DUNELM (SOFT FURNISHINGS) LIMITED

Directors' report and financial statements

Registered number 2129238

29 June 2013

Company information

Directors	WL Adderley J Rowell DA Stead S Barton N Wharton
Secretary	D Durrant
Company number	2129238
Registered office	Watermead Business Park Syston Leicestershire LE7 1AD
Auditor	KPMG Audit Plc 1 Waterloo Way Leicester LE1 6LP
Bankers	Barclays Bank Plc 15 Colmore Row Birmingham B3 2WN

Contents

Directors' report and business review

The Directors present their report together with the audited financial statements for the period ended 29 June 2013 This report satisfies the requirements of the Companies Act 2006 to produce a business review

Principal activity

The principal activity of the company continues to be that of a specialist UK homewares retailer selling to customers through stores, over the internet and via a catalogue

Trading

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

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

Reflecting the benefit of a particularly strong store opening programme over the last two financial years, our total revenue for the year increased by 12 2% Within this, like-for-like sales (calculated by comparing stores which have traded throughout the last two financial years) grew by 1 7% During the year we opened 14 new superstores, including 2 relocations and the reopening of our Coventry store after a major fire in 2011

We are confident that we have continued to gain market share on a like-for-like basis and during the past year have become, according to Verdict Research, market leader for the first time with a share of 6 9% of the UK homewares market

Strategy development

We continue to develop the business through a strong focus on our four strategic priorities

Priority 1 – develop our specialist proposition

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

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

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

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

Directors' report and business review *(continued)*

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

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

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

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

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

Priority 2 – develop the store portfolio
Dunelm trades from two store formats The bulk of the portfolio is represented by out-of-town superstores, with our average new store footprint now targeted towards 30,000 square feet of retail space This space enables us to offer over 20,000 homewares products with the depth of range and availability that customers expect from a specialist retailer It also accommodates a Pausa coffee shop, now present in 92 stores, providing an additional reason for customers to visit and increasing their engagement and dwell time In addition to superstores, we also trade profitably from nine smaller high street locations where there are currently no suitable out-of town alternatives

In the last financial year we again opened over 400,000 square feet of selling space through 14 new superstores (two being relocations and one a re-opening) taking our superstore chain to 126 stores at the year end, providing 3 8 million square feet of selling space in total A further 10 new stores are contractually committed Following a detailed catchment analysis process completed in 2011, which sought to incorporate the impact of the anticipated growth of our multi-channel sales, we believe our mature UK superstore portfolio will consist of approximately 200 stores

Directors' report and business review *(continued)*

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

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

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

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

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

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

As a consequence of all of the above, our multi-channel revenues continued to grow strongly, representing over 4% of revenues over the full financial year and approximately 4 5% in the final quarter

Our next targeted development will materially improve speed and choice within our home delivery offering where, despite strong progress elsewhere, our proposition remains below benchmark and therefore provides a clear opportunity for further improvement and revenue growth The transfer of our fulfilment operation to a scalable facility that will enable us to hold stock of approximately 20,000 lines, each available for next day delivery, went fully operational in October 2013

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

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

Directors' report and business review *(continued)*

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

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

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

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

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

With strong plans in place to improve brand awareness and to grow Dunelm further through new stores and multi-channel expansion, we remain confident in the future prospects for the business

Financial items and PBT
The Company incurred £1 1m net financial expense for the year (2012 £0 6m) Financial items include interest earned on surplus cash deposits of £0 9m (2012 £0 8m) and foreign exchange gains arising from the translation of dollar denominated assets and liabilities at the end of the period, worth £0 6m (2012 £0 2m) The balance of net financial expense represents intercompany interest payable of £2 6m (2012 £1 6m) As at 29 June 2013 the Company held $4 8m in US dollar cash deposits and additional forward contracts for $45 9m representing approximately 50% of the anticipated US dollar spend over the next 12 months

After accounting for interest and foreign exchange impacts, profit before tax for the year amounted to £106 4m (2012 £96 6m), an increase of 10 1%

Tax and PAT
The tax charge for the year was 24 5% of profit before tax compared with 25 7% in the prior year This year on year improvement reflects the reduction in the headline rate of corporation tax, as well as an increase in the level of assets qualifying for capital allowances following a review completed in the year

Profit after tax was £80 3m (2012 71 8m), an increase of 11 8%

Directors' report and business review *(continued)*

Capital expenditure
Gross capital expenditure in the financial year was £25 7m compared with £25 9m last year Significant investments were made in order to support continued growth and development of the superstore portfolio with the addition of 14 new stores (58% of capital expenditure) and 14 refits The remaining investment related mainly to IT activities, including a refresh of till systems, initial work on upgrading our core enterprise system (SAP) due to be completed this autumn and initial work on implementing a new technology platform for our multi-channel offer

Working capital
Investment in working capital increased by £24 3m (2012 £63 0 decrease) over the year, primarily as a result of additional stock to support the expansion in the store estate, partially offset by lower average inventories per store and a reduction in intercompany borrowing

Cash position
The Company generated £75 3m (2012 £155 1m) net cash from operating activities in the last financial year Net cash resources at the end of the year were £44 7m (2012 £64 9m)

The Board reviews the Company's funding position on a regular basis and has concluded that access to external funding is not required in the short term

The Company maintains uncommitted lines of funding with partner banks whilst trading with a positive net cash position

Dividend
Dividends amounting to £70m (2012 £100m) have been declared, authorised and paid on the ordinary shares

