Final Results

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Dunelm Group plc
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Dunelm Group plc ("Dunelm")
Preliminary Results for the 52 weeks to 2 July 2016

Delivering on our plans and increasing sales, profits and dividends

Dunelm Group plc, the UK's leading homewares retailer, today announces its preliminary results for the 52 weeks to 2 July 2016.

Financial summary

The comparative period represented 53 weeks; therefore, to aid comparability, results for the 52 week period to 27 June 2015 are also presented.

	52 weeks ended 2 July 2016	53 week ended 4 July 2015	52 weeks ended 27 June 2015	Year on year change (52 weeks)
Total revenues	£880.9m	£835.8m	£822.7m	7.1%
Like-for-like growth	+2.5%		+5.8%	-
Gross margin	*49.8%*	*49.2%*	*49.2%*	*+60bps*
Operating profit	£129.3m	£122.5m	£121.3m	+6.6%
Profit before tax	£128.9m	£122.6m	£121.4m	+6.2%
Basic EPS	50.5p	47.5p	47.0p	+7.4%
Fully diluted EPS	50.3p	47.3p	46.8p	+7.5%
Ordinary dividends	25.1p	21.5p		+16.7%
Special distribution	31.5p	70.0p		
Total distribution	56.6p	91.5p		
Free cash flow[1]	£110.4m	£87.0m		+26.9%

[1]defined as net cash from operating activities less cash utilised in investing activities

Highlights

- Another strong year, maintaining our record of growing sales and profit every year since IPO in 2006

- Continued delivery across all three areas of the growth strategy:
  - In-store like-for-like growth of 1.0% (52 week basis);
  - 23.2% growth in home delivery sales (52 week basis), now accounting for 7.0% of total revenue (FY15: 6.1%);
  - Six new openings in the year (including two relocations), increasing footprint to 152 superstores; nine new stores contractually committed.

- Progress on eight key initiatives to support the growth strategy and to build a world class operating model in a low cost environment:
  - New warehouse opened in Stoke, doubling capacity and providing cost reduction opportunities
  - Improved productivity within stores to reinvest into helping customers, improving service, driving sales and to mitigate the cost of introducing the National Living Wage
  - Reduction in stock holding by £16.5m (12.4%) through improved retail disciplines

- Strong free cashflow, up 26.9% to £110.4m

- Special distribution during the period of 31.5p per share (£63.8m)

- Recommended final dividend of 19.1p per share (FY15: 16.0p), increasing the full year dividend to 25.1p (FY15: 21.5p), an increase of 16.7% for the full year

John Browett, Chief Executive, commented:

"The business has performed well over the year. Shoppers tell us that they genuinely appreciate the unrivalled depth and value of the Dunelm homewares offer. This has meant we have further cemented our leading position through market share gains, driving sales and profits growth, and increasing returns to shareholders, including a 16.7% increase in total ordinary dividends and a special distribution of 31.5p per share.

"My first year as Chief Executive has been extremely busy and we're working hard on initiatives across the business. Not least, we are investing in our stores to make them much easier to shop, whilst making sure our vast range of product maintains the value for money proposition which lies at the very heart of the Dunelm offer.

"We remain particularly focused on extending the Dunelm offer to more customers and have opened six new superstores in the year. This will be ramped up in the current year with nine planned openings, three of which are in the London area where we are excited by the clear opportunity for growth.

"We continue to outperform the homewares market, and despite potential challenges to the economy over the coming months and the dampening effect on footfall of recent hot weather, we believe that Dunelm's competitive position can come into its own, and are confident of continuing to deliver our growth ambitions."

There will be a presentation for analysts at 9.30am this morning at UBS, 100 Liverpool Street, London EC2M 2RH. If you have not already registered for attendance then please contact Isabelle Grainger at MHP Communications on isabelle.grainger@mhpc.com.

A conference call will be held for those who are unable to attend. Please preregister using the link below and allow plenty of time to dial in https://cossprereg.btci.com/prereg/key.process?key=PQQF9LKGJ

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Notes to Editors
Dunelm is market leader in the £11.6bn UK homewares market. The Group currently operates 157 stores, of which 152 are out-of-town superstores and five are located on high streets. There is also an online store, to be found at www.dunelm.com.

Dunelm's "Simply Value for Money" customer proposition offers industry-leading choice of quality products at keen prices, with high levels of availability and supported by friendly service. Core ranges include many exclusive designs and premium brands such as Dorma, and are supported by a frequently changing series of special buys. The superstore format provides an average of 30,000 sq. ft. of selling space with over 26,000 products across a broad spectrum of categories, extending from the Group's home textiles heritage (bedding, curtains, cushions, quilts and pillows) to a complete homewares offer including kitchenware and dining, lighting, wall art, furniture and rugs. Dunelm is one of the few national retailers to offer an authoritative selection of curtain fabrics on the roll, and owns a specialist UK facility dedicated to producing made-to-measure curtains.

