DUNELM (SOFT FURNISHINGS) LIMITED

Annual report and financial statements

Registered number 2129238

2 July 2016

Company information

Directors	Will Adderley
	John Browett
	Keith Down
	Steve Barton
	James Rowell
Secretary	Dawn Durrant
Company number	2129238
Registered office	Watermead Business Park
	Syston
	Leicestershire
	LE7 1AD
Independent Auditors	PricewaterhouseCoopers LLP
	Cornwall Court
	19 Cornwall Street
	Birmingham
	B3 2DT
Bankers	Barclays Bank Plc
	15 Colmore Row
	Birmingham
	B3 2WN

Contents

Strategic report

The Directors present their strategic report together with the Directors' report and audited financial statements of the company for the period ended 2 July 2016.

Principal activities
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.

Overview
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.

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.

We have 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.

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.

Strategic report *(continued)*

Growth Strategy

We continue 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 and 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 ten 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 focussing 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.

Strategic report *(continued)*

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 and 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.

Strategic report *(continued)*

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 ten this year. We have the key infrastructure in place, the right team, a great heritage and a continued focus on product and people.

Financial Items

The Company incurred £0.4m net financial expense for the year (2015: £2.6m). Gains amounting to £0.2m (FY15: £0.5m) were made from interest earned on cash deposits and gains of £1.0m (FY15: £0.3m) resulted from foreign exchange differences on the translation of dollar denominated assets and liabilities. These gains were partially offset by £1.6m (FY15: £0.6m) of interest payable and amortisation of arrangement fees relating to the Company's revolving credit facility. The balance of net financial expense represents net intercompany interest payable of £nil (2015: £2.8m).

As at 2 July 2016 the Company 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).

Strategic report *(continued)*

Hedging

Due to the Brexit vote that took place close to the Company'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. Note 21 to the financial statements includes the Company'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 year amounted to £127.4m (2015: £118.5m), an increase of 7.5%.

Tax and PAT

The tax charge for the year was 20.2% of profit before tax compared with 21.4% in the prior year. This reflects the reduction in the headline rate of corporation tax from 20.75% to 20%. 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. Profit for the period attributable to the equity shareholders was £101.7m (2015: £93.1m), an increase of 9.2%.

Capital Expenditure

Gross capital expenditure in the period was £42.4m compared with £29.6m 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.

Operating Cash Flow

The Company generated £192.5m (FY15: £31.0m used) of net cash from operating activities in the year.

Capital 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 0.25x and 0.75x historical EBITDA. This policy provides the flexibility to continue to invest in the Company'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 0.53× (FY15: 0.52×).

Banking Agreements and Net Debt

In order to support its capital policy, during the year the Company continued to hold a £150m syndicated Revolving Credit Facility ("RCF") with a maturity of five years. The terms of the RCF are consistent with normal practice and include covenants in respect of leverage (net debt to be no greater than 2.5x EBITDA) and fixed charge cover (EBITDA) to be no less than 1.5x fixed charges), both of which were met comfortably as at 2 July 2016.

In addition the Company maintains £20m of uncommitted overdraft facilities with two syndicate partner banks. Net debt at 2 July 2016 was £79.9m (FY15: £74.1m).

Strategic report *(continued)*

Treasury Management

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

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

Key performance indicators

In addition to the traditional financial measures of sales and profits, the Directors review business performance each month using a range of other KPIs.

Sales growth

2016	**5.4%**
2015	14.5%
2014	7.8%

Like for like store sales growth

2016 *	**1.0%**
2015 *	3.4%
2014	-0.2%

Home delivery sales growth

2016 *	**23.2%**
2015 *	55.0%
2014	68.6%

Gross margin change

2016	**60bps**
2015	-30bps
2014	80bps

Operating margin

2016	**14.5%**
2015	14.5%
2014	15.8%

EBITDA

2016	**£151.5m**
2015	£141.4m
2014	£135.5m

New store openings

2016	**6**
2015	12
2014	12

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

Strategic report *(continued)*

Principle risks and uncertainties
Risk is a 'whole Board' matter for Dunelm: 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 strategic risks twice annually 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 strategic risks twice annually Allocates resources for external assurance reviews of selected risks Selects topics for 'key risk' reviews by the Board.
Executive Board	Reviews strategic risks Members have responsibility for managing risk within their area of accountability	Formal review of strategic 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.

Strategic report *(continued)*

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 Company 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 indicated in the left hand column of the table below. 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.

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

Competition, market and customers

Performance indicator: Market share	**Link to strategy:** 1, 2, 3 **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:** **UP**
DESCRIPTION **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.** **Previous category:** competition and customers	**Mitigation** 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.	**Progress in 2015/16** 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 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.

