Half Yearly Report

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Dunelm Group plc
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8 February 2017

Dunelm Group plc

Interim Results Announcement

Increasing market share in a challenging environment

Continued investment for the future

Dunelm Group plc, the UK's leading homewares retailer, announces its interim results for the 26 weeks to 31 December 2016.

Financial Highlights

	FY17 H1 Total	FY17 H1 excl. Worldstores[2]	FY16 H1 Total	+/- change Total	+/- change excl. Worldstores
Sales	£460.5m	£452.4m	£448.1m	2.8%	+ 1.0%
Total LFL [1]		£423.1m	£430.0m		-1.6%
LFL stores		*£389.4m*	*£401.9m*		*-3.1%*
Home delivery		*£33.7m*	*£28.1m*		*+ 20.1%*
Gross margin	50.40%	50.80%	50.70%	- 30 bps	+ 10 bps
EBITDA before exceptionals	£80.7m	£82.3m	£88.7m	-9.0%	-7.2%
EBITDA	£71.4m	£82.3m	£88.7m	-19.5%	-7.2%
Profit before tax and exceptionals	£65.2m	£67.0m	£75.5m	-13.6%	-11.3%
Profit before tax	£55.9m	£67.0m	£75.5m	-26.0%	-11.3%
EPS (fully diluted) before exceptionals	25.6p	26.2p	29.3p	-12.6%	-10.6%
EPS (fully diluted)	21.8p	26.2p	29.3p	-25.6%	-10.6%
Free cash flow	£19.0m	£26.5m	£76.8m	-75.3%	-65.5%
Dividend	6.5p		6.0p	8.3%	n/a

Business Highlights

- Increased market share although trading was slightly softer than expected due to a weaker market and some short term supply chain disruption
- Acquisition of Worldstores enhances our leading position in homewares and enables acceleration of online and furniture growth
- Ongoing store portfolio expansion, with five new stores opening in the half and a further five forecast for the remainder of the year
- Good progress with strategic priorities and investment programme continues to strengthen the business for the future
- Strong balance sheet supports growth plans in tough markets, with continued cash generation providing ongoing returns for shareholders

Dividends

- Interim dividend increased by 8.3% to 6.5p per share (FY16: 6.0p per share)

John Browett, Chief Executive Officer, said:

"We are in a transitional year for Dunelm and it has been a particularly busy first half - whilst we are operating in a challenging retail environment, especially in homewares, we remain focused on investing in and developing our business for the future. We are still in the midst of this exciting journey, and whilst trading was slightly softer than we would have liked due to a weaker market, we continue to increase our share and are confident that we will emerge as an even stronger market leader.

"We remain committed to our long term plans for the business, with our three-part growth strategy at the centre of everything we do. We have opened five new stores in the period and have more openings and refits planned in the second half. Our home delivery channel continues to perform well and our acquisition of Worldstores will accelerate our online capabilities and growth potential.

"We have significant opportunities to improve performance through various initiatives and will continue to invest. Dunelm's business model remains one that is hard to replicate, and we continue to generate significant levels of cash for shareholders, allowing a further increase in the dividend."

Notes

[1] *LFL is defined as a like for like comparison which excludes any new stores opened in the current financial year. Due to the change in the accounting period end date, the period includes six days of our Winter Sale, compared to eight days in the comparative period last year. Adjusting for this impact, like for like (LFL) stores growth would have been approximately £4.0m higher (equivalent to +0.9% over the half year). This impact will reverse in the next quarter. With Easter being later this year, we expect approximately 1.5% of like-for-like sales to move from the third to the fourth quarter.*

[2] The figures for Globe Online Limited trading as Worldstores represent the five-week period post acquisition on 28th November 2016, until 31st December 2016, and exceptional costs incurred as a result of the acquisition.

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Notes to Editors

Dunelm is market leader in the £11bn UK homewares market. It currently operates 161 stores, of which 157 are out-of-town superstores and four are located on high streets, and an online store, to be found at www.dunelm.com

The company acquired the assets of Worldstores, including Achica and Kiddicare, on the 28th November 2016. Worldstores is one of the UK's largest online retailers of products for the home and garden, with over 500,000 products on the site. Achica is a members-only online store offering furniture, homewares and accessories, often at significant discounts to RRPs for limited periods through flash sales. Kiddicare is a multichannel retailer, selling nursery supplies and merchandise for children and young families.

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 Fogarty, 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 £1.4bn.

CHAIRMAN'S STATEMENT

In the first six months of this financial year we made good progress with our strategic plans and we acquired Worldstores in November 2016, which will accelerate the growth of our online business. Our total sales grew by 2.8%, benefitting from the Worldstores acquisition, the opening of five new stores and 20.1% growth in online, but with a reduction in our like-for-like sales of 1.6%. Profit before tax excluding exceptional items reduced by 13.6% to £65.2m, impacted by the lower like-for-like sales and increased investment in our strategic projects, especially in IT and marketing, together with the transition costs incurred with the opening of our new distribution centre in Stoke. We also incurred an exceptional cost of £9.3m, associated with the acquisition of Worldstores.

Dunelm is the UK's leading homewares retailer and we have continued to win market share. The eight key strategic initiatives laid out in our 2016 Annual Report will reinforce our position as the UK's destination of choice for homewares. Although trading conditions remain challenging, and somewhat uncertain, we are confident that our investments will make us more efficient, whilst allowing us to continue to offer our customers great choice and value, so providing the platform for continued growth.

