Half Yearly Report

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Dunelm Group plc
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Dunelm Group plc

Interim Results Announcement

Dunelm Group plc, the UK's leading homewares retailer, announces its interim results for the 26 weeks to 2 January 2016.

Financial Highlights

	FY16 H1	FY15 H1	+/- change
Sales	£448.1m	£406.4m	+ 10.3%
Total LFL *	£404.9m	£387.0m	+4.6%
LFL stores	*£376.9m*	*£364.5m*	*+ 3.4%*
Home delivery	*£28.0m*	*£22.5m*	*+24.4%*
Gross margin	50.7%	50.4%	+ 30 bps
EBITDA	£88.7m	£77.6m	+ 14.3%
Profit before tax	£75.5m	£68.2m	+ 10.7%
EPS (fully diluted)	29.3p	26.4p	+ 11.0%
Free cash flow	£76.7m	£46.1m	+ 66.4%

*** Calendar impact**

Due to the 53rd week included in the last financial year, the above figures include eight days of our Winter Sale, compared to two days of Winter Sale included in the comparative period. This has boosted LFL growth by approximately £10.0m (equivalent to 2.6% over the half year). These impacts will reverse in the next quarter. Therefore, adjusting for this calendar impact, underlying LFL performance was +2.0% for the 26 week period.

Business Highlights

- Continued focus on three part growth strategy - growing like for like sales, rolling out new stores, and growing our home delivery channel - with eight core projects now in place to deliver this
- Solid progress in LFL store sales, underpinned by strong performance from curtains and bedding, particularly our new Kids range
- On-going store portfolio expansion, with future focus now increasingly on London
- Further strong growth in home delivery of 24.4% with growth starting to accelerate following new web platform launch last year

Dividends

- Interim dividend increased by 9.1% to 6.0p per share (FY15: 5.5p per share)
- Special distribution of 31.5p per share (totalling £63.9m), in line with capital structure policy and reflecting continued strong cash generation

John Browett, Chief Executive Officer, said:

"It is a really exciting time to be at Dunelm - a business built on a strong foundation of exciting product and design, unrivalled knowledge of the homewares market, a low-cost store network, great people and investment in systems.

"Our focus remains on growing the business for the longer term. After making good progress so far, we are continuing to work towards our three part growth strategy and are now focused on eight core projects that will enable us to achieve this. This will allow us to improve our business substantially for our customers and, as we increase both our store network around London and our online presence, to develop Dunelm into a truly national homewares brand.

"After a solid performance in the first half, we had a strong sale after Christmas and we expect further good progress in the remainder of the year."

For further information, please contact:

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Notes to Editors

Dunelm is market leader in the £11bn UK Homewares market. The Group currently operates 157 stores, of which 151 are out-of-town superstores and 6 are located on high streets, and an on-line 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 20,000 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 £1.7bn.

CHAIRMAN'S STATEMENT

Dunelm has delivered a solid performance in the first six months, with total sales growing by 10.3% to £448.1m, three new stores were opened and like for like sales growth was 3.4%. Profit before tax increased by 10.7% to £75.5m. The Board has declared an interim dividend of 6 pence per share, up 9% on last year and broadly in line with the 11% growth in our earnings per share.

In line with our Capital Structure policy to maintain our average net debt to EBITDA at between 0.25 times and 0.75 times the Board has declared a Special Dividend of 31.5 pence per share, which will be payable, together with the ordinary dividend, to shareholders on the register on the 4th March. This Special Dividend is supported by our strong cash performance in the period with free cash flow increasing by 66.4% year on year to £76.7m.

John Browett became Chief Executive on January 1st, having been CEO Designate since July 2015, and is already having a substantial positive impact on the business. As mentioned in our Annual Report, Will Adderley continues to play an active role in the business as Deputy Chairman. Keith Down joined as our new Chief Financial Officer in December 2015, following the retirement of David Stead. William Reeve and Peter Ruis have also recently joined the Board as Non-Executive Directors.

