



Dunelm

The Home of Homes

Dunelm Group plc

Annual Report and Accounts

for the period ended 30 June 2018

Dunelm

The Home of Homes

At Dunelm, we love homes and are just as obsessed by the products that go in them. We're the UK's No. 1 Homewares retailer offering our customers a wide range of products to enhance every room in their home. We focus on **style, quality** and **value** and are always working hard to make our customers' lives a little easier.

We're a multichannel retailer with 169 superstores, three high street stores and our website, Dunelm.com, featuring extended ranges and delivery convenience (Home Delivery and Reserve & Collect) via multi-device functionality and our own delivery fleet.

We are really proud of our business culture and we like to do things our own way. We're committed to our suppliers and making Dunelm a great place to work for our colleagues.

Our purpose is to help everyone create a home they love.

Investment Proposition

1 WELL POSITIONED FOR GROWTH

Our growth record has been strong with 39 consecutive years of increased sales and we're always looking out for ways to sell more to our customers. We have a significant opportunity to continue to grow in the UK as we become the customers' number one choice for Homewares and Furniture.

- Number 1 in the £13bn Homewares market with 8.1% share. Opportunity to consolidate leadership position in a fragmented sector
- Opportunity to accelerate the growth of our online business with an expanded range, and improved delivery options, attracting new customers and evolving our model for the future
- Significant growth potential in Furniture where our share is less than 1% in an £11bn market

2 CUSTOMER OFFER

We are always looking for ways to enhance our customer offer. We want to be famous for style, as well as quality and value. We're always looking and listening to ensure we make our customer experience as inspiring and easy as possible.

- We're well known for offering great value and quality across our broad product ranges. We will introduce more fashion and style-led ranges, and leverage our own brands to drive consideration and conversion across our categories
- Investments in our multichannel capability means customers can increasingly shop how and whenever they choose with next day or day of choice home delivery or collection in-store
- Our great people really make Dunelm different. We're proud to offer friendly and knowledgeable service to our customers, not pushy salespeople

3 OPERATING MODEL

Our low cost operating model provides a solid platform for continued growth. We've invested sensibly over the years and remain agile enough to respond quickly to changes in the marketplace.

- We're not held back by an over-priced or over-sized retail estate. In fact, we know we can still open more stores in key locations across the UK
- Our focus on cost and reducing waste ensures that we run a lean business and allows us to reinvest for growth and maintain great pricing for our customers
- We've grown up with many of our suppliers. Their skills and experience complement our own. We are committed to maintaining great relationships and working with our suppliers to create a more efficient supply chain

4 LONG TERM VALUE CREATION

We make decisions for the long term which means that our levels of internal reinvestment can rise and fall. We always want to do the right thing for our business and stakeholders.

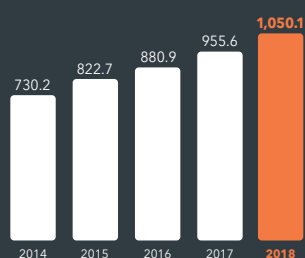
- As a highly cash-generative business with a conservative capital structure, we have the ability to reinvest and/or distribute our free cash flow each year
- As a large employer and a responsible business, we care about our communities and environment too. As our business grows we have increased community activities year on year, and still managed to reduce emissions and waste
- Our progressive distribution policy has increased dividend per share each year since floating on the London Stock Exchange in 2006

Highlights

Revenue £m

+9.9%

(2017: +8.5%)

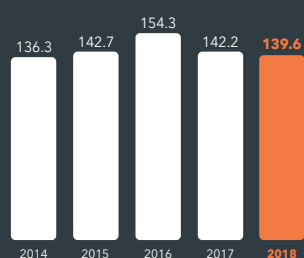


EBITDA* £m

-1.8%

(2017: -7.8%)

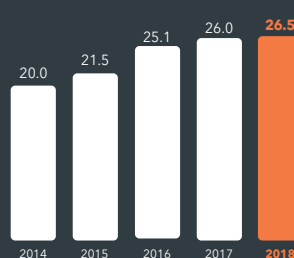
* EBITDA is presented before exceptional costs.



Dividend Per Share Pence

+1.9%

(2017: +3.6%)



Operational Highlights

- Growth in unique customers numbers both online (+18%), and in-store (+5%)*
- Integration of Worldstores product catalogue and supply chain completed
- Continued gain in Homewares market share to 8.1% (2017: 8.0%)*, further strengthening number one position
- Improvement in customer satisfaction scores across all channels
- Opening of ten new superstores in the year (including one relocation) and completion of six new format refits
- Product range grew in breadth and quality with 90% of customer reviews of products online being rated four or five stars

* Unique customer numbers reflects internal analysis based on unique payment card transactions within the financial period

† GlobalData Retail research. FY17 has been restated based on final market data (see page 8 for further details)

Financial Highlights

- Sales growth of 9.9% including 1.0% like-for-like (LfL) growth in stores and an online LfL sales increase of 37.9%
- EBITDA of £139.6m (pre exceptional items), down 1.8% year-on-year reflecting investment for growth and consolidation of Worldstores trading losses
- PBT of £102.0m (pre exceptional items), inclusive of an estimated £8.4m of Worldstores operating losses in year which will not repeat in future years
- PBT of £93.1m including £8.9m of exceptional costs relating to the integration of the Worldstores businesses
- £44.0m capital investment in year including digital technology development, new and refit stores and a new purpose-built manufacturing centre for our made-to-measure offer
- Improvement in free cash flow year-on-year to £52.9m (FY17: £14.2m)
- 1.9% increase in full year dividend to 26.5 pence per share

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At a Glance

SUSTAINABLE LONG TERM VALUE CREATION

About us

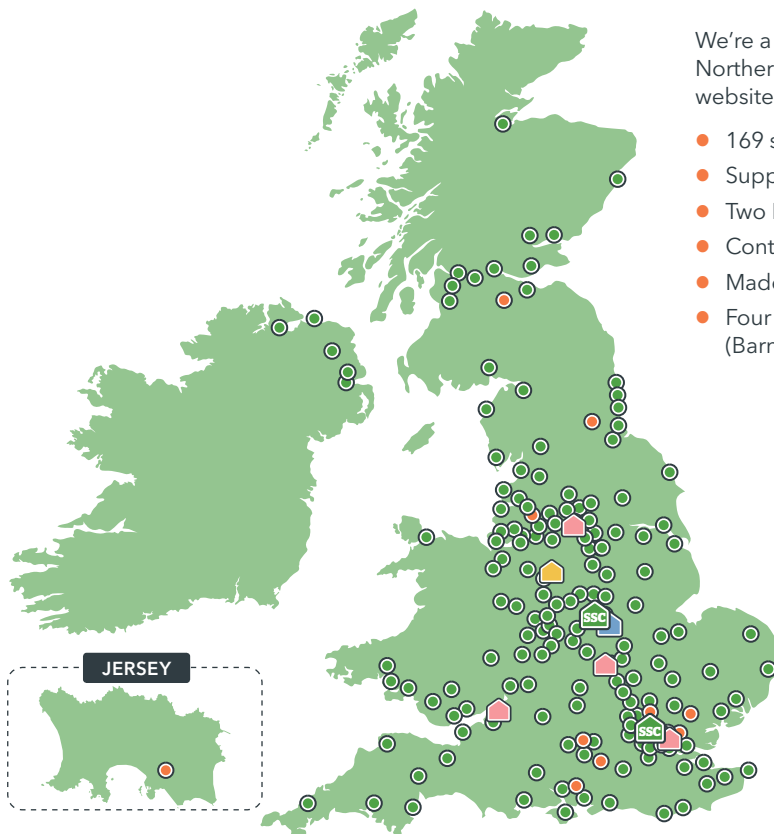
We're the UK's No. 1 Homewares retailer offering our customers great products to enhance every room in their home. We focus on style, quality and value and are always working hard to help our customers to create a home they love.

- 30,000 products in store
- Extended product ranges online
- Over three and a half million customers visit our stores and websites each week
- House Beautiful awards: Favourite Home Retailer and Favourite Online Retailer 2017
- Made to Measure curtains and blinds service including home fitting
- Home Delivery and Reserve & Collect service



Read more in our Business Model on pages **10** and **11**

Where We Operate



We're a UK retailer with nationwide stores coverage including Northern Ireland. We also sell products online through our website, Dunelm.com.

- 169 superstores and 3 high street stores
- Support Centres in Leicester and London
- Two Distribution Centres in Stoke-on-Trent
- Contact Centre in Radcliffe, Manchester
- Made to Measure Manufacturing Centre in Leicester
- Four Dunelm Home Delivery Network sites (Barnsley, Northampton, Bristol and Dartford)

KEY

- Superstores as at 2 July 2017
- New superstores opened since 3 July 2017
- SSC Leicester and London Support Centres
- Manufacturing
- Stoke I & II Distribution Centres
- Dunelm Home Delivery Network Sites

See our Store Listing on page **IBC**



Our Brands



Our Business Goals and Our Business Principles

We have five clear business goals which help us continually shape our business for our customers and the future.

- 1 Reaching more customers with our brand
- 2 Create new reasons for customers to shop with Dunelm
- 3 Easy and inspiring multichannel shopping for our customers
- 4 Simple and low cost - good housekeepers
- 5 A great place to work for colleagues

Read more on our Business Goals on page **13**

We have a unique culture stemming from our entrepreneurial beginnings and a set of business principles we live by.



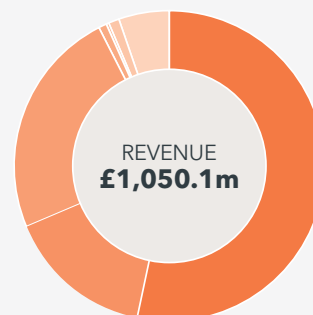
Read more on our Business Principles on page **11**

Our People

One of our business goals is to make Dunelm a great place to work for our colleagues.

- Over 9,000 colleagues, 68% female at year end FY18
- Improved benefits offering and communication through launch of "Home Comforts" for all colleagues
- Appointed Marion Sears as our "Designated Non-Executive Director" for employee engagement
- 30% increase in colleague engagement measures between July 2017 and May 2018

How our Revenue is spent



- Cost of sales **£546.5m**
- Labour costs **£156.2m**
- Other operating costs **£242.7m**
- Exceptional items **£8.9m**
- Financial items **£2.7m**
- Corporation tax **£19.8m**
- Dividends paid **£53.4m**



Chairman's Statement

WINNING SHARE AND PUTTING THE CUSTOMER FIRST

Introduction

Dunelm has grown to become the market leader in homewares in the UK. It has a network of 169 superstores selling a broad product range (with most lines being unique to Dunelm) offering outstanding value and choice. Our strategy in recent years has been to build on these strengths by growing our online participation, evolving towards a truly multichannel business. This strategy has necessitated large investments in our systems and in our supply chain logistics, and the acquisition of Worldstores in November 2016 accelerated this transition.

The year under review was complicated by a combination of management changes, the integration of Worldstores and a fragile economic environment. However, the appointment of our new CEO, Nick Wilkinson, in February brought cohesion and impetus to our strategic thinking and as a Board we are pleased with the immediate progress he has achieved. The Worldstores integration is virtually complete and the acquired unit will in future no longer be reported separately, as all the continuing sales are transferred to the Dunelm.com site, which will incorporate key elements of the Worldstores systems. As a result, our fast-growing online business will become better established and will be our primary focus for future growth.

Dunelm has made significant strategic progress in the last few years and I am confident that under Nick's leadership we will turn our strategic plans into substantial value creation.

We are proud of Dunelm's strong culture and amazing colleagues. I would like to thank them all for their hard work and commitment. Although our business is becoming more digital, the human touch from all our colleagues is as important to our success as always.

Performance

Against the backdrop of challenging and volatile market conditions, over the last financial year we grew our total sales by 9.9% to £1,050.1m, with positive like-for-like sales performance of 4.2%. We have continued to win homewares market share and strengthen our leadership position. Our store like-for-like sales increased by 1.0%, while like-for-like online sales were up 37.9%, reflecting our increasing focus on this channel as customer shopping behaviour





“We are now well placed for **future profitable growth** in a multichannel world. Our strategy will bring continuous **improvement** online and in stores”

continues to shift. We opened ten new superstores in the year (including one relocation) taking our network to 169 superstores, and we still see opportunity to grow our national store network in a measured way.

Profit before tax and exceptional items fell by 6.7% to £102.0m, reflecting a full year of trading losses reported in respect of Worldstores, a small reduction in our core business gross margin, and increased operating costs due in part to the higher mix of online sales. As a result of new store openings, refits and investment in our digital technology infrastructure, we maintained a relatively high level of capital investment of £44.0m (FY17: £60.5m). Profits after tax and exceptional items were in line year-on-year at £73.3m (2017: £73.1m).

Our balance sheet remains strong with limited leverage (net debt:EBITDA before exceptional items of 0.89x at year-end) and cash generation remains a key feature of our business model with free cash flow of £52.9m in the year (FY17: £14.2m).

Dividends

The Board has recommended maintaining the final dividend at 19.5 pence per share, bringing the total dividend for the full year to 26.5 pence per share, an increase of 1.9% on the previous year. While dividend cover before exceptional items of 1.5x remains below our target range, it reflects both the non-recurring costs associated with the Worldstores acquisition and integration, and our confidence in Dunelm's future growth prospects.

Board changes

Nick Wilkinson has made a strong start as CEO and is already bringing fresh energy to our wider leadership team.

Laura Carr will join as CFO on 29 November and will bring valuable retail and commercial experience having been CFO of Indigo in Canada and most recently Group Financial Controller of Compass Group plc. In the meantime, we have been fortunate to have David Stead return as Interim CFO following the departure of Keith Down in May. David was previously our CFO from 2003 to 2016 and I would like to thank him for returning to smooth the CFO transition.

As previously advised, Simon Emeny, our Senior Independent Director, stepped down at our AGM in November 2017 after ten years' service. Liz Doherty, who chairs our Audit & Risk Committee, has succeeded Simon as Senior Independent Director.

In March, we appointed Rachel Osborne as a Non-Executive Director to gain the benefit of her experience as CFO in a variety of consumer facing businesses. Unfortunately, Rachel subsequently changed her executive role which created a competitive conflict and she stood down from the Board in August. We have initiated a search for Rachel's replacement and will update on progress in due course.

The future

Our mission at Dunelm is to help everyone create a home they love. Notwithstanding a difficult retail environment, after a challenging period of change and investment we are now well placed for future profitable growth in a multichannel world. Our strategy will bring continuous improvement in our proposition both online and in stores, based around our broad range of great value and stylish products, our well invested infrastructure, our right-sized estate, and the committed colleagues who live and breathe our business principles every day.