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

Key performance indicators FY13

Sales growth

2013	**+12.2%**
2012	+12 1%
2011	+9 3%

Like-for-like sales growth

2013	**+1.7%**
2012	+3 1%
2011	-0 6%

Gross margin change

2013	**+40bps**
2012	+30bps
2011	+120bps

Directors' report and business review *(continued)*

Operating margin

2013	**15.9%**
2012	16 1%
2011	15 5%

EBITDA £m

2013	**£126.7m**
2012	£114 7m
2011	£97 4m

New store openings*

2013	**14**
2012	14
2011	10

*Including relocations

Major refits

2013	**4**
2012	4
2011	8

Key risks

Dunelm recognises that effective business management requires regular review of potential business risks to identify, evaluate and prioritise them, to assign management ownership and to ensure appropriate controls are in place in mitigation

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

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

Our assessment of the principle risks faced by us in achieving our strategic objectives and securing the business for the long term is set out in the following pages

Directors' report and business review *(continued)*

	Description	Mitigation	Progress in 2012/13
Brand reputation, product and service quality **Performance Indicator** Product complaints and recalls **Executive responsibility** Nick Wharton, Chief Executive **Impact compared to 2011/12** Increasing	The quality and safety of our stores, products and services (including coffee shops) is essential to the business If our specialist proposition fails to deliver this there is a risk that individuals could be harmed and that reputational damage could lead to consumers, colleagues and other stakeholders losing confidence in the brand	• We have a range of policies specifying the quality of products and production processes that are signed up to by suppliers • We operate a full test schedule for all new products and on a sample basis for on-going lines, overseen by our specialist Technology team This also covers human rights concerns • Food hygiene is maintained through the adoption of clear operating guidelines contained in the Company's 'Food Safety Manual' Staff certification is compulsory and risk assessments, equipment inspections and compliance audits are in constant use to ensure standards are maintained • We continue to invest in a refit programme to ensure stores remain contemporary and provide a high quality shopping environment • All of our operating locations are subject to regular health & safety compliance audits to ensure they provide a safe and secure environment	• Our policies and procedures have been reviewed and updated • Our product recall procedure has been reviewed
Competition **Performance Indicator** Market share **Executive responsibility** Nick Wharton, Chief Executive **Impact compared to 2011/12** Same	The Company competes with a wide variety of retailers both in-store and on-line Failure to maintain a competitive offer in the homewares market on multiple fronts (price, range, quality and service) could materially impact returns and limit opportunities for growth	• The Board continually monitors Company performance within the homewares market and against specific competitive threats • Continuous brand tracking also operates to gauge relative customer perception and experience • We have a strong focus on new product development, both in existing and new product categories, to strengthen our specialist proposition • We are increasing significant resource to develop and enhance our multi-channel customer offer	• We are now the UK's leading homewares retailer with a market share of 6 9% • We have redirected the tasks of our colleagues in store towards activities which enhance the customer experience • We have introduced a new customer feedback system which enables us to react quickly to both positive and negative feedback • Increased marketing expenditure has helped raise awareness of our brand • Our online sales now account for 4 1% of total sales (up from 2 5% in 2011/12)

Directors' report and business review *(continued)*

	Description	Mitigation	Progress in 2012/13
Compliance **Performance Indicator** Prosecution and other regulatory action **Executive responsibility** Nick Wharton, Chief Executive **Impact compared to 2011/12** Same	The Company risks incurring penalties, damages claims and reputational damage arising from failure to comply with legislative or regulatory requirements across many areas including but not limited to, trading, health and safety, employment law, data protection, Bribery Act, advertising, human rights and the environment	• We operate a number of policies and codes of practice outlining mandatory requirements within the business governing behaviours in all key areas These are regularly reviewed and updated • Operational management are also responsible for liaising with the Company Secretary and external advisers to ensure that potential issues from new legislation are identified and managed • We have a whistle-blowing procedure and helpline which enables colleagues to raise concerns in confidence	• Training on the requirements of the Bribery Act and on competition law has been extended to relevant colleagues • Human Resources policies and health and safety policies and procedures are kept under constant review
Information technology **Performance Indicator** Number of major incidents **Executive responsibility** Nick Wharton, Chief Executive **Impact compared to 2011/12** Increasing	We are dependent on the reliability and capability of key information systems and technology A major incident (including a cyber-attack), sustained performance problems or failure to keep technology up to date could constitute a significant threat to the business, at least in the short term	• All business critical systems are based on established, industry leading package solutions, with full support in place • We have a disaster recovery strategy designed to ensure continuity of trade	• We have recruited a Chief Information Officer and we have increased investment in our IT function • We have commenced a major upgrade of our core SAP system which should be completed in 2013 • We have commenced the upgrade of our multi-channel platform, due to be completed in 2013/14 • Disaster recovery plans have been reviewed in 2012/13 and all have been tested
Economic uncertainty **Performance Indicator** Financial performance relative to competitors **Executive responsibility** Nick Wharton, Chief Executive **Impact compared to 2011/12** Same	Consumer confidence remains relatively low This may result in difficult trading conditions in the retail sector as a whole limiting profitability and growth opportunities	• We offer goods across a range of price points, enabling customers to trade up or down as they wish • Our focus on maintaining a low cost base enables us to keep prices competitive • We monitor competitor pricing and consumer behaviour to enable us to adjust our offer quickly where needed	• We continue to offer a range of targeted promotional offers, both on permanent and 'one off' products • Permanent price reductions have been made in certain core ranges • Our range of own brand products at lower prices has been expanded