Strategic report *(continued)*

Portfolio expansion

Performance indicator:	**Link to strategy:** 2	**Impact compared to 2014/15:**
Number of new store openings and pipeline	**Strategic Initiative link:** London **Executive responsibility**: Property Director **Reports to:** Chief Executive	**UP**
DESCRIPTION	**Mitigation**	**Progress in 2015/16**
Availability of vacant or new retail space in the right location is essential to deliver our growth plans. Inability to secure or develop the required retail trading space to deliver our superstore format will limit our pace of expansion or force us to compromise our offer.	Our property team actively monitors availability of retail space with the support of professional advisers. Financial modelling helps us assess the viability of potential sites. The Group's strong cash generation and funding headroom provide an attractive covenant to landlords and the ability to acquire freehold units if appropriate.	We have opened 6 new stores in the year, including 2 in the London area. We have legally completed on ten 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.
Previous category:	**Board oversight:**	
Portfolio expansion	Property strategy reviewed annually by the Board.	

Strategic report *(continued)*

Brand damage

Performance indicator:	**Link to strategy: 1, 2, 3**	**Impact compared to 2014/15:**
Product complaints and recalls	**Executive responsibility**: Product Director **Reports to:** Chief Executive	**SAME**
DESCRIPTION	**Mitigation**	**Progress in 2015/16**
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.** **Previous category**: Brand reputation, product and service quality	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.

Strategic report *(continued)*

People and culture

Performance indicators:	**Link to strategy: 1, 2, 3**	**Impact compared to 2014/15:**
Colleague retention	**Executive responsibility**: People Director	
	Reports to: Chief Executive	**DOWN**
DESCRIPTION	**Mitigation**	**Progress in 2015/16**
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. **Previous category:** Management team and key personnel	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 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.

Strategic report *(continued)*

Regulatory, Environment & Compliance

Performance indicator:	**Link to strategy: 1, 2, 3**	**Impact compared to 2014/15:**
Prosecution and other regulatory action	**Executive responsibility**: Company Secretary **Reports to:** Chief Financial Officer	**SAME**
DESCRIPTION	**Mitigation**	**Progress in 2015/16**
The Group risks incurring penalties, damages, claims and reputational damage arising from failure to comply with legislative or regulatory requirements across many areas including, but not limited to, trading, health and safety, employment law, data protection, Bribery Act, advertising, human rights and the environment. **Previous category:** Regulatory, Environment & Compliance	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.

Strategic report *(continued)*

IT Systems, Sensitive Data and Cyber Risk

Performance indicator: Number of major incidents	**Link to strategy: 1, 2, 3** **Executive responsibility**: Chief Information Officer **Reports to**: Chief Executive	**Impact compared to 2014/15:** **UP**
DESCRIPTION **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.** **Previous category:** IT systems, sensitive data and cyber risk	**Mitigation** 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.	**Progress in 2015/16** 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.

Strategic report *(continued)*

Supply chain disruption

Performance indicator: Service levels in respect of store service	**Link to strategy: 1, 2, 3** **Strategic initiative link:** Supply chain **Executive responsibility**: Supply Chain Director **Reports to:** Chief Executive	**Impact compared to 2014/15:** **DOWN**
DESCRIPTION	**Mitigation**	**Progress in 2015/16**
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.** **Previous category:** Business interruption and infrastructure	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 to 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.

Strategic report *(continued)*

Business efficiency

Performance indicator:	**Link to strategy: 1, 2, 3**	**Impact compared to 2014/15:**
Gross margin	**Strategic initiative link:** Store operations, stock management **Executive responsibility**: Chief Financial Officer, Stores Director (Store Operations), Supply Chain Director (Stock Management) **Report to:** Chief Executive	**UP**
DESCRIPTION	**Mitigation**	**Progress in 2015/16**
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.** **Previous category:** Commodity prices	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.

Strategic report *(continued)*

Finance and treasury

Performance indicators: Operating cash conversion Banking covenants Loan headroom	**Link to strategy: 1, 2, 3** **Executive responsibility:** Chief Financial Officer **Reports to:** Chief Executive	**Impact compared to 2014/15:** **UP**
DESCRIPTION	**Mitigation**	**Progress in 2015/16**
Lack of access to appropriate levels of cash resources or exposure to significant variations in interest rates or exchange rates could have an impact on the Group's operations and growth plans. **Previous category:** Finance and treasury	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 £79.9m (0.53× 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.
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.

Strategic report *(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 2 July 2016 trade creditors expressed as number of days outstanding was 38 days (2015: 43 days).