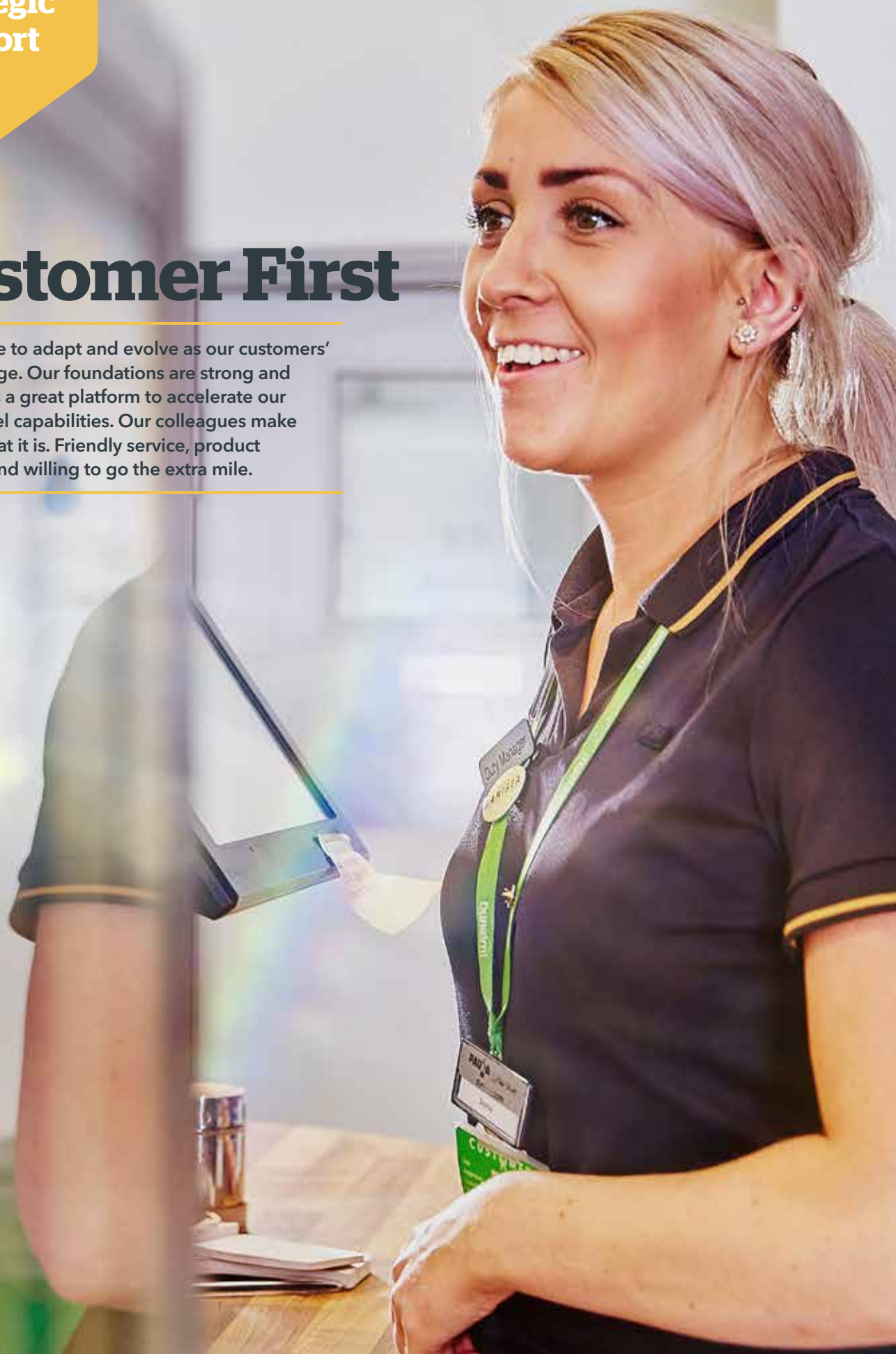
I look forward to working with Nick and the rest of the Board to capitalise on the exciting opportunities ahead.

Andy Harrison
Chairman

12 September 2018

Customer First

We continue to adapt and evolve as our customers' needs change. Our foundations are strong and they give us a great platform to accelerate our multichannel capabilities. Our colleagues make Dunelm what it is. Friendly service, product expertise, and willing to go the extra mile.





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Our Marketplace

WELL POSITIONED FOR GROWTH

Macroeconomic Trends

The UK retail sector has endured another volatile and uncertain year, with many well-established retailers struggling to adapt to rapidly changing consumer behaviour, disruptive competitive pressures and continual technological progress.

The consumers' channel shift online continues apace, with online shopping now a part of almost every shopping journey. At the same time, consumers are looking for value and convenience. The economic backdrop remains fragile and uncertain with high levels of employment but stagnant productivity and low real wage growth.

The year ahead does not look any less tumultuous for retail in the UK.

How We are Responding

At Dunelm, we are focused on our customer and the things that we can control. We are clear about the opportunities and challenges ahead of us, and we are responding quickly to the changing consumer and market conditions.

Our competitor set is fighting hard, so we're looking to reassert our value credentials while improving ease of shopping in a multichannel world and we're adding more inspiration to help our customers create a home they love.

We know we have a product and service advantage, and we want to spread the word. That's why we're launching a brand building programme so more customers can get to know us and shop with us.

The Homewares Market*

Headlines

The UK homewares market is worth over £13bn per year. Based on estimated GlobalData research, the homewares market has grown in FY18 and this is supported by our internal analysis, based on actual weekly sales data for our trading period. Growth in the market has been driven by price, rather than volume, which our analysis indicates has declined in the year.

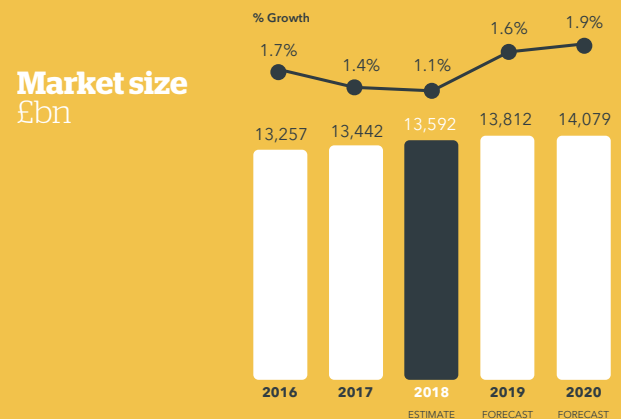
Online penetration is still growing, and estimated to be 13.6% in 2018 (2017: 12.7%), and is forecast to reach 16.5% by 2022. Improved convenience through shorter delivery times and cheaper deliveries will support growth.

Stores continue to play a key role in the shopping journey with research highlighting an increasing importance of the in-store experience to consumers.

Most consumers purchase homewares every four to six months and the most frequent and highest spending shoppers are 25-34 year-olds. Younger shoppers especially are influenced by trends and design-led ranges.

Key growth drivers and inhibitors

- + Store space and new formats improve experience
- + Fashion and design-led ranges increase visit frequency
- + Online provides more choice and convenience
- Economic uncertainty, inflation and price competition
- Leisure favoured over retail





Key Differentiators:

- Product obsessed - focus on style, quality and value
- Everyone's welcome in our home
- Multichannel convenience - shop when, how and where you want
- Our people - friendly and knowledgeable service

The Furniture Market†

Headlines

The UK furniture market is estimated to be worth £11.4bn in 2018. The market is expected to grow slightly in 2018 but this growth is driven by price inflation and volumes are expected to decline, impacted by economic uncertainty, lower consumer confidence and the weaker housing market.

Online penetration is forecast to grow to 17.3% in 2018 (2017: 15.7%), and is forecast to reach 22.4% by 2022 with customers becoming more comfortable with shopping this channel and benefitting from broader ranges, convenient delivery and lower pricing.

The market is expected to continue to consolidate with independents declining most, as costs erode margins, and online retailers capitalise on the benefits of the channel to attract and convert customers.

Key growth drivers and inhibitors

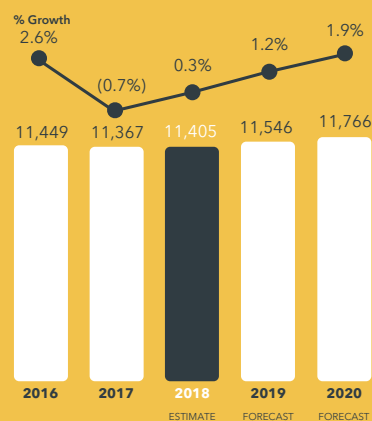
- + Online growth: lower overheads, broader ranges, keener prices, convenient deliveries
- + Growth in sales of bedroom furniture categories will be driven by increasing well-being and health awareness
- + Growth in sales of living room furniture as space is more constrained and innovative storage solutions are needed
- Economic uncertainty, inflation and price competition

* Homewares market data is based on GlobalData analysis. The methodology has been revised in the last 12 months; prior years and forecast market sizes, including retailers' market share analysis, have been amended to reflect better available information.

† Furniture market data is based on GlobalData analysis.



Market size £bn



Our Business Model

DEVELOPING DUNELM. THE HOME OF HOMES

The resources we use

OUR PEOPLE

Our people are passionate about Dunelm and committed to helping our customers create a home they love. Our deep product knowledge and friendly service helps create and enhance our leading customer proposition.

OUR RELATIONSHIPS

We have grown up with many of our committed suppliers, and we also build open and trusted partnerships with new suppliers and in the communities where we operate. The strength of our relationships and the way we work together allows us to continually improve Dunelm for our customers.

OUR BRAND REPUTATION

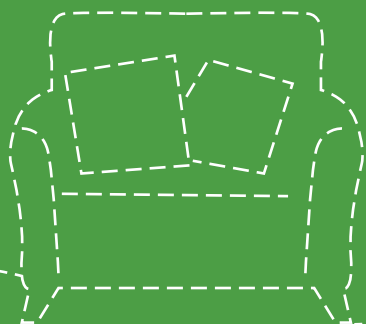
The Dunelm brand is known and trusted by millions of UK consumers, for choice, value, quality and style. We're working hard to build awareness of Dunelm so that those customers who don't yet know us or shop with us, can get access to our leading product ranges and friendly service too.

CAPITAL AND INFRASTRUCTURE

We're a prudently financed business and over the years, we have invested in appropriate systems and capabilities that provide a solid platform for growth. Our store network is not over-sized and the highly cash generative nature of our business allows us to reinvest for growth, whilst maintaining shareholder distributions.

What we do

PRODUCT



Provide a leading range of quality, great value products for all customer groups.

- Over 25,000 products in store with 30% annual range refresh and frequent promotional buys to retain interest
- High levels of in-store availability to take home today
- Over 60,000 items available online for Home Delivery

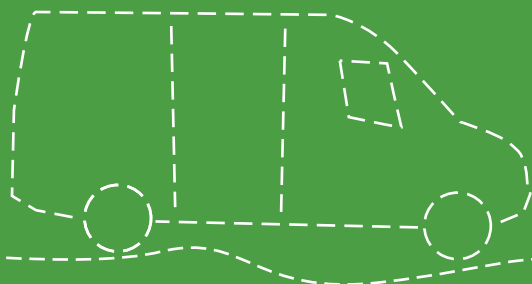
SERVICE



Support customers throughout their shopping journey with friendly and knowledgeable colleagues in-store, ready to help.

- Over 9,000 colleagues, over 100,000 training hours per year
- High in-store Net Promoter Scores (NPS) highlight customer satisfaction and provide feedback on how to improve
- Dedicated customer service centre in Radcliffe, Manchester available to support customers seven days a week

MULTICHANNEL CONVENIENCE



Gives options to customers on how they want to shop. Online or in-store, Home Delivery or Collect+.

- Mobile and tablet friendly websites allow on-the-go browsing with clear pricing, product information and customer reviews
- A conveniently located superstore estate allowing customers to touch and feel products and seek expert advice
- Multiple home delivery options and free or low cost delivery charges



“At Dunelm, our purpose is to help everyone create a home they love”

Will Adderley DEPUTY CHAIRMAN

The long term value we create

FOR OUR CUSTOMERS

- Ever increasing reasons to shop at Dunelm. With new ranges, new departments, new products and new services
- Everyday low prices, two end of season clearance sale events per year
- An easy shopping experience, how and wherever customers want to shop
- Inspiration across channels to help everyone create a home they love

FOR OUR PEOPLE AND COMMUNITIES

- Stable and secure employment in a growing business with opportunities to develop and progress
- A fair pay deal with pay rates above National Minimum/National Living Wage levels, plus additional benefits
- A strong commitment to our relevant nominated charities, helping us give back
- Focused on doing the right thing for the environment by reducing emissions and waste

FOR OUR SUPPLIERS

- We deal with our suppliers in an open and honest way - fair and consistent
- Effective management of human rights throughout our supply chain
- In-house Sourcing team supports our suppliers with improvement in their quality and ethical standards
- Continually improving provenance to reduce social, regulatory and environmental impacts

FOR OUR SHAREHOLDERS

- A clear strategy for continued growth, with targeted investment for long term value creation
- Focus on cost control to maximise efficiency and return on capital employed
- Strong free cash flow generation allowing invest/distribute decisions to be made
- A progressive dividend policy with growth in dividend per share each year since flotation

Read more about Sustainability on pages **35** to **42**

What makes Dunelm different

LOVING EVERY HOME

We love every home and all the life that takes place within them

PRODUCT OBSESSED

We're obsessed with everything we sell, whether they're our own products or not. We don't waste our time on things our customers can't take home

FAMILY VALUES

We're friendly, helpful and straightforward, because we love homes just as much as our customers do

WHY PAY MORE

We make the right trade-offs. We always try to strike the right balance between price and quality

EVERYONE'S WELCOME

We value every customer and every colleague. Everyone should feel at home in our home

ENERGY TO DO MORE

We're never satisfied with what we've done in the past; we trust our instincts, build on our successes and look to the future

Our Culture and Business Principles

Our business principles underpin our culture and encourage us to do the right things with the long term in mind



Read more online at corporate.dunelm.com

Our Vision & Strategy

WHAT WE ARE SETTING OUT TO DO

Our vision is to be the **leading multichannel specialist**. Famous for style, value, quality and ease of shopping.

Our purpose is to **help everyone create a home they love**.



Dunelm The Home of Homes

Our customers shop differently to how they did when our business was growing up. Online, whether for inspiration, browsing or purchasing is now a part of most customers' shopping experience.

Our stores play a pivotal role in a Multichannel world. Take-home-today convenience, friendly colleague advice, or that touch and feel experience, means we provide a unique experience which sets us apart.

The rate of change in the UK retail market is high, and gathering pace all the time. Developments in technology are changing customers' shopping behaviour and our competitor set is evolving rapidly. Discounters are competing on price and pure-play retailers are offering a wide product choice and transparent pricing. This can be disruptive as they have a very different approach to profits and long term value creation.

We continue to grow well, taking market share and developing our customer proposition. We must continue to adapt and evolve as our customers' needs change. Our foundations are strong and they give us a great platform to accelerate our multichannel capabilities.

As the rate of new store openings slows down, we must find ways to reach more customers with our Dunelm brand. Our brand awareness remains relatively low for a market leader. Attracting and converting more customers will allow us to sell more.

We must continue to give customers clear (and more) reasons to shop with us. We will be famous for style, value, quality and ease of shopping. This means well designed, brilliant quality, own label products at the best possible prices. We must offer more than today - more newness, choice and seasonality and desirable brands for example in Dorma and Fogarty.

We will broaden our appeal. We want everyone to create a home they love and to feel comfortable in ours - starting out, settled down, well off, hard up, classic tastes, bling-loving, sofa surfer or day tripper.

We know that convenience is important given our customers' busy lifestyles. Getting our product must be easy - anytime, anywhere. Our stores must be worth visiting, providing inspiration, advice, product trial and a window on our entire range. Our websites must be easy and inspiring to shop, with painless delivery and collection options.

Our colleagues make Dunelm what it is. Friendly service, product expertise, and willing to go the extra mile. We will keep making our place a better place to work. Happy colleagues make happy customers.

We will focus on five Business Goals:

- 1 Reaching more customers with our brand**
- 2 Create new reasons for customers to shop with Dunelm**
- 3 Easy and inspiring multichannel shopping for our customers**
- 4 Simple and low cost - good housekeepers**
- 5 A great place to work for colleagues**

For us, this will feel like continual adaptation and evolution. To our customers, it will simply be what they expect of us.