The Board has increased the interim dividend by 8.3% to 6.5p per share, reflecting our strong cash generation and confidence in the further profitable growth of our business.

Andy Harrison
Chairman
8 February 2017

CHIEF EXECUTIVE'S REVIEW

We are continuing to work on our three-part growth strategy: growing like-for-like sales, rolling out new stores and growing our online channel.

Overview
This year is one of major transition for Dunelm. We are making investments and changes to our operations to enable significant future growth.

Trading was slightly softer than we would have liked due to a weaker market and some short term supply chain disruption; nonetheless we increased market share.

We remain confident about our future as our investments and the acquisition of Worldstores open up major opportunities to serve our customers better, improve the prospects for our people and enhance returns for shareholders.

Trading update
The first half saw total sales increase 2.8%, whilst like-for-like sales decreased by 1.6%. Unusually warm weather in the first quarter reduced store footfall. The second quarter saw an improvement in performance in our stores and customers responded very well to our enhanced seasonal product lines, especially our new Christmas offer. Online also grew consistently through the half at around 20%. However, overall sales were held back as the start-up of our new depot was harder than expected and therefore availability was lower than our usual very high standards. Despite these issues, we continued to take market share, helped by five new stores as well as our online growth.

Overall underlying costs increased by 6.7% due to new store openings and investments in the supply chain IT and other Group infrastructure to support future growth. This included unplanned and one-off costs of £3m to smooth out the issues from opening the new depot.

All of the above resulted in a reduction in operating profits excluding exceptional items of 12.3%.

Worldstores
We are delighted to have purchased the Worldstores business. The acquisition was achieved through a pre-packaged administration. This enabled us to buy the assets at low cost and eliminate significant liabilities for the business. The technology and infrastructure that Worldstores brings will allow us to grow our online operation much faster by improving the offer for customers. We see major opportunities in rolling out a multi-channel offer for Kiddicare, using Achica to access affluent customers primarily in London and the South East and selling a huge range of furniture to the Dunelm customer base with convenient delivery options.

Inevitably, the administration caused short-term disruption for the Worldstores business. This was a minor cost relative to the reduction in liabilities and purchase price. In the first couple of months of ownership we have been stabilising the business. This includes welcoming our new supplier base and delivering product already paid for by customers. As a result, we had an £1.8m loss in the first five weeks of ownership and incurred exceptional costs of £9.3m. In the short term we will be at the top end of our previous expectations of £5m-10m of losses in the current financial year.

We are working on detailed integration plans, building on the strengths of both parties. Dunelm will be able to improve Worldstores' performance through synergies including sharing product ranges, harmonising terms and extending the multichannel delivery proposition. Altogether, the integration benefits are expected to be in the region of £10m per annum over the short to medium term.

Growth Strategy
This half we have significantly improved the growth prospects for Dunelm, however it has required us to continue to invest in our infrastructure and processes, which represents a major transition for the business. Through Worldstores we now have a significant opportunity to build our online operation. We will still increase our estate to 200 stores and we believe we can grow like-for-like store sales as the homewares market returns to normal growth of 2-3%.

The future is a multichannel world with our stores remaining at the core of our offering. We need to continue to ensure though that our stores are a delight to visit because, in homewares, customers will always want to see colour, pattern and texture which are hard to render online and where they are looking for inspiration. The online business is increasingly important, and will be a critical part of our future. It will drive growth in all categories, both in the short term but also long term after the store rollout is complete. The acquisition of Worldstores accelerates our online strategy and brings us a combination of scale, technology and delivery capability, especially in furniture. We will therefore continue to invest to deliver both a fresh and attractive store format and a strong online offering.

Value for money has always been at the heart of Dunelm's success and we believe our prices must continue to be competitive or market leading. In fact, we have not increased prices materially for at least five years. We have however started to see some impact from adverse currency conditions which affects both goods sourced directly and via our suppliers. Therefore, while we have worked very hard to mitigate these cost price increases, we will see price pressures coming through in the months ahead.

Importantly, we have a significant advantage in our low cost operating model. This model has been created over a long period of time, is embedded in the store estate and is not easy for others to replicate.

We have a strong balance sheet which allows us to push on with our plans in tough markets, and our cash generation means that we can continue to generate returns for our shareholders, whilst investing for the future.

Summary of Key Initiatives
We have made significant progress on our key initiatives as part of our ambitious plan to improve operations particularly around supply chain, the growth of our online business, and the acquisition of Worldstores.

Online
We have seen further good growth in online, with home delivery sales increasing by around 20%. We continue to improve the website, making it easier to access and browse and traffic and conversion are increasing as a result. We have broadened our range by introducing extended products through our new DSV (drop shipped vendor) service, in areas such as rugs and lighting.

The integration of our one-man fulfilment process into our Stoke distribution centre is a significant step towards broader fulfilment options and improved efficiency in the medium term. In the second half of the year, we are continuing to develop our use of mobile tablets in store, to improve delivery options for customers, and to introduce a full Click and Collect service.

London
We are looking forward to opening three new stores within the M25 in the second half of the year, in Becton, Friern Barnet and Staples Corner. Outside London, we have opened stores in Aylesbury and Horsham, the latter being a former department store in a high street location.

Store Operations
We have reduced hours worked on certain tasks in the business, partially to mitigate all of the cost of the increasing National Living Wage, but more importantly to reinvest back into helping customers, improving service and driving sales. Areas of focus in the current year include merchandising efficiency, stock returns, sales and service training, and the roll out of mobile tablets.