Dunelm was founded in 1979 as a market stall business, selling ready-made curtains. The first shop was opened in Leicester in 1984 and over the following years the business developed into a successful chain of high street shops before expanding into broader homewares categories following the opening of the first Dunelm superstore in 1991.

Dunelm has been listed on the London Stock Exchange since October 2006 (DNLM.L) and has a current market capitalisation of approximately £1.8bn.

CHAIRMAN'S STATEMENT

I am pleased to report another year of good progress for Dunelm. On a consistent 52-week basis, we grew our total sales by 7.1%, driven by the opening of six new stores, 1% growth in our like-for-like store sales and 23.2% growth in our home delivery sales. We converted this revenue growth into 6.2% growth (5.1% growth on a 53-week basis) in pre-tax profits and 7.5% growth (6.3% growth on a 53-week basis) in earnings per share, notwithstanding our sustained investment in the business.

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

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

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

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

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

Andy Harrison
Chairman
14 September 2016

CHIEF EXECUTIVE'S REVIEW

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

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

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

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

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

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

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

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

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

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

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

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

Over the coming year, we are looking to extend our range through a new DSV (drop shipped vendor) service. We are also rolling out tablet devices and associated chip and pin payment options in-store and are working towards a full Click 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 nine new stores in the coming year, of which three are within the M25; an excellent result given that we have only eight stores currently in this area.

We are also 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.

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.

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

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

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

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

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

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

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

John Browett
Chief Executive
14 September 2016

CHIEF FINANCIAL OFFICER'S REVIEW

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

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

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

Gross Margin
Gross margin increased by 60 basis points to 49.8% (FY15: 49.2%). Gross margin in FY15 was impacted by a high level of markdown needed to clear excess stocks (particularly furniture). In FY16, however, we improved our product life cycle management, stock turn and absolute stock levels. We also benefitted from cost reductions due to increasing scale and a small increase in direct sourcing to 21%.

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

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

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

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

EBITDA
Earnings before interest, tax, depreciation and amortisation were £154.3m (FY15: £144.2m, £142.6m on a 52 week basis).This represents an increase of 7.0% on the previous financial year, or 8.2% on a 52 week basis. The EBITDA margin achieved was 17.5% of sales (FY15: 17.3%). FY15 EBITDA margin on a 52 week basis was 17.3%.

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

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

Profit before Tax

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

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

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

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

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

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

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

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

Banking Agreements and Net Debt
The Group has in place a £150m syndicated Revolving Credit Facility ('RCF') which matures in 2020. The terms of the RCF are consistent with normal practice and include covenants in respect of leverage (net debt to be no greater than 2.5× EBITDA) and fixed charge cover (EBITDA to be no less than 1.5× fixed charges), both of which were met comfortably as at 2 July 2016.
In addition the Group maintains £20m of uncommitted overdraft facilities with two syndicate partner banks.

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

Capital and Dividend Policy
During FY15, the Board adopted a new policy on capital structure, targeting an average net debt level (excluding lease obligations and short-term fluctuations in working capital) of between 0.25× and 0.75× historical EBITDA. This policy provides the flexibility to continue to invest in the Group's growth strategy and to take advantage of investment opportunities as and when they arise, for example freehold property acquisitions. At the year end, net debt/EBITDA was 0.51× (FY15: 0.51×).

The Board's policy on dividends in FY15 was that ordinary dividend cover (by which we mean the Group's earnings per share divided by the total amount paid to shareholders by way of ordinary dividend) should be between 2 and 2.5x in the full year in respect of which the dividend is paid. The Board has decided to move the targeted range of dividend cover to a range of 1.75 and 2.25x, reflecting the strong cash generation in the business and the Board's confidence in the growth prospects of the business.

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

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

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

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

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

Distributable Reserves
During the current financial year, the Group undertook a capital restructuring exercise which facilitated the payment of dividends from subsidiary undertakings to Dunelm Group plc of £359m. Consequently the parent company has retained earnings of £242.8m as at 2 July 2016.

Share Buy-back
During the year, the Group invested £7.8m to buy 841,359 shares to hold in treasury in line with its policy to purchase shares in the market to satisfy the future exercise of options granted under incentive plans and other share schemes. At the year-end, 846,455 shares were held in treasury, equivalent to approximately 42% of options outstanding. Over time, we expect to increase our holding in treasury to be equivalent to approximately 60% of outstanding options.

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

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

During the year, total tax contributions paid to HMRC during the year in the form of corporation tax, property taxes, PAYE and NIC's and VAT were £140.8m (FY15: £122.7m).