**This is Dunelm,
The Home of Homes
for tomorrow, as well as today.**

Our Business Goals

Goal One

Reaching more customers with our brand

STRATEGIC OBJECTIVE

Increase the number of shoppers at Dunelm

WHAT WE'RE DOING

An integrated programme to build brand awareness, consideration and acquisition

- Brand building campaign begins in September 2018 with TV sponsorship and advertising
- Performance marketing programmes will accelerate under one brand
- Developing own channels and unique content (#mydunelm, Salesforce capabilities, emails)
- Store roll-out continues with a long term target of around 200 stores in the UK
- Product PR and Influencer programme gaining critical mass

Goal Two

Create new reasons for customers to shop with Dunelm

STRATEGIC OBJECTIVE

Increase customer visit frequency

WHAT WE'RE DOING

Improving our product proposition by offering the best choice, quality, value and style

- Cultivate win/play/show category ranging strategies including seasonal
- Buy more promotional product to complement core ranges and increase newness and value
- Use drop-ship capabilities to develop online range, especially in soft furnishings
- Build differentiated offer in selected furniture categories (e.g. Fogarty mattresses)

Goal Three

Easy and inspiring multichannel shopping for our customers

STRATEGIC OBJECTIVE

Increase conversion and basket size

WHAT WE'RE DOING

Be the leading multichannel brand in homewares for customer experience

- Introduce our new web platform including Click & Collect in Q3 FY19
- All range available in-store through customer hosts and mobile tablet selling equipment
- Refits to develop inspiration and ease of shopping
- Technology teams set up for agile development from Q1 FY19

Goal Four

Simple and low cost - good housekeepers

STRATEGIC OBJECTIVE

Improve operating leverage and efficiency

WHAT WE'RE DOING

Developing our business to be agile and scalable. Instilling the good housekeepers mindset

- Simplify to one brand, one platform (for Tech and Supply Chain efficiency)
- Develop agile and scalable systems and processes
- Improve internal controls around retail basics
- Attack third party costs (sourcing, procurement, value engineering)
- Re-engineer non-customer facing activities in store

Goal Five

A great place to work for colleagues

STRATEGIC OBJECTIVE

Improve customer conversion efficiency

WHAT WE'RE DOING

Retaining our culture as we embrace a digital future

- Restructured commercial teams to increase pace and customer ownership
- Always-on colleague listening to enhancing our ability to engage with and make continual improvements for our colleagues
- Restructured technology team to enhance technical product ownership and development agility and skillset
- Appointed a designated non-executive Director to our Colleague Council to improve engagement with the Group Board

OUR PURPOSE

Helping everyone create a home they love

OUR BUSINESS GOALS

Reaching **more** customers with our **brand**

Create **new reasons** for customers to shop with Dunelm

Easy and inspiring multichannel shopping for **our** customers

Simple and **low** cost - good housekeepers

A **great** place to work for **colleagues**

OUR FOUNDATIONS

A customer first culture

Committed colleagues

The best store portfolio

Agile and scalable digital platform

A lean and efficient supply chain

Committed supplier partners

OUR KEY BUSINESS PRINCIPLES

Sell more

Be committed

Do things our own way

Keep it simple

Key Performance Indicators

Key performance indicators (KPIs) are used by the board and throughout Dunelm to monitor business performance.

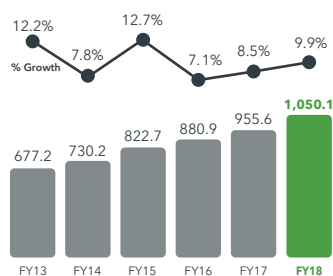
The KPIs set out in this summary are those considered to be most relevant to understand the performance of Dunelm over time.

Link to Business Goals:

- 1 Reaching more customers with our brand
- 2 Create new reasons for customers to shop with Dunelm
- 3 Easy and inspiring multichannel shopping for our customers
- 4 Simple and low cost - good housekeepers
- 5 A great place to work for colleagues



TOTAL REVENUE £m and growth %



Commentary

Growth of 9.9% includes LfL growth of 4.2% from both stores and online and reflects the full-year impact of Worldstores sales and the benefit of ten new stores which opened in the first half.

Why this measure is important

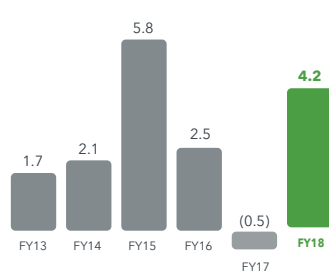
Sell More is a Business Principle and our strong record of continued sales growth reflects the ambition and culture of Dunelm.

This measure, which coincides with market share growth, is central to our vision as we become the customer's number one choice for Homewares and Furniture.

Link to business goals:



TOTAL LFL REVENUE growth %



Commentary

Good LfL growth of +4.2% reflects improved store performance (+1.0% store LfL), supported by strong online Home Delivery growth (+37.9%).

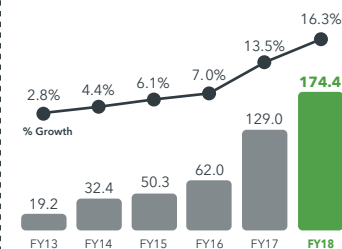
Why this measure is important

Creating more reasons for customers to shop with Dunelm is a Business Goal which is core to our strategy of driving sales growth. It also allows us to monitor the performance of our existing store estate and high growth online channel.

Link to business goals:



HOME DELIVERY SALES £m and participation %



Commentary

Home delivery sales now exceed 16% of total sales including the benefit of the consolidation of Worldstores sales for the full year. Extensions to online ranges and improved user experience have also contributed to growth.

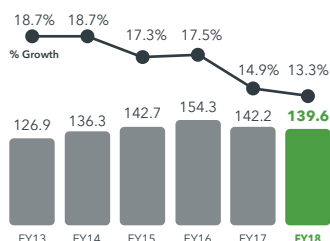
Why this measure is important

Our digital growth ambition to offer a seamless multichannel experience to customers means that monitoring growth in this KPI is important to understand our progress and success over time.

Link to business goals:



EBITDA* £m and % sales



Commentary

EBITDA has declined modestly this year as a result of Worldstores losses, higher depreciation from recent investments and wage inflation. We are focusing on improving operating leverage and this measure is expected to improve in FY19.

Why this measure is important

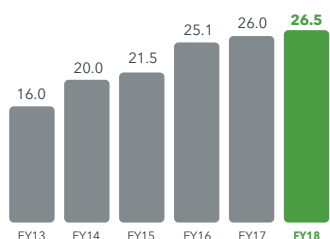
EBITDA is a good indicator of the cash generation capability of business operations before working capital and capital investment decisions. It is important to monitor to ensure that Dunelm maintains its operating cost leadership position.

Link to business goals:



* EBITDA is presented before exceptional costs

DIVIDEND PER SHARE growth %



Commentary

The Board has recommended a 1.9% increase in dividend per share reflecting confidence in the long term cash generation capability of Dunelm and in the strategic plan. Dividend per share has increased each year since flotation in 2006.

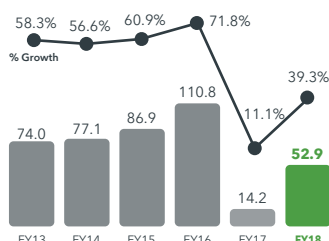
Why this measure is important

With so many colleagues owning shares in Dunelm, dividend per share is an important metric for both external shareholders and for our people as we continue to make Dunelm a great place to work.

Link to business goals:



FREE CASH FLOW AND EBITDA CONVERSION £m/%[†] sales



Commentary

Free cash flow has improved this year due to lower capital investment and corporation tax payments. This was partially offset by increased working capital driven by a reduction in inventory purchases towards the end of year.

Why this measure is important

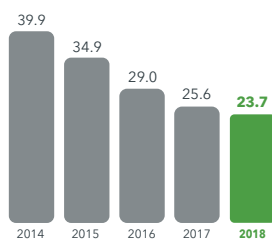
Dunelm is highly cash generative, and has the ability to make investment decisions for the long term to support growth, or to make capital distributions to shareholders. This KPI allows the Board to monitor cash flows carefully throughout the year as these decisions are made.

Link to business goals:



[†] Free Cash Flow and EBITDA Conversion % are presented after exceptional costs

CO₂ EMISSIONS (-7.4%) tCO₂e /£1m Group Revenue



Commentary

A continued reduction in both absolute emissions and emissions/revenue highlights the progress made on a range of environmental initiatives including LED lighting, solar power generation and lower emission vehicles.

Doing the right thing for the environment is something we take seriously and invest in. We recognise it is important for our colleagues and customers too. It also helps us reduce waste and keep our cost structures lean.

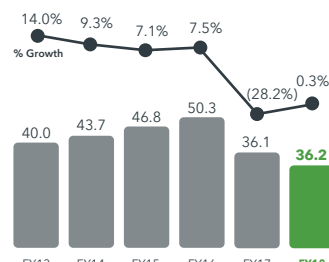
Why this measure is important

This KPI allows us to assess our progress in reducing our impact on the environment.

Link to business goals:



EARNINGS PER SHARE Diluted, pence and growth %



Commentary

There was a modest increase in diluted Earnings Per Share (EPS). Before exceptional items this measure decreased to 40.0p (FY17: 42.8p). EPS is expected to improve again in FY19.

EPS is expected to improve again in FY19.

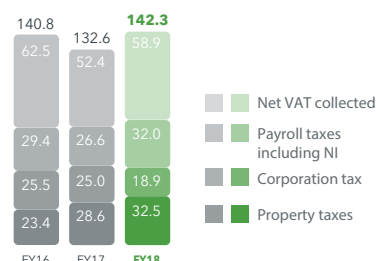
Why this measure is important

EPS is a key measure for shareholders and employees and is a component of remuneration calculations. It monitors Dunelm's ability to grow profitably over the long term.

Link to business goals:



TAX CONTRIBUTIONS (£142.3M) £m



Commentary

We aim to comply with all relevant tax legislation and keep our tax affairs transparent and sustainable for the long term. In line with business performance our total tax contributions have increased to £142.3m in 2017-18.

Why this measure is important

This measure highlights our contribution to society and conservative tax planning.

Link to business goals:





Business Review

SEIZING OPPORTUNITIES IN A DIGITAL WORLD

First impressions

Dunelm is a great business which has grown sales in each year of its 39-year history by offering great choice and value for money. Over time we have developed deep knowledge and an unrivalled range of homewares products, supported by committed suppliers. The business is prudently financed, and highly cash generative. Investment in appropriate systems and infrastructure provides a solid platform for growth, and the superstore portfolio combines good locations and attractive rent levels. Our long-established business principles and committed colleagues help ensure a high level of customer satisfaction, which is still growing.

However, we need to continue to change if we are to continue to win. The market is changing, with the increasing penetration of online retail. At the same time, while some of our traditional competitors are retrenching, discounters continue to expand their physical store portfolios. Our rate of market share gain has slowed. We have made some inroads into the furniture market, but our proposition is not yet well developed. The acquisition of Worldstores in FY17 has accelerated the development of our multichannel capabilities, but the process of integrating Worldstores into Dunelm has been substantial and has reduced our focus on some of our operating disciplines.



My conclusion is that I have joined an excellent business which is experiencing some new challenges, both near term and medium term. I am really excited about helping Dunelm to navigate these challenges as we aim to fulfil our purpose of helping everyone create a home they love. We will differentiate

ourselves by being famous for product style, value and quality in all market segments, and we are working hard to become the best multichannel retailer for homewares in terms of convenience and customer experience.



**Total Revenue
Growth %**

9.9%

(2017: 8.5%)

**Homeware's
Market Share%**

8.1%

(2017: 8.0%)

Worldstores

The acquisition of Worldstores was a major event in Dunelm's development and trading and integrating the acquired businesses has been a massive focus for the management team.

Although Worldstores was acquired from administration for a nominal sum, our estimate of the total cash outlay we will incur, including goodwill payments to suppliers, integration costs and trading losses amounts to approximately £30m (net of tax relief).

The business model of Worldstores itself was not sustainable and at the time of acquisition it was incurring losses of over £20m per year. We have transferred significant numbers of profitable lines (approximately 15,000 to date) from Worldstores and Kiddicare to our own website, strengthening the Dunelm.com offer and contributing to growth. Having

transferred the worthwhile sales, we decided to cease trading the Worldstores websites as separate entities and they were fully withdrawn by early September 2018. We also sold the Achica brand which did not fit with Dunelm's business model and, having tested the Kiddicare brand, we concluded that we can more profitably extend our presence in the children's market using the Dunelm brand. We therefore closed the Kiddicare business in July 2018.

The main benefit from the acquisition is the access to technology and digital development capabilities, which are an important ingredient to the infrastructure that is essential to our success in a multichannel world. Importantly, we see the technology platform acquired with Worldstores as a real asset. We are well advanced in a major programme to move the Dunelm.com website onto this platform

which will allow us to launch Click & Collect and subsequent developments (such as improved delivery options) with much greater agility than has been possible whilst working with a third-party technology partner. We are on track to introduce the new platform during Q3 of our financial year. Linked to the above, we now have not only better technology assets but also a much more advanced capability within the organisation, with a significant increase in the number of digital developers and a digital development centre in London.

With the integration behind us, it is clear that Worldstores has created a new level of energy and focus in the business around digital growth. This will play a key role in driving Dunelm's growth for the foreseeable future.

"I see plenty of opportunity for us to drive growth as the **leading multichannel specialist**, helping more customers to create a home they love... This is a **new and exciting chapter** for Dunelm as we fully embrace digital retailing."

Business Review

continued



Immediate challenges and opportunities

We have seen profits fall in our last two financial years and we have identified a number of issues and opportunities to improve performance of the core Dunelm business.

We need to evolve to a market-leading multichannel offer. The actions described above to capitalise on the assets acquired with Worldstores are the critical next phase on this journey.

We also have a clear opportunity to improve our customer offer via renewed focus on our value for money credentials. We will reinvigorate our programme of special buys in the coming months and ensure these are prominently displayed in stores and online.

We have grown our furniture business over recent years such that furniture (excluding Worldstores) now represents approximately 5% of Dunelm sales, but the proposition is still at an early stage of development. I am excited by the opportunity to develop our furniture offer further across all channels.

Partly as a result of management change and partly due to the distraction of the Worldstores acquisition and integration activity, some of our basic retail disciplines have slipped, for example in the areas of margin management and stock loss. I am determined that we will regain our grip in these areas.

We have invested heavily in our store portfolio over recent years. With a small number of exceptions, the performance of new stores has

been positive and continues to give good payback on investment. Refit investments have shown a mixed return. I continue to believe in the opportunity for rolling out new stores, and for targeted refits, although I will ensure that we are highly selective with these investments going forward. I anticipate that the rate of new store openings will be lower, approximately three to five per year, as we move towards our target of 200 stores for full national coverage; and that our investment in refits will settle at £5-10m per year over the medium term.

Evolution of strategy

The core of Dunelm's business strategy is sound, but needs to adapt to reflect fully the issues described above and the challenges of a multichannel environment.

Our customer purpose is to help everyone create a home they love. We intend to reflect this in the way we think about the business, the way we organise, and the way we express our strategy.

Customer first – The leading multichannel specialist

We are now organising ourselves in line with a clear "Customer First" mindset. In this retail environment, we must be agile and able to work at pace in an ever-evolving competitive landscape. Our combined store and online business enables us to offer a leading multichannel customer proposition which neither the discounters nor the pure-play operators can match.

By listening to our customers and serving them better we have a significant opportunity to sell more. Shopping frequency and average basket size have considerable headroom for growth as we develop our customer proposition. We under-participate in certain key homewares customer segments, such as "confident nest builders" and "necessity buyers", and have the potential to grow substantially within these groups. Furthermore, awareness of the Dunelm brand is approximately 80%, which remains low for a market leader.

In the coming years our customer proposition will evolve significantly. Product choice will be extended considerably, in both current and adjacent categories, as we help our customers by sourcing great products. Our stores will become more service and experience orientated, supported by market-leading services which offer inspiration and advice to help customers create a home they love. At the same time, we will work hard to improve the value we offer customers, and to make it even easier for them to shop with us.

In addition to our four existing business goals which help us shape and prioritise our activities to support growth, we have now added a fifth, reflecting the opportunity to grow customer awareness and improve our capabilities with regards to customer acquisition.



1 Reaching more customers with our brand

We have increased the number of unique customers shopping in our stores by 5% and online by 18% during the last year. Continuing to grow our customer base is now a key focus.

Historically customers have “found” Dunelm as we have opened new stores near their homes. In recent years, with the growth of online performance marketing, we have also attracted new customers directly to our website, which in turn supports our store sales.