Store Format
We are continuing to improve the store format as we open new stores, and the fact that our latest openings have traded better than forecast suggests that it is working well. We have also refitted three existing stores in the new format and, again, first indications are promising, although we need to trade them for longer and outside Christmas and Winter Sale to really understand how they are performing. We expect to refit at least a further eight stores in the second half of the year. We are also continuing to roll out inline tills which provide better service for customers, drive trade through pick-up items and use less space which can be released for seasonal and promotional product.

Made to Measure
We are in the process of changing our business model to have our Dunelm consultants working in the store rather than being on the road. We have also discounted a lot less so far this year. We are now focussed on recruiting more in-store consultants, sales training, improving our fitting service and extending our range. We are confident that, once these changes have been completed and bedded in, we will see significant benefits.

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. The Worldstores acquisition gives us an opportunity to accelerate the development of our overall furniture offering.

Supply Chain
Despite some short term inefficiency and availability issues we made significant progress in this area. We opened our second warehouse in Stoke and successfully reduced our third party storage requirements. The new warehouse doubles our capacity and provides a purpose-built platform which will reduce costs over time, albeit in the short term fixed costs have increased. We also completed the move of our one-man delivery operation into Stoke, which is a precursor to moving to a full 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, including the Worldstores network.

Product
We have started work on a new strategic initiative to further improve our product ranges. We see major opportunities in product design, innovation and sourcing. This work on product should enable us to grow by appealing to a broader set of customers across more categories, incorporating wider tastes of design and style. Our sourcing work should also improve our value for money proposition. We have invested in new capability in this area and I expect to see a significant impact over the coming months.

Outlook
This is a transitional year for Dunelm as we invest in delivering our eight strategic initiatives which will substantially strengthen our business and improve our future growth potential. Market conditions remain challenging but we are continuing to win market share based on the strength and breadth of our customer offer.

The Worldstores acquisition brings major additional opportunities and we are confident that our strategic investments will significantly strengthen the business. We maintain our ambition to roll out to 200 stores and, through our expanded online business, see significant growth opportunities as the store network matures. Our lean operating model, strong balance sheet and good cash generation allows us to continue to invest and to deliver substantial value to our shareholders.

John Browett

Chief Executive
8 February 2017

CHIEF FINANCIAL OFFICER'S REVIEW

Financial Performance
Sales
Total sales for the 26 weeks to 31 December 2016 were £460.5m (FY16 H1: £448.1m), representing growth of 2.8%.

	H1 sales (£m)	Growth (£m)	Growth (%)
LFL[1] stores	389.4	-12.5	-3.1%
Home delivery	33.7	+5.6	+20.1%
Total LFL	**423.1**	**-6.9**	**-1.6%**
Non-LFL stores	29.3	+11.2	n/a
Total Dunelm excl. Worldstores	**452.4**	**+4.3**	**+1.0%**
Worldstores[2]	8.1	+8.1	n/a
Total Dunelm Group	**460.5**	**+12.4**	**+2.8%**

[1] *LFL is defined as a like-for-like comparison which excludes any new stores opened in the current financial year*
[2] *The figures for Globe Online Limited trading as Worldstores represent the five week period post acquisition on 28th November 2016, until 31st December 2016.*

Due to the change in the accounting period end date, the figures include six days of our Winter Sale, compared to eight days included in the comparative period last year. Without this impact, like for like (LFL) stores growth would have been approximately £4.0m higher (equivalent to 0.9% over the half year). These impacts will reverse in the next quarter. With Easter being later this year, we expect approximately 1.5% of like-for-like sales to move from the third to the fourth quarter.

Having adjusted for the beneficial calendar impact, performance in the period reflected:
- Overall availability being lower YoY for most of the half as a result of disruption following the addition of a new warehouse in Stoke, as detailed above;
- Ongoing store portfolio expansion, with five new stores opened and three major refits completed; and
- Continuing growth of our online business, including a 20.1% increase in home delivery sales.

Gross margin
Gross margin for the half year decreased by 30 basis points (bps) to 50.4% (FY16 H1: 50.7%). Excluding the impact of Worldstores' five weeks of trading from acquisition on 28th November 2016, which is margin dilutive, gross margin for the half year increased by 10 bps to 50.8% (FY16: 50.7%). Margin was impacted by the depreciation of sterling against the US dollar, both as a result of some cost price increases from direct to store suppliers, and hedges on directly imported products starting to unwind. Retail prices have been increased on a small number of products to negate the impact to margin; we expect to put through further price rises on a number of categories in the second half, allowing gross margin to remain broadly flat in the second half, compared to the same period last year.

Operating costs
Operating costs before exceptional costs for the period were £165.8m, an increase of £14.3m (9.4%) year on year. The main drivers of this increase were:

- Store portfolio growth - we opened five new stores increasing selling space by 4.5% YoY;
- Marketing spend increased by £2.8m, in line with expectations, and was focussed on brand and the seasonal campaign;
- Logistics spend increased £4.4m YoY, which included the permanent increase in cost base as a result of a second warehouse (partially offset by savings from exiting external storage), but also unanticipated transition costs associated with the opening of the warehouse and the movement of our third party one-man delivery network (£3m);
- IT capability - we continue to recognise the importance of IT in our business, not only investing in new architecture and projects, but also the scale and capability of our IT function;
- Worldstores, with operating costs of £4.2m; YoY cost growth excluding Worldstores is +6.7% (FY16 growth: +9.9%); and
- Cost savings of £2.4m, reflecting our lean approach outside specific investment.