On behalf of the Board

Keith Down
Director

Watermead Business Park
Syston
Leicestershire
LE7 1AD

14 September 2016

Directors' report

The Directors present their report together with the strategic report and audited financial statements for the period ended 2 July 2016. This report satisfies the requirements of the Companies Act 2006 to produce a business review.

General information

The Company domiciles and is incorporated as a limited company in the UK.

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

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.

Directors

The directors of the company who were in office during the period and up to the date of signing the financial statements were:

Will Adderley

John Browett

Keith Down (appointed 7 December 2015)

Steve Barton

James Rowell

David Stead (resigned 31 December 2015)

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 £59,000 (2015: £98,000). Total funds raised for charity by the Company and colleagues were £231,000 (2015: £366,000).

Dividend

Dividends amounting to £159m (2015: £35m) were declared, authorised and paid on the ordinary shares during the year.

Directors' report *(continued)*

Financial risk management

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, interest rate risk and foreign currency risk. The company's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the company's financial performance. The company uses derivative financial instruments to hedge certain risk exposures. This is explained in further detail within note 21.

Disclosure of information to the auditors

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 auditors are 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 auditors are aware of that information.

Independent Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

On behalf of the Board

Keith Down
Director

14 September 2016

Watermead Business Park
Syston
Leicestershire
LE7 1AD

Statement of Directors' responsibilities

The directors are responsible for preparing the Strategic Report, 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 the directors have prepared the 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 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 judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

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

Report on the financial statements

Our opinion

In our opinion, Dunelm (Soft Furnishings) Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 2 July 2016 and of its profit and cash flows for the period then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements comprise:

- the statement of financial position as at 2 July 2016;
- the income statement and statement of comprehensive income for the period then ended;
- the statement of cash flows for the period then ended;
- the statement 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.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

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, 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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.

Independent auditors' report to the members of Dunelm (Soft Furnishings) Limited *(continued)*

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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 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

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

Income statement

For the 52 weeks ended 2 July 2016

	Note	2016 52 weeks £'m	2015 53 weeks £'m
Revenue	2	**880.9**	835.8
Cost of sales		**(442.4)**	(424.6)
Gross profit		**438.5**	411.2
Operating costs	4	**(310.7)**	(290.1)
Operating profit	3	**127.8**	121.1
Financial income	6	**2.5**	3.4
Financial expenses	6	**(2.9)**	(6.0)
Profit before tax		**127.4**	118.5
Taxation	7	**(25.7)**	(25.4)
Profit for the period attributable to the equity shareholders		**101.7**	93.1

Statement of comprehensive income

For the 52 weeks ended 2 July 2016

	2016 52 weeks £'m	2015 53 weeks £'m
Profit for the period	**101.7**	93.1
Items that may be reclassified subsequently to profit or loss:		
Movement in fair value of cash flow hedges	10.3	0.9
Transfers of cash flow hedges to inventory	(2.9)	1.7
Deferred tax on hedging movements	(1.3)	(0.5)
Other comprehensive income for the period, net of tax	**6.1**	2.1
Total comprehensive income for the period	**107.8**	95.2

Statement of financial position

As at 2 July 2016

	Note	2016 £'m	2015 £'m
Non-current assets			
Intangible assets	9	**18.6**	13.1
Property, plant and equipment	10	**99.9**	88.4
Investments	11	**0.3**	-
Deferred tax assets	12	**0.9**	2.0
Derivative financial instruments	21	**0.8**	-
		120.5	103.5
Current assets			
Inventories	13	**116.6**	133.1
Trade and other receivables	14	**39.0**	84.4
Cash and cash equivalents	15	**14.3**	15.7
Derivative financial instruments	21	**6.8**	-
Total current assets		**176.7**	233.2
Total assets		**297.2**	336.7
Current liabilities			
Trade and other payables	16	**(95.8)**	(88.0)
Liability for current tax payable		**(11.9)**	(11.9)
Financial instruments	21	**-**	(0.3)
Total current liabilities		**(107.7)**	(100.2)
Non-current liabilities			
Bank loans and overdrafts	17	**(94.2)**	(89.8)
Trade and other payables	16	**(41.4)**	(42.4)
Deferred tax liability	12	**(0.9)**	-
Provision for liabilities	18	**(2.0)**	(3.1)
Derivative financial instruments	21	**(0.2)**	-
Total liabilities		**(246.4)**	(235.5)
Net assets		**50.8**	101.2
Equity			
Share capital	20	**2.0**	2.0
Retained earnings		**42.9**	99.4
Hedging reserve		**5.9**	(0.2)
Total equity attributable to equity shareholders		**50.8**	101.2

The financial statements on pages 23 to 49 were approved by the Board of Directors on 14 September 2016 and were signed on its behalf by:

Keith Down
Director
Company number 2129238

Statement of cash flows

for the 52 weeks ended 2 July 2016

	Note	**2016 52 weeks £'m**	2015 53 weeks £'m
Cash flows from operating activities			
Profit before tax		**127.4**	118.5
Adjustments for:			
Net financing costs	6	**0.4**	2.6
Operating profit		**127.8**	121.1
Depreciation and amortisation	3	**23.9**	20.2
Impairment losses on non-current assets	3	**(0.1)**	-
(Profit)/Loss on sale of property, plant and equipment and intangible assets	3	**(0.1)**	0.1
Operating cash flows before movements in working capital		**151.5**	141.4
Decrease/(increase) in inventories	13	**16.5**	(17.6)
Decrease in trade and other receivables	14	**45.1**	1.1
Increase/(decrease) in trade and other payables	16	**4.1**	(130.7)
Net movement in working capital		**65.7**	(147.2)
Share based payments expense	19	**1.1**	1.1
Cash flows from operating activities		**218.3**	(4.7)
Interest received		**0.1**	0.5
Tax paid	7	**(25.9)**	(26.8)
Net cash generated from/(used in) operating activities		**192.5**	(31.0)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**1.6**	-
Acquisition of property, plant and equipment	10	**(29.5)**	(23.4)
Acquisition of other intangible assets	9	**(10.2)**	(5.9)
Net cash used in investing activities		**(38.1)**	(29.3)
Cash flows from financing activities			
Drawdowns on revolving credit facility	17	**39.0**	167.0
Repayments of revolving credit facility	17	**(35.0)**	(76.0)
Loan transaction costs		**-**	(1.3)
Interest paid		**(1.6)**	(0.1)
Dividends paid	8	**(159.0)**	(35.4)
Net cash (used in)/generated from financing activities		**(156.6)**	54.2
Net decrease in cash and cash equivalents		**(2.2)**	(6.1)
Foreign exchange revaluations		**0.8**	0.3
Cash and cash equivalents at the beginning of the period		**15.7**	21.5
Cash and cash equivalents at the end of the period	15	**14.3**	15.7

Statement of changes in equity

for the 52 weeks ended 2 July 2016

	Share capital £'m	Hedging reserve £'m	Retained earnings £'m	Total parent equity £'m
As at 28 June 2014	**2.0**	**(2.3)**	**40.6**	**40.3**
Profit for the period	-	-	93.1	93.1
Fair value gains on cash flow hedges	-	0.9	-	0.9
Loss on cash flow hedges transferred to inventory	-	1.7	-	1.7
Deferred tax on hedging movements	-	(0.5)	-	(0.5)
Total comprehensive income for the period	-	2.1	93.1	95.2
Share based payments	-	-	1.1	1.1
Deferred tax on share based payments	-	-	(0.1)	(0.1)
Current corporation tax on share options exercised	-	-	0.1	0.1
Dividends	-	-	(35.4)	(35.4)
Total transactions with owners, recorded directly in equity	-	-	(34.3)	(34.3)
As at 4 July 2015	**2.0**	**(0.2)**	**99.4**	**101.2**
Profit for the period	-	-	101.7	101.7
Fair value gains on cash flow hedges	-	10.3	-	10.3
Gain on cash flow hedges transferred to inventory	-	(2.9)	-	(2.9)
Deferred tax on hedging movements	-	(1.3)	-	(1.3)
Total comprehensive income for the period	-	6.1	101.7	107.8
Share based payments	-	-	1.1	1.1
Deferred tax on share based payments	-	-	(0.5)	(0.5)
Current corporation tax on share options exercised	-	-	0.2	0.2
Dividends	-	-	(159.0)	(159.0)
Total transactions with owners, recorded directly in equity	-	-	(158.2)	(158.2)
As at 2 July 2016	**2.0**	**5.9**	**42.9**	**50.8**

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 (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.
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 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.

After making enquiries, fhe 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.

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 on-going 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 the inventories held where it is anticipated that new realisable value (NRV) will be below costs. NRV is calculated on the basis of current selling price and expected future price reductions. Future price reductions in turn are assumed to be in line with the Groups 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.

Consolidation

The Company is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare group accounts. These financial statements present information about the Company as an individual undertaking and not about its group.

Revenue

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

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

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

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

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

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company 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 life.

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 software	3 years
• trademarks and brands	5 to 15 years

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

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:

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

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. Provisions are made for obsolete, slow-moving or discontinued stock.

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.

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 and overdrafts are recorded at their fair value net of transaction costs incurred and are subsequently carried at amortised cost.

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.

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

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 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 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 Company 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.

