1
Loss on disposal of non-qualifying assets	(0.3)	–
Adjustments in respect of prior periods	(0.2)	–
Effect of change in standard rate of corporation tax	0.2	–
Tax charge	26.6	26.5

The taxation charge for the period as a percentage of profit before tax is 20.6% (2015: 21.6%).

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. As this further change had not been enacted at the balance sheet date the effect is not included in the financial statements.

7 Dividends and special distributions to shareholders

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

		2016 52 weeks £'m	2015 53 weeks £'m
Final for the period ended 28 June 2014	– paid 15.0p	–	30.4
Interim for the period ended 4 July 2015	– paid 5.5p	–	11.1
Final for the period ended 4 July 2015	– paid 16.0p	32.4	–
Interim for the period ended 2 July 2016	– paid 6.0p	12.2	–
Special dividend for the period ended 2 July 2016	– paid 31.5p	63.8	–
		108.4	41.5

The Directors are proposing a final dividend of 19.1p per Ordinary Share for the period ended 2 July 2016 which equates to £38.6m. The dividend will be paid on 25 November 2016 to shareholders on the register at the close of business on 4 November 2016.

In the prior year, the Group made a special distribution to shareholders by way of a B/C share scheme. The amount paid to shareholders on 10 March 2015 was 70p per share, which equated to £141.7m.

8 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to equity holders of the Company by the weighted average number of Ordinary Shares in issue during the period excluding ordinary shares purchased by the Company and held as treasury shares (note 20).

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

Weighted average numbers of shares:

	2016 52 weeks '000	2015 53 weeks '000
Weighted average number of shares in issue during the period	202,456	202,217
Impact of share options	795	982
Number of shares for diluted earnings per share	203,251	203,199

	2016 52 weeks £'m	2015 53 weeks £'m
Profit for the period	102.3	96.1
Earnings per Ordinary Share — basic	50.5p	47.5p
Earnings per Ordinary Share — diluted	50.3p	47.3p

9 Intangible assets

	Software development and licences £'m	Rights to brands £'m	Total £'m
Cost			
At 28 June 2014	14.1	5.0	19.1
Additions	5.8	–	5.8
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**
Accumulated amortisation			
At 28 June 2014	4.8	5.0	9.8
Charge for the financial period	2.0	–	2.0
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**
Net book value			
At 28 June 2014	9.3	–	9.3
At 4 July 2015	13.1	–	13.1
At 2 July 2016	**14.1**	**4.5**	**18.6**

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

All amortisation is included within operating costs in the income statement.

During the year, the Group acquired the rights to the Fogarty brand which will be amortised over a 15 year period.

10 Property, plant and equipment

	Land and buildings £'m	Leasehold improvements £'m	Plant and machinery £'m	Fixtures and fittings £'m	Total £'m
Cost					
At 28 June 2014	80.0	101.9	3.6	66.2	251.7
Additions	4.3	11.8	0.4	9.2	25.7
Disposals	–	(0.2)	–	(0.9)	(1.1)
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**
Accumulated depreciation					
At 28 June 2014	9.0	40.4	2.2	47.2	98.8
Charge for the financial period	1.3	7.5	0.7	10.0	19.5
Disposals	–	(0.1)	–	(0.9)	(1.0)
Impairment	0.1	–	–	–	0.1
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**
Net book value					
At 28 June 2014	71.0	61.5	1.4	19.0	152.9
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**

All depreciation and impairment charges have been included within operating costs in the income statement.

11 Deferred tax

Deferred tax is provided in full on temporary differences under the liability method using a taxation rate of 18% (2015: 20%).