Looking ahead to the second half of the year, we would expect store costs to increase as we open a further five new stores, less marketing costs year on year, significantly less transitional costs on logistics and a similar level of cost savings.

Acquisitions
On 28 November 2016, the Group acquired the trade and assets of the Worldstore Group (Worldstores Limited (in administration), Kiddicare Limited (in administration) and Achica Limited (in administration)) for a cash consideration of £1 through Globe Online Limited, a 100% owned subsidiary of Dunelm Limited. The goodwill on the acquisition amounts to £nil, and the trading results of the Group include the result of Globe Online Limited since its incorporation and the acquisition. As part of the net assets acquired a liability to secured creditors of £7.5m was paid at the end of January 2017.

Worldstores Exceptional Items

	FY17 HY1
Acquisition costs - professional fees	£1.3m
Welcome payments for continuation of supply	£7.3m
Impact of Fair Value adjustment of acquired inventory	£0.2m
Key management retention plans	£0.5m
	£9.3m

We have incurred £9.3m of costs in relation to the acquisition of Worldstores. £1.3m of acquisition costs includes £1.0m of the initial consideration of £8.5m which was payable to the administrators.

The welcome payments of £7.3m were made to suppliers to ensure continuation of supply and were part of the expected initial working capital outflow. This initial outflow was c£10m with an additional c£3m of payments for fulfilling pre-administration orders. We have seen a £4.0m working capital benefit in December 2016, with a further £3-4m expected in the second half of the year.

Key management plans are potentially payable over a three-year period, and have both retention and performance conditions attached. It is currently expected that c£3m of exceptional items will be incurred in respect of these plans in the second half of the year.

We are gaining useful insight from the trading of the business now that it is stabilising. This will help form our opinions of how the business will ultimately be organised. We will therefore advise on any further exceptional items as we confirm our integration plan.

Profit and Earnings per Share
Operating profit before exceptional costs for the period was £66.3m (FY16 H1: £75.6m), a decrease of £9.3m (-12.3%). Operating profit margin before exceptional costs was 14.4%, 247bps lower than FY16 H1 largely due to Worldstores losses for the five weeks to 31 December 2016 of £1.8m and six days of the Winter Sale compared to eight days in the comparative period last year. Excluding Worldstores, operating profit before exceptional costs for the period was £68.1m (FY16 H1: £75.6m), a decrease of £7.5m (-9.9%). Operating profit margin excluding Worldstores and before exceptional costs was 15.1%, 182bps lower than FY16 H1.

Operating profit for the period was £57.0m due to exceptional operating costs of £9.3m (FY16 H1: £nil) that were incurred as part of the acquisition of Worldstores Group.

Earnings before interest, tax, depreciation and amortisation (EBITDA) before exceptional costs reduced by 9.0% to £80.7m (FY16 H1: £88.7m). EBITDA including exceptional costs reduced by 19.5% to £71.4m (FY16 H1: £88.7m). On a last twelve-month basis, EBITDA was £137.0m (FY16: £154.3m). The EBITDA margin achieved was 15.5% (FY16 H1: 19.8%)

There was a net loss of £1.1m (FY16 H1: £0.1 loss) on financial items in the period. Losses were made up of interest payable and amortisation of arrangement fees relating to the Group's revolving credit facility of £0.8m (FY16 H1: £0.8m) and losses of £0.3m (FY16 H1: £0.7m gain) resulting from foreign exchange differences on the translation of dollar denominated assets and liabilities.

Profit before tax and exceptional costs was £65.2m (FY16 H1: £75.5m), a reduction of 13.6% year on year. Profit before tax (PBT) after exceptional costs reduced by 26.0% to £55.9m. Profit after tax of £44.2m (FY16 H1: £59.5m) reflects the projected full year effective tax rate of 20.9% (FY16: 20.6%). The year on year decrease in headline rate of 0.25% has been offset by one off tax savings last year on the sale of a property and prior period refunds, plus the non-allowable costs incurred as a result of the acquisition of Worldstores.

Fully diluted earnings per share before exceptional costs were 25.6p (FY16 H1: 29.3p), a decrease of 12.6%. Including exceptional costs, fully diluted earnings per share were 21.8p, a year on year decrease of 25.6%.

Foreign exchange
Since June 2016, sterling has depreciated by 17% against the US dollar. Due to hedging, there has been little impact on half year results, although we do expect there to be an impact in the second half of the year. The drop in the sterling value continues to have an effect on the hedging balance. The maximum level of hedging coverage undertaken is 100% of anticipated expenditure on a three-month horizon, stepping down to 75% on a nine to twelve-month horizon. Coverage beyond 12 months is minimal.

Cash generation
Dunelm continues to deliver solid cash returns. In the period, the Group generated £53.0m (FY16 H1: £96.8m) of net cash from operating activities, a decrease of 45.2%. The year on year decrease is due to lower profits including the cost of exceptional items of the Worldstores acquisition and the movement on working capital.

Period end working capital increased by £5.4m (FY16 H1: £20.5m decrease). The majority of this movement relates to additional stock held of £16.1m in Dunelm. This increase is as a result of the five new store openings, two days less Winter Sale in FY17, a higher volume of residual seasonal stock YoY, and lower than expected sales. We would expect a similar level of working capital outflow at the end of the financial year reflecting some benefits on working capital from Worldstores, less stock in Dunelm, offset by the £7.5m final payment in respect of Worldstores.