We look forward to further good progress in the remainder of the year.

Andy Harrison
Chairman
10 February 2016

CHIEF EXECUTIVE OFFICER'S REVIEW

The Foundation of our success
Our business is built on a strong foundation of exciting product and design, unrivalled knowledge of the homewares market, a low cost store network, great people and investment in systems. Our focus continues to be on developing the business for the longer term. We can continue to grow strongly and profitably through store sales growth, new stores (particularly in London) and through on-line enabled home delivery.

At our heart we are a product company through and through. We love to design and source new lines that offer exceptional value for money. We have a great supply base that helps us source new product at fantastic prices and our stores have, on average, 20,000 well-chosen lines. It is a pleasure to join a company that really understands how to find lines for whatever budget our customers have.

Our stores and online offer continue to evolve, and we are constantly improving the shopping trip. Historically we have focused on range and stock density to drive sales. While this will always be important, in our latest stores, refits and new website we are particularly focused on making our offer easier to shop. Most notably we have had some great breakthroughs in the last six months on visual merchandising in key categories.

In any retail business people are a critical part of delivering for customers. I believe this to be particularly true for Dunelm. Perhaps this is why our stores and delivery service achieve very high net promoter scores from our customers. We welcomed the Living Wage increases as we had already planned to significantly increase our pay for our store colleagues. We want to recognise the major role they have in making Dunelm a great place to shop.

As we grow, we are also strengthening our senior team, investing in our capability to accelerate the development of the business. Wherever possible we promote from within our business. 80% of the latest store manager appointments were internal promotions.

Over the years we have invested in our core systems to make our business efficient and effective. We are focused on building the systems around this strong IT core, which will enable us to continue to develop without taking on significant costs as turnover expands.

Growth Strategy
Since I joined the business we have reviewed our strategy and whilst we continue to work towards the three part growth strategy reported last year; growing like for like sales, rolling out new stores and growing our home delivery channel, we have focused our work on eight key initiatives that I believe will enable us to achieve this. These core projects are not everything we do day to day and do not represent all of our project work but instead focus our effort and will be the key method by which we improve our business substantially for our customers over the medium term.

Online
We have built our store estate for a post-internet view of UK retailing. Our aspiration is to increase our store estate to 200 locations from the 151 superstores we have today. We cannot clearly see what the final split of sales between stores and online will be, however we do believe in a multi-channel world for homewares and see online as a critical part of the shopping trip.

The web enables us to engage with customers before they leave home, in store and when they make a final decision. It enables us to service our customers far more effectively; whether through offering an extended range, walking through all of the options, tracking orders or following up appointments.

In July we launched our new website; while growth initially slowed as we got used to a new robust platform, sales growth has started to accelerate and we are now able to develop our offer far more rapidly. We have lots of ideas to implement and online has significantly expanded the reach for our great product.

London
We still need around 50 stores to give us national coverage in the UK. London and the South East provide a significant portion of this opportunity, although we recognise that it is a challenging market to penetrate. We are already at 8 stores in the Greater London area and can see opportunities to increase this. Stores are a critical way for us to build awareness around our product and design.

Stock Management
Dunelm operates with high stock density and availability both at the shelf-edge and online. This enables our customers to shop with confidence knowing, for example, that when buying bed linen the whole set is in stock.

We have carefully analysed our stock flow through the Company and concluded that we can further improve availability whilst still running with lower stock both in stores and in our supply chain. This will make us more efficient which will enable us to reinvest in the customer offer.

Store Operations
Our stores are at the heart of everything we do. We have reviewed all activities carried out in the stores and as a result have found several opportunities to use our colleagues more effectively.

After a careful study we are reducing the "waste" activity in store. This has been and will be facilitated by improving our management of stock. Consequently we can redirect our store effort to helping customers, which we know will drive sales.

The improvement in store operation is not just a one-off for this year. We can see several rounds of improvement that will allow us to reinvest in wages, make our stores more efficient and an even better place to shop through continued investment in service.