Deferred taxation assets are attributable to the following:

	Assets		Liabilities		Net assets/(liabilities)	
	2016 £'m	2015 £'m	2016 £'m	2015 £'m	2016 £'m	2015 £'m
Property, plant and equipment	0.4	0.6	–	–	0.4	0.6
Share-based payments	0.7	1.3	–	–	0.7	1.3
Hedging	–	–	(1.3)	–	(1.3)	–
	1.1	1.9	(1.3)	–	(0.2)	1.9

	Assets		Liabilities		Net assets/(liabilities)	
	2016 £'m	2015 £'m	2016 £'m	2015 £'m	2016 £'m	2015 £'m
Deferred tax recoverable/(payable) after more than 12 months	0.8	1.3	(0.2)	–	0.6	1.3
Deferred tax recoverable/(payable) within 12 months	0.4	0.6	(1.2)	–	(0.8)	0.6
	1.2	1.9	(1.4)	–	(0.2)	1.9

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

	Balance at 28 June 2014 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 4 July 2015 £'m
Property, plant and equipment	0.4	0.2	–	0.6
Share-based payments	2.7	(0.6)	(0.8)	1.3
Hedging	0.6	–	(0.6)	–
Other temporary differences	0.1	(0.1)	–	–
	3.8	(0.5)	(1.4)	1.9

	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)

12 Inventories

	2016 £'m	2015 £'m
Goods for resale	116.6	133.1

13 Trade and other receivables

	2016 £'m	2015 £'m
Trade receivables	0.2	0.2
Other receivables	3.0	3.0
Prepayments and accrued income	16.0	14.8
	19.2	18.0

All trade receivables are due within one year from the end of the reporting period.

£10.0m of prepayments and accrued income are property related (2015: £9.2m).

14 Cash and cash equivalents

	2016 £'m	2015 £'m
Cash at bank and in hand	14.9	16.2

The Group deposits funds only with institutions that have a credit rating of 'A' and above and the term is less than three months.

15 Trade and other payables

	2016 £'m	2015 £'m
Current		
Trade payables	52.9	51.7
Accruals and deferred income	32.2	26.9
Taxation and social security	10.0	9.3
Other payables	0.3	0.1
Total current trade and other payables	95.4	88.0
Non-current		
Accruals and deferred income	41.4	42.4
Total non-current trade and other payables	41.4	42.4
Total trade and other payables	136.8	130.4

Current accruals and deferred income include lease incentives of £4.1m (FY15: £3.2m) and capital accruals of £2.6m (FY15: £0.3m).

The maturity analysis of non-current accruals and deferred income, all of which relate to lease incentives, is as follow:

	2016 £'m	2015 £'m
One to two years	5.2	5.0
Two to five years	15.7	15.0
After five years	20.5	22.4
	41.4	42.4

16 Financial risk management

The Board of Directors has overall responsibility for the oversight of the Group's risk management framework. A formal process for reviewing and managing risk in the business is in place.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's deposits with banks and financial institutions as well as foreign exchange hedging agreements with its banking counterparties. The Group only deals with creditworthy counterparties and uses publicly available financial information to rate its counterparties.

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

The Group's maximum exposure to credit risk is represented by the carrying amount of financial assets. At the period end the maximum exposure is detailed in the table below.

	2016 £'m	2015 £'m
Cash and cash equivalents	14.9	16.2
Trade and other receivables	3.2	3.2
Derivative financial instruments	7.4	–
Total financial assets	25.5	19.4

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and extreme circumstances. The Group manages this risk by continuously monitoring cash flow forecasts. The Group's available facilities can be found in note 17.

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 2 July 2016	Total £'m	Less than one year £'m	One to two years £'m	Two to five years £'m
Borrowings including interest	100.1	1.3	1.3	97.5
Trade and other payables	52.9	52.8	0.1	–

At 4 July 2015	Total £'m	Less than one year £'m	One to two years £'m	Two to five years £'m
Borrowings including interest	97.4	1.3	1.3	94.8
Trading and net settled derivative financial instruments	0.3	–	0.3	
Trade and other payables	51.7	51.6	0.1	–

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 (2015: £0.1m) as a result of higher/lower interest expense on floating rate borrowings.

16 Financial risk management continued

Foreign currency risk

All of the Group's revenues are in sterling. The majority of purchases are also in sterling, but some goods purchased direct from overseas suppliers are paid for in US dollars, accounting for just under 20% of stock purchases in the period ended 2 July 2016.