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

Operating leases

The Company 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 are 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 building provide for fixed rent review dates and amounts, the Company financial statements 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 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 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 Company 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 share, 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.

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

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 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 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 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..

Notes to the financial statements *(continued)*

2. Segmental reporting

The Company has one reportable segment, in accordance with IFRS 8 - Operating Segment, which is the retail of homewares in the UK.

Customers access the Company's offer across multiple channels and often their journey involves more than one channel. Therefore internal reporting focuses on the Company 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 KPI's as well as on profit before taxation.

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

All material operations of the reportable segment are carried out in the UK. The Company'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.

3. 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	**18.3**	18.2
Impairment losses on non-current assets	**(0.1)**	-
Operating lease rentals	**47.8**	45.7
(Profit)/loss on disposal of property, plant and equipment and intangible assets	**(0.1)**	0.1

The analysis of auditors' remuneration is as follows:

	2016 52 weeks £'000	2015 53 weeks £'000
Amounts receivable by the auditors in respect of:		
Audit	**52**	51
Other services	**-**	55

Notes to the financial statements *(continued)*

4. Operating costs

	2016	2015
	52 weeks	53 weeks
	£'m	£'m
Selling and distribution costs	**273.9**	262.6
Administrative expenses	**36.8**	27.5
	310.7	290.1

5. Employee numbers and costs

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

	2016	**2016**	2015	2015
	52 weeks	**52 weeks**	53 weeks	53 weeks
	Number of heads	**Full time equivalents**	Number of heads	Full time equivalents
Selling	**8,035**	**4,757**	7,757	4,425
Distribution	**439**	**431**	382	377
Administration	**488**	**482**	409	402
	8,962	**5,670**	8,548	5,204

The aggregate payroll costs of these persons were as follows:

	2016	2015
	52 weeks	53 weeks
	£'m	£'m
Wages and salaries including termination benefits	**118.0**	106.0
Social security costs	**6.7**	6.4
Share options granted to directors and employees (note 19)	**1.1**	1.1
Pension costs - defined contribution plans	**1.5**	1.3
	127.3	114.8

Notes to the financial statements *(continued)*

6. Finance income and expense

	2016 52 weeks £'m	2015 53 weeks £'m
Finance income		
Group undertakings	**1.3**	2.6
Interest on bank deposits	**0.1**	0.5
Foreign exchange gains and revaluations (net)	**1.1**	0.3
Other interest received	**-**	-
	2.5	3.4
Finance expenses		
Group undertakings	**1.3**	5.4
Interest on bank borrowings and overdraft	**1.3**	0.5
Amortisation of issue costs of bank loans	**0.3**	0.1
	2.9	6.0
Net finance expense	**0.4**	2.6

7. Taxation

	2016 52 weeks £'m	2015 53 weeks £'m
Current taxation		
UK corporation tax charge for the period	**25.7**	25.7
Adjustments in respect of prior periods	**(0.2)**	(0.3)
	25.5	25.4
Deferred taxation		
Origination of temporary differences	**-**	(0.2)
Adjustment in respect of prior periods	**-**	0.2
Impact of change in tax rate	**0.2**	-
	0.2	-
Total tax expense	**25.7**	25.4

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	**127.4**	118.5
UK corporation tax at standard rate of 20% (2015: 20.75%)	**25.5**	24.6
Factors affecting the charge in the period:		
Non–deductible expenses	**0.8**	0.9
Loss on disposal of non-qualifying assets	**(0.2)**	-
Adjustments to tax charge in respect of prior periods	**(0.2)**	(0.1)
Effect of standard rate of corporation tax change	**0.2**	-
Group relief	**(0.4)**	-
	25.7	25.4

Notes to the financial statements *(continued)*

7. Taxation *(continued)*

The taxation charge for the period as a percentage of profit before tax is 20.2% (2015: 21.4%).

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.

8. Dividends

		2016	2015
		52 weeks	53 weeks
		£'m	£'m
Interim for the period ended 4 July 2015	– paid £17.68	**-**	35.4
Final for the period ended 4 July 2015	– paid £47.50	**95.0**	-
Interim for the period ended 2 July 2016	– paid £32.00	**64.0**	-
		159.0	35.4