Directors' report and business review *(continued)*

	Description	Mitigation	Progress in 2012/13
Commodity prices **Performance Indicator** Gross margin **Executive responsibility** David Stead, Finance Director **Impact compared to 2011/12** Reducing	Significant cost price increases and high levels of volatility have been a feature of retailing over recent years particularly freight rates, raw materials, energy and exchange rates Failure to manage and control these changes may lead to pressure on margins and adversely impact the financial results	• Dunelm uses its scale, buying power and growth to secure supply of key raw materials at competitive prices • Increased direct sourcing of products from the Far East has mitigated cost increases • Freight rates, energy and currency are bought forward to help mitigate volatility and aid margin management	• 16 2% of our products are now sourced directly from the Far East (14 3% 2011/12) • Foreign currency hedging has been increased to provide a greater level of certainty in commercial decision making
Portfolio expansion **Performance Indicator** Number of new store openings and pipeline **Executive responsibility** Nick Wharton, Chief Executive **Impact compared to 2011/12** Increasing	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 Company Property Director actively monitors availability of retail space with the support of professional advisers • Financial modelling helps us assess the viability of potential sites • The Company's strong cash generation and debt free status provide an attractive covenant to landlords, and the ability to acquire freehold units if appropriate	• Our strategy for the acquisition of sites in key catchment areas remains under regular review • We have legally completed on 10 new stores due to open in 2013/14 and beyond
Infrastructure **Performance Indicator** N/A **Executive responsibility** Nick Wharton, Chief Executive **Impact compared to 2011/12** Increasing	The Company could suffer the loss of a major facility with a consequent impact on short term trading or diversion of focus from longer term strategy and planning This could materially affect the profitability of the business The Company could suffer the loss of a major supply partner also impacting short term trading	• Physical infrastructure - Head office, workroom, multi-channel and distribution centre activities are all subject to disaster recovery plans and could all operate from fall back facilities • Suppliers – The Company seeks to mitigate this risk by limiting the dependency on individual suppliers and by actively managing key supplier relationships High stock service levels and a high proportion of direct-to-store deliveries further mitigate supply chain risk	• We have carried out desk-top simulations of disaster scenarios affecting our major facilities • We have moved away from UK suppliers to direct sourcing from factories in cases where supplier capability issue were identified as a risk

Directors' report and business review *(continued)*

	Description	Mitigation	Progress in 2012/13
Finance and treasury **Performance Indicator** Cash flow and Available funds **Executive responsibility** David Stead, Finance Director **Impact compared to 2011/12** Same	Lack of appropriate levels of cash resources or exposure to significant variations in interest rates or exchange rates could have an impact on the Company's operations and growth plans	• We have has significant cash surpluses and further uncommitted borrowing facilities with partner banks to fund growth plans In addition, cash flows are monitored weekly against agreed budgets • A Treasury Policy is in place to govern cash management strategies and to control foreign exchange exposures	• We returned £65 8m of cash to shareholders in November 2012, in addition to ordinary our dividend •Net cash reserves at the end of the year were £44 7m • We have announced a special dividend worth £50 7m, to be paid on 11 October 2013
Key personnel **Performance Indicator** Colleague retention **Executive responsibility** Nick Wharton, Chief Executive **Impact compared to 2011/12** Same	The success of Dunelm is dependent upon the availability of talented senior management The business could be vulnerable to the loss of individual key managers	• The composition of the Executive team is kept under constant review by the Board to ensure that it is appropriate to deliver the growth plans of the business • Succession plans and annual appraisals are in place across the Company • The Executive Board seeks to develop high calibre individuals through sponsored talent management and succession planning • The Company's remuneration policy is designed to ensure that high calibre executives are attracted and retained Lock-in of senior management is supported by awards under the Long-Term Incentive Plan and Company Share Option Plan	• In 2012/13 a Chief Information Officer was appointed at Executive Board level to support the future growth needs of the business • No members of the Executive Board or Leadership Group have left the business in 2012/13

Directors' report and business review *(continued)*

Payment policy and average payment period

The company undertakes to pay its suppliers on time and according to agreed terms of trade, a copy of these terms can be obtained from the Company's registered office It is the Company's policy to agree with all of its suppliers,

- the terms of payment when agreeing the terms of the transaction,
- ensure that the supplier is aware of the terms of payment, and
- abide by those terms

At 29 June 2013 trade creditors expressed as number of days outstanding was 29 days (2012 27 days)

Going concern

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

Directors

The Directors who held office during the year were as follows

WL Adderley
J Rowell
DA Stead
S Barton
N Wharton

Employees

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

The Company places considerable value on the involvement of its employees and continues its practice of consulting with employees on matters likely to affect their interests, through its partners' council

Information on matters of concern to employees is given through bulletins, reports and an in-house newsletter

Political and charitable contributions

During the year the company made no political contributions, but made charitable contributions of £80,000 (2012 £97,000)

Disclosure of information to the auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware, and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information

Directors' report and business review *(continued)*

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office

David Stead
Director

Watermead Business Park
Syston
Leicestershire
LE7 1AD

2 December 2013

Statement of Directors' responsibilities in respect of the Directors' report and the financial statements

The directors are responsible for preparing the Directors' 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 they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law

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 company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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 enable them to ensure that the financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

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

By order of the Board

Nick Wharton	**David Stead**
Chief Executive	Financial Director

KPMG

Independent Auditor's report to the members of Dunelm (Soft Furnishings) Limited

We have audited the financial statements of Dunelm (Soft Furnishings) Limited for the period ended 29 June 2013 set out on pages 15 to 36 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 29 June 2013 and of its profit for the period then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Wayne Cox

Wayne Cox

(Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Peat House, 1 Waterloo Way, Leicester, LE1 6LP
2 December 2013