Store Format
Our customers love our stores, but they do tell us that we could make them easier to shop. Historically we have always focused on range and stock density at the expense of customer space. The work on stock is making our stores a little easier to navigate, but there remains an opportunity to make our displays more attractive.

We have implemented many good visual merchandising initiatives recently; for example the Rug Bazaar we are rolling out and the half beds we use to show bedding. However, the work on the format will take this much further. We have incorporated elements of this thinking in some of our stores, but this is merely an indication of where we are travelling, not the final destination.

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

We know this business can grow significantly as we improve the efficiency and effectiveness of the operation with the aim of increasing our overall market share. Although we have a market leading offer we can do even better for our customers. We will implement a new system to manage the customer order end to end and will make the offer much easier to shop online.

Furniture
Dunelm continues to develop its furniture offer across all channels. We are focused on readymade furniture, our value is strong and we have grown the business significantly.

We have major opportunities to deliver even better ranges, better in store displays and more service in our stores. Behind the scenes we are improving stock management, delivery options and after sales service. Customers are happy with what we deliver today but we can do more to grow this business, recognising that it will take some time.

The work on the supply chain over the last six months means our total furniture sales are profitable today but increased scale will make this a much more profitable business in the future.

Supply Chain
In the summer, as previously announced, we will double our warehouse capacity in a purpose built facility that will enable a lower cost logistics platform. Ultimately we will achieve greater savings per unit as we grow.

The new facility will also enable us to further integrate our e-commerce and direct to store distribution over time. This will enable improved availability, productivity and cleaner realisation of end of season clearance.

Outlook
After a solid performance in the first half, we had a strong sale after Christmas and we expect further good progress in the remainder of the year.

We are working hard to build an even better business for the future. We want to improve the shopping trip for customers both in store and online. Our work on the supply chain will provide better service in store and to the home at lower cost. We can make ourselves more efficient and effective in the stores and the office. As we work through all the product ranges, including furniture and Made to Measure, I am confident that we can find even more ways to improve value for money for our customers.

It is a really exciting time to be at Dunelm; we have the key infrastructure projects in place, the right team, a great heritage and a continued focus on our product and people.

John Browett
Chief Executive Officer
10 February 2016

CHIEF FINANCIAL OFFICER'S REVIEW

Financial Performance
Sales
Total sales for the 26 weeks to 2 January 2016 were £448.1m (FY15 H1: £406.4m), representing growth of 10.3%.

Taking our three key growth avenues in turn, sales performance was as follows:

	H1 sales (£m)	Growth (£m)	Growth (%)
LFL stores	376.9	12.4	3.4%
Home delivery	28.0	5.5	24.4%
Total LFL	404.9	17.9	4.6%
Non-LFL stores	43.2	23.8	-
Total	448.1	41.7	10.3%

Due to the 53rd week included in the last financial year, the above figures include eight days of our Winter Sale, compared to two days of Winter Sale included in the comparative period. This has boosted like for like (LFL) stores growth by approximately £10.0m (equivalent to 2.6% over the half year). These impacts will reverse in the next quarter. Therefore, adjusting for this calendar impact, underlying LFL performance was +2.0% for the 26 week period.

Having adjusted for the beneficial calendar impact, performance in the period reflected:

- Good performance in curtains and bedding, particularly our new Kids range. We also saw good growth in our rugs and utility departments;
- Ongoing store portfolio expansion, with three new superstores opened and one major refit completed; and
- Continuing growth of our on-line business, including a +24.4% increase in home delivery sales.

Gross margin
Gross margin for the half year increased by 30 basis points (bps) to 50.7% (FY15 H1: 50.4%). This included the impact of Winter Sale as described above, which is estimated to have depressed margin growth by -10bps over the half year. Underlying margin improved due to a small increase in direct sourcing, (increasing to 19.4% from 19.0% in the comparative period) better buying and less promotional clearance.