Notes to the financial statements *(continued)*

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

Notes to the financial statements *(continued)*

10. Property, plant and equipment

	Land and buildings £'m	Leasehold improve-ments £'m	Plant and machinery £'m	Fixtures and fittings £'m	Total £'m
Cost					
At 28 June 2014	2.0	101.9	3.6	66.2	173.7
Additions	2.3	11.8	0.4	9.2	23.7
Disposals	-	(0.2)	-	(0.8)	(1.0)
At 4 July 2015	4.3	113.5	4.0	74.6	196.4
Additions	-	21.7	0.6	8.9	31.2
Disposals	(0.2)	(3.6)	-	(3.0)	(6.8)
At 2 July 2016	4.1	131.6	4.6	80.5	220.8
Accumulated depreciation					
At 28 June 2014	0.9	40.4	2.2	47.2	90.7
Charge for the financial period	-	7.5	0.7	10.0	18.2
Disposals	-	(0.1)	-	(0.8)	(0.9)
At 4 July 2015	0.9	47.8	2.9	56.4	108.0
Charge for the financial period	0.1	8.4	0.5	9.3	18.3
Disposals	-	(2.5)	-	(2.8)	(5.3)
Impairment	(0.1)	-	-	-	(0.1)
At 2 July 2016	0.9	53.7	3.4	62.9	120.9
Net book value					
At 28 June 2014	1.1	61.5	1.4	19.0	83.0
At 4 July 2015	3.4	65.7	1.1	18.2	88.4
At 2 July 2016	3.2	77.9	1.2	17.6	99.9

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

11. Investment in subsidiary

During the year, the Company acquired the share capital of Fogarty Holdings Limited for £250,000, the market value of the investment.

	£'m
As at 4 July 2015	-
Investment	0.3
As at 2 July 2016	0.3

Subsidiary	Proportion of ordinary shares held	Nature of business
Fogarty Holdings Limited	100%	Non-trading company

Notes to the financial statements *(continued)*

12. Deferred tax

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

Deferred taxation assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016 52 weeks £'m	2015 53 weeks £'m	**2016 52 weeks £'m**	2015 53 weeks £'m	**2016 52 weeks £'m**	2015 53 weeks £'m
Property, plant and equipment	**0.8**	1.0	**-**	-	**0.8**	1.0
Share-based payments	**0.5**	1.0	**-**	-	**0.5**	1.0
Hedging	**-**	-	**(1.3)**	-	**(1.3)**	-
Other temporary differences	**-**	0.2	**-**	(0.2)	**-**	-
	1.3	2.2	**(1.3)**	(0.2)	**-**	2.0

	Assets		Liabilities		Net	
	2016 52 weeks £'m	2015 53 weeks £'m	**2016 52 weeks £'m**	2015 53 weeks £'m	**2016 52 weeks £'m**	2015 53 weeks £'m
Deferred tax to be recovered after more than 12 months	**1.1**	0.6	**(0.2)**	(0.2)	**0.9**	0.4
Deferred tax to be recovered within 12 months	**0.2**	1.6	**(1.1)**	-	**(0.9)**	1.6
	1.3	2.2	**(1.3)**	(0.2)	**-**	2.0

Movement in net deferred tax is as follows:

	Balance at 4 July 2015	**Recognised in income**	**Recognised in equity**	**Balance at 2 July 2016**
	£'m	£'m	£'m	**£'m**
Property, plant and equipment	1.0	(0.2)	-	**0.8**
Share-based payments	1.0	-	(0.5)	**0.5**
Hedging	-	-	(1.3)	**(1.3)**
	2.0	(0.2)	(1.8)	**-**

	Balance at 28 June 2014	**Recognised in income**	**Recognised in equity**	**Balance at 4 July 2015**
	£'m	£'m	£'m	£'m
Property, plant and equipment	0.8	0.2	-	1.0
Share-based payments	1.3	(0.2)	(0.1)	1.0
Other temporary differences	0.5	-	(0.5)	-
	2.6	-	(0.6)	2.0

Notes to the financial statements *(continued)*

13. Inventories

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

14. Trade and other receivables

	2016	2015
	£'m	£'m
Trade receivables	**0.2**	0.2
Other receivables	**2.9**	3.0
Prepayments and accrued income	**17.4**	14.9
Amounts owed to group undertakings	**18.5**	66.3
	39.0	84.4

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

15. Cash and cash equivalents

	2016	2015
	£'m	£'m
Cash and cash equivalents	**14.3**	15.7

16. Trade and other payables

	2016	2015
	£'m	£'m
Current		
Trade payables	**52.9**	51.6
Accruals and deferred income	**32.8**	26.3
Taxation and social security	**9.8**	10.0
Other payables	**0.3**	0.1
Intercompany	**-**	-
Total current trade and other payables	**95.8**	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	**137.2**	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).

Notes to the financial statements *(continued)*

17. Bank loans

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

The Company has medium term bank 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. Provision for liabilities

	Balance at 4 July 2015	Utilised in the period	Created in the period	Released in the period	Balance at 2 July 2016
	£'m	£'m	£'m	£'m	£'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 Company's future liabilities.