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 £7.2m asset (2015: £0.3m liability) which relates to a commitment to purchase $90.5m for a fixed sterling amount. A fair value movement of £10.3m (2015: £1.0m) was recognised in other comprehensive income and no ineffectiveness (2015: nil) was noted on cash flow hedges during the period. In the period, a gain of £2.9m (2015: £1.7m loss) 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 $0.4m (2015: $0.3m).

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 (2015: £0.4m) 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 £5.0m lower (2015: £5.9m 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 (2015: nil) and other components of equity would have been £6.1m higher (2015: £7.2m higher).

The US dollar period end exchange rate applied in the above analysis is 1.3265 (2015: 1.5603).

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.

16 Financial risk management continued

Capital management

The Company considers equity plus debt as the capital.

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

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

During 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 has ceased to reflect the scale of the business and its consistent track record of cash generation over many years. Accordingly, the Board determined that the Group will operate with a modest amount of leverage such that net debt should fall within the range of 0.25 to 0.75 times the last 12 months EBITDA. In order to fund the ongoing debt, the Group entered into an arrangement with a syndicate of three major banks for the provision of a £150 million revolving credit facility, expiring on 9 February 2020.

The gearing ratio and net debt as a percentage of EBITDA was as follows:

	2016 £'m	2015 £'m
Total borrowings (note 17)	95.0	91.0
Less: unamortised debt issue costs (note 17)	(0.8)	(1.2)
Less: cash and cash equivalents (note 14)	(14.9)	(16.2)
Net debt	79.3	73.6
Total equity	99.6	105.1
Total capital	178.9	178.7
Gearing ratio	44%	41%
EBITDA	154.3	144.2
Net debt as % of EBITDA	51%	51%

Financial (liabilities)/assets

The carrying value of all financial assets and financial liabilities was equal to their fair value.

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	14.9	–	–	–	14.9
Trade receivables	13	0.2	–	–	–	0.2
Forward exchange contracts	16	–	–	7.2	0.4	7.6
Total financial assets		15.1	–	7.2	0.4	22.7
Trade payables	15	–	(52.9)	–	–	(52.9)
Bank borrowings	17	–	(94.2)	–	–	(94.2)
Forward exchange contracts	16	–	–	–	(0.2)	(0.2)
Total financial liabilities		–	(147.1)	–	(0.2)	(147.3)
Net financial assets/(liabilities)		**15.1**	**(147.1)**	**7.2**	**0.2**	**(124.6)**

16 Financial risk management continued

At 4 July 2015	Note	Loans and receivables £'m	Other financial liabilities at amortised costs £'m	Derivatives used for hedging £'m	Total £'m
Cash and cash equivalents	14	16.2	–	–	16.2
Trade receivables	13	0.2	–	–	0.2
Total financial assets		16.4	–	–	16.4
Trade payables	15	–	(51.7)	–	(51.7)
Bank borrowings	17	–	(89.8)	–	(89.8)
Forward exchange contracts – current	16	–	–	(0.3)	(0.3)
Total financial liabilities		–	(141.5)	(0.3)	(141.8)
Net financial assets/(liabilities)		16.4	(141.5)	(0.3)	(125.4)

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

	2016 £'m	2015 £'m
Sterling	13.9	14.1
US dollar	1.0	2.0
Euro	–	0.1
	14.9	16.2

17 Bank loans

	2016 £'m	2015 £'m
Total borrowings	95.0	91.0
Less: unamortised debt issue costs	(0.8)	(1.2)
	94.2	89.8

The Group has medium term bank revolving credit facilities of £150m (2015: £150m) committed until 9 February 2020; £95m of this facility was drawn down at 2 July 2016 (2015: £91m). The carrying amount of bank borrowings is equal to fair value.

18 Provisions

	Balance at 4 July 2015 £'m	Utilised in the period £'m	Created in the period £'m	Released in the period £'m	Balance at 2 July 2016 £'m
Property related	3.1	(0.3)	1.1	(1.9)	2.0

Property related provisions consist of costs associated with vacant property and dilapidations. Dilapidations are based on the Directors' best estimate of the Group's future liabilities.