Capital investment was £33.3m in the period (FY16 H1: £20.0m). Spend in the period included investment in two new freehold properties (£11.8m), investment in IT infrastructure (£4.6m) and investment in new and existing stores (£13.2m). Free cash flow was £19.0m (FY16 H1: £76.8m), representing 34% of PBT (FY16 H1: 102%). The company also invested £4.2m to purchase 500,000 shares into treasury to satisfy the future exercise of options granted under incentive plans and other share schemes.

Capital Policy
During FY16, the Board updated the 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× of the last twelve months' 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 policy targets ordinary dividend cover of between 1.75x and 2.25x in the financial year in respect of which the dividend is paid.

Reflecting these policies, we will pay a regular interim dividend of 6.5p per share (totalling £13.1m, an 8.3% increase year on year) to shareholders on the register at 24 March 2017. The payment is expected to be made on 13 April 2017.

The Board will consider special distributions 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.

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 31 December 2016.

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

Net debt at 31 December 2016 was £103.8m compared with net debt of £79.3m at 2 July 2016. Daily average net debt (facilities drawn plus cash at bank) was £77.6m (FY16: £47.5m). Net debt at the period end was equivalent to 0.71 x historical EBITDA, excluding exceptional items. 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 2 July 2016. These comprise:

- Loss of market share through failing to maintain a competitive offer in the homewares market
- Damage to brand reputation through product and service quality
- Reduced portfolio expansion through the inability to secure or develop the required retail trading space
- Impact on the business should it fail to attract, retain and motivate high calibre colleagues
- 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
- Impact on trade, or reduced efficiencies, from supply chain disruption
- Inability to compete and grow the business in line with the strategy through failure to operate the business in an efficient manner
- Unforeseen financing requirements or treasury exposures
- Failure to anticipate and manage the potential impact of Britain leaving the European Union

Since the publication of the Annual report, the Group has acquired the Worldstores business. The Board considers that failure to successfully integrate this business is an additional risk and uncertainty. A detailed business plan is under development to manage the integration and further disclosure will be made in the Annual report and accounts for the period ended 1 July 2017.

A detailed explanation of these risks can be found on pages 19 to 24 of the 2016 Annual Report which is available at www.dunelm.com.

Keith Down
Chief Financial Officer
8 February 2017

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.

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.

By order of the Board

John Browett	**Keith Down**
Chief Executive	**Chief Financial Officer**
8 February 2017	**8 February 2017**

INDEPENDENT REVIEW REPORT TO DUNELM GROUP PLC

Report on the interim financial statements

Our conclusion

We have reviewed Dunelm Group plc's interim financial statements (the "interim financial statements") in the Interim report and financial statements of Dunelm Group plc for the 26 week period ended 31 December 2016. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated statement of cash flows for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the notes to the interim financial statements.

The interim financial statements included in the Interim report and financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Interim report and financial statements, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim report and financial statements in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the Interim report and financial statements based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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 a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Birmingham 8 February 2017

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the 26 weeks ended 31 December 2016

	Note	26 weeks ended 31 December 2016 £'m	26 weeks ended 2 January 2016 £'m	52 weeks ended 2 July 2016 £'m
Revenue	5	**460.5**	**448.1**	**880.9**
Cost of sales		(228.4)	(221.0)	(442.4)
Gross profit		**232.1**	**227.1**	**438.5**
Operating costs		(175.1)	(151.5)	(309.2)
Operating profit before exceptional costs		**66.3**	**75.6**	**129.3**
Exceptional operating costs	6	(9.3)	-	-

Operating profit		**57.0**	**75.6**	**129.3**
Financial income		-	0.7	1.2
Financial expenses		(1.1)	(0.8)	(1.6)
Profit before taxation		**55.9**	**75.5**	**128.9**
Taxation	7	(11.7)	(16.0)	(26.6)
Profit for the period attributable to owners of the parent		**44.2**	**59.5**	**102.3**
Earnings per Ordinary Share - basic	9	21.9p	29.4p	50.5p
Earnings per Ordinary Share - basic - before exceptional costs	9	25.6p	29.4p	50.5p
Earnings per Ordinary Share - diluted	9	21.8p	29.3p	50.3p
Earnings per Ordinary Share - diluted - before exceptional costs	9	25.6p	29.3p	50.3

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the 26 weeks ended 31 December 2016

	26 weeks ended 31 December 2016 £'m	26 weeks ended 2 January 2016 £'m	52 weeks ended 2 July 2016 £'m
Profit for the period	44.2	59.5	102.3
Other comprehensive income/(expense):			
Items that may be subsequently reclassified to profit or loss:			
Movement in fair value of cash flow hedges	5.1	2.3	10.3
Transfers of cash flow hedges to inventory	(5.8)	0.5	(2.9)
Deferred tax on hedging movements	0.3	(0.6)	(1.3)
Other comprehensive income for the period, net of tax	(0.4)	2.2	6.1
Total comprehensive income for the period attributable to owners of the parent	**43.8**	**61.7**	**108.4**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 31 December 2016