Operating costs
Operating costs for the period were £151.4m, an increase of £13.7m (10.0%) year on year. The main drivers of this increase were:

- IT capability - we continue to recognise the importance of IT in our business, not only investing in the new web platform but also the scale and capability of our IT function;
- Store portfolio growth - we opened three new stores increasing selling space by 2.1% in the first half of the year;
- Multi-channel fulfilment - we continue to invest in our home delivery service, and the value of this business rose by 24% compared to the previous year;
- Dunelm At Home - we finalised the roll-out of our in-home consultation service adding another 10 stores;
- Stoke 2 transition - we have invested around £0.3m in transition costs relating to the new warehouse which is due to open in the second half of the year;
- Stores - we continue to invest in customer service and in our workforce through higher wage increases. We anticipate that these incremental costs will be offset by productivity benefits over time;
- Investment in board and executive team - we have significantly invested in senior management capability as we look to develop the business further; and
- Property - we saw a one-off benefit of £0.7m in the first half relating to the reassignment of an onerous lease

Profit and Earnings per Share
Operating profit for the period was £75.6m (FY15 H1: £67.1m), an increase of £8.5m (12.7%). Operating profit margin was 16.9%, 40bps higher than FY15 H1 due to the increase in gross margin and the benefit of the Winter Sale brought forward into the first half of the year.

Earnings before interest, tax, depreciation and amortisation (EBITDA) rose by 14.3% to £88.7m (FY15 H1: £77.6m). On a last twelve months basis, EBITDA was £155.2m (FY15 H1: £142.3m). The EBITDA margin achieved was 19.8% (FY15 H1: 19.1%)

There was a net loss of £0.1m (FY15 H1: £1.1 gain) on financial items in the period. Interest payable and amortisation of arrangement fees relating to the Group's revolving credit facility of £0.8m (FY15 H1: nil) were offset by gains of £0.6m (FY15 H1: £0.7m) resulting from foreign exchange differences on the translation of dollar denominated assets and liabilities along with interest earned on cash deposits of £0.1m (FY15 H1: £0.4m).

Profit before tax (PBT) grew by 10.7% to £75.5m (FY15 H1: £68.2m). Profit after tax of £59.5m (FY15 H1: £53.5m) reflects the projected full year effective tax rate of 21.2% (FY15 H1: 21.5%). The effective rate has reduced compared with last year primarily due to the lowering of the headline rate of corporation tax offset by depreciation charged on non-qualifying capital expenditure.

Fully diluted earnings per share were 29.3p (FY15 H1: 26.4p), an increase of 11.0%.

Cash generation
Dunelm continues to deliver strong cash returns. In the period, the group generated £96.8m (FY15 H1: £58.7m) of net cash from operating activities, an increase of 64.9%. This includes some benefit of seasonality, which is expected to reverse in the second half of the financial year.

Period end working capital decreased by £20.5m. (FY15 H1: £5.1m increase). The majority of this movement relates to an improvement in stock and inventories of £14.7m which reflects better stock control and the impact of the Winter Sale being brought forward. We expect that the majority of this working capital benefit will continue in the second half of the year.

Capital investment was £20.0m in the period (FY15 H1: £12.6m). Spend in the period included the purchase of the Fogarty brand (£4.8m), investment in the new distribution centre (£2.5m of a £12m total expected investment), and investment in new and existing stores (£9.5m). Free cash flow was £76.7m (FY15 H1: £46.1m), representing 102% of PBT (FY15 H1: 68%).

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 0.25× 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. Furthermore, the board intends that ordinary dividend cover should in future be between 2.0x and 2.5x on a full year basis.

Reflecting these policies, we will pay a regular interim dividend of 6p per share (totalling £12.2m, a 9% increase year on year) and a special distribution of 31.5p per share (totalling £63.9m) to shareholders on the register at 4 March 2016. Both payments are expected to be made on 24 March 2016.

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

Banking Agreements and Net Debt
The Group has in place a £150m syndicated Revolving Credit Facility (RCF) which expires on 9 February 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 January 2016.