Income statement
For the 52 weeks ended 29 June 2013

	Note	52 weeks 2013 £000	52 weeks 2012 £000
Revenue	2	**677,192**	603,729
Cost of sales		**(347,448)**	(311,992)
Gross profit		**329,744**	291,737
Operating costs	4	**(222,230)**	(194,552)
Operating profit	3	**107,514**	97,185
Financial income	6	**5,097**	4,595
Financial expenses	6	**(6,185)**	(5,218)
Profit before tax		**106,426**	96,562
Taxation	7	**(26,086)**	(24,801)
Profit for the period attributable to the equity shareholders		**80,340**	71,761
Dividend paid per ordinary share		**£35**	£50

The income statement has been prepared on the basis that all operations are continuing

Statement of comprehensive income
For the 52 weeks ended 29 June 2013

	52 weeks 2013 £000	52 weeks 2012 £000
Profit for the period	**80,340**	71,761
Items that may be reclassified subsequently to profit or loss		
Effective portion of movement in fair value of cash flow hedges	**443**	343
Deferred tax on hedging movements	**(102)**	(90)
Total comprehensive income for the period	**80,681**	72,014

Statement of financial position
At 29 June 2013

	Note	2013 £000	2012 £000
Non-current assets			
Intangible assets	8	**4,262**	3,238
Property, plant and equipment	9	**81,643**	76,185
Deferred tax assets	10	**553**	-
		86,458	79,423
Current assets			
Inventories	11	**92,940**	86,221
Trade and other receivables	12	**84,948**	85,361
Cash and cash equivalents	13	**44,675**	64,884
Financial instruments	17	**387**	-
		222,950	236,466
Total assets		**309,408**	315,889
Current liabilities			
Trade and other payables	14	**(244,086)**	(262,105)
Liability for current tax payable		**(13,183)**	(13,276)
Financial instruments	17	-	(56)
		(257,269)	(275,437)
Non-current liabilities			
Deferred tax liabilities	10	-	**(793)**
Total liabilities		**(257,269)**	**(276,230)**
Net assets		**52,139**	39,659
Equity			
Share capital	16	**2,000**	2,000
Retained earnings		**49,840**	37,701
Hedging reserve		**299**	(42)
Total equity attributable to equity shareholders		**52,139**	39,659

These financial statements were approved by the Board of Directors on 2 December 2013 and were signed on its behalf by

David Stead
Director

Company number 2129238

Statement of cash flows
for the 52 weeks ended 29 June 2013

	Note	52 weeks 2013 £000	52 weeks 2012 £000
Cash flows from operating activities			
Profit before tax		**106,426**	96,562
Adjustments for			
Net financing costs	*6*	**1,088**	623
Operating profit		**107,514**	97,185
Depreciation and amortisation	*3*	**19,065**	17,562
Impairment losses on non-current assets	*3*	**84**	-
Loss/(profit) on sale of property, plant and equipment and intangible assets	*3*	**77**	(15)
Operating cash flows before movements in working capital		**126,740**	114,732
(Increase) in inventories		**(6,719)**	(9,766)
Decrease/(increase) in trade and other receivables		**382**	(2,502)
(Decrease)/increase in trade and other payables		**(18,018)**	75,300
Net movement in working capital		**(24,355)**	63,032
Share based payments expense	*15*	**965**	781
Foreign exchange gains		**451**	218
Cash flows from operating activities		**103,801**	178,763
Interest paid		**(2,574)**	-
Interest received		**905**	777
Tax paid		**(26,794)**	(24,474)
Net cash generated from operating activities		**75,338**	155,066
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**12**	634
Acquisition of property, plant and equipment	*9*	**(22,720)**	(24,274)
Acquisition of other intangible assets	*8*	**(3,000)**	(1,594)
Net cash from investing activities		**(25,708)**	(25,234)
Cash flows from financing activities			
Dividends paid		**(70,000)**	(100,000)
Net cash from financing activities		**(70,000)**	(100,000)
Net (decrease)/ increase in cash and cash equivalents		**(20,370)**	29,832
Foreign exchange revaluations		**161**	52
Cash and cash equivalents at the beginning of the period		**64,884**	35,000
Cash and cash equivalents at the end of the period	*13*	**44,675**	64,884

Statement of changes in equity

for the 52 weeks ended 29 June 2013

	Share capital £000	Hedging reserve £000	Retained earnings £000	Total parent equity £000
As at 2 July 2011	2,000	(295)	64,947	66,652
Profit for the financial year	-	-	71,761	71,761
Movement in fair value of cash flow hedges	-	343	-	343
Deferred tax on hedging movements	-	(90)	-	(90)
Total comprehensive income for the financial year	-	253	71,761	72,014
Share based payments	-	-	781	781
Deferred tax on share based payments	-	-	(41)	(41)
Current corporation tax on share options exercised	-	-	253	253
Dividends	-	-	(100,000)	(100,000)
Total transactions with owners, recorded directly in equity	-	-	(99,007)	(99,007)
Balance at 30 June 2012	**2,000**	**(42)**	**37,701**	**39,659**
As at 1 July 2012	2,000	(42)	37,701	39,659
Profit for the financial year	-	-	80,340	80,340
Movement in fair value of cash flow hedges	-	443	-	443
Deferred tax on hedging movements	-	(102)	-	(102)
Total comprehensive income for the financial year	-	341	80,340	80,681
Share based payments	-	-	965	965
Deferred tax on share based payments	-	-	576	576
Current corporation tax on share options exercised	-	-	258	258
Dividends	-	-	(70,000)	(70,000)
Total transactions with owners, recorded directly in equity	-	-	(68,201)	(68,201)
Balance at 29 June 2013	**2,000**	**299**	**49,840**	**52,139**

Notes to the financial statements

1. Accounting policies

Basis of preparation
Dunelm (Soft Furnishings) Limited is a company incorporated and domiciled in the UK