	Note	31 December 2016 £'m	2 January 2016 £'m	2 July 2016 £'m
Non-current assets				
Intangible assets	11	27.2	17.6	18.6
Property, plant and equipment	11	187.5	162.0	168.9
Deferred tax assets		-	1.2	0.6
Derivative financial instruments		0.3	-	0.8
Total non-current assets		**215.0**	**180.8**	**188.9**
Current assets				
Inventories		136.9	118.4	116.6
Trade and other receivables		23.1	16.9	19.2
Derivative financial instruments		6.6	2.8	6.8
Cash and cash equivalents		20.5	39.6	14.9
Total current assets		**187.1**	**177.7**	**157.5**
Total assets		**402.1**	**358.5**	**346.4**
Current liabilities				
Trade and other payables		(122.5)	(95.7)	(95.4)
Liability for current tax		(11.0)	(15.4)	(12.8)
Derivative financial instruments		(0.4)	-	-
Total current liabilities		**(133.9)**	**(111.1)**	**(108.2)**
Non-current liabilities				
Bank loans	12	(124.3)	(69.0)	(94.2)
Trade and other payables		(40.6)	(41.0)	(41.4)
Deferred tax liabilities		(0.4)	-	(0.8)
Provisions		(1.9)	(1.9)	(2.0)
Derivative financial instruments		-	-	(0.2)
Total non-current liabilities		**(167.2)**	**(111.9)**	**(138.6)**
Total liabilities		**(301.1)**	**(223.0)**	**(246.8)**
Net assets		**101.0**	**135.5**	**99.6**
Equity				
Issued share capital		2.0	2.0	2.0
Share premium account		1.6	1.6	1.6
Capital redemption reserve		43.2	43.2	43.2

Hedging reserve	5.5	2.0	5.9
Retained earnings	48.7	86.7	46.9
Total equity attributable to equity holders of the Parent	**101.0**	**135.5**	**99.6**

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the 26 weeks ended 31 December 2016

	Note	26 weeks ended 31 December 2016	26 weeks ended 2 January 2016	52 weeks ended 2 July 2016
		£'m	£'m	£'m
Profit before taxation		55.9	75.5	128.9
Adjustment for net financing costs		1.1	0.1	0.4
Operating profit		57.0	75.6	129.3
Depreciation and amortisation	11	13.9	12.4	25.3
Loss/(profit) on disposal of property, plant and equipment	11	0.5	0.7	(0.3)
Operating cash flows before movements in working capital		71.4	88.7	154.3
(Increase)/decrease in inventories		(16.1)	14.7	16.5
(Increase)/decrease in receivables		(1.1)	1.0	(1.2)
Increase in payables		11.8	4.8	3.0
Net movement in working capital		(5.4)	20.5	18.3
Share-based payments expense		0.2	0.5	1.4
		66.2	109.7	174.0
Interest received		-	0.1	0.1
Tax paid		(13.2)	(13.0)	(25.9)
Net cash generated from operating activities		**53.0**	**96.8**	**148.2**
Cash flows from investing activities				
Proceeds on disposal of property, plant and equipment		-	-	2.0
Acquisition of property, plant and equipment		(28.9)	(13.3)	(29.6)
Acquisition of intangible assets		(5.1)	(6.7)	(10.2)
Net cash used in investing activities		**(34.0)**	**(20.0)**	**(37.8)**
Cash flows from financing activities				
Proceeds from reissue of treasury shares		0.1	0.7	1.3
Purchase of treasury shares		(4.2)	-	(7.8)
Drawdowns on revolving credit facility	12	40.0	6.0	39.0
Repayments of revolving credit facility	12	(10.0)	(27.0)	(35.0)
Interest paid		(0.7)	(1.0)	(1.6)
Ordinary dividends paid	10	(38.5)	(32.4)	(44.6)
Special dividends paid		-	-	(63.8)
Net cash flows used in financing activities		**(13.3)**	**(53.7)**	**(112.5)**
Net decrease in cash and cash equivalents		**5.7**	**23.1**	**(2.1)**
Foreign exchange revaluations		(0.1)	0.3	0.8
Cash and cash equivalents at the beginning of the period		14.9	16.2	16.2
Cash and cash equivalents at the end of the period		**20.5**	**39.6**	**14.9**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the 26 weeks ended 31 December 2016

	Note	Issued share capital	Share premium account	Capital redemption reserve	Hedging reserve	Retained earnings	Total equity
		£'m	£'m	£'m	£'m	£'m	£'m
As at 2 July 2016		**2.0**	**1.6**	**43.2**	**5.9**	**46.9**	**99.6**
Profit for the period		-	-	-	-	44.2	44.2
Fair value gains on cash flow hedges		-	-	-	5.1	-	5.1
Gains on cash flow hedges transferred to inventory		-	-	-	(5.8)	-	(5.8)
Deferred tax on hedging movements		-	-	-	0.3	-	0.3
Total comprehensive income for the period		**-**	**-**	**-**	**(0.4)**	**44.2**	**43.8**
Purchase of treasury shares		-	-	-	-	(4.2)	(4.2)
Issue of treasury shares		-	-	-	-	0.1	0.1
Share based payments		-	-	-	-	0.2	0.2
Deferred tax on share based payments		-	-	-	-	-	-
Ordinary dividends paid	10	-	-	-	-	(38.5)	(38.5)
Total transactions with owners, recorded directly in equity		**-**	**-**	**-**	**-**	**(42.4)**	**(42.4)**
As at 31 Dec 2016		**2.0**	**1.6**	**43.2**	**5.5**	**48.7**	**101.0**
As at 4 July 2015		2.0	1.6	43.2	(0.2)	58.5	105.1
Profit for the period		-	-	-	-	59.5	59.5
Fair value gains on cash flow hedges		-	-	-	2.3	-	2.3