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

Net debt at 2 January 2016 was £29.4m compared with net debt of £73.6m at 4 July 2015. Daily average net debt (facilities drawn plus cash at bank) was £47.5m. This falls within our target range of net debt.

Principal Risks and Uncertainties
There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and beyond, and could cause actual results to differ materially from expected and historical results. The Board considers that the majority of significant risks and uncertainties remain as published in the Annual Report for the year ended 4 July 2015. These comprise:

- Damage to brand reputation through product and service quality
- Loss of market share through increased competition
- Prosecution and other regulatory action as a result of failure to comply with legislative or regulatory requirements
- Disruption to key IT systems from a major incident, including a cyber-attack
- Fluctuations in commodity prices
- Access to sites for store chain expansion
- Loss of a key part of our infrastructure
- Unforeseen financing requirements or treasury exposures
- Loss of key personnel

A detailed explanation of these risks can be found on pages 24 to 28 of the 2015 Annual Report which is available at www.dunelm.com.

Keith Down
Chief Financial Officer
10 February 2016

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the 26 weeks ended 2 January 2016

	Note	26 weeks ended 2 January 2016 £'000	26 weeks ended 27 December 2014 £'000	53 weeks ended 4 July 2015 £'000

Revenue	5	**448,078**	**406,372**	**835,805**
Cost of sales		(221,021)	(201,571)	(424,649)
Gross profit		**227,057**	**204,801**	**411,156**
Operating costs		(151,422)	(137,688)	(288,672)
Operating profit		**75,635**	**67,113**	**122,484**
Financial income		691	1,061	811
Financial expenses		(833)	-	(673)
Profit before taxation		**75,493**	**68,174**	**122,622**
Taxation	6	(16,005)	(14,657)	(26,551)
Profit for the period attributable to owners of the parent		**59,488**	**53,517**	**96,071**
Earnings per Ordinary Share - basic	8	29.4p	26.5p	47.5p
Earnings per Ordinary Share - diluted	8	29.3p	26.4p	47.3p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the 26 weeks ended 2 January 2016

	26 weeks ended 2 January 2016 £'000	26 weeks ended 27 December 2014 £'000	53 weeks ended 4 July 2015 £'000
Profit for the period	59,488	53,517	96,071
Other comprehensive income/(expense):			
Items that may be subsequently reclassified to profit or loss:			
Movement in fair value of cash flow hedges	2,318	4,565	905
Transfers of cash flow hedges to cost of sales	498	529	1,706
Deferred tax on hedging movements	(538)	(1,019)	(522)
Other comprehensive income for the period, net of tax	2,278	4,075	2,089
Total comprehensive income for the period attributable to owners of the parent	**61,766**	**57,592**	**98,160**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 2 January 2016

	Note	2 January 2016 £'000	27 December 2014 £'000	4 July 2015 £'000
Non-current assets				
Intangible assets	10	17,636	11,298	13,124
Property, plant and equipment	10	162,047	152,910	158,946
Deferred tax asset		1,153	1,582	1,897
Total non-current assets		**180,836**	**165,790**	**173,967**
Current assets				
Inventories		118,374	135,326	133,118
Trade and other receivables		16,953	20,295	17,962
Cash and cash equivalents		39,590	38,312	16,197
Derivative financial instruments		2,777	2,196	-
Total current assets		**177,694**	**196,129**	**167,277**
Total assets		**358,530**	**361,919**	**341,244**
Current liabilities				
Trade and other payables		(95,649)	(85,059)	(88,102)
Liability for current tax		(15,443)	(13,649)	(12,495)
Derivative financial instruments		-	-	(308)
Total current liabilities		**(111,092)**	**(98,708)**	**(100,905)**
Non-current liabilities				
Bank loans	11	(69,008)	-	(89,840)
Trade and other payables		(40,962)	(43,546)	(42,376)
Provisions for liabilities		(1,925)	(3,416)	(3,055)
Total non-current liabilities		**(111,895)**	**(46,962)**	**(135,271)**
Total liabilities		**(222,987)**	**(145,670)**	**(236,176)**
Net assets		**135,543**	**216,249**	**105,068**