In the current financial year, we are launching a new integrated brand building campaign which will begin in September 2018, comprising TV sponsorship and advertising, supported by PR, social media activity, email communications and instore activities. We will test and learn from this approach, and will endeavour to have an “always on” flow of customer communications to ensure the Dunelm brand is “front of mind” amongst our target customer segments. Our investment in this campaign over the coming financial year will be partly funded by redirecting existing brand spend. We will measure success in terms of customer acquisition and visit numbers.

We plan to accelerate investment in online performance marketing on Dunelm.com in line with our growth expectation for this channel.

We will also continue to develop the use of our own content via our own website, emails to customers, and on social media channels where we are targeting increased followers and likes. We are learning how best to leverage the capabilities of our

new CRM system, and generating interaction through #mydunelm and user-generated content and imagery. We will further step up our product PR activity and influencer programmes to gain critical mass.

We are excited about the potential for medium term growth across all our channels which will come from this heightened focus on customer acquisition.

2 Create new reasons for customers to shop with Dunelm

We must continually improve our proposition by offering the best product choice, quality, value and style to our customers. We must broaden our product appeal to suit all customer tastes, and reinforce our product advantage compared to our competitors. Driving broader category awareness will help us drive visit frequency and basket size.

During the last year we have had some notable successes in improving our product ranges in areas such as lighting and rugs where sales grew significantly both online and in stores.

We have recently launched online a new Made to Measure blinds offer, which will be followed in due course by Made to Measure curtains, which we expect to appeal to customers seeking convenience. In furniture, we are building differentiation into our offer to improve the ranges available for customers and drive consideration in areas such as mattresses with new Dorma and Fogarty branded products.

We want our customers to see new products each time they visit our stores and website. We will achieve

this by reinvigorating our approach to special buys and trading to bring a wide variety of styles and great value products to our customers.

In the last year, we have continued to grow our sales of seasonal products across key winter and summer trading periods (on top of strong growth in FY17). We believe there is more potential for growth here and are planning further improvements in seasonal ranging over the next year.

3 Easy and inspiring multichannel shopping for our customers

Our customers tell us that shopping convenience is high on their priority list. In addition, customers seek help, advice and inspiration to help create a home they love.

Our 169 superstores provide a fantastic opportunity for us to showcase our product ranges and inspire customers as they browse. As we expand our store estate to around 200 stores, we will bring this opportunity within reach of even more customers, enabling them to access our great ranges and ‘take home today’ convenience.

Our website provides a different type of convenience for customers shopping at home or on the go. We are working hard to create a seamless multichannel proposition, and are aiming to be the leading multichannel brand in homewares for customer experience. In reality, we are still in catch-up mode for online capability, and we know our customers will appreciate the Click & Collect service which we will introduce in tandem with our new web platform early in 2019, as well as improved payment and delivery options.

Read more on our Strategy on pages **12** and **13**

Business Review

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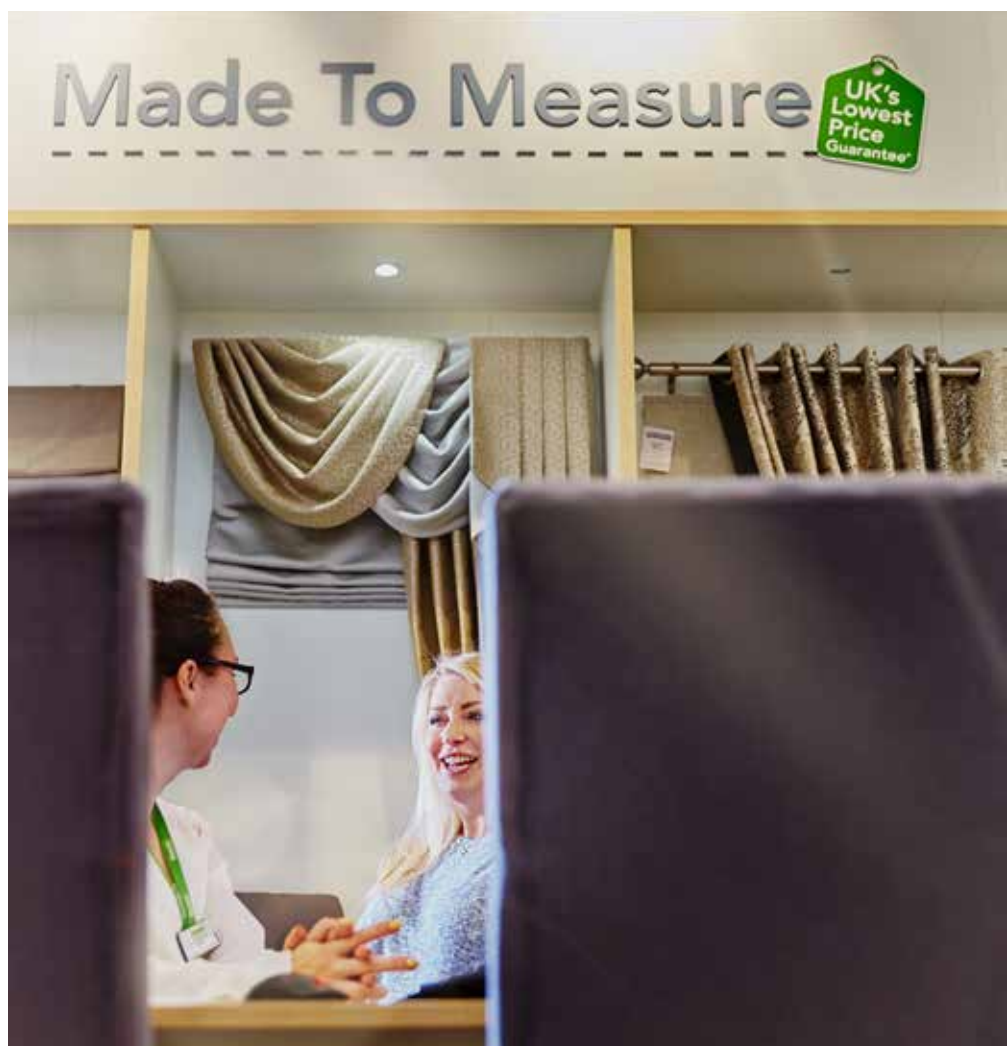
We know that our stores are an integral part of our future success in a multichannel world, and delivering an inspirational and easy to shop store remains important. We have rolled out tablet-based selling in-store during the last 12 months, providing customers with the opportunity to access the full Dunelm range from every store. We have introduced customer hosts in our stores who will support customers' shopping needs, offering friendly advice and expertise, and helping them navigate the wide variety of ranges available to them.

Last year we continued to evolve our format in stores by completing six major refits, as well as a number of smaller modular refits around furniture, lighting and Made to Measure. We will continue to trial and develop new concepts in stores and currently plan to complete a small number of further major refits in the next financial year.

4 Simple and low cost - good housekeepers

Our low-cost operating model and dedication to keeping things simple has historically been a source of significant cost advantage. However, cost growth has exceeded sales growth for a number of years now as we have addressed the changing retail market and transitioned to our multichannel model.

Our approach going forward is to drive efficiency by leaving behind the Worldstores and Kiddicare brands, and leveraging a single brand, web platform and integrated supply chain. As our channel mix shifts, we will attack costs and work to keep all our channel operations low cost and efficient. We calculate that the marginal contribution from 1-man home delivery sales is currently around 15% below in-store sales.



Over the last year we have made conscious decisions to invest in areas such as digital marketing and technology, and these investments will continue. We have partially offset these investments through productivity initiatives, both in stores and in our supply chain operations, including elimination of some of the Worldstores operating costs. However, we have also suffered increased operating costs due to weaker grip on basics such as stock loss, sourcing and procurement. We are now refocused on improving controls in these areas.



5 A great place to work for colleagues

Making Dunelm an even better place to work for all our colleagues is a continual focus for our leadership team and something that we are passionate about. We know that highly engaged colleagues provide better service to our customers.

Our business principles are really important to us, and as we embrace a digital future, we are working hard to retain the culture which has enabled us to get to where we are.

We are encouraged by the progress made this year in creating better, more rewarding jobs for colleagues in stores and in support functions. We have again promoted more colleagues to management level roles, and we continue our efforts to identify and develop talent to enable individuals to reach their full potential.

We continually listen to our customers and colleagues using our “always-on” feedback and engagement tools. Significant actions taken in response to feedback from our colleagues include restructuring our Technology teams to become more agile and product focused, and combining our Buying and Merchandising functions into an integrated team.

Colleagues value our commitment to activities which have a benefit for the environment. During the year, we reduced CO₂ emissions by 7.4%, supported by the completion of 25 LED refits in the year, taking the total number of our sites with LED lighting up to 164 out of 184. Our focus on recycling and landfill diversion has enabled us to reduce our costs of waste management year-on-year, generate significant revenues from recycling, and improve our landfill diversion by three percentage points to 95%.

Summary

In the near term, we have a number of self-help opportunities to improve profitability and cash generation after a difficult and disappointing FY18. I am determined that we grasp these opportunities quickly so as to return to profit growth.

Over the medium term I see plenty of opportunity for us to drive growth as the leading multichannel specialist, helping more customers to create a home they love. This is a new and exciting chapter for Dunelm as we fully embrace digital retailing.

The UK retail environment remains challenging, but against this difficult background we have traded in line with expectations during the current financial year to date.

Nick Wilkinson
Chief Executive Officer

12 September 2018

Financial Review

A STRONG PLATFORM FOR GROWTH



Overview

The table below is provided in order to aid understanding of the impact of Worldstores on the performance of the group as a whole. The analysis includes a number of assumptions and judgements, particularly in relation to the allocation of costs between core Dunelm and Worldstores.

	Dunelm		Total (£m)	Worldstores (£m)	Total Group (£m)
	Existing (£m)	Worldstores transfer (£m)			
Revenue	971.7	12.4	984.1	66.0	1,050.1
Cost of sales	(495.7)	(7.4)	(503.1)	(43.4)	(546.5)
Gross profit	476.0	5.0	481.0	22.6	503.6
Operating costs	(362.9)	(2.4)	(365.3)	(33.6)	(398.9)
Operating profit	113.1	2.6	115.7	(11.0)	104.7
Financial income and expense					(2.7)
Profit before tax and exceptional items					102.0
Exceptional items					(8.9)
Profit before tax					93.1

The commentary which follows explains the performance of Dunelm and Worldstores separately as far as possible.

Revenue

	52 weeks to 30 June 2018		
	Revenue (£m)	YoY Growth (£m)	YoY Growth (%)
LFL stores	805.0	+8.2	+1.0%
LFL online (Dunelm.com) (including lines transferred from Worldstores)	105.4	+28.9	+37.9%
Total LFL	910.4	+37.1	+4.2%
Non-LFL stores	73.7	+43.6	–
Total Dunelm	984.1	+80.7	+8.9%
Worldstores businesses	66.0	+13.7	–
Total Group	1,050.1	+94.5	+9.9%

Group revenue for FY18 was £1,050.1m (FY17: £955.6m), an increase of 9.9%.

Within this, Dunelm revenue grew by 8.9% to £984.1m.

Despite volatile trading conditions throughout the year, like-for-like ('LFL') revenue grew by 4.2%. This was primarily driven by continued strong performance online, where revenue grew by 37.9%; over the year as a whole, Dunelm.com accounted for 10.7% of total Dunelm business (13.5% including reserve & collect orders picked up in stores).

After a decline in the previous financial year, revenue in LFL stores also increased, with growth of 1.0% reflecting:

- Better availability throughout the financial year, with no repeat of the supply chain disruption seen in FY17
- Improvements in product ranges with more new lines and a stronger seasonal offering
- Benefits from investment in existing stores, including six major refits
- Favourable weather conditions through the first half, and especially the first quarter
- Adverse weather conditions in the second half

Non-LFL revenue reflected the impact of our ongoing store expansion programme, with ten new openings in the year (of which one was a relocation). We ended the year with a portfolio of 169 superstores and three stores in high street locations. We anticipate a smaller number of new openings in FY19, with two new superstores committed (both relocations) as at the date of this report.

**Earnings per Share
(diluted) Pence****36.2p**

(2017: 36.1)

**Dividend per Share
Pence****26.5p**

(2017: 26.0)



The Worldstores businesses, comprising Worldstores.co.uk, Achica.com and Kiddicare.com, were acquired midway through FY17. During FY18 we divested Achica.com and made the decision to transfer continuing lines from the Worldstores and Kiddicare ranges to Dunelm.com, prior to winding down the Worldstores.co.uk and Kiddicare.com sites in the first quarter of FY19. As a consequence, sales attributed to Worldstores businesses will be minimal in FY19.

Gross Margin

Gross margin decreased by 90 basis points to 48.0% (FY17: 48.9%). Excluding the dilutive impact of lower margins earned by the Worldstores businesses, core Dunelm gross margin was 48.9% in FY18 and 49.8% in FY17.

Key factors causing the year-on-year decline in gross margin were adverse foreign exchange impacts and a higher level of clearance of discontinued lines (including a year-end adjustment to increase our obsolete stock provision by £2.6m).

Setting aside the year-end adjustment described above, core Dunelm gross margin showed year-on-year growth of 40bps during the final quarter of the year. This gave positive momentum going into FY19, when we also expect to benefit from improved foreign exchange rates. We anticipate that these benefits will more than offset the margin dilution from transfers of further Worldstores lines to Dunelm.com.

**Operating Costs before
Exceptional Items**

Operating costs before exceptional items in FY18 were £398.9m, an increase of £43.0m or 12.1% compared with the prior year. The total included £33.6m of costs relating to Worldstores businesses (FY17: £29.2m).

The main drivers of the £38.6m increase in core Dunelm operating costs include:

- Store portfolio growth – nine new superstore openings (net of one relocation), increasing selling space by 6.1%
- Online – digital marketing and fulfilment costs grew broadly in line with Dunelm.com sales
- National Living Wage – upward cost pressure in excess of inflation, partially mitigated by productivity initiatives

We will redouble our focus on productivity and overhead cost control going forward.

**Exceptional Items**

We have treated as exceptional those non-recurring costs which relate to the acquisition, integration and/or disposal of the Worldstores businesses. During the year, these exceptional items totalled £8.9m, comprising the following:

	FY18 (£m)	FY17 (£m)
Fair value adjustments in respect of acquired inventory	–	0.5
Acquisition costs	–	1.3
Welcome payments for continuation of supply	–	7.3
Retention and redundancy payments	1.2	2.7
Loss on disposal, asset write-offs, impairments and accelerated amortisation	5.8	2.9
Other integration costs	1.9	2.2
Total	8.9	16.9

Management retention and redundancy payments were made in the year in accordance with contractual agreements. There are no further payments due to be made.

We have reviewed the websites and other intangible IT assets of both the existing Dunelm business and the acquired Worldstores businesses. Having determined our technology plans going forward, we have written off certain technology assets and useful economic lives of others have been reduced resulting in accelerated depreciation.

Financial Review

CONTINUED

During the year we took the decision to develop the Kids and Nursery category under the Dunelm brand, rather than the Kiddicare standalone brand. As a result, the Kiddicare brand acquired as part of the Worldstores acquisition was deemed to be fully impaired. As well as this, aged Kiddicare stock and various other intangible assets relating to the development of a new Kiddicare website were also written off.

As a result of the sale of the Achica business, certain costs relating to the sale and subsequent restructure of the business have been classified as exceptional. These costs include the write-off of assets relating to Achica and onerous contracts. The proceeds from the sale of the Achica business were £0.6m.

Other integration costs include professional advisory support and costs associated with the transfer of the London head office to a new location.

Of the above exceptional items, £1.6m were net cash outflows in the period. We do not expect to report exceptional items in FY19.

Operating Profit before Exceptional Items

Group operating profit before exceptional items for the financial year was £104.7m (FY17: £111.7m), equating to 10.0% of sales (FY17: 11.7%). Included within this is a net negative impact from the Worldstores businesses, which we estimate at £8.4m. This impact will reduce significantly in FY19 as Worldstores trading is absorbed fully into the core Dunelm business.

Operating profit after exceptional items was £95.8m (FY17: £94.8m) reflecting the lower level of exceptional costs in the current year.