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

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

Key Performance Indicators

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

Sales growth	
2016 *	**7.1%**
2015 *	12.7%
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	**14.7%**
2015 *	14.7%
2014	15.9%

Earnings per share (diluted)	
2016	**50.3p**
2015 *	46.8p
2014	43.7p

Dividend per share	
2016	**25.1p**
2015	21.5p
2014	20.0p

Total distributions per share	
2016	**56.6p**
2015	91.5p
2014	20.0p

EBITDA	
2016	**£154.3m**
2015 *	£142.6m
2014	£137.3m

New store openings	
2016	**6**
2015	12
2014	12

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

Keith Down
Chief Financial Officer
14 September 2016

CONSOLIDATED INCOME STATEMENT

For the 52 weeks ended 2 July 2016

	Note	2016 52 weeks £'m	2015 53 weeks £'m
Revenue	1	**880.9**	**835.8**
Cost of sales		(442.4)	(424.6)
Gross profit		**438.5**	**411.2**
Operating costs	3	(309.2)	(288.7)
Operating profit	2	**129.3**	**122.5**
Financial income	5	1.2	0.8
Financial expenses	5	(1.6)	(0.7)
Profit before taxation		**128.9**	**122.6**

	Note		
Taxation	6	(26.6)	(26.5)
Profit for the period attributable to owners of the parent		**102.3**	**96.1**
Earnings per Ordinary Share - basic	8	50.5p	47.5p
Earnings per Ordinary Share - diluted	8	50.3p	47.3p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 2 July 2016

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 2 July 2016

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the 52 weeks ended 2 July 2016

	Note	2016 52 weeks £'m	2015 53 weeks £'m
Profit before taxation		128.9	122.6

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 52 weeks ended 2 July 2016

	Note	Issued share capital £'m	Share premium account £'m	Capital redemption reserve £'m	Hedging reserve £'m	Retained earnings £'m	Total equity £'m
As at 28 June 2014		**2.0**	**1.6**	**43.2**	**(2.3)**	**145.2**	**189.7**
Profit for the period		-	-	-	-	96.1	96.1
Fair value gains of cash flow hedges		-	-	-	1.0	-	1.0
Loss on cash flow hedges transferred to inventory		-	-	-	1.7	-	1.7
Deferred tax on hedging movements		-	-	-	(0.6)	-	(0.6)
Total comprehensive income for the period		-	-	-	2.1	96.1	98.2
Issue of treasury shares		-	-	-	-	0.8	0.8
Share based payments		-	-	-	-	0.3	0.3
Deferred tax on share based payments		-	-	-	-	(0.8)	(0.8)
Current tax on share options exercised	6	-	-	-	-	0.1	0.1
Ordinary dividends paid	7	-	-	-	-	(41.5)	(41.5)
Special distributions to shareholders	7	-	-	-	-	(141.7)	(141.7)
Total transactions with owners, recorded directly in equity		-	-	-	-	(182.8)	(182.8)
As at 4 July 2015		**2.0**	**1.6**	**43.2**	**(0.2)**	**58.5**	**105.1**
Profit for the period		-	-	-	-	102.3	102.3
Fair value gains of cash flow hedges		-	-	-	10.3	-	10.3
Gains 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	102.3	108.4
Purchase of treasury shares		-	-	-	-	(7.8)	(7.8)
Issue of treasury shares		-	-	-	-	1.3	1.3
Share based payments		-	-	-	-	1.4	1.4
Deferred tax on share based payments		-	-	-	-	(0.6)	(0.6)

Current tax on share options exercised	6	-	-	-	-	0.2	0.2
Ordinary dividends paid	7	-	-	-	-	(44.6)	(44.6)
Special dividends	7	-	-	-	-	(63.8)	(63.8)
Total transactions with owners, recorded directly in equity		-	-	-	-	(113.9)	(113.9)
As at 2 July 2016		**2.0**	**1.6**	**43.2**	**5.9**	**46.9**	**99.6**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
For the 52 weeks ended 2 July 2016

1 Segmental reporting
The Group has one reportable segment, in accordance with IFRS 8 - Operating Segments, which is the retail of homewares in the UK.

Customers access our offer across multiple channels and often their journey involves more than one channel. Therefore internal reporting focuses on the Group as a whole and does not identify individual segments.

The Chief Operating Decision Maker is the Executive Board of Directors of Dunelm Group plc. Internal management reports are reviewed by them on a monthly basis. Performance of the segment is assessed based on a number of financial and non-financial 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 Group's revenue is driven by the consolidation of individual small value transactions and as a result Group revenue is not reliant on a major customer or group of customers.