19. Share-based payments

As at 2 July 2016, 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 award shares in the parent company, Dunelm Group plc.

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.

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

The number and weighted average exercise price of options under the GSOP 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	**121,781**	**815.6p**	139,900	814.6 p
Adjusted during the period	**-**	**-**	7,741	766.9 p
Exercised during the period	**(33,540)**	**714.4p**	-	0.0 p
Lapsed during the period	**(12,127)**	**873.0p**	(25,860)	795.6 p
Outstanding at end of the period	**76,114**	**851.0p**	121,781	815.6 p

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

Notes to the financial statements *(continued)*

19. Share-based payments *(continued)*

b) Dunelm Group Savings Related Share Option Plan

The Sharesave scheme was established in 2006 and is open to all staff with eligible length of service. Grants are made under the scheme annually. Options may be exercised under the scheme within six months of the completion of each three year savings contract. There is provision for early exercise in certain circumstances such as death, disability, redundancy and retirement.

The number and weighted average exercise price of options outstanding under the Sharesave at 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	**961,720**	**638.8p**	757,663	551.0 p
Granted during the period	**563,823**	**754.5p**	523,706	653.0 p
Adjusted during the period	**-**	**-**	61,027	601.1 p
Exercised during the period	**(201,727)**	**545.7p**	(223,043)	363.1 p
Lapsed during the period	**(171,726)**	**685.0p**	(157,633)	639.6 p
Outstanding at end of the period	**1,152,090**	**704.8p**	961,720	638.8 p

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

c) Long-Term Incentive Plan

The LTIP was approved by the Board in 2006 enabling the Group to award shares to particular individuals, normally in the form of nominal cost options. The LTIP is administered by the Remuneration Committee. One grant was made in the year, to the Executive Directors and senior management. These grants are exercisable in November 2016, dependent on the level of growth in Group EPS relative to RPI, as well as continuing employment. The maximum life of options under the LTIP is 10 years from the date of grant.

The number and weighted average exercise price of options outstanding 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	**540,025**	-	404,579	-
Granted during the period	**269,877**	-	254,028	-
Adjusted during the period	**-**	-	34,201	-
Exercised during the period	**(79,880)**	-	(107,129)	-
Lapsed during the period	**(237,329)**	-	(45,654)	-
Outstanding at end of the period	**492,693**	-	540,025	-

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

Notes to the financial statements *(continued)*

19. 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:

	2016	2015
	£'m	£'m
GSOP	**0.1**	-
Sharesave	**0.8**	0.5
LTIP	**0.2**	0.6
	1.1	1.1

20. Share capital

	2016	2015
	£'m	£'m
Ordinary shares of £1 each:		
Allotted, called up and fully paid	**2.0**	2.0

21. Financial risk management

The Board of Directors of Dunelm (Soft Furnishings) Limited has overall responsibility for the oversight of the Company'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 Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's deposits with banks and financial institutions as well as foreign exchange hedging agreements with its banking counterparties. The Company only deals with creditworthy counterparties and uses publicly available financial information to rate its counterparties.

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.

The Company'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	2015
	£'m	£'m
Cash and cash equivalents	**14.3**	15.7
Trade and other receivables	**3.1**	3.2
Derivative financial instruments	**7.4**	-
Total financial assets	**24.8**	18.9

Notes to the financial statements *(continued)*

21. Financial risk management *(continued)*

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.

The table below analyses estimated future contractual cash flows in respect of the Company's financial liabilities, according to the earliest date on which the Company 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	More than 5 years £'m
Borrowings	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	More than 5 years £'m
Borrowings	97.4	1.3	1.3	94.8	-
Trading and net settled derivative financial instruments	0.3	-	0.3		
Trade and other payables	51.6	51.5	0.1	-	-

Interest rate risk

The Company's bank borrowings incur variable interest rate charges. The Company's policy aims to manage the interest cost of the Company within the constraints of its financial covenants. The Company 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.

Foreign currency risk

All of the Company'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 Company 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 Company'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.

Notes to the financial statements *(continued)*

21. Financial risk management *(continued)*

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 Company 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 Company'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.

Notes to the financial statements *(continued)*

21. 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 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.