EBITDA

Before exceptional items, earnings before interest, tax, depreciation and amortisation were £139.6m (FY17: £142.2m). This represents a 1.8% reduction on the previous financial year. The EBITDA margin achieved was 13.3% (FY17: 14.9%).

After exceptional items EBITDA was £134.7m (FY17: £128.2m).

Financial Items

The Group incurred a net financial expense of £2.7m in FY18 (FY17: £2.4m). Interest and amortisation

of costs arising from the Group's revolving credit facility amounted to £2.2m (FY17: £2.0m) and net foreign exchange differences on the translation of dollar denominated assets and liabilities amounted to a further £0.5m expense (FY17: expense of £0.6m). Interest earned on cash deposits was £nil (FY17: £0.2m).

As at 30 June 2018, the Group held \$164.0m (FY17: \$140.0m) in US dollar forward contracts, of which \$121.5m were due to mature in the next 12 months (FY17: \$107.6m), representing 76% of the anticipated US dollar spend over the next financial year. US dollar cash deposits amounted to \$7.3m (FY17: \$0.3m).

PBT

After accounting for interest and foreign exchange impacts, profit before tax (excluding exceptional items) for the financial year amounted to £102.0m (FY17: £109.3m), a decrease of 6.7%.

Profit before tax and after exceptional items was £93.1m (FY17: £92.4m).

Taxation

The tax charge for the year was 21.3% of profit before tax, a premium of 230bps compared with the statutory rate of 19.0%. This included an unusually high level of disallowable asset write-offs largely relating to the acquired Worldstores brands.

In future, we expect the tax charge to trend approximately 100 bps above the headline rate of corporation tax, principally due to depreciation charged on non-qualifying capital expenditure.

PAT and EPS

Profit after tax was £73.3m (FY17: £73.1m).

Basic earnings per share (EPS) for the year ended 30 June 2018 was 36.3p and in line with last year, or 40.1p before exceptional items (FY17: 43.1p). Fully diluted EPS increased slightly to 36.2p (FY17: 36.1p). Before exceptional items this measure decreased to 40.0p (FY17: 42.8p).

Operating Cash Flow

In FY18 the Group generated £98.5m (FY17: £79.5m) of net cash from operating activities, an increase of 24%. Cash elements of exceptional costs were £1.6m (FY17: £11.3m).

Net working capital increased by £20.3m over the year (FY17: £26.2m

increase). Despite the expansion of our store estate, we reduced year-end inventory by £8.6m through a combination of delayed inflow of Christmas merchandise and lower cover levels on continuing lines. However, payables reduced by £31.4m due to a combination of factors including the later timing of Christmas stock flows and the lower level of capital investment in progress at year-end.

Capital Expenditure

Gross capital expenditure in the financial year was £44.0m compared with £60.5m in FY17. During the year, we opened ten new stores (£13.8m), and invested £10.6m in refits. We continued to invest in technology infrastructure to improve our website and open up new sales channels (£14.3m). We relocated our London Support Centre and invested in a new bespoke curtains manufacturing site, as well as acquiring one freehold property.

We expect capital expenditure in the next financial year to be lower. We anticipate fewer new store openings. We intend to complete a small number of major store refits as well as other specific upgrades across the estate to introduce concepts which have a proven return (estimated £5-10m in total). We will continue to invest in technology and web development as we move the Dunelm.com website to the Worldstores technology platform and introduce Click & Collect (estimated at £15m). In total, we are planning capital investment, assuming no freehold acquisitions, of £30-35m in FY19.

Free Cash Flow (FCF)

We measure FCF as net cash from operating activities less net cash used in investing activities. FCF was £52.9m in the year (FY17: £14.2m), reflecting the improved operating cash flow and lower capital expenditure year-on-year.

Banking Agreements and Net Debt

During the year the Group amended and extended its syndicated Revolving Credit Facility ('RCF'). The RCF was increased to £165m and extended until March 2023. The terms of the RCF are unchanged and are consistent with normal practice. They include covenants in respect of leverage (net debt to be no greater than 2.5x EBITDA) and fixed charge cover

“Dunelm **continues to deliver** strong cash returns from operations providing the opportunity to make investment decisions to **deliver long term growth**”

(EBITDA to be no less than 1.75× fixed charges), both of which were met comfortably as at 30 June 2018. In addition, the Group maintains £20m of uncommitted overdraft facilities with two syndicate partner banks.

Net debt at 30 June 2018 was £124.0m (0.89× historical EBITDA before exceptional items) compared with £122.1m in FY17 (0.86× historical EBITDA). Daily average net debt in FY18 was £112.4m (FY17: £92.2m).

Capital and Dividend Policy

The Board targets an average net debt (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 investing in the Group's growth strategy and to take advantage of investment opportunities as and when they arise, for example freehold property acquisitions.

The Board targets ordinary dividend cover (by which we mean the Group's earnings per share in a given financial year divided by the total ordinary dividends declared in respect of that year) of between 1.75× and 2.25×.

The Board will consider special distributions if average net debt over a period consistently falls below the lower limit of the target range (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 <https://corporate.dunelm.com>.

Dividends Paid and Proposed

An interim dividend of 7.0p per share was paid in March 2018 (FY17: 6.5p). It is proposed to pay a final dividend of 19.5p per share (FY17: 19.5p), subject to shareholder approval. The total dividend of 26.5p represents an increase of 1.9% over the previous year, giving a dividend cover of 1.5× before exceptional items (FY17: 1.6×). This cover level is outside our policy, as described above; however, the Board has confidence in the strategic plans of the business and believes that ordinary dividend cover will revert to the policy range in the medium term. The final dividend will be paid on 7 December 2018 to shareholders on the register at the close of business on 16 November 2018.

Share Buy-backs

The Group's policy is to purchase shares in the market from time to time to satisfy the future exercise of options granted under incentive plans and other share schemes. During FY18 no shares were purchased (FY17: 500,000). At the year-end, 914,635 shares were held in treasury (FY17: 1,150,642), equivalent to approximately 37% of options outstanding.

Tax Policy

The Group maintains a straightforward and transparent tax policy. The aim is to comply with all relevant tax legislation and pay all taxes due, in full and on time. While actively managing its tax affairs, the Group will only engage in tax planning where this is aligned with commercial and economic activity and does not lead to an abusive result. We would normally expect our

corporation tax charge to be higher than the statutory tax rate, as noted above. HMRC has recently reconfirmed the Group's low-risk tax status. Further details of the Group's tax policy are available on our website, <https://corporate.dunelm.com>.

During the year, total tax contributions paid to HMRC in the form of corporation tax, property taxes, PAYE and NIC and VAT were £142.3m (FY17: £132.6m).

Treasury Management

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

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

Key Performance Indicators

In addition to the traditional financial measures of sales and profits, the Directors review business performance each month using a range of other KPIs. These include measures shown on page 14.

David Stead

Interim Chief Financial Officer

12 September 2018

Risks and Risk Management

The Board as a whole takes responsibility for management of risk throughout the business.

We believe that risk is best managed by a combination of the following:

- Formal risk management processes as described in this report
- The Board and senior management leading by example
- Alignment through promoting colleague shareholding in Dunelm
- Embedding our culture and values

Given the size of our Board and the relative lack of complexity in our business, we do not have a separate Board Risk Committee; our Audit and Risk Committee oversees the risk management process as part of its activities.

Risk management framework

The Board confirms that:

- There is an ongoing process for identifying, evaluating and managing the principal risks faced by the Group;
- The systems have been in place for the year under review and up to the date of approval of the annual report and financial statements;
- They are regularly reviewed by the Board; and
- The systems accord with the guidance to Audit Committees issued by the Financial Reporting Council dated April 2016.

The table below sets out how responsibility for risk management is allocated and how that responsibility is discharged:

Board	Audit and Risk Committee	Executive Board	Company Secretary
<p>Collective responsibility for managing risk</p> <ul style="list-style-type: none"> ● Formal review of principal risks twice annually – one of which is in connection with consideration of the viability statement (see further below) ● Risk topics reviewed in depth through regular timetabled presentations or papers ● Monitors KPIs through Board reports ● Assesses the coverage and adequacy of independent assurance ● Ensures Executive Directors have line responsibility for managing specific risks 	<p>Oversees risk management process</p> <ul style="list-style-type: none"> ● Receives report on risk management process twice annually ● Conducts formal reviews of principal risks twice annually – one of which is in connection with consideration of the viability statement (see further below) ● Allocates resources for independent assurance reviews of selected risks ● Selects and proposes topics for ‘key risk’ reviews by the Board 	<p>Reviews principal risks</p> <p>Members have responsibility for managing risk within their area of accountability</p> <ul style="list-style-type: none"> ● Conducts formal reviews of principal risks twice annually ● Reviews risk topics through regular timetabled presentations or papers ● Monitors KPIs through Executive Board reports ● Delegates line responsibility for managing risk within their area of accountability to individual Executive Board members and reviews these formally twice a year 	<p>Ensures that the above process is adhered to</p> <ul style="list-style-type: none"> ● Conducts individual risk reviews with Executives ● Maintains the risk register ● Presents the outcome of the risk review to the Executive Board, the Audit and Risk Committee and the Group Board twice a year ● Ensures that principal risk topics are scheduled for regular review by the Executive Board and the Group Board

Internal control and internal audit

The Board is responsible for the Group’s system of internal control and for reviewing its effectiveness. The table below summarises the Group’s system:

Board	Audit and Risk Committee	Executive Board	Internal Audit Programme	Operational Audit Team
<ul style="list-style-type: none"> ● Collective responsibility for internal control ● Formal list of matters reserved for decision by the Board ● Control framework setting out responsibilities ● Approval of key policies and procedures ● Monitors performance 	<ul style="list-style-type: none"> ● Oversees effectiveness of internal control process ● Receives reports from external auditor ● Approves independent assurance programme ● Receives reports generated through the internal audit programme 	<ul style="list-style-type: none"> ● Responsible for operating within the control framework ● Reviews and monitors compliance with policies and procedures ● Recommends changes to controls/policies where needed ● Monitors performance 	<ul style="list-style-type: none"> ● Provides assurance to the Audit and Risk Committee through independent reviews of agreed risk areas 	<ul style="list-style-type: none"> ● Reviews compliance with certain key internal procedures in stores and at other locations

The Audit and Risk Committee has oversight of the system of internal controls and of the internal audit programme and receives the report of the external auditor following the annual statutory audit. For further details please see the Audit and Risk Committee report.

It should be noted that internal control systems such as this are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material loss or accounting misstatement.

Although no significant control weaknesses have been identified as a result of the review, the Board agreed that the Audit and Risk Committee would continue to look at how it obtains assurance regarding the adequacy and operation of internal controls and to identify whether any further independent assurance is needed. Further progress was made in the year and we will continue to review this in conjunction with the development of our internal audit function.

Process for preparing consolidated financial statements

The Group has established internal control and risk management systems in relation to the process for preparing consolidated financial statements. The key features of these systems are:



- Management regularly monitors and considers developments in accounting regulations and best practice in finance reporting and, where appropriate, reflects developments in the consolidated financial statements. The external auditor also keeps the Audit and Risk Committee apprised of these developments
- The Audit and Risk Committee and the Board review the draft consolidated financial statements. The Audit and Risk Committee receives reports from management and the external auditor on significant judgements, changes in accounting policies, changes in accounting estimates and other pertinent matters relating to the consolidated financial statements
- The full year financial statements are subject to external audit and the half year financial statements are reviewed by the external auditor

Principal Risks and Uncertainties

The Board confirms that it has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The Board's assessment of the principal risks and uncertainties facing the Group and the mitigation in place is set out below.

In February 2017, the Board decided that "Failure to integrate the Worldstores business successfully" was an additional principal risk which should be added to the register. As the integration is now largely complete this has been revised to cover "Failure to deliver maximum value from our online business".

We have also included this year a separate section on "Brexit" to highlight the risks and mitigating actions. Last year we included these in the "competition, markets and customers" section, the "business efficiency" section, and the "finance and treasury" sections.

RISK	DESCRIPTION	HOW WE MITIGATE	PROGRESS IN 2017/18
<p>Competition, market and customers</p> <p>Link to business goals: </p> <p>Performance Indicator: Market share</p> <p>Executive responsibility: Customer Director</p> <p>Reports to: Chief Executive Officer</p> <p>Impact compared to 2016/17: </p>	<p>Failure to respond to changing consumer needs, particularly the shift towards online sales, and to maintain a competitive offer in the Homewares market on multiple fronts (price, range, quality and service) could materially impact profitability and limit opportunities for growth.</p> <p>A downturn in consumer spending will impact sales and productivity.</p>	<ul style="list-style-type: none"> ● Focus on "customer" rather than channel to align strategy and operational focus to customer demand ● Customer insight research gauges relative customer perception and experience ● Focus on new product development, particularly own brand, in both in existing and new Homewares categories, to strengthen our offer ● Comparative performance within the Homewares market tracked monthly across all main product categories ● Investment in development of our website and store design and marketing designed to communicate our credentials on product, range, choice and value <p>Board oversight: Reviewed annually in depth by the Board at its Strategy Day and through subsequent presentations. Business plan review once per annum.</p>	<ul style="list-style-type: none"> ▷ Dunelm continues to lead the UK Homewares market with an increased estimated share of 8.1 in 2018 (8.0% in 2017) ▷ Continued product innovation in existing categories and strengthened seasonal campaigns ▷ More customer-centric vision, strategy and KPIs developed and communicated throughout the business ▷ Optimal Store Format template(s) finalised. Refocused refit programme to make fewer changes to more stores ▷ Customer Host concept trialled and rolled out ▷ M2M production time decreased and work started on new manufacturing facility. M2M Blinds online launched ▷ Marketing to emphasise the value that we offer across all price points ▷ Launched Dunelm Extra with wider furniture catalogue and enhanced customer delivery proposition on dunelm.com launched next day and named day delivery service

Trend direction:

 INCREASING
  UNCHANGED
  DECREASING

Link to business goals:

 REACHING MORE CUSTOMERS WITH OUR BRAND
  CREATE NEW REASONS FOR CUSTOMERS TO SHOP WITH DUNELM
  EASY AND INSPIRING MULTICHANNEL SHOPPING FOR OUR CUSTOMERS
  SIMPLE AND LOW COST - GOOD HOUSEKEEPERS
  A GREAT PLACE TO WORK FOR COLLEAGUES

Read more on our Business Goals on page 

RISK	DESCRIPTION	HOW WE MITIGATE	PROGRESS IN 2017/18
<p>Failure to deliver maximum value from our online business</p> <p>Link to business goals: </p> <p>Performance Indicator: Web traffic growth</p> <p>Executive responsibility: Chief Executive Officer</p> <p>Impact compared to 2016/17: </p>	<p>Failure to deliver maximum value from our online business will adversely impact Dunelm's profitability and investment KPIs.</p>	<ul style="list-style-type: none"> All activity under the Dunelm brand from Autumn 2018, and Digital Growth plan in place to focus on driving sales across the combined business Formal projects in place to deliver remaining IT integration programme, monitored monthly by the Executive Board <p>Board oversight: Chief Executive Officer provides a monthly progress update.</p>	<ul style="list-style-type: none"> Integration plan completed and cost savings delivered London office reduced in size and new cheaper premises secured Achica business divested and Kiddicare business redirected to Dunelm baby and kids offer Single digital P&L created; online offer to be integrated under Dunelm.com in FY19
<p>Brand damage</p> <p>Link to business goals: </p> <p>Performance Indicator: Product recalls Percentage of audits completed within policy</p> <p>Executive responsibility: Product Director</p> <p>Reports to: Chief Executive Officer</p> <p>Impact compared to 2016/17: </p>	<p>Our customers expect us to deliver products that are safe, compliant with legal and regulatory requirements, and fit for purpose.</p> <p>We must also ensure that our suppliers share and uphold our approach to business ethics, human rights (including safety and modern slavery) and the environment.</p> <p>Failure to do so could result in harm to individuals with the potential for customers, colleagues and other stakeholders to lose confidence in the Dunelm brand.</p>	<ul style="list-style-type: none"> We have a range of policies specifying the quality of own brand products and production processes which suppliers must adhere to We operate a full test schedule for all new own label products and on a sample basis for ongoing lines, overseen by our specialist product technology team Food hygiene is maintained through the adoption of clear operating guidelines contained in our food safety manual. Colleague certification is compulsory and risk assessments, equipment inspections and compliance audits are performed regularly to ensure standards are maintained All stock and food suppliers and the majority of our other suppliers are required to sign up to our Anti-Bribery and Ethical Code of Conduct which is in line with international guidelines, and also specifically covers modern slavery We conduct periodic audits on all suppliers of own brand products against our Code of Conduct Selected non-stock suppliers are assessed against our modern slavery audit <p>Board oversight: Ethical trading/modern slavery reviewed annually 'in depth' by the Board.</p>	<ul style="list-style-type: none"> Committed suppliers and overseas agents continue to work directly with factories to deliver more 'green' ratings against our Ethical Code of Conduct Factory profile questionnaire introduced, to obtain a more holistic assessment Modern Slavery awareness programme continued. For further information please see the Sustainability Report Preferred materials and animal welfare policies updated Plan to seek alternatives to plastic packaging developed