19 Issued share capital

	Number of Ordinary Shares of 1p each 2016	Number of Ordinary Shares of 1p each 2015	Number of B Shares of 0.001p each 2015	Number of C Shares of 0.001p each 2015
In issue at the start of the period	202,833,931	202,833,931	–	–
B/C share issued via bonus issue	–	–	128,710,152	73,756,725
B shares cancelled the year	–	–	(128,710,152)	–
C shares redeemed in the year	–	–	–	(73,756,725)
In issue at the end of the period	202,833,931	202,833,931	–	–

Proceeds received in relation to shares issued during the period were £nil (2015: £nil).

	2016 Number of shares	2016 £'m	2015 Number of shares	2015 £'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

20 Treasury shares

	2016 Number of shares	2016 £'m	2015 Number of shares	2015 £'m
Outstanding at the beginning of the period	357,158	3.3	936,498	8.6
Purchased during the period	841,359	7.8	–	–
Reissued during the period in respect of share option schemes	(352,062)	(3.3)	(579,340)	(5.3)
Outstanding at the end of the period	846,455	7.8	357,158	3.3

The Group acquired 841,359 of its own shares through purchases on the London Stock Exchange during the year (2015: nil). 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 £7.8m (2015: £nil) and the consideration was deducted from retained earnings within shareholders' equity.

The Group reissued 352,062 (2015: 579,340) treasury shares during the period for a total value of £3.3m (2015: £5.3m).

Proceeds from the issue of treasury shares included in the consolidated statement of cash flows of £1.3m (2015: £0.8m) is the amount employees contributed.

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

21 Share-based payments

As at 2 July 2016, 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 9,399 exercisable options in total under these schemes as at 2 July 2016 (2015: 3,692).

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.

21 Share-based payments continued

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 GSOP at 2 July 2016 were as follows:

	Number of shares under option 2016	Weighted average exercise price 2016	Number of shares under option 2015	Weighted average exercise price 2015
Outstanding at beginning of the period	121,781	815.6p	139,900	814.6p
Adjusted during the period	–	–	7,741	766.9p
Exercised during the period	(33,540)	714.4p	–	–
Lapsed during the period	(12,127)	873.0p	(25,860)	795.6p
Outstanding at end of the period	76,114	851.0p	121,781	815.6p

The weighted average share price at the time of exercise during the year was 972.0p.

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 Sharesave scheme at 2 July 2016 was as follows:

	Number of shares under option 2016	Weighted average exercise price 2016	Number of shares under option 2015	Weighted average exercise price 2015
Outstanding at beginning of the period	961,720	638.8p	757,663	551.0p
Granted during the period	563,823	754.5p	523,706	653.0p
Adjusted during the period	–	–	61,027	601.1p
Exercised during the period	(201,727)	545.7p	(223,043)	363.1p
Lapsed during the period	(171,726)	685.0p	(157,633)	639.6p
Outstanding at end of the period	1,152,090	704.8p	961,720	638.8p

The weighted average share price at the time of exercise during the year was 918.8p.

21 Share-based payments continued

c) Long-Term Incentive Plan

The LTIP was approved by the Board in 2006 enabling the Group to award shares to particular individuals, normally in the form of nominal cost options. The LTIP is administered by the Remuneration Committee. One grant was made in the period, to the Executive Directors and senior management. These grants are exercisable in November 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 54 to 77.

The number and weighted average exercise price of options under LTIP at 2 July 2016 is as follows:

	Number of shares under option 2016	Weighted average exercise price 2016	Number of shares under option 2015	Weighted average exercise price 2015
Outstanding at beginning of the period	709,083	–	1,199,332	–
Granted during the period	518,428	–	304,522	–
Adjusted during the period	–	–	44,948	–
Exercised during the period	(116,795)	–	(356,297)	–
Lapsed during the period	(338,703)	–	(483,422)	–
Outstanding at end of the period	772,013	–	709,083	–

The weighted average share price at the time of exercise was 966.7p

d) Impact on income statement

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

	2016 £'m	2015 £'m
GSOP	0.1	0.1
Sharesave	0.8	0.5
LTIP	0.5	(0.3)
	1.4	0.3

22 Commitments

As at 2 July 2016 the Group had entered into capital contracts for new stores amounting to £4.2m (2015: £4.4m).