Losses on cash flow hedges transferred to inventory		-	-	-	0.5	-	0.5
Deferred tax on hedging movements		-	-	-	(0.6)	-	(0.6)
Total comprehensive income for the period		-	-	-	2.2	59.5	61.7
Issue of treasury shares		-	-	-	-	0.7	0.7
Share based payments		-	-	-	-	0.6	0.6
Deferred tax on share based payments		-	-	-	-	(0.3)	(0.3)
Current tax on share options exercised	7	-	-	-	-	0.1	0.1
Ordinary dividends paid	10	-	-	-	-	(32.4)	(32.4)
Total transactions with owners, recorded directly in equity		-	-	-	-	(31.3)	(31.3)
As at 2 January 2016		2.0	1.6	43.2	2.0	86.7	135.5
As at 4 July 2015		2.0	1.6	43.2	(0.2)	58.5	105.1
Profit for the period		-	-	-	-	102.3	102.3
Fair value gains on cash flow hedges		-	-	-	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	7	-	-	-	-	0.2	0.2
Ordinary dividends paid	10	-	-	-	-	(44.6)	(44.6)
Special dividends to shareholders	10	-	-	-	-	(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 INTERIM FINANCIAL STATEMENTS

For the 26 weeks ended 31 December 2016

1 General information

Dunelm Group plc and its subsidiaries ('the group') are incorporated and domiciled in the UK. Dunelm Group plc is a listed public company, limited by shares and the company registration number is 04708277. The registered office is Watermead Business Park, Syston Leicestershire, LE7 1AD.

The primary business activity of the group is the sale of homewares through a network of UK stores and website.

The group's financial results and cash flows have, historically, been subject to seasonal trends between the first and second half of the financial period. Traditionally the second half of the financial period sees higher revenue and profitability due to the timing of the sales. However, the 53rd week in FY15 has meant the half year results capture an additional week of the winter sale revenue, so results are likely to show less variability between the two halves of the financial period.

2 Basis of preparation

These condensed interim financial statements for the 26 weeks ended 31 December 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 2 July 2016 were approved by the Board of Directors on 14 September 2016 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. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully. Having reassessed the principal risks, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial information.

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 2 July 2016, 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.
- As of 3 July 2016, intangible assets now include internal development costs.

Furthermore, due to the acquisition in the period, the following new accounting policies were adopted:

- **Exceptional items -** Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are items that are material either because of their size or their nature, or that they are nonrecurring.
- **Basis of consolidation - acquisition -** The Group applies the acquisition accounting method to account for business combinations. The consideration transferred for an acquisition is the fair values of the assets and liabilities acquired. Acquisition related costs are expensed as they are incurred.

No new standards, amendments or interpretations, effective for the first time for the period beginning on or after 3 July 2016 have had a material impact on the Group or Parent Company.

The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 2 July 2016, which have been prepared in accordance with IFRSs as adopted by the European Union.

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

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

The Chief Operating Decision Maker is the Executive Board of Directors of Dunelm Group plc. Internal management reports are reviewed by them on a monthly basis. Performance of the segment is assessed based on a number of financial and non-financial KPIs as well as on profit before taxation.

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

All material operations of the reportable segment are carried out in the UK. The Group's revenue is driven by the consolidation of individual small value transactions and as a result Group revenue is not reliant on a major customer or group of customers.

6 Exceptional items
Exceptional items are those items which, due to their materiality, nature or infrequency, could distort an assessment of underlying business performance.

	26 weeks ended 31 December 2016 £'m
Acquisition costs - administrator fees	0.9
Acquisition costs - other professional fees	0.4
Welcome payments for continuation of supply	7.3
Impact of fair value adjustment of acquired inventory	0.2
Key management retention bonuses	0.5
	9.3

Exceptional items have occurred as a result of the purchase of the Worldstore Group on 28 November 2016.

The Group's profit before and after tax for the 26 weeks ended 31 December 2016 has been analysed between the underlying Dunelm trading, the 5 weeks of trade of Globe Online Limited and exceptional costs incurred as a result of the acquisition.

	Profit before tax £'m	Taxation £'m	Profit after tax £'m
Underlying Dunelm trading performance	67.0	(13.9)	53.1
Worldstores trading performance	(1.8)	0.4	(1.4)
Exceptional operating costs	(9.3)	1.8	(7.5)
	55.9	**(11.7)**	**44.2**

7 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 20.9% (26 weeks ended 2 January 2016: 21.2%).

8 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 2 July 2016. There have been no changes in any risk management policies since the year end.

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

9 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 31 December 2016 £'m	26 weeks ended 2 January 2016 £'m	52 weeks ended 2 July 2016 £'m
Weighted average number of shares in issue during the period	201.6	202.5	202.5
Impact of share options	0.7	0.7	0.8
Number of shares for diluted earnings per share	202.3	203.2	203.3

	26 weeks ended 31 December 2016 £'m	26 weeks ended 2 January 2016 £'m	52 weeks ended 2 July 2016 £'m
Profit for the period	44.2	59.5	102.3

Profit for the period before exceptional costs	51.7	59.5	102.3
Earnings per Ordinary Share - basic	21.9p	29.4p	50.5p
Earnings per Ordinary Share - basic before exceptional costs	25.6p	29.4p	50.5p
Earnings per Ordinary Share - diluted	21.8p	29.3p	50.3p
Earnings per Ordinary Share - diluted before exceptional costs	25.6p	29.3p	50.3p

10 Dividends

		26 weeks ended 31 December 2016 £'m	26 weeks ended 2 January 2016 £'m	52 weeks ended 2 July 2016 £'m
Final for the period ended 4 July 2015	- paid 16.0p	-	32.4	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
Final for the period ended 2 July 2016	- paid 19.1p	38.5	-	-
		38.5	**32.4**	**108.4**

The Directors have declared an interim dividend of 6.5p per Ordinary Share for the period ended 31 December 2016. This equates to an interim dividend of £13.1m. The dividends will be paid on 13 April 2017 to shareholders on the register at the close of business on 24 March 2017.