Principal Risks and Uncertainties

CONTINUED

RISK	DESCRIPTION	HOW WE MITIGATE	PROGRESS IN 2017/18
<p>Portfolio expansion</p> <p>Link to business goals: 2 3 4</p> <p>Performance Indicator: Number of new store openings and pipeline</p> <p>Executive responsibility: Property Director</p> <p>Reports to: Chief Executive Officer</p> <p>Impact compared to 2016/17: ↔</p>	<p>Availability of vacant or new retail space in the right location is essential to deliver our strategy to expand our national coverage through growth in our store portfolio. Inability to secure or develop the required retail trading space will limit our pace of expansion or force us to compromise our offer.</p>	<ul style="list-style-type: none"> Our property team actively monitors availability of retail space with the support of professional advisers Financial modelling helps us assess the viability of potential sites The Group's strong cash generation and funding headroom provide an attractive covenant to landlords and the ability to acquire freehold units if appropriate <p>Board oversight: Property strategy reviewed annually by the Board.</p>	<ul style="list-style-type: none"> We have opened ten new stores in the year We are currently planning to open two stores (both relocations) in 2018/19 The roll out of tablet based selling and our "Customer Host" initiative will give customers easier access to the whole of our online range - enhancing their multichannel experience, exploiting our advantage over pure play online retailers, and underpinning our digital growth
<p>People and culture</p> <p>Link to business goals: 5</p> <p>Performance Indicators: Colleague engagement</p> <p>Executive responsibility: People Director</p> <p>Reports to: Chief Executive Officer</p> <p>Impact compared to 2016/17: ↔</p>	<p>The success of the business could be impacted if it fails to attract, retain and motivate high calibre colleagues.</p> <p>Maintaining the culture of our business, embodied in our 'business principles' is essential to deliver our strategy and ensure the long term sustainability of our business.</p>	<ul style="list-style-type: none"> The composition of the Executive team is regularly reviewed by the Board to ensure that it is appropriate to deliver the growth plans of the business Succession plans and annual appraisals are in place across the Group High calibre individuals are retained and developed through sponsored talent management and development 'Business principles' in place to describe our values and business culture The Group's remuneration policy detailed on pages 72 to 76 is designed to ensure that high calibre executives are attracted and retained. Lock-in of senior management is supported by awards under the Long Term Incentive Plan <p>Board oversight: People plan and culture reviewed at least annually by the Board.</p>	<ul style="list-style-type: none"> New Chief Executive Officer and Chief Financial Officer appointed Purpose and Business goals relaunched across the business New "housewarming" induction adopted for non-store colleagues and store management "Always on" colleague feedback mechanism implemented Board discussion of culture and culture KPIs formally reviewed Over 71% of store managers now recruited internally

Trend direction:

↑ INCREASING ↔ UNCHANGED ↓ DECREASING

Link to business goals:

- 1 REACHING MORE CUSTOMERS WITH OUR BRAND
- 2 CREATE NEW REASONS FOR CUSTOMERS TO SHOP WITH DUNELM
- 3 EASY AND INSPIRING MULTICHANNEL SHOPPING FOR OUR CUSTOMERS
- 4 SIMPLE AND LOW COST - GOOD HOUSEKEEPERS
- 5 A GREAT PLACE TO WORK FOR COLLEAGUES

Read more on our Business Goals on page **13**

RISK	DESCRIPTION	HOW WE MITIGATE	PROGRESS IN 2017/18
<p>Regulatory, environment and compliance</p> <p>Link to business goals: </p> <p>Performance Indicator: Prosecution and other regulatory action</p> <p>Executive responsibility: Company Secretary</p> <p>Reports to: Chief Financial Officer</p> <p>Impact compared to 2016/17: </p>	<p>Fines, damages claims and reputational damage could arise if we fail to comply with legislative or regulatory requirements including consumer law, Health and Safety, employment law, GDPR and data protection, Bribery Act, competition law and the environment.</p>	<ul style="list-style-type: none"> ● Policies and training in place in respect of key compliance areas. These are regularly reviewed and updated ● Operational management are responsible for liaising with the Company Secretary and external advisers to ensure that new legislation is identified relevant action taken ● Dedicated Group Health and Safety function to oversee this aspect of compliance ● Training on the requirements of the Bribery Act and Competition Law is in place for all relevant colleagues and policies are communicated to all suppliers ● We have a whistle blowing procedure and helpline which enables colleagues to raise concerns in confidence <p>Board oversight: Monthly Board report on Health and Safety. Health and safety reviewed in depth by the Board at least annually. Non-compliances reported by the Company Secretary by exception.</p>	<ul style="list-style-type: none"> ▷ New policies and processes implemented to comply with the General Data Protection Regulation, including training for all colleagues ▷ Health and safety focus on contractor management, safety during store refits and store fixtures and fittings ▷ Review of safety of our third party logistics partners and improved safety in the Dunelm Home Delivery Network ▷ Policies and standard conditions amended to address the corporate offence of failure to prevent tax evasion ▷ Independent third party whistleblowing hotline introduced
<p>Brexit</p> <p>Link to business goals: </p> <p>Performance Indicator: Sales and profit</p> <p>Executive responsibility: Chief Executive Officer</p> <p>Impact compared to 2016/17: </p>	<p>Britain's exit from the European Union could lead to the following:</p> <p>Fall in the value of sterling against the US\$, resulting in an increase in the cost of goods purchased for resale.</p> <p>Disruption or congestion at ports causes delays in product supply chain.</p> <p>Labour shortages affecting drivers / warehouse labour of Dunelm or third party logistics providers.</p> <p>Supplier failure / fall in service as a result of the above.</p>	<ul style="list-style-type: none"> ● High level Brexit risk assessment completed to identify potential areas of risk ● Desktop review completed to understand the operational risks from a supply chain perspective, and a number of mitigating actions identified ● Continue to reduce use of agency labour in the Dunelm Home Delivery Network and in Dunelm DCs, and logistics partners encouraged to do likewise <p>Board oversight: Twice yearly review of Principal Risks. More frequent reviews in FY19 as appropriate.</p>	<ul style="list-style-type: none"> ▷ Political situation to be monitored during FY19 to assess the likely impact, and the need to take mitigating actions ▷ A number of further actions planned to assess likely impact on supply chain ▷ Increased the percentage of anticipated FY19 purchases which have foreign currency hedging in place

Principal Risks and Uncertainties

CONTINUED

RISK	DESCRIPTION	HOW WE MITIGATE	PROGRESS IN 2017/18
<p>IT systems, data and cyber security</p> <p>Link to business goals: </p> <p>Performance Indicator: Number of major incidents</p> <p>Executive responsibility: Chief Information Officer</p> <p>Reports to: Chief Executive Officer</p> <p>Impact compared to 2016/17: </p>	<p>Dunelm is dependent on the continued availability, integrity and capability of key information systems and technology. A major incident (including a cyber-attack), sustained performance problems or failure to keep technology up to date could constitute a significant threat to the business, at least in the short term.</p> <p>The risk of loss of data including customer data could have a significant adverse reputational impact.</p>	<ul style="list-style-type: none"> ● Business critical systems are based on established, industry leading package solutions, or are established systems which have been developed in-house with full support in place ● A detailed IT development and security roadmap is in place, aligned to strategy ● We have a disaster recovery strategy designed to ensure continuity of trade ● Authorisation controls and access to sensitive transactions are kept under constant review ● Information Security Steering Group in place to oversee the Group's approach to IT security and data protection <p>Board oversight: Cyber security is a standard agenda item for the Audit and Risk Committee.</p> <p>IT strategy reviewed annually by the Board.</p> <p>Major security incidents reported by the Company Secretary.</p>	<ul style="list-style-type: none"> ▷ Continued investment is being made in the capability of our IT function and in maintaining and upgrading business critical systems ▷ We have adopted the Government's '10 steps to cyber security' as a template to assess our position; progress has been made against all measures during the year ▷ Data security and integrity assessed and a number of improvements made as part of the plan to implement the General Data Protection Regulation, and further planned
<p>Supply chain disruption</p> <p>Link to business goals: </p> <p>Performance Indicator: Service levels in respect of store fulfilment</p> <p>Business Plan link: Supply chain</p> <p>Executive responsibility: Supply Chain Director</p> <p>Reports to: Chief Executive Officer</p> <p>Impact compared to 2016/17: </p>	<p>Supply chain disruption could disrupt stock flows from DCs to stores and customers' homes, leading to an impact on trading or cost / efficiency implications.</p> <p>Loss of the store support centre, the manufacturing centres, or our contact centre could impact our ability to trade and divert focus from long term strategy and planning.</p>	<ul style="list-style-type: none"> ● Supply chain strategy in place to ensure capacity is in line with five year plan ● Disaster recovery plans in place for Dunelm non-store facilities ● We seek to limit dependency on individual suppliers by actively managing key supplier relationships <p>Board oversight: Disaster recovery is a standard Audit and Risk Committee agenda item.</p>	<ul style="list-style-type: none"> ▷ Stock management programme initiated to review process and compliance across the whole UK supply chain ▷ Warehousing activity consolidated at Stoke DC 1 and 2 to improve efficiency and customer experience and reduce cost ▷ Agreements with two man delivery partner extended to secure service continuity and provide flexibility / fallback ▷ More focus on partnerships with committed suppliers ▷ Consolidation of former Worldstores supply base to improve customer experience

RISK	DESCRIPTION	HOW WE MITIGATE	PROGRESS IN 2017/18
<p>Business efficiency</p> <p>Link to business goals: </p> <p>Performance Indicator: EBITDA %</p> <p>Executive responsibility: Chief Financial Officer,</p> <p>Reports to: Chief Executive Officer</p> <p>Impact compared to 2016/17: </p>	<p>Failure to operate the business in an efficient manner leads to additional cost and operating margin pressure, and could constrain our profitability and our ability to compete and grow the business in line with our strategy.</p> <p>Failure to anticipate or manage cost price volatility in key areas such as freight, raw materials, energy and exchange rates may lead to increased cost, margin pressure and lower profitability.</p>	<ul style="list-style-type: none"> ● Costs are managed by the Board and Executive Board through the budget and forecasting process and monthly management accounts reviews ● Dunelm's scale, growth and increased buying power allows it to secure supply of key services and raw materials at competitive prices. Commodity price tracking covers all key materials ● Major non-stock purchase contracts regularly tendered <p>Board oversight: Board receives monthly management accounts. Five year plan and Budget reviewed by the Board at least annually.</p>	<ul style="list-style-type: none"> ▷ Non-stock procurement team upskilled and targeted to deliver significant cost reductions ▷ Further work to improve store productivity by automation and removal of unnecessary task, and improved stock management ▷ Standard new store format adopted to reduce cost ▷ Efficiency savings delivered through completion of the Worldstores integration plan
<p>Finance and treasury</p> <p>Link to business goals: </p> <p>Performance Indicator: Operating cash conversion, Banking covenant compliance</p> <p>Executive responsibility: Chief Financial Officer</p> <p>Reports to: Chief Executive Officer</p> <p>Impact compared to 2016/17: </p>	<p>Lack of access to appropriate levels of cash resources or exposure to significant variations in interest rates or exchange rates could have an impact on the Group's operations and growth plans.</p>	<ul style="list-style-type: none"> ● The Group has a £165m, five-year revolving credit facility in place until March 2023 ● Further, uncommitted borrowing facilities have been agreed for possible short term working capital requirements ● Dunelm works with a syndicate of long term, committed partner banks ● A Group Treasury Policy is in place to govern levels of debt, cash management strategies and to control foreign exchange exposures. ● Hedging is in place for foreign exchange, and freight and energy prices are agreed in advance, to help mitigate volatility and aid margin management <p>Board oversight: Board receives monthly treasury report.</p>	<ul style="list-style-type: none"> ▷ Revolving credit facility extended from 2020 to 2023 and increased by £15m ▷ Net Debt at the end of the year was £124m (0.89x EBITDA before exceptional items) (FY17: £122.1m). Since our debt is higher than in recent years we are managing our cash more closely ▷ Foreign currency hedges are in place covering approximately 76% of expected purchases in FY19

Trend direction:

 INCREASING
  UNCHANGED
  DECREASING

Link to business goals:

 REACHING MORE CUSTOMERS WITH OUR BRAND
  CREATE NEW REASONS FOR CUSTOMERS TO SHOP WITH DUNELM
  EASY AND INSPIRING MULTICHANNEL SHOPPING FOR OUR CUSTOMERS
  SIMPLE AND LOW COST - GOOD HOUSEKEEPERS
  A GREAT PLACE TO WORK FOR COLLEAGUES

Read more on our Business Goals on page 

Principal Risks and Uncertainties

CONTINUED

Going concern

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. In their consideration of going concern, the Directors have reviewed the Group's future cash forecasts and profit projections, which are based on market data and past experience. The Directors are of the opinion that the Group's forecasts and projections, which take into account reasonably possible changes in trading performance, show that the Group is able to operate within its current facilities and comply with its banking covenants for the foreseeable future.

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. Further information regarding the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Strategic Report on pages 8 to 21. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 22 to 25. In addition, note 18 to the annual report and financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, and its exposures to credit risk and liquidity risk.

Viability statement

In accordance with provision C.2.2 of the 2016 Corporate Governance Code, in addition to the going concern statement, the Directors have also assessed the prospects of the Group over a longer period.

The Directors confirm that the Group has considerable financial strength, and therefore they have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due for the next five years, ending June 2023.

A period of five years has been chosen as this is the time frame currently adopted by the Board as its strategic and financial planning horizon, and the business is largely dependent on UK consumer confidence and discretionary spending which is difficult to project beyond this period.

The five year plan considers the Group's earnings growth potential, its cash flows, financing options and key financial ratios, taking into account the economic outlook and principal risks and mitigating factors affecting the Group.

This assessment of viability has been made with reference to the Group's current position and future prospects, its strategy, the market outlook and its principal risks and the mitigation in place to manage them. These were reviewed by the Directors at the September 2018 Board meeting alongside the latest five year plan, which took into account amongst other things the latest market outlook.

The Board considers that the uncertainties around the UK's exit from the European Union give rise to the most significant risks in the near future. Consumer confidence may decline, a fall in the value of sterling against the US dollar could result in increases to the cost base and disruption at ports could impact the supply chain. Price increases would partially alleviate the cost pressure but could be offset by declines in volume. It therefore considers that the likely impact of any of the principal risks materialising would be a reduction in the level of sales growth and possibly a weakening in gross margin.

As a result, sensitivities against the five-year plan have been reviewed by the Audit and Risk Committee and the Board as part of the assessment made to support this statement, together with the actions which could be taken to mitigate these. Account was also taken of the Group's strong balance sheet and relatively low level of debt.