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

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements
The annual financial statements are prepared under the historical cost convention except where financial instruments have been stated at fair value The financial statements are prepared in pounds sterling, rounded to the nearest thousand

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

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

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

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

Taxation
There are transactions whose ultimate tax treatment is uncertain The Company makes provision for anticipated tax issues based on the likelihood of whether additional taxes may arise The Company recognises deferred tax assets and liabilities based on estimates of future taxable income and recoverability If these estimates do not materialise or change, or there are changes in tax rates or to the period over which losses might be recognised, then the value of the deferred tax assets or liability will need to be revised in a future period

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

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

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

Revenue

Revenue represents the proceeds from sales of goods and related services It is after deducting returns, discounts given and VAT For the majority of sales, revenue is recognised at the point of sale with the exception of custom made products, where revenue is recognised at the point that the goods are collected, and gift vouchers, where revenue is recognised when the vouchers are redeemed

Foreign currency

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, implementation costs and trademarks and are stated at cost less amortisation (see below) Costs incurred on the Company's own brand are expensed as incurred

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

- software development 3 years
- trademarks 5 years

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses

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

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases Lease payments are accounted for as described below

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

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

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

Current assets

Trade and other receivables

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

Inventories

Inventories are stated at the lower of cost and net realisable value Cost is derived using the average cost method and includes expenditure incurred in acquiring the inventories and bringing them into the business Net realisable value is the estimated selling price less cost to sell in the ordinary course of business

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

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

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

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

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

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

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

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

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

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

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

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

Provisions
A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

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 building provide for fixed rent review dates and amounts, the Company accounts for such review by recognising, on a straight line basis, the total implicit minimum lease payments over the non-cancellable period of the lease term

Financing income and expenses

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

Retirement benefits

The Company 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 Company issues equity settled share based payments to certain employees and Directors of the Company and these are treated as equity settled in the Company's accounts

Equity settled share based payments are measured at fair value at the date of grant The fair value determined at the date of grant of the equity share based payment (calculated using the binomial model) is expressed over the period from the date when it is first known that an award will be made until the date when that award first vests, with a corresponding increase recorded in equity

Dividends

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

Taxation

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be recognised Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be recognised

New Standards and interpretations

In the current year there were no new standards adopted that has a material impact on the company results At the date of approval, the following relevant standards were endorsed by the EU, but not yet adopted by the company

IFRS 12 - Disclosure of Interests in Other Entities
IFRS 13 - Fair Value Measurement

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

Notes to the financial statements *(continued)*

2. Segmental reporting

In both 2012 and 2013 the company had only one class of business, retail, and it operated predominantly in the UK market

The Company has one reportable segment, retail of homewares

The Chief Operating Decision Maker is the Board of Directors Internal management reports are reviewed by them on a monthly basis Performance of the segment is assessed based on profit before interest and taxation

Management believes 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 Company's revenue is driven by the consolidation of individual small transactions and as a result Company revenue is not reliant on a major customer or group of customers

3. Operating profit

Operating profit is stated after charging the following items

	2013 £000	2012 £000
Inventories		
Cost of inventories included in cost of sales	**341,545**	310,971
Movement on provisions for write down of inventories	**666**	1,021
Amortisation of intangible assets	**2,124**	2,445
Depreciation of owned property, plant and equipment	**16,941**	15,117
Impairment losses on noncurrent assets	**84**	-
Operating lease rentals		
Land and buildings	**36,680**	33,224
Plant and machinery	**1,427**	1,310
Loss/(profit) on disposal of property, plant and equipment	**77**	(15)

Auditors' remuneration

	2013 £000	2012 £000
Amounts receivable by the auditors in respect of		
Audit	**61**	61
Tax compliance	**22**	20
Other tax services	**125**	46

4. Operating costs

	2013 £000	2012 £000
Selling and Distribution	**183,926**	162,228
Administrative	**38,227**	32,339
Loss/(profit) on disposal of property, plant and equipment	**77**	(15)
	222,230	194,552

Notes to the financial statements *(continued)*

5. Employee numbers and costs

The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows

	Number of employees	
	2013	2012
Selling	**7,429**	6,380
Distribution	**289**	290
Administration	**253**	235
	7,971	6,905

The aggregate payroll costs of these persons were as follows

	2013	2012
	£000	£000
Wages and salaries including bonuses and termination benefits	**85,050**	73,823
Social security costs	**4,961**	4,734
Share based payments (See note 15)	**965**	781
Contributions to defined contribution plans	**283**	319
	91,259	79,657

6. Finance income and expense

	2013	2012
	£000	£000
Finance income		
Group undertakings	**3,580**	3,548
Interest on bank deposits	**905**	777
Foreign exchange gains and revaluations	**612**	270
Total finance income	**5,097**	4,595
Finance expense		
Group undertakings	**6,185**	5,218
Total finance expense	**6,185**	5,218
Net finance expense	**1,088**	623

Notes to the financial statements *(continued)*

7 Taxation

	2013 £000	2012 £000
Current tax expense		
Current year	**26,702**	25,991
Adjustments for prior years	**256**	(657)
Current tax expense	**26,958**	25,334
Deferred tax expense		
Origination and reversal of temporary differences	**(872)**	(666)
Adjustments for prior years	**-**	133
Deferred tax expense	**(872)**	(533)
Total tax expense in income statement	**26,086**	24,801