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

	Motor vehicles 2016 £'m	Land and buildings 2016 £'m	Plant and machinery 2016 £'m	Motor vehicles 2015 £'m	Land and buildings 2015 £'m	Plant and machinery 2015 £'m
Within one year	1.0	43.5	0.7	1.0	38.5	1.0
In the second to fifth year inclusive	1.3	164.0	2.0	1.5	148.3	2.7
After five years	–	174.0	0.8	–	161.5	0.4
	2.3	381.5	3.5	2.5	348.3	4.1

The Group has 147 operating leases in respect of properties. These leases run for periods of up to 20 years, with an option to renew leases on expiry. Lease payments are typically reviewed every five years.

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

23 Contingent liabilities

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

24 Related parties

Identity of related parties

The Group has related party relationships with its subsidiaries and with its Directors. Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation for the Group. A list of subsidiaries can be found in note 4 to the parent company financial statements.

Key management personnel

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

Directors of the Company and their close relatives control 51.3% (2015: 55.4%) of the voting shares of the Company.

Disclosures relating to remuneration of Directors are set out in the Remuneration Report on pages 54 to 77. The remuneration of the key management personnel is set out below:

	2016 £'m	2015 £'m
Short-term employee benefits	2.9	3.2
Post-employment benefits	0.3	0.3
Share-based payments	0.4	0.3
	3.6	3.8

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

25 Ultimate controlling party

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

26 Subsequent events

There are no reportable subsequent events for Dunelm Group plc.

Parent Company Statement of Financial Position
As at 2 July 2016

	Note	2 July 2016 £'m	4 July 2015 £'m
Non-current assets			
Investment in subsidiaries	4	52.3	51.2
Deferred tax asset	5	0.2	0.2
Total non-current assets		52.5	51.4
Current assets			
Trade and other receivables	6	244.3	3.0
Current tax asset		–	0.2
Total current assets		244.3	3.2
Total assets		296.8	54.6
Current liabilities			
Trade and other payables	7	(0.1)	(1.1)
Total current liabilities		(0.1)	(1.1)
Total liabilities		(0.1)	(1.1)
Net assets		296.7	53.5
Equity			
Issued capital	10	2.0	2.0
Share premium account		1.6	1.6
Non-distributable reserves		7.1	6.0
Capital redemption reserve		43.2	43.2
Retained earnings		242.8	0.7
Total equity attributable to equity holders of the parent		296.7	53.5

The financial statements on pages 116 to 124 were approved by the Board of Directors on 14 September 2016 and were signed on its behalf by:

Keith Down
Director

Company number 4708277

Parent Company Statement of Cash Flows
For the 52 weeks ended 2 July 2016

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 2 July 2016

	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 28 June 2014		**2.0**	**1.6**	**43.2**	**4.3**	**147.9**	**199.0**
Profit for the period		–	–	–	–	37.2	37.2
Total comprehensive income for the period		–	–	–	–	37.2	37.2
Issue of treasury shares	11	–	–	–	–	0.9	0.9
Share-based payments	12	–	–	–	1.7	(1.3)	0.4
Deferred tax on share-based payments	5	–	–	–	–	(0.8)	(0.8)
Dividends	3	–	–	–	–	(41.5)	(41.5)
Special distributions to shareholders	3	–	–	–	–	(141.7)	(141.7)
Total transactions with owners, recorded directly in equity		–	–	–	1.7	(184.4)	(182.7)
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	11	–	–	–	–	(7.8)	(7.8)
Issue of treasury shares		–	–	–	–	1.3	1.3
Share-based payments	12	–	–	–	1.1	0.3	1.4
Deferred tax on share-based payments	5	–	–	–	–	(0.1)	(0.1)
Dividends	3	–	–	–	–	(44.6)	(44.6)
Special distributions to shareholders	3	–	–	–	–	(63.8)	(63.8)
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**

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

Parent Company Accounting Policies

Basis of preparation

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

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

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

Investments

Investments in subsidiary undertakings are stated at the adjusted cost of the investment. IFRS 2 requires the Parent Company to recognise an increase in the cost of its investment in a subsidiary which has issued share options in the Parent Company's shares to its employees.