In the scenarios reviewed by the Board, the likely impact could be absorbed over the term of the financial forecasts by making adjustments to its operating plans within the normal course of business (without impacting its external financing or capital and dividend policy).

Sustainability

HOW WE OPERATE

Our business principles provide a guide to how the Group, the Board and all of our colleagues should behave towards our customers, other colleagues, our suppliers and our local, national and international community. They are set out in our "little book of house rules" which all of our colleagues receive on induction, and all colleagues are appraised against them. We also use our business principles in our colleague communications.

As well as forming part of our business principles, the individual topics which we report against below form part of the role accountabilities of our Executive Board members and are regular agenda items for the Board and Executive Board.

The chart below details how our sustainability activities are embedded in our business.

Our business principles



Board

- Overall responsibility for our sustainability
- Oversight of the business principles
- Approves policies
- Executive members have line responsibility for managing specific topics
- Monitors progress through KPIs and Board reports
- Annual presentations on people, Health and Safety and ethical sourcing

Executive Board

- Role models for the business principles
- Members have line responsibility for managing specific topics
- Approves policies prior to submission to Board
- Regular Executive Board meeting agenda items
- Monitors progress through KPIs, Board reports and customer and colleague feedback

Colleagues

- Appraised by reference to our business principles
- Provide feedback of customer and colleague suggestions via our engagement survey, Yammer and colleague council

How we engage

- Customers:** through customer care, online surveys and social media
- Colleagues:** weekly email from the CEO, in-house magazine, Colleagues' Council, Yammer (in-house communication tool), instant communication from stores, and "always on" engagement survey
- Suppliers:** annual conference and meetings throughout the year
- Others:** social media, corporate website



Customers

UNDERSTANDING HOMEMAKERS

EXECUTIVE RESPONSIBILITY:

Chief Customer and Digital Officer

LINK TO BUSINESS GOALS:



LINK TO BUSINESS PRINCIPLES:



LINK TO PRINCIPAL RISKS:

Competition, markets and customers

Our purpose is to help everyone create a home they love. We welcome all customers, whatever their age, taste or budget, and offer them the widest range of products for their homes, whenever and however they want to shop.

2017/18 achievements

- We opened ten new stores (one of which was a relocation) and completed six refits in our latest format
- We offered our biggest ever Christmas range of homewares and gifting and we improved product availability for customers
- We equipped our store colleagues with chip and pin enabled tablets, making our entire online portfolio accessible for ordering in-store for home delivery
- Our online offer of Made to Measure curtains and blinds was expanded and lead times reduced
- We opened a new mock shop and photo studio to improve the quality of our photography and instore merchandising

Our Policies

We will always look out for ways to make homes (and shopping for them) better for our customers. We offer:

- Well designed, brilliant quality, own label products at the best possible prices
- The widest possible range of products, offering choice, newness, seasonality and desirable brands
- Easy access to our products, however customers choose to shop (in-store, home delivery, delivery to store)
- Stores which are worth visiting - inspiring, conveniently located, safe and accessible
- Websites that are inspiring and easy to navigate, with convenient delivery and collection options
- Friendly and knowledgeable colleagues, in-store, in our contact centre and delivering our products
- Products which meet our customers' expectations for safety and ethical and sustainable sourcing
- Marketing which is always fair and truthful, and responsible use of our customers' personal data

Measuring our impact

- Customer satisfaction: 0.7% improvement over the previous 12 months

Awards

- **House Beautiful** - Gold Awards - Favourite Home Retailer of the Year and Favourite Online Retailer of the Year
- **Your Home Awards** - Best Home Retailer, Best Soft Furnishing Retailer

What's next for 2018/19

- We will continue to develop our store formats to make them more attractive and inspiring for our customers
- We will consolidate all of our activities under the "Dunelm" brand, reach more people with our brand, and focus on delivering our brand "purpose"
- We will continue to improve our product range, design and value
- We will provide more convenient delivery options for customers who order from us online
- Delivery of our new web platform will enable us to continually develop and improve customer experience



People

THE DUNELM FAMILY

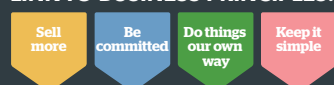
EXECUTIVE RESPONSIBILITY:

People Director

LINK TO BUSINESS GOALS:



LINK TO BUSINESS PRINCIPLES:



LINK TO PRINCIPAL RISKS:

People and culture

We believe that a great place to work is a great place to shop. We can only deliver great products and services to our customers through the hard work and commitment of our colleagues.

We employ over 9,000 colleagues across our business; in stores, our distribution and manufacturing operations, our contact centre in Radcliffe, and our support centres in Leicester and London.

Our Policies

Deliver the basics - provide fair employment to all colleagues, regardless of disability, race, religion or belief, sex, sexual orientation, gender reassignment, marital status or age.

At the end of June 2018, the breakdown of male and female colleagues was as follows:

	Male	Female	%
Group Board	6	3	33%
Executive Board	5	4	44%
Dunelm Leadership Team (including Executive Board members)	24	12	33%
All other colleagues	3,015	6,319	68%

Laura Carr joins as Chief Financial Officer during FY19, and from that date the percentage of female members of our Group Board and Executive Board will change to 37% and 50% respectively.

Invest in our home-grown talent - "develop our people" is one of our business principles - providing training and development opportunities helps us retain talent in the business.

We held career days for the first time this year across the entire business, showing colleagues the various career paths open to them within Dunelm.

Living our business principles - all new colleagues receive our "Little Book of House Rules" explaining our principles, which are used in recruitment and appraisals, and embedded into our colleague communications.

2017/18 achievements

- Continued to work at aligning our employment proposition consistently across all of our sites and businesses
- Held a Company-wide engagement survey (in addition to the "always on" survey), using this to better inform the way we communicate and engage colleagues throughout their career. We saw engagement increase by over 30% between July 2017 and May 2018
- Launched a voluntary benefits portal called 'Home Comforts' that all colleagues can access. This portal is used for communication as well as benefits. We have a 90% take up rate across the business
- Reviewed all of our policies and processes to improve how we safeguard the personal data of our colleagues
- Appointed Marion Sears as our "Designated Non-Executive Director" for employee engagement - Marion will attend two National Colleague Council meetings each year and feed back to the Group Board

Some of the ways we bring our business principles to life include:

- "Housewarming" induction for new starters, to introduce them to us, our products and our way of doing things
- Communication through regular "huddles" (informal team briefings); a weekly topical email; our quarterly Gazette, In touch, and Yammer intranet communications and an annual strategy communication event
- Regular colleague council meetings attended by senior management, enabling colleagues to raise and discuss issues; the outcome is fed back to the Executive Board
- Our "always on" colleague feedback mechanism allows us to act on issues quickly. A number of key concerns affecting colleagues have been identified and addressed this year

Copies of our policies are available at corporate.dunelm.com.

Measuring our impact

- Colleague NPS: 30%

What's next for 2018/19

- Galvanise the business behind our purpose - to "help everyone create a home they love", and our supporting business goals
- Launch a new Careers website to create great candidate experience
- Launch a project called "everyone's welcome" to promote diversity, regardless of disability, race, religion or belief, sex, sexual orientation, gender reassignment, marital status or age, background or circumstances
- Create 'Super Fans' in our colleague population who can act as business ambassadors, including online and on social media
- Invite members of our National Colleague Council to a discussion with the Group Board



Health and Safety

KEEPING OUR HOUSE IN ORDER

EXECUTIVE RESPONSIBILITY:

Company Secretary

LINK TO BUSINESS GOALS:



LINK TO BUSINESS PRINCIPLES:



LINK TO PRINCIPAL RISKS:

Regulatory, environment and compliance, people and culture

We want to ensure the safety and well-being of our customers, our colleagues and all our visitors. We have a Group Health and Safety Manager who ensures that the appropriate policies and procedures are in place, and regularly reports to the Group Board and the Executive Board.

2017/18 achievements

- Review of store fixtures and fittings in both established and new formats to ensure that they are safe
- Launched "Clean As You Go" policy in all stores to help mitigate the risk of trips, slips and falls
- Supported and strengthened health and safety procedures within the Dunelm Home Delivery Network, including fleet safety and four distribution centres
- Launched a half day Health and Safety training course for new managers and store premises key holders
- Continued to provide Health and Safety training and development to senior management throughout the business
- A new trailer fleet for Stoke DC was operational in January 2018, which allowed forklift trucks to be removed from 42 stores

Our Policies

The Board is responsible for the creation and implementation of our Health and Safety policy and procedures, which include an effective system of 'upward' and 'downward' communication, appropriate standards for monitoring performance and ensuring that sufficient resources are available to support this activity. A copy of our full policy is at corporate.dunelm.com.

Health and Safety is a standard agenda item at every Board and Executive Board meeting and each of these receive a monthly report and a formal annual presentation from the Group's Health and Safety Manager with accident/risk analysis, review of previous objectives and agreement of new objectives for the next year.

In our stores, each store manager is responsible for ensuring the implementation of Health and Safety policy and procedures in his or her store, supported by the area manager and the Group Health and Safety Manager. At our Stoke distribution centres we have a dedicated Health and Safety Manager. Risk assessments are in place at all Company sites and updated as required.

We have an in-house Health and Safety audit, which monitors compliance to policy and procedures and is reviewed annually to ensure that it meets best practice industry standards and to address any specific risks identified. Our stores and distribution centres complete an online self-audit monthly and area managers audit each of their stores at least once a year. This is backed up by our in-house operational audit team and followed up by the Health and Safety Manager. Regular review meetings are held between the Group's Health and Safety Manager and senior management from operational functions.

We have a proactive approach to safety, and colleagues are encouraged to report all potential hazards and risks. We have an ongoing programme of education and training, including DVDs and interactive computer based learning, and we ensure colleague involvement through the Colleague Council.

Measuring our impact

- Number of reportable accidents under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDORs) flat year on year, despite ten new store openings
- Accident / footfall rate reduced to 2.8% from 3.2% in FY17
- Total accidents reduced by 5% compared to FY17

What's next for 2018/19

- Complete programme to remove forklift trucks from 67 more stores
- Continued focus on safety at our DCs, home delivery fleet safety and through the construction and commissioning of our new manufacturing centre
- Continue to build competency through education and training
- Update Colleague Drivers' policies and implement a new third party licence checking service to monitor / check driver and car details
- Implement Drug and Alcohol testing post-accident across our fleet and distribution centres
- Strengthen governance through creation of functional steering groups to drive health and safety actions

Suppliers and Human Rights

UNDER ONE ROOF

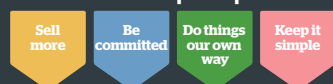
EXECUTIVE RESPONSIBILITY:

Product Director

LINK TO BUSINESS GOALS:



Link to business principles:



LINK TO PRINCIPAL RISKS:

Brand damage; regulatory, environmental and compliance



We do not manufacture the vast majority of the products that we sell, so we need to maintain relationships with suppliers and manufacturers worldwide who can meet our high standards. They must demonstrate that they operate in accordance with recognised standards that uphold human rights and safety, prohibit modern slavery and promote sustainable sourcing.

Our Policies

Fair and consistent - One of our business principles is to deal with suppliers in an open and honest way. We require all of our suppliers to sign our standard terms and conditions in advance of commencing trade, and we have signed up to the Prompt Payment Code. The number of days' purchases outstanding for payment at 30 June 2018 was 31 days (2017: 38 days).

Human rights - Effective management of human rights throughout our supply chain is built into our product procurement procedures. Suppliers of our own branded products are asked to sign our Code of Conduct, based on the Ethical Trading Initiative (ETI) base code, with a strengthened section on slavery. This requires that suppliers provide a clean and safe work environment, workers must be treated with respect and earn a reasonable wage, and relevant local laws and regulations must be met. Our policy is available at corporate.dunelm.com.

All suppliers of Dunelm branded products must have a satisfactory audit in place which is no more than two years old, and a valid building and fire safety certificate. During 2017/18 we rolled this requirement out to the suppliers of our Worldstores, Kiddicare and Achica branded products. Supplier branded products are not subject to audits but suppliers sign our Code of Conduct (or equivalent) and an assessment is made of their standards and capability.

Our in-house technology team has extensive experience of working with factories to improve quality and ethical standards. Our Far East sourcing partners monitor standards and work to improve them on our behalf. Where non-compliance is discovered we work with a supplier to help them achieve compliance, usually within six months. Critical non-

conformances such as use of child labour, working against choice/slavery or absence of valid Building or Fire Certificates are escalated immediately, and supplies cease until the issue has been resolved. Ultimately, if progress is inadequate, we will cease to trade with the supplier.

Modern slavery - In 2016 we assessed our own facilities and supply base (products and services) for modern slavery risk and have required the major providers to sign our Code of Conduct. Our audits of suppliers of our Dunelm branded products also covers modern slavery. Our statement made pursuant to the Modern Slavery Act 2015, which contains further information, is available at corporate.dunelm.com.

Provenance - We are raising the provenance requirements for our products, with particular emphasis on timber sourcing, cotton, animal welfare and feathers and down. This is to ensure that we meet relevant regulatory, social, environmental and best practice requirements. Our policies in this area are available at corporate.dunelm.com. We are also reviewing our use of single use plastics in product packaging and in our Pausa coffee shops, and are looking for suitable alternatives which will allow us to remove them completely or move to a more environmentally friendly material.

2017/18 achievements

- Dunelm quality, ethical sourcing and audit standards were extended to all Worldstores, Kiddicare and Achica own branded products
- Dunelm audits independently verified by third party (Bureau Veritas)
- Started work to consolidate our supply base towards fewer, larger factories with better compliance
- Training provided to all UK manufacturers of own brand products, to raise awareness of modern slavery and how to improve procedures to reduce the risk within the supplier's supply chain

Measuring our impact

- Percentage of factory base for own brand products with audit no more than two years old: 82%
- Percentage of green or amber audits: 80%

What's next for 2018/19

- All UK manufacturers of own branded products to complete a comprehensive modern slavery risk assessment, with a FastForward audit for higher risk sites
- Risk assessment of Pausa direct suppliers to be made, and programme of audits to be devised if required
- Implement "Preferred employment agency" list for all UK sites, and ensure appropriate contracts are in place to ensure that all regulatory matters are covered, including modern slavery risk
- All Dorma branded textiles to be made from sustainable cotton (Jan 2019)
- Supply chain for all Dunelm branded timber products to be verified independently, to ensure compliance with regulatory requirements as to legal and sustainable sourcing



Community

CHARITY

EXECUTIVE RESPONSIBILITY:

Chief Customer and Digital Officer

LINK TO BUSINESS GOALS:



LINK TO BUSINESS PRINCIPLES:



LINK TO PRINCIPAL RISKS:

Competition, markets and customers; people and culture

We aspire to be responsible members of our community, as this reflects our aim to always do the right thing; it also matters to our shareholders, customers and colleagues.

Our Policies

We are proud to support Home-Start UK as our “charity of the year”. Collections are made in-store, specific fundraising events are organised both by individuals and business areas and the Group makes its own donations. Each store has a ‘Charity Champion’ and amounts raised by store are reported monthly, with the top three recognised in the Dunelm Gazette each quarter.

We also support colleagues who are raising money for charities of their choice, by matching the sums raised by a donation it to Home-Start UK. All colleagues are entitled to, and are encouraged to take, an extra day’s paid leave to undertake charitable activities, either individually or as a team.

We donate funds raised from English and Scottish carrier bag sales to Home-Start UK, and from Welsh carrier bag sales to GroundWork, a charitable organisation which brings people and the environment together with practical local action to build stronger communities. They aim to create more green spaces, and get people back into work through creating green jobs.