Reconciliation of effective tax rate

	2013 £000	2012 £000
Profit for the year	**106,426**	96,562
Current tax at 23 75% (2012 25 5%)	**25,276**	24,623
Factors affecting the charge in the period		
Expenses not deductable for tax	**53**	60
Depreciation on ineligible assets	**854**	922
Ineligible loss on disposals	**(14)**	(82)
Non taxable credit to income relating to new leases	**(96)**	(109)
Adjustment in respect of prior periods	**-**	(525)
Effect of standard rate of corporation tax change	**13**	(88)
Total tax expense	**26,086**	24,801

Factors that may affect future current and total tax charges

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

This will reduce the company's future current tax charge accordingly and further reduce the deferred tax liability at 29 June 2013 (which has been calculated based on the rate of 23% substantively enacted at the balance sheet date) by £72,000

Notes to the financial statements *(continued)*

8. Intangible assets

	Software development and licences £000	Rights to Dorma brand £000	Total £000
Cost			
Balance at 2 July 2011	4,925	5,036	9,961
Additions	1,590	4	1,594
Transfers from property, plant & equipment	26	-	26
Disposals	(639)	-	(639)
Balance at 30 June 2012	5,902	5,040	10,942
Additions	3,000	-	3,000
Transfers from property, plant & equipment	148	-	148
Disposals	-	-	-
Balance at 29 June 2013	9,050	5,040	14,090
Amortisation			
Balance at 2 July 2011	2,332	2,937	5,269
Amortisation for the year	1,438	1,007	2,445
Disposals	(10)	-	(10)
Balance at 30 June 2012	3,760	3,944	7,704
Amortisation for the year	1,114	1,010	2,124
Disposals	-	-	-
Balance at 29 June 2013	4,874	4,954	9,828
Net book value			
At 29 June 2013	4,176	86	4,262
At 30 June 2012	2,142	1,096	3,238
At 2 July 2011	2,593	2,099	4,692

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

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

Notes to the financial statements *(continued)*

9. Property, plant and equipment

	Land and buildings £000	Leasehold improvements £000	Plant and machinery £000	Motor vehicles £000	Fixtures and fittings £000	Total £000
Cost						
Balance at 2 July 2011	4,018	68,509	1,600	45	38,328	112,500
Additions	70	13,279	727	-	10,198	24,274
Transfers to intangible assets	-	25	14	-	(65)	(26)
Disposals	-	(347)	(23)	(26)	(294)	(690)
Balance at 30 June 2012	4,088	81,466	2,318	19	48,167	136,058
Additions	57	11,237	546	-	10,880	22,720
Transfers to intangible assets	49	52	-	-	(249)	(148)
Disposals	(1)	(167)	(4)	(19)	(1,017)	(1,208)
Balance at 29 June 2013	**4,193**	**92,588**	**2,860**	**-**	**57,781**	**157,422**
Depreciation						
Balance at 2 July 2011	586	21,574	376	45	22,557	45,138
Depreciation charge for the year	677	6,051	497	-	7,892	15,117
Disposals	-	(160)	(6)	(26)	(190)	(382)
Balance at 30 June 2012	1,263	27,465	867	19	30,259	59,873
Depreciation charge for the year	63	7,147	606	-	9,125	16,941
Disposals	-	(96)	(2)	(19)	(1,002)	(1,119)
Impairment loss	66	-	2	-	16	84
Balance at 29 June 2013	**1,392**	**34,516**	**1,473**	**-**	**38,398**	**75,779**
Net book value						
At 29 June 2013	**2,801**	**58,072**	**1,387**	**-**	**19,383**	**81,643**
At 30 June 2012	2,825	54,001	1,451	-	17,908	76,185
At 2 July 2011	3,432	46,935	1,224	-	15,771	67,362

Impairments are in relation to the future closure of the Webstore distribution centre

Notes to the financial statements *(continued)*

10. Deferred tax

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

Deferred taxation assets and liabilities are attributable to the following

	Assets		Liabilities		Net	
	2013	2012	**2013**	2012	**2013**	2012
	£000	£000	**£000**	£000	**£000**	£000
Property, plant and equipment	**-**	-	**(380)**	(1,439)	**(380)**	(1,439)
Employee benefits	**1,111**	528	**-**	-	**1,111**	528
Short term temporary differences		118	**(178)**	-	**(178)**	118
	1,111	646	**(558)**	(1,439)	**553**	(793)

Movement in net deferred tax is as follows

	2 July 2011 £000	Recognised in income £000	Recognised in equity £000	30 June 2012 £000
Property, plant and equipment	(1,767)	328	-	(1,439)
Employee benefits	422	147	(41)	528
Short term temporary differences	150	58	(90)	118
	(1,195)	533	(131)	(793)

	30 June 2012 £000	Recognised in income £000	Recognised in equity £000	29 June 2013 £000
Property, plant and equipment	(1,439)	1,059	-	**(380)**
Employee benefits	528	7	576	**1,111**
Short term temporary differences	118	(194)	(102)	**(178)**
	(793)	872	474	**553**

11. Inventories

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

Notes to the financial statements *(continued)*

12. Trade and other receivables

	2013 £000	2012 £000
Trade receivables	**342**	340
Other receivables	**3,495**	2,940
Prepayments and accrued income	**14,386**	13,699
Amounts owed by group undertakings	**66,725**	68,382
	84,948	85,361

13. Cash and cash equivalents/bank overdrafts

	2013 £000	2012 £000
Cash and cash equivalents	**44,675**	64,884

14. Trade and other payables

	2013 £000	2012 £000
Current		
Trade payables	**30,178**	30,122
Accruals and deferred income	**57,063**	49,946
Other tax and social security	**8,487**	9,053
Other creditors	**2,279**	4,161
Amounts owed to group companies	**146,079**	168,823
	244,086	262,105

15. Share-based payments

As at 29 June 2013, the Company 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')