Current assets

Trade and other receivables

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

Share capital

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

Share-based payments

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

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

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

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

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

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

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

Dividends

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

Taxation

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

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

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

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

New standards and interpretations

No new standards, amendments or interpretations, effective for the first time for the period beginning on or after 5 July 2015 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 Company.

Notes to the Parent Company Financial Statements
For the 52 weeks ended 2 July 2016

1 Income statement
The Company made a profit after tax of £356.8m (2015: £37.2m). 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 auditors in accordance with the Companies (Disclosure of Auditor Remuneration) Regulations 2005.

2 Employee costs
The Company has no employees other than the three Executive Directors and the Non-Executive Directors. Full details of the Directors' remuneration and interests are set out in the Remuneration Report on pages 54 to 77. Share-based payments details are given note 12 on pages 122 to 123.

3 Dividends and special distributions to shareholders
The dividends set out in the table below relate to the 1p Ordinary Shares.

		2016 52 weeks £'m	2015 53 weeks £'m
Final for the period ended 28 June 2014	– paid 15.0p	–	30.4
Interim for the period ended 4 July 2015	– paid 5.5p	–	11.1
Final for the period ended 4 July 2015	– paid 16.0p	32.4	–
Interim for the period ended 2 July 2016	– paid 6.0p	12.2	–
Special dividend for the period ended 2 July 2016	– paid 31.5p	63.8	–
		108.4	41.5

The Directors are proposing a final dividend of 19.1p per Ordinary Share for the period ended 2 July 2016 which equates to £38.6m. The dividend will be paid on 25 November 2016 to shareholders on the register at the close of business on 4 November 2016.

In the prior year, the Company made a special distribution to shareholders by way of a B/C share scheme. The amount paid to shareholders on 10 March 2015 was 70p per share, which equated to £141.7m.

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 28 June 2014	49.9
Share-based payments	1.3
As at 4 July 2015	51.2
Share-based payments	1.1
As at 2 July 2016	**52.3**

4 Investment in subsidiaries continued

The following were subsidiaries as at 2 July 2016:

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

* Share Capital held by subsidiary undertaking.

^ The share capital of Fogarty Holdings Limited was purchased during the period by Dunelm (Soft Furnishings) Limited.

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

5 Deferred tax assets

	Assets	
	2016 £'m	2015 £'m
Employee benefits	0.2	0.2

The movement in deferred tax assets is as follows:

	Balance at 28 June 2015 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 4 July 2015 £'m
Employee benefits	1.6	(0.6)	(0.8)	0.2

	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

6 Trade and other receivables

	2016 £'m	2015 £'m
Amounts owed by subsidiary undertakings	244.3	1.8
Prepayments and accrued income	–	1.2
	244.3	3.0

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

	2016 £'m	2015 £'m
Accruals and deferred income	–	1.0
Other taxation and social security	0.1	0.1
	0.1	1.1

8 Interest bearing loans and borrowings

The Company has no committed borrowing facilities as any cash transactions are executed by other members of the Dunelm Group on behalf of the Company.

9 Financial risk management

Capital management

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

10 Issued share capital

	Number of Ordinary Shares of 1p each 2016	Number of Ordinary Shares of 1p each 2015	Number of B Shares of 0.001p each 2015	Number of C Shares of 0.001p each 2015
In issue at the start of the period	202,833,931	202,833,931	–	–
B/C share issued via bonus issue	–	–	128,710,152	73,756,725
B shares cancelled the year	–	–	(128,710,152)	–
C shares redeemed in the year	–	–	–	(73,756,725)
In issue at the end of the period	202,833,931	202,833,931	–	–

Proceeds received in relation to shares issued during the period were £nil (2015: £nil).