Equity

Issued share capital	2,028	2,028	2,028
Share premium	1,624	1,624	1,624
Capital redemption reserve	43,157	43,157	43,157
Hedging reserve	2,048	1,756	(230)
Retained earnings	86,686	167,684	58,489
Total equity attributable to equity holders of the Parent	**135,543**	**216,249**	**105,068**

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the 26 weeks ended 2 January 2016

	Note	26 weeks ended 2 January 2016 £'000	26 weeks ended 27 December 2014 £'000	53 weeks ended 4 July 2015 £'000
Profit before taxation		75,493	68,174	122,622
Adjustment for net financing costs		142	(1,061)	(138)
Operating profit		75,635	67,113	122,484
Depreciation and amortisation	10	12,354	10,509	21,436
Impairment losses on non-current assets	10	-	-	109
Loss on disposal of non-current assets	10	684	5	102
Operating cash flows before movements in working capital		88,673	77,627	144,131
Decrease/(increase) in inventories		14,744	(19,798)	(17,590)
Decrease/(increase) in receivables		1,002	(771)	1,505
Increase in payables		4,717	15,463	16,236
Net movement in working capital		20,463	(5,106)	151
Share-based payments expense		595	(439)	250
		109,731	72,082	144,532
Interest received		64	273	522
Tax paid		(13,043)	(13,630)	(26,859)
Net cash generated from operating activities		**96,752**	**58,725**	**118,195**
Cash flows from investing activities				
Proceeds on disposal of property, plant and equipment		-	-	3
Acquisition of property, plant and equipment		(13,315)	(9,616)	(25,362)
Acquisition of intangible assets		(6,723)	(2,980)	(5,884)
Net cash used in investing activities		**(20,038)**	**(12,596)**	**(31,243)**
Cash flows from financing activities				
Proceeds from re-issue of treasury shares		703	22	810
Net (repayments)/drawdowns on revolving credit facility	11	(21,000)	-	91,000
Loan transaction costs	11	-	-	(1,295)
Interest paid		(992)	-	(148)
Ordinary dividends paid		(32,397)	(30,322)	(41,458)
Special distributions to shareholders		-	-	(141,727)
Net cash flows used in financing activities		**(53,686)**	**(30,300)**	**(92,818)**
Net decrease in cash and cash equivalents		23,028	15,829	(5,866)
Foreign exchange revaluations		365	743	323
Cash and cash equivalents at the beginning of the period		16,197	21,740	21,740
Cash and cash equivalents at the end of the period		**39,590**	**38,312**	**16,197**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the 26 weeks ended 2 January 2016

	Note	Issued share capital £'000	Share premium £'000	Capital redemption reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
As at 4 July 2015		**2,028**	**1,624**	**43,157**	**(230)**	**58,489**	**105,068**
Profit for the period		-	-	-	-	59,488	59,488
Movement in fair value of cash flow hedges		-	-	-	2,318	-	2,318
Transfers to cost of sales		-	-	-	498	-	498
Deferred tax on hedging movements		-	-	-	(538)	-	(538)
Total comprehensive income for the period		**-**	**-**	**-**	**2,278**	**59,488**	**61,766**
Issue of treasury shares		-	-	-	-	703	703
Share based payments		-	-	-	-	595	595

Deferred tax on share based payments		-	-	-	-	(258)	(258)
Current corporation tax on share options exercised	6	-	-	-	-	66	66
Ordinary dividends paid	9	-	-	-	-	(32,397)	(32,397)
Total transactions with owners, recorded directly in equity		**-**	**-**	**-**	**-**	**(31,291)**	**(31,291)**
As at 2 Jan 2016		**2,028**	**1,624**	**43,157**	**2,048**	**86,686**	**135,543**