Each of these awards shares in the parent company, Dunelm Group plc

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

a) Dunelm Group Share Option Plan
The GSOP was established in December 2003 Options have a vesting period of three years from date of grant and a maximum life of 10 years All subsequent grants have an exercise price equal to market price at date of grant These grants are dependent on the level of growth in the Group's EPS relative to RPI as well as continuing employment with the Group

Notes to the financial statements *(continued)*

15. Share-based payments *(continued)*

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

	November 2012 Grant	October 2010 grant
Fair value at measurement date	151 7p	145 8p
Exercise price	641 5p	420 0p
Expected volatility (weighted average volatility used in modelling – based on historical volatility of comparable quoted companies)	29%	36%
Option life (weighted average life used in modelling)	3 years	3 years
Expected dividends	2 5%	2 5%
Risk-free interest rate	0 8%	1 7%

The number and weighted average exercise price of options under the GSOP is as follows

	Weighted average exercise price 2013	**Number of shares under option 2013**	Weighted average exercise price 2012	Number of shares under option 2012
Outstanding at beginning of year	**420.0p**	**100,000**	344 3p	136,495
Granted during year	**641.5p**	**53,565**	-	-
Exercised during year	-	-	137 0p	(36,495)
Lapsed during year	-	-	-	-
Outstanding at end of year	**497.3p**	**153,565**	420 0p	100,000

b) Dunelm Group Savings Related Share Option Plan
The Sharesave scheme was established in 2006 and is open to all staff with eligible length of service One grant was made under the scheme during the year, in November 2012 Options may be exercised under the scheme on completion of the three year savings contract and must be exercised within six months from that date There is provision for early exercise in certain circumstances such as death, disability, redundancy and retirement

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

	November 2012	November 2011	November 2010
Fair value at measurement date	158 8p	160 2p	192 8p
Share price	674 5p	503 5p	497 5p
Exercise price	545 0p	361 0p	337 0p
Expected volatility (weighted average volatility used in modelling – based on historical volatility of comparable quoted companies)	32%	31%	43%
Option life (weighted average life used in modelling)	3 5 years	3 5 years	3 5 years
Expected dividends	2 5%	2 5%	2 5%
Risk-free interest rate	0 8%	1 1%	1 7%
Forfeiture rate	57%	38%	19%

Notes to the financial statements *(continued)*

15. Share-based payments *(continued)*

b) Dunelm Group Savings Related Share Option Plan *(continued)*
The number and weighted average exercise price of options outstanding under the Sharesave at 29 June 2013 is as follows

	Weighted average exercise price 2013	**Number of shares under option 2013**	Weighted average exercise price 2012	Number of shares under option 2012
Outstanding at beginning of year	**321.5p**	**820,753**	245 7p	870,612
Granted during year	**545.0p**	**272,662**	361 0p	325,879
Exercised during the year	**254.6p**	**(231,548)**	127 3p	(230,051)
Forfeited during year	**384.1p**	**(83,282)**	263 4p	(145,687)
Outstanding at end of year	**413.0p**	**778,585**	321 5p	820,753

The weighted average share price at the time of exercise was 699 4p

c) Long-Term Incentive Plan
The LTIP was approved by the Board in 2006 enabling the Company to award shares to particular individuals, normally in the form of nominal cost options The LTIP is administered by the Remuneration Committee One grant was made in the year to senior management The grants are exercisable in November 2015 The grants are dependent on continuing employment within the Group The maximum life of options under the LTIP is 10 years from the date of grant

The fair value of services received in return for share options granted is measured by reference to the fair value of the options This has been calculated as follows

	November 2012 grant	October 2011 grant	October 2011 grant	December 2010 grant	October 2010 grant
Share price at date of grant	641 5p	499 0p	451 0p	500 0p	440 1p
Discount factor, based on dividend yield of 2 5% to vesting date	0 779	0 928	0 905	0 927	0 927
Fair value of option	499 5p	462 9p	408 3p	463 4p	407 9p

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

	Weighted average exercise price 2013	**Number of shares under option 2013**	Weighted average exercise price 2012	Number of shares under option 2012
Outstanding at beginning of year	-	**508,674**	-	464,343
Granted during year	-	**143,774**	-	119,969
Exercised during the year	-	**(134,228)**	-	(60,757)
Forfeited during year	-	**(595)**	-	(14,881)
Outstanding at end of year	-	**517,625**	-	508,674

Notes to the financial statements *(continued)*

15. Share-based payments *(continued)*

d) Impact on income statement

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

	2013 £000	2012 £000
Group Share Option Plan	**63**	45
Sharesave	**342**	338
LTIP – Senior Managers share match	**560**	398
Total	**965**	781

16. Share capital

	Number of ordinary shares	
	2013 £000	2012 £000
Allotted, called up and fully paid		
Ordinary shares of £1 each	**2,000**	2,000

17. Financial risk management

The Board of Directors of Dunelm (Soft Furnishings) Ltd has overall responsibility for the oversight of the Company's risk management framework A formal process for reviewing and managing risk in the business has been developed A register of strategic and operational risks is maintained and reviewed quarterly by the Company Board, who also monitors the status of agreed actions to mitigate key risks

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers The Company only deals with creditworthy counterparties, and uses publicly available financial information to rate its customers

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due The Company'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 Company manages this risk by continuously monitoring cash flow forecasts

Company 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

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income

Interest rate risk

The Company's bank borrowings incur variable interest rate charges linked to LIBOR and Barclays Bank Base Rate The Directors do not consider that future changes in interest rates are likely to cause a material direct impact on profitability