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

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

3 Operating costs

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

4 Employee numbers and costs
The average monthly number of people employed by the Group (including Directors) was:

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

The aggregate remuneration of all employees including Directors comprises:

	2016 52 weeks £'m	2015 53 weeks £'m
Wages and salaries including bonuses and termination benefits	120.0	109.5
Social security costs	7.0	6.5
Share-based payment expense	1.4	0.3
Other pension costs	1.5	1.3
	129.9	117.6

5 Financial income and expense

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

6 Taxation

	2016 52 weeks £'m	2015 53 weeks £'m
Current taxation		

UK corporation tax charge for the period	26.6	26.3
Adjustments in respect of prior periods	(0.2)	(0.3)
	26.4	26.0
Deferred taxation		
Origination of temporary differences	-	0.2
Adjustments in respect of prior periods	-	0.3
Impact of change in tax rate	0.2	-
	0.2	0.5
Total tax expense	26.6	26.5

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

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

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

A reduction in the UK corporation tax from 20% to 19% (effective from1 April 2017) was substantively enacted on 26 March 2016, and a further reduction to 18% (effective from 1 April 2020) was substantively enacted on the same day.

Further changes were announced in the Chancellor's budget on 16 March 2016 reducing the UK corporation tax by a further 1% to 17% from 1 April 2020. As this further change had not been enacted at the balance sheet date the effect is not included in the financial statements.

7 Dividends and Special Distributions to Shareholders

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

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

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

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

8 Earnings per share

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

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

Weighted average numbers of shares:

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

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

9 Intangible Assets

	Software development and licences £'m	Rights to brands £'m	Total £'m
Cost			
At 28 June 2014	14.1	5.0	19.1
Additions	5.8	-	5.8
At 4 July 2015	19.9	5.0	24.9
Additions	6.4	4.8	11.2
Disposals	(0.1)	-	(0.1)
At 2 July 2016	**26.2**	**9.8**	**36.0**

Accumulated amortisation			
At 28 June 2014	4.8	5.0	9.8
Charge for the financial period	2.0	-	2.0
At 4 July 2015	6.8	5.0	11.8
Charge for the financial period	5.3	0.3	5.6
At 2 July 2016	**12.1**	**5.3**	**17.4**
Net book value			
At 28 June 2014	9.3	-	9.3
At 4 July 2015	13.1	-	13.1
At 2 July 2016	**14.1**	**4.5**	**18.6**

All additions were acquired and do not include any internal development costs.
All amortisation is included within operating costs in the income statement.
During the year, the Group acquired the rights to the Fogarty brand which will be amortised over a 15 year period.

10 Property, plant and equipment

	Land and buildings	Leasehold improvements	Plant and machinery	Fixtures and fittings	Total
	£'m	£'m	£'m	£'m	£'m
Cost					
At 28 June 2014	80.0	101.9	3.6	66.2	251.7
Additions	4.3	11.8	0.4	9.2	25.7
Disposals	-	(0.2)	-	(0.9)	(1.1)
At 4 July 2015	84.3	113.5	4.0	74.5	276.3
Additions	-	21.8	0.6	8.9	31.3
Disposals	(0.8)	(3.6)	-	(3.0)	(7.4)
At 2 July 2016	**83.5**	**131.7**	**4.6**	**80.4**	**300.2**
Accumulated depreciation					
At 28 June 2014	9.0	40.4	2.2	47.2	98.8
Charge for the financial period	1.3	7.5	0.7	10.0	19.5
Disposals	-	(0.1)	-	(0.9)	(1.0)
Impairment	0.1	-	-	-	0.1
At 4 July 2015	10.4	47.8	2.9	56.3	117.4
Charge for the financial period	1.4	8.4	0.5	9.4	19.7
Disposals	(0.4)	(2.5)	-	(2.9)	(5.8)
At 2 July 2016	**11.4**	**53.7**	**3.4**	**62.8**	**131.3**
Net book value					
At 28 June 2014	71.0	61.5	1.4	19.0	152.9
At 4 July 2015	73.9	65.7	1.1	18.2	158.9
At 2 July 2016	**72.1**	**78.0**	**1.2**	**17.6**	**168.9**

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

11 Basis of preparation

The annual report and financial statements for the period ended 2 July 2016 were approved by the Board of Directors on 14 September 2016 along with this preliminary announcement, but have not yet been delivered to the Registrar of Companies.

The financial information contained in this preliminary announcement does not constitute the Group's statutory accounts within the meaning of Section 434 of the Companies Act 2006.

The auditor's report on the statutory accounts for the period ended 2 July 2016 was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

The statutory accounts of Dunelm Group plc for the period ended 4 July 2015 have been delivered to the Registrar of Companies. The auditor's report on the statutory accounts for the period ended 4 July 2015 was unqualified and did not contain a statement under section 498 of the Companies Act 2006.