As at 28 June 2014		2,028	1,624	43,157	(2,319)	145,247	189,737
Profit for the period		-	-	-	-	53,517	53,517
Movement in fair value of cash flow hedges		-	-	-	4,565	-	4,565
Transfers to cost of sales		-	-	-	529	-	529
Deferred tax on hedging movements		-	-	-	(1,019)	-	(1,019)
Total comprehensive income for the period		-	-	-	4,075	53,517	57,592
Issue of treasury shares		-	-	-	-	22	22
Share based payments		-	-	-	-	(439)	(439)
Deferred tax on share based payments		-	-	-	-	133	133
Current corporation tax on share options exercised	6	-	-	-	-	(474)	(474)
Ordinary dividends paid	9	-	-	-	-	(30,322)	(30,322)
Total transactions with owners, recorded directly in equity		-	-	-	-	(31,080)	(31,080)
As at 27 December 2014		2,028	1,624	43,157	1,756	167,684	216,249

As at 28 June 2014		2,028	1,624	43,157	(2,319)	145,247	189,737
Profit for the period		-	-	-	-	96,071	96,071
Movement in fair value of cash flow hedges		-	-	-	905	-	905
Transfers to cost of sales		-	-	-	1,706	-	1,706
Deferred tax on hedging movements		-	-	-	(522)	-	(522)
Total comprehensive income for the period		-	-	-	2,089	96,071	98,160
Issue of treasury shares		-	-	-	-	810	810
Share based payments		-	-	-	-	250	250
Deferred tax on share based payments		-	-	-	-	(861)	(861)
Current corporation tax on share options exercised	6	-	-	-	-	157	157
Ordinary dividends paid	9	-	-	-	-	(41,458)	(41,458)
Special distributions to shareholders		-	-	-	-	(141,727)	(141,727)
Total transactions with owners, recorded directly in equity		-	-	-	-	(182,829)	(182,829)
As at 4 July 2015		2,028	1,624	43,157	(230)	58,489	105,068

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the 26 weeks ended 2 January 2016

1 General information

Dunelm Group plc and its subsidiaries ('the group') are incorporated and domiciled in the UK. The registered office is Watermead Business Park, Syston Leicestershire.

The primary business activity of the group is the sale of homewares through a network of UK stores, website and our Dunelm at Home service.

The group's financial results and cash flows have, historically, been subject to seasonal trends between the first and second half of the financial year. Traditionally the second half of the financial year sees higher revenue and profitability due to the winter sale and colder weather, however due to the first half of the financial year ending later this year we have captured an additional week of the winter sale revenue in these results.

2 Basis of preparation

These condensed interim financial statements For the 26 weeks ended 2 January 2016 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (previously the Financial Services Authority) and with IAS 34, 'Interim financial reporting', as adopted by the European Union.

The presentation of the condensed 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 experiences and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The financial information in this document is unaudited, but has been reviewed by the auditors in accordance with the Auditing Practices Board guidance on Review of Interim Financial Information

These condensed interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006 and are not audited. Statutory accounts for the year ended 4 July 2015 were approved by the Board of Directors on 10 September 2015 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

3 Going concern basis

The Group has considerable financial resources together with long standing relationships with a number of key suppliers and an established reputation in the retail sector across the UK. Having assessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the interim financial statements.

4 Accounting policies

The condensed financial statements have been prepared under the historical cost convention, except for derivative financial instruments and share-based payments which are stated at their fair value.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 4 July 2015, as described in those financial statements, except as described below:

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

The drawdowns and repayments made from the revolving credit facility (RCF) have been disclosed net rather than gross within the cash flow.

The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 4 July 2015, which have been prepared in accordance with IFRSs as adopted by the European Union.

5 Segmental reporting
The Group has only one class of business, retail of homewares, and operates entirely in the UK market.

6 Taxation
The taxation charge for the interim period has been calculated on the basis of the estimated effective tax rate for the full year of 21.2% (26 weeks ended 27 December 2014: 21.5%).