Measuring our impact

- The total value of charitable donations made by the Group in the period ended 30 June 2018 was £102,009 (2017: £35,998)
- Total funds raised for charity by the Group and colleagues were £490,717 (2017: £365,774). Of this, £455,630 was raised for Home-Start UK (2017: £340,776)

2017/18 achievements

- We have relaunched our charitable initiatives with our colleagues, with a Charity Booklet containing details of activities which they can participate in and fundraising ideas
- This is the second year of our partnership with Home-Start UK and support and donations continue to grow
- We continue to support our colleagues in their charitable fundraising efforts by offering an annual day’s paid leave to support charitable activities
- Colleagues have proactively organised larger events to support Home-Start including a golf day and charity ball, as well as smaller events in individual stores and offices
- We continue to support local causes and communities where possible to ensure we help the local areas we serve around our entire store estate

What’s next for 2018/19

- Our Charity Committee will focus on driving colleague and customer engagement with our charitable activities to ensure we are giving back as much as possible. We will be appointing a new Charity partner or partners as part of our usual two year rotation
- We will increase our company matched funding
- We will make it easier for colleagues to donate to charity through Payroll Giving
- We continue to support local causes and communities where possible to ensure we help the local areas we serve around our entire estate



Environment

GOOD NEIGHBOURS

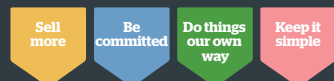
EXECUTIVE RESPONSIBILITY:

Chief Financial Officer

LINK TO BUSINESS GOALS:



LINK TO BUSINESS PRINCIPLES:



LINK TO PRINCIPAL RISKS:

Brand Damage, Regulatory environment and compliance

At Dunelm we always try to do the right thing, and we are committed to minimising the impact of our business on the environment.

Our Sustainability Committee is responsible for the development and implementation of environmental strategies to continually improve our recycling and waste management and reduce our energy consumption and carbon (CO₂) emissions. We have an Environment & Sustainability Manager who leads and co-ordinates these efforts across our business.

Recycling & Waste Management

Our Policies

We aim for high levels of recycling across our business, and our Reduce, Reuse, and Recycle policy supports our approach. All stores have cardboard balers and colour-coded bins to segregate waste for recycling. Training programmes and communication to increase colleague awareness and compliance are undertaken frequently.

Our Distribution Centres in Stoke recover and process our product packaging from our DC and store operations (cardboard and polypropylene) ready for recycling.

We have dry mixed recycling collections from our stores for paper, plastic bottles and cans which is then sorted and recycled offsite. We also recycle wooden pallets and metal fixtures. All electrical waste is recycled through a WEEE compliant scheme. Any remaining waste that is not sorted for recycling within the business is sent offsite for further sortation and wherever possible we aim to generate energy from waste.

In the first instance we will aim to sell “less than perfect stock” to our customers who are looking for a bargain. We also work with over 100 charity partners nationwide to donate homewares items that cannot be sold to customers. This helps us support our communities and minimise our environmental impact.

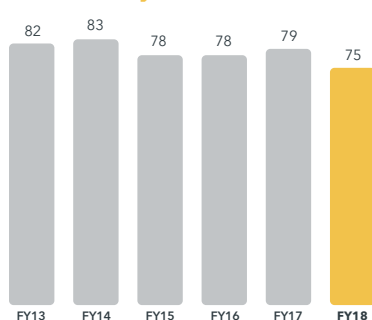
2017/18 achievements

- Introduction of Food Waste collections to over 140 stores across the country allowing reduction of waste to landfill volumes and generating energy from waste
- All sites have been environmentally audited by our in-house audit team
- Internal marketing campaigns completed to raise awareness
- Landfill diversion rate has increased to 95% from 92% last year
- 12 show and tell waste audits including waste bin emptying have been completed throughout the store network, providing valuable education and awareness to colleagues and store managers
- De-compostable take-away food and drink containers, and cutlery have been introduced in our Support Centres to reduce the impact on the environment
- Held a World Environment Day event at our Leicester Support Centre to raise awareness amongst colleagues of how we can minimise our impact
- Award finalist for recycling initiatives and progress at both the National Recycling Awards and the Recycling Excellence Awards in 2018

Measuring our Impact

Last year Dunelm recycled 75% (2017: 79%) of waste. We increased our food waste collections, which is turned into energy, to over 100 tonnes in stores. Total company landfill diversion increased again to 95% (2017: 92%) and we have achieved 100% landfill diversion from our Distribution Centres in Stoke.

Waste recycled %



Key policy objectives

- Our approach to recycling and waste more generally is to adopt the following prioritisation: Reduce, Reuse, Rework, Recycle
- To minimise general non-recyclable waste across the business and reduce use of landfill and other adverse environmental impacts
- To be fully compliant with all relevant waste legislation

What's next for 2018/19

- Continue to improve recycling performance aiming towards 100% landfill diversion over the medium term
- Introduce reusable cups and bottles for colleagues in our Support Centres, and promote them in-store for customers
- Improve compliance in stores and in our Stoke distribution centres to improve our recycling rate

Environment

CONTINUED

2017/18 achievements

Energy use

Our Policies

Our policy objective is to reduce energy usage year on year.

Dunelm manages energy usage and energy reduction initiatives on a site-by-site basis. 'Smart' meters are fitted to electricity and gas supplies and energy consumption is measured frequently with analytics tools available to help identify issues and opportunities to reduce usage. Building Management Systems ("BMS"), designed to optimise energy use, are fitted as standard across our estate.

Energy consumption is monitored by our Energy Manager in conjunction with a specialist energy partner. We target underperforming sites alongside the implementation of various energy reduction initiatives to maximise energy efficiency, while maintaining a comfortable trading environment for our customers and colleagues.

We have prioritised a programme to invest in full LED lighting at all sites. All new stores are 100% LED and in total we have retro-fitted 94 stores to this more efficient equipment. 164 sites (89% of the estate) now have LED lighting fitted.

- We continued the LED programme and re-fitted 25 stores with LED lighting, as well as new store/ site installs taking the total number of our locations with LED lighting to 164 out of 184 sites
- Our focus on energy consumption in stores continued and we appointed an energy manager to continually monitor performance and ensure that our building management systems are optimised. Due to the protracted cold winter, and the May/June heatwaves,

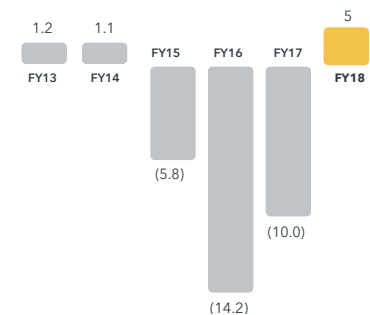
we have incurred additional energy usage this year to heat/cool our stores appropriately for our colleagues and customers

- We continue to monitor the performance of our stores and assess future investments. We introduced solar power to one new site in FY18 and we completed maintenance work on our existing solar panels sites to ensure their performance is optimised

What's next for 2018/19

- Introduce systemised cut-offs for overrides of Building Management Systems to reduce accidental usage
- Reduce like-for-like energy consumption by at least 5%
- Increase weekly focus on energy consumption and challenge stores to reduce through cost targets
- Assess investment potential for more solar powered sites, and voltage optimisation initiatives
- Raise awareness of energy consumption across the business through internal communications

Year on year reduction in energy usage %



Greenhouse Gas Emissions (CO₂e)

Our Policies

Our policy objective is to reduce CO₂ emissions relative to turnover year on year.

We invest in photovoltaic systems (solar power) wherever viable across our estate. We now have these in five of our stores (Leeds, Dunstable, Bristol, Cambridge and Darlington). These systems replace energy sourced through the national grid with local renewable energy. We continue to monitor performance of these installations to inform future investment decisions as we assess additional sites for solar power generation.

We continue to source electricity from 'Green Energy' supplies such as combined heat and power sources where CO₂ emissions are 30% lower than the national average.

Dunelm also works with specialist partners to consult on our energy buying strategy, investments in energy saving technology and to further focus on reducing our carbon emissions.

Our company car fleet is graded on emissions and we encourage the use of fuel efficient vehicles in all schemes. Average emissions in 2018 were 110 CO₂ g/km (2017: 108 CO₂ g/km).

What's next for 2018/19

- Continue to reduce CO₂ emissions relative to turnover year on year
- Introduce charging points for electric vehicles in our car parks at Support Centres and assess certain stores for suitability
- Review and assess our company car fleet to introduce more zero and low emissions options to colleagues

Measuring our impact

Carbon Dioxide Equivalent ("CO₂e") emissions data is reported using the GHG Protocol Corporate Standard (Scope 1 & Scope 2) and applies to our organisational boundary as defined by the 'operational control' approach.

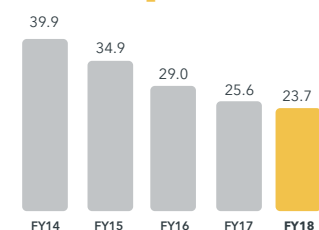
The methodology used to calculate our emissions is based on the UK Government's GHG Conversion Factors for Company Reporting 2013.

Dunelm uses 'Tonnes of CO₂e per £1m of turnover' as its intensity measure, reflecting the link between growth, activity and performance.

2017/18 achievements

- We have reduced CO₂ emissions by 15.7% year on year compared to revenue growth
- We have trialled various electric and low emission vehicles to see if they are suitable for operational purposes, and are introducing them into our company car fleet
- Our work to roll out more LED stores has helped reduce energy usage and lower emissions

Intensity Measure - tCO₂e per £1m Group Revenue



Bribery, fraud and tax evasion

UPHOLDING OUR VALUES

Our Policies

Dunelm takes a zero tolerance approach to bribery, corruption, fraud and tax evasion.

The Group pays corporation tax on its operations in the United Kingdom and Jersey and does not operate in any tax havens, or use any tax avoidance schemes.

Our Anti-Corruption and Anti-Bribery Policy and our Tax Strategy are available on our website <https://corporate.dunelm.com>.

The main areas of potential risk in Dunelm's organisation are:

- A colleague accepting a bribe or some other personal advantage in return for awarding a contract
- A supplier acting on Dunelm's behalf offering or accepting a bribe or other personal advantage
- A Dunelm colleague facilitating tax evasion by a third party, for example by making an "off book" payment to enable a third party to avoid tax

The procedures in place to ensure compliance with the Bribery Act 2011 and other relevant legislation are set out below:

- Anti-corruption and anti-bribery policy implemented – which also covers fraud and tax evasion
- Formal procedure implemented for signing off and logging gifts and hospitality accepted by colleagues
- Executive Board members, Senior colleagues, all members of the commercial team and any individuals with authority to place significant contract orders have received anti-bribery training and complete an annual refresher
- All Senior colleagues sign a declaration of compliance and conflicts of interest statement annually
- Standard terms and conditions for suppliers include a Bribery Act / tax evasion clause
- Specific training has been carried out for suppliers and agents in high risk territories
- All payments to third parties must be supported by a valid invoice and segregated duties are in place in the finance team; commercial checks made on all new suppliers; policy on engagement of contractors under review
- Our Whistleblowing Policy refers specifically to the Bribery Act, fraud and tax evasion and an externally hosted independent helpline is in place
- Standing agenda item for the Audit and Risk Committee

Measuring our impact

- % of internal training completed – 100%

This report was reviewed and signed by order of the Board on 12th September 2018.

Nick Wilkinson
Chief Executive Officer

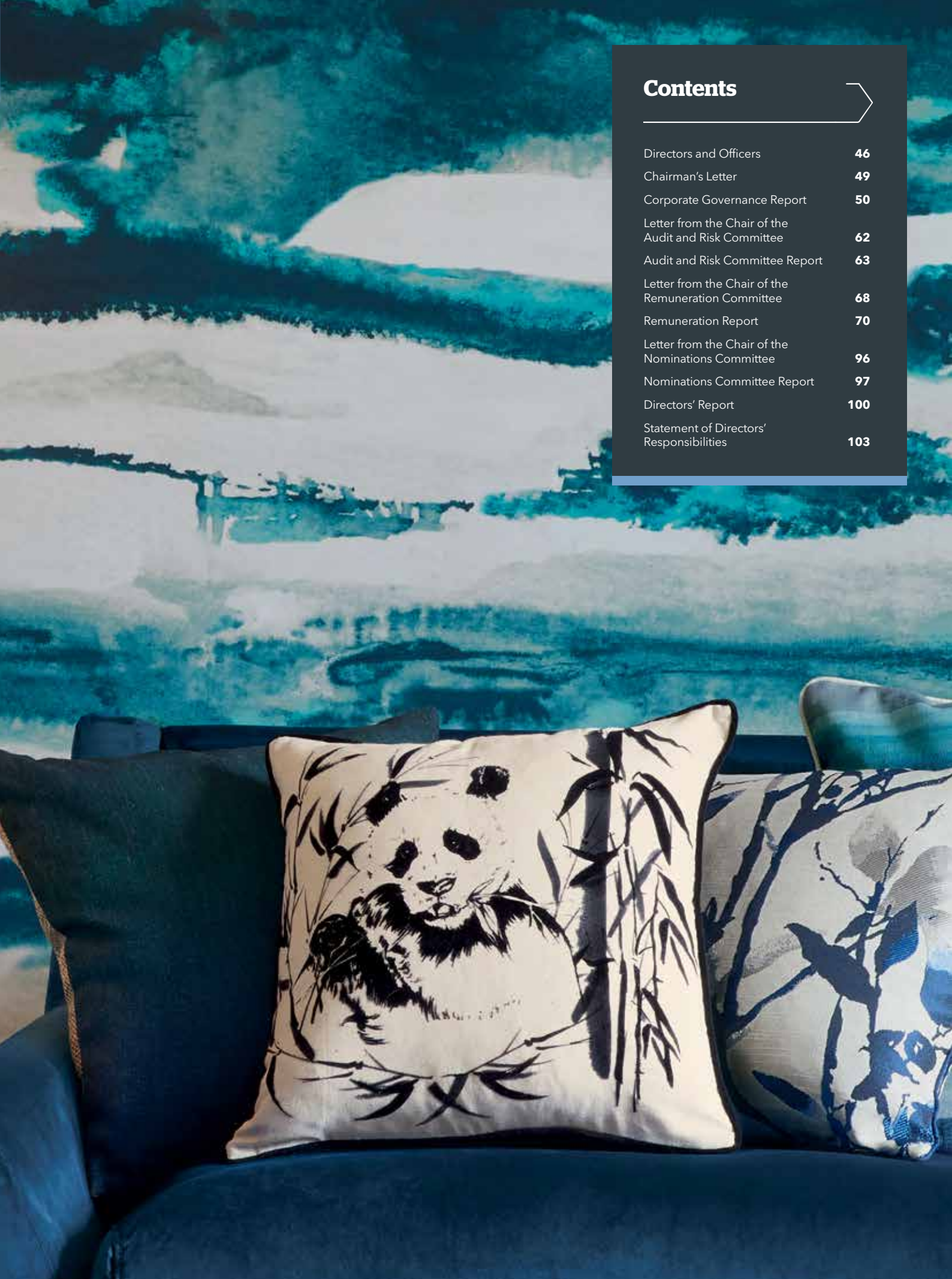
Customer First

Online, whether for inspiration, browsing or purchasing is now a part of almost every customer's shopping experience. Our stores play a pivotal role in a Multichannel world. Take-home-today convenience, friendly colleague advice, or that touch and feel experience, means we provide unique experience which sets us apart.



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Directors and Officers



Andy Harrison

Chairman



Chair of the Nominations Committee

Key strengths: A former CEO with considerable experience of leading large consumer facing organisations with a strong service offer. Long-standing plc experience and shareholder understanding.

Dunelm role: Chairs the Board, which is responsible for Group strategy, performance, risk oversight and good governance. Chairs the Nominations Committee. Provided interim executive support in the year pending appointment of new CEO. Regularly visits stores and the webstore to meet colleagues and members of the senior management team. Participates in investor presentations and some shareholder meetings.

Joined Dunelm Board: September 2014.

Previous experience: Chief Executive of Whitbread plc from 2010 to 2016. Chief Executive of easyJet plc from 2005 to 2010. Chief Executive of RAC plc between 1996 and 2005. Non-Executive Director and Chair of Audit Committee at EMAP plc from 2000 to 2008.

Other commitments: None.



Will Adderley

Deputy Chairman



Key strengths: Has worked in, and is familiar with, all parts of the Group. Specific strengths in