	2016 Number of shares	2016 £'m	2015 Number of shares	2015 £'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.

11 Treasury shares

	2016 Number of shares	2016 £'m	2015 Number of shares	2015 £'m
Outstanding at the beginning of the period	357,158	3.3	936,498	8.6
Purchased during the period	841,359	7.8	–	–
Reissued during the period in respect of share option schemes	(352,062)	(3.3)	(579,340)	(5.3)
Outstanding at the end of the period	846,455	7.8	357,158	3.3

The Company acquired 841,359 of its own shares through purchases on the London Stock Exchange during the year (2015: nil). 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 £7.8m (2015: £nil) and the consideration was deducted from retained earnings within shareholders' equity.

The Company reissued 352,062 (2015: 579,340) treasury shares during the period for a total value of £3.3m (2015: £5.3m).

Proceeds from the issue of treasury shares included in the consolidated statement of cash flows of £1.3m (2015: £0.8m) is the amount employees contributed.

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

12 Share-based payments

As at 2 July 2016, the Company operated one share award plan:

Long Term Incentive Plan ('LTIP')

There were no exercisable options under this scheme as at 2 July 2016 (2015: 2,000).

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 54 to 77.

The fair value of options granted during the period was determined using the Black–Scholes valuation model. The significant inputs into the model are detailed below. The volatility is measured at the standard deviation of share returns based on the daily share price over the twenty days prior to the grant date.

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

	December 2015	October 2015	October 2014	October 2013
Share price at date of grant	986.5p	942.5p	816.0p	876.5p
Volatility	31.31%	31.90%	35.11%	40.00%
Dividend yield	4.0%	4.0%	4.0%	4.0%
Option life	3 years	3 years	3 years	3 years
Risk-free interest rate	1.10%	1.00%	1.44%	1.35%
Discount factor, based on dividend yield to vesting date	0.670	0.670	0.670	0.670
Fair value of option	661.1p	631.6p	546.8p	587.4p

12 Share-based payments continued

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	816.0p	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	563.0p	629.5p

The number and weighted average exercise price of options under the LTIP at 2 July 2016 is as follows:

	Number of shares under option 2016	**Weighted average exercise price 2016**	Number of shares under option 2015	Weighted average exercise price 2015
Outstanding at beginning of the period	**169,058**	**–**	794,753	–
Granted during the period	**248,551**	**–**	50,494	–
Adjusted during the period	**–**	**–**	10,747	–
Exercised during the period	**(36,915)**	**–**	(249,168)	–
Lapsed during the period	**(101,374)**	**–**	(437,768)	–
Outstanding at end of the period	**279,320**	**–**	169,058	–

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

	2016 £'m	2015 £'m
LTIP	**0.3**	(0.9)

13 Contingent liability

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

14 Related party disclosure

The amount due to the Company from subsidiary undertakings is set out in note 4. Transactions between the Company and its subsidiaries were as follows:

	2016 £'m	2015 £'m
Cash paid to Group undertakings	2.6	2.5
Cash received from Group undertakings	(120.4)	(191.3)
Dividends received and receivable	(359.0)	(35.9)
Net interest receivable	1.4	(5.4)

Key management personnel

All employees of the Company are key management personnel.

Directors of the Company and their close relatives control 51.3% (2015: 55.4%) of the voting shares of the Company.

Disclosures relating to remuneration of Directors are set out in the Remuneration Report on pages 54 to 77.

15 Subsequent events

There are no reportable subsequent events for Dunelm Group plc.

Advisers and Contacts

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	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 264 4439

1. If dialling internationally, call +44 121 415 7047. The helpline is open Monday to Friday 8.30am to 5.30pm, excluding bank holidays.

Store Listing

Superstores

Aberdeen
Ashford
Ballymena
Banbury
Bangor
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
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
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Rotherham
Rugby
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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

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