7 Financial risk management and financial instruments
Financial risk factors
The Group's activities expose it to a variety of financial risks including foreign currency risk, fair value interest rate risk, credit risk and liquidity risk. The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 4 July 2015. There have been no changes in any risk management policies since the year end.

Fair value estimation
Financial instruments (hedging) carried at fair value are required to be measured by reference to the following levels:
Level 1: quoted prices in active markets for identical assets or liabilities;
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).
All financial instruments carried at fair value have been measured by a Level 2 valuation method, based on observable market data.

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:

	26 weeks ended 2 January 2016	26 weeks ended 27 December 2014	53 weeks ended 4 July 2015
	'000	'000	'000
Weighted average number of shares in issue during the period	202,504	201,973	202,217
Impact of share options	647	896	982
Number of shares for diluted earnings per share	203,151	202,869	203,199

	26 weeks ended 2 January 2016	26 weeks ended 27 December 2014	53 weeks ended 4 July 2015
	£'000	£'000	£'000
Profit for the period	59,488	53,517	96,071
Earnings per Ordinary Share - basic	29.4p	26.5p	47.5p
Earnings per Ordinary Share - diluted	29.3p	26.4p	47.3p

9 Dividends

		26 weeks ended 2 January 2016	26 weeks ended 27 December 2014	53 weeks ended 4 July 2015
		£'000	£'000	£'000
Final for the period ended 28 June 2014	- paid 15.0p	-	30,322	30,322
Interim for the period ended 4 July 2015	- paid 5.5p	-	-	11,136
Final for the period ended 4 July 2015	- paid 16.0p	32,397	-	-
		32,397	30,322	41,458

The Directors have declared an interim dividend of 6p per Ordinary Share and a special dividend of 31.5p per Ordinary Share for the period ended 2 January 2016. This equates to an interim dividend of £12.2m and a special dividend of £63.9m. The dividends will be paid on 24 March 2016 to shareholders on the register at the close of business on 4 March 2016.

The interim and special dividends have not been recognised as a liability in these interim financial statements, they will be recognised in the statement of changes in equity in the year to 2 July 2016.

10 Property, plant and equipment and intangible assets

	Intangible assets	PPE	Total
	£'000	£'000	£'000
Cost			
At 4 July 2015	24,955	276,317	301,272
Additions	6,996	13,655	20,651
Disposals	(1)	(2,161)	(2,162)
At 2 January 2016	**31,950**	**287,811**	**319,761**
Accumulated amortisation			
At 4 July 2015	11,831	117,371	129,202
Charge for the financial period	2,484	9,870	12,354
Disposals	(1)	(1,477)	(1,478)

At 2 January 2016	**14,314**	**125,764**	**140,078**
Net book value			
At 4 July 2015	13,124	158,946	172,070
At 2 January 2016	**17,636**	**162,047**	**179,683**

All additions were acquired and do not include any internal development costs. Intangible asset additions include £4.8m in relation to the acquisition of the Fogarty brand which will be amortised over a 15 year period. All amortisation and depreciation is included within operating costs in the income statement.

11 Bank loans

	26 weeks ended 2 January 2016	26 weeks ended 27 December 2014	53 weeks ended 4 July 2015
	£'000	£'000	£'000
Bank borrowings	69,008	-	89,840

The Company has medium term bank facilities of £150m (2015: nil) committed until 11 February 2020. £70m of this facility was drawn down at 2 January 2016. The fair value of borrowings are approximately equal to their carrying value.

12 Capital Commitments
As at 2 January 2016 the Company had entered into capital contracts amounting to £7.7m in relation to the investment in the new distribution centre.

13 Announcement
The interim report was approved by the Board on 10 February 2016 and copies are available from the website at www.dunelm.com.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors confirm that these condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

By order of the Board

John Browett
Chief Executive Officer
10 February 2016

Keith Down
Chief Financial Officer
10 February 2016

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