The interim dividend has not been recognised as a liability in these interim financial statements, it will be recognised in the statement of changes in equity in the year to 1 July 2017.

11 Intangible assets and property, plant and equipment

	Intangible assets £'m	PPE £'m	Total £'m
Cost			
At 2 July 2016	36.0	300.2	336.2
Additions	4.4	28.9	33.3
Disposals	-	(1.8)	(1.8)
Assets acquired on acquisition (note 13)	7.5	0.8	8.3
At 31 December 2016	**47.9**	**328.1**	**376.0**
Accumulated amortisation / depreciation			
At 2 July 2016	17.4	131.3	148.7
Charge for the financial period	3.3	10.6	13.9
Disposals	-	(1.3)	(1.3)
At 31 December 2016	**20.7**	**140.6**	**161.3**
Net book value			
At 2 July 2016	18.6	168.9	187.5
At 31 December 2016	**27.2**	**187.5**	**214.7**

Assets acquired on the acquisition of the Worldstores Group have been depreciated/amortised over the remaining useful economic life of the asset. Intangible assets acquired on acquisition include brands, customer lists and software. All amortisation and depreciation is included within operating costs in the income statement.

12 Bank loans

	As at 31 December 2016 £'m	As at 2 January 2016 £'m	As at 2 July 2016 £'m
Total borrowings	125.0	70.0	95.0
Less: unamortised debt issue costs	(0.7)	(1.0)	(0.8)
Bank borrowings	**124.3**	**69.0**	**94.2**
Cash and cash equivalents	(20.5)	(39.6)	(14.9)
Net debt	**103.8**	**29.4**	**79.3**

The Company has medium term bank facilities of £150m (2016: £150m) committed until 9 February 2020. £125m of this facility was drawn down at 31 December 2016 (2016: £95m). The carrying amount of bank borrowings is equal to fair value.

13 Acquisition

On 28 November 2016 the Group acquired the trade and assets of the Worldstore Group (Worldstores Limited (in administration), Kiddicare Limited (in administration) and Achica Limited (in administration)) for a cash consideration of £1 through Globe Online Limited, a 100% owned subsidiary of Dunelm Limited.

The purchase has been accounted for as a business combination. The provisional fair value amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

	As at 28 November 2016 £'m
Intangible assets - software	5.2
Intangible assets - brands	2.2
Intangible assets - customer lists	0.1
Property, plant and equipment	0.8
Inventories	4.2
Trade and other receivables	2.9
Accruals and deferred income	(6.5)

Provisions	(1.4)
Amounts due to secured creditor	(7.5)
Total identifiable assets / (liabilities)	**-**
Cash consideration	-
Goodwill	**-**

Since the acquisition date, Globe Online Limited generated revenues of £8.1m and made an operating loss of £1.8m. If the acquisition had taken place on 3 July 2016, the Group adjusted profit would have been reduced by £10.4m and revenue would have been increased by £53.7m.

14 Trade and other payables

	As at 31 December 2016	As at 2 January 2016	As at 2 July 2016
	£'m	£'m	£'m
Current			
Trade payables	60.5	45.3	52.9
Accruals and deferred income	40.0	30.3	32.2
Taxation and social security	13.9	19.9	10.0
Other payables	0.6	0.2	0.3
Loan to third party - secured creditor (note 13)	7.5	-	-
Total current trade and other payables	**122.5**	**95.7**	**95.4**
Non-current			
Accruals and deferred income	40.6	41.0	41.4
Total non-current trade and other payables	40.6	41.0	41.4
Total trade and other payables	**163.1**	**136.7**	**136.8**

Current accruals and deferred income include lease incentives of £3.8m (FY16 H1: £4.8m, FY16: £4.1m) and capital accruals of £2.1m (FY16 H1: £0.5m, FY16: £2.6m).

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

	As at 31 December 2016	As at 2 January 2016	As at 2 July 2016
	£'m	£'m	£'m
One to two years	5.5	5.1	5.2
Two to five years	15.7	15.0	15.7
After five years	19.4	20.9	20.5
	40.6	**41.0**	**41.4**

15 Capital Commitments

As at 31 December 2016 the Company had entered into capital contracts amounting to £5.9m (2016: £7.7m).

16 Post balance sheet events

The Board has become aware of a technical issue in respect of the final dividend of 16 pence per share paid on 27 November 2015. Whilst the Company had sufficient profits and other distributable reserves to pay this dividend, it had not filed relevant accounts to demonstrate this at the time that the dividend was paid. The Company is proposing to take the steps needed to (i) appropriate the November 2015 dividend to the distributable profits of the Company as set out in the Annual Report and Accounts of the Company made up to 2 July 2016 and adopted by its shareholders on 22 November 2016; and (ii) ensure that all potentially affected parties are placed so far as possible in the position in which they were always intended to be had the relevant procedures been complied with. This requires shareholder approval, and a circular convening a general meeting will be distributed to shareholders shortly.

17 Announcement

The interim report was approved by the Board on 8 February 2017 and copies are available from the website at www.dunelm.com.