During FY15, the Board reviewed its policy on capital structure. 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 Company 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 on-going 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 EBITDA was as follows:

	2016	2015
	£'m	£'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 15)	**(14.3)**	(15.7)
Net debt	**79.9**	74.1
Total equity	**50.8**	101.2
Total capital	**130.7**	175.3
Gearing ratio	**61%**	42%
EBITDA	**151.5**	141.4
Net debt as % of EBITDA	**53%**	52%

Notes to the financial statements *(continued)*

21. Financial risk management *(continued)*

Financial assets and liabilities

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	14.3	-	-	-	14.3
Trade receivables	0.2	-	-	-	0.2
Intercompany assets	18.5	-	-	-	18.5
Forward exchange contracts	-	-	7.2	0.4	7.6
Total financial assets	33.0	-	7.2	0.4	40.6
Trade payables	-	(52.9)	-	-	(52.9)
Bank borrowings	-	(94.2)	-	-	(94.2)
Forward exchange contracts	-	-	-	(0.2)	(0.2)
Total financial liabilities	-	(147.1)	-	(0.2)	(147.3)
Net financial assets/(liabilities)	33.0	(147.1)	7.2	0.2	(106.7)

At 4 July 2015	Loans and receivables £'m	Other financial liabilities at amortised costs £'m	Derivatives used for hedging £'m	Total £'m
Cash and cash equivalents	15.7	-	-	15.7
Trade receivables	0.2	-	-	0.2
Intercompany assets	66.3	-	-	66.3
Total financial assets	82.2	-	-	82.2
Trade payables	-	(51.6)	-	(51.6)
Bank borrowings	-	(89.8)	-	(89.8)
Forward exchange contracts	-	-	(0.3)	(0.3)
Total financial liabilities	-	(141.4)	(0.3)	(141.7)
Net financial assets/(liabilities)	82.2	(141.4)	(0.3)	(59.5)

Intercompany assets and liabilities are receivable/payable on demand.

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

	2016	2015
	£'m	£'m
Sterling	**13.3**	13.6
US dollar	**1.0**	2.0
Euro	**-**	0.1
	14.3	15.7

Notes to the financial statements *(continued)*

22. Commitments

As at 2 July 2016 the Company had entered into capital contracts amounting to £4.2m (2015: £4.4m).
The future minimum lease payments under non-cancellable operating leases were as follows:

	2016	**2016**	**2016**	2015	2015	2015
	Motor vehicles	**Land and buildings**	**Plant and machinery**	Motor vehicles	Land and buildings	Plant and machinery
	£'m	**£'m**	**£'m**	£'m	£'m	£'m
Within one year	**1.0**	**49.9**	**0.7**	1.0	44.7	1.0
In the second to fifth year inclusive	**1.3**	**186.4**	**2.0**	1.5	172.0	2.7
After five years	**-**	**192.8**	**0.8**	-	185.9	0.4
	2.3	**429.1**	**3.5**	2.5	402.6	4.1

The Company has 167 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.

It is the Company's policy to support the business activities of other subsidiaries within the Group with the full technical and financial resources at its disposal, specifically Dunelm Estates Limited and Zoncolan Limited, both of which have a deficiency of net current assets.

23. Contingent liabilities

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

24. Related parties

Identity of related parties
The Company has related party relationships with its Parent and Company 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 parent company's financial statements, Dunelm Group plc.

The remuneration of the key management personnel is as follows:

	2016	2015
	£'m	£'m
Key management emoluments including social security costs	**1.7**	1.5
Company contributions to money purchase pension plans	**0.2**	0.2
	1.9	1.7
Highest paid key management personnel	**0.2**	0.4

Notes to the financial statements *(continued)*

24. Related parties *(continued)*

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 Company subsidiaries were as follows:

	Ultimate parent company		Other Group companies	
	2016	2015	**2016**	2015
	£'m	£'m	**£'m**	£'m
Cash paid to Company undertakings	**(2.6)**	(2.5)	**(7.8)**	(23.3)
Cash received from Company undertakings	**120.4**	191.3	**1.2**	20.7
Dividends paid	**(159.0)**	(35.4)	-	-
Net interest (paid)/received	**(1.3)**	(5.4)	**1.3**	2.8
	(42.5)	148.0	**(5.3)**	0.2

	Ultimate parent company		Other Group companies	
	2016	2015	**2016**	2015
	£'m	£'m	**£'m**	£'m
Balances receivable from	**-**	-	**62.4**	67.5
Balances payable to	**(43.7)**	(1.2)	**(0.2)**	-
	(43.7)	(1.2)	**62.2**	67.5

25. Ultimate parent company

The Company is a subsidiary undertaking of Dunelm Limited, which in turn is a subsidiary undertaking of Dunelm Group plc, the ultimate parent company incorporated in England and Wales. The Directors considers that the ultimate controlling party is the Adderley family by virtue of their combined shareholding

Copies of the Dunelm Group plc financial statements are available from the Company Secretary, Dunelm Group plc, Watermead Business Park, Syston, Leicestershire, LE7 1AD, or the group corporate website dunelm.production.investis.com

26. Subsequent events

There are no reportable subsequent events for Dunelm (Soft Furnishings) Limited.