Notes to the financial statements *(continued)*

17. Financial risk management *(continued)*

Foreign currency risk
The Company is exposed to foreign currency risk on purchases denominated in US dollars These amounted to approximately 16% of the total purchases in the year ended 29 June 2013 The outstanding US dollar liabilities at the year end were $525,000 (2012 $256,000) and payments on account were $6,234,000 (2012 $6,227,000)

During the year the Company entered into exchange rate swaps for $65 7m to sell Sterling and buy US Dollars These swaps are accounted for as cash flow hedges During the year the net mark to market profit on foreign currency hedging instruments taken to equity was £0 3m (2012 £0 3m) At the balance sheet date the Company had 16 swap contracts outstanding with a maximum value of $45 9m

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

In the event of a significant adverse movement in the US dollar exchange rate, the Company would seek to minimise the impact on profitability by changing the selling price of goods

Sensitivity analysis
The Company's principal foreign currency exposure is to the US dollar

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

The US dollar year end exchange rate applied in the above analysis is 1 5239 (2012 1 5617) Strengthening and weakening of sterling may not produce symmetrical results depending on the proportion and nature of foreign exchange derivatives which do not qualify for hedge accounting

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

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

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

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

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

Notes to the financial statements *(continued)*

17. Financial risk management *(continued)*

Capital management
The Company manages its equity as capital

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 Company to ensure that this can be achieved

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

	2013 Carrying value £000	**2013 Fair value £000**	2012 Carrying value £000	2012 Fair value £000
Cash and cash equivalents	**44,675**	**44,675**	64,884	64,884
Trade receivables	**342**	**342**	340	340
Intercompany assets	**66,725**	**66,725**	68,382	68,382
Forward exchange contracts	**387**	**387**	-	-
Total financial assets	**112,129**	**112,129**	133,606	133,606

The value of trade receivables is net of a provision against bad debts of £14,235 (2012 £16,615)

	2013 Carrying value £000	**2013 Fair value £000**	2012 Carrying value £000	2012 Fair value £000
Trade payables	**(30,178)**	**(30,178)**	(30,122)	(30,122)
Intercompany liabilities	**(146,080)**	**(146,080)**	(168,823)	(168,823)
Forward exchange contracts	**-**	**-**	(56)	(56)
Total financial liabilities	**(176,258)**	**(176,258)**	(199,001)	(199,001)
Net financial liabilities	**(64,129)**	**(64,129)**	(65,395)	(65,395)

The fair value on trade receivables and trade payables are approximate to the carrying value

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

	Total £'000	Neither past due nor impaired £'000	Less than 30 days £'000	31–60 days £'000	61–90 days £'000	More than 90 days £'000
29 June 2013	356	48	47	52	3	206
30 June 2012	340	30	291	-	3	16

Notes to the financial statements *(continued)*

17. Financial risk management *(continued)*

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

	Total £'000	Neither past due nor impaired £'000	Less than 30 days £'000	31–60 days £'000	61–90 days £'000	More than 90 days £'000
29 June 2013	(30,178)	(28,499)	(667)	(195)	(133)	(684)
30 June 2012	(30,122)	(22,547)	(6,412)	(152)	(279)	(732)

Intercompany assets and liabilities are receivable/payable on demand

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

	2013 £000	2012 £000
Sterling	**41,256**	63,810
US Dollar	**3,137**	878
Euro	**282**	196
	44,675	64,884

18. Commitments

As at 29 June 2013 the Company had entered into capital contracts amounting to £13 2m The equivalent figure as at 30 June 2012 was £15 3m

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

	Motor Vehicles 2013 £000	**Land and buildings 2013 £000**	**Plant and machinery 2013 £000**	Motor Vehicles 2012 £000	Land and buildings 2012 £000	Plant and machinery 2012 £000
Within one year	**895**	**41,579**	**496**	552	36,823	287
In the second to fifth year inclusive	**2,354**	**154,592**	**2,158**	392	135,174	840
After five years	**-**	**203,834**	**964**	-	200,889	102
	3,249	**400,005**	**3,618**	944	372,886	1,229

The Company has 139 operating leases in respect of properties These leases run for periods up to 20 years, with an option to renew leases on expiry Lease payments are typically reviewed every five years

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

19. Contingent liabilities

The Company had no contingent liabilities at either period end date

Notes to the financial statements *(continued)*

20. Related parties

Identity of related parties

The Company has related party relationships with its Parent and Group subsidiaries and with its Directors

Key management personnel

The key management personnel comprise the members of the Board of Directors and the executive team Disclosures relating to remuneration of Directors are set out in the Remuneration Report of the Group's financial statements

The remuneration of the key management personnel, excluding group directors, is as follows

	2013	2012
	£000	£000
Key management emoluments including social security costs	2,115	1,785
Company contributions to money purchase pension plans	53	34
	2,168	1,819
Highest paid key management personnel	355	282

Other related party transactions

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

The amounts due to and from the Company in respect of the Parent company and other Group subsidiaries were as follows

	Parent company		Other group companies	
	2013	2012	2013	2012
	£000	£000	£000	£000
Cash paid to group undertakings	(827)	(707)	(7,568)	(9,239)
Cash received from group undertakings	99,755	26,867	2,358	16,145
Dividends paid	(70,000)	(100,000)	-	-
Net interest (paid)/received	(6,185)	(5,218)	3,553	3,548
	22,743	(79,058)	(1,657)	10,454

	Parent company		Other group companies	
	2013	2012	2013	2012
	£000	£000	£000	£000
Balances receivable from	-	-	66,725	68,382
Balances payable to	(146,080)	(168,823)	-	-

21 Ultimate parent company

The Company is a subsidiary undertaking of Dunelm Group plc which is the ultimate parent company incorporated in England and Wales

22 Subsequent event

There are no material post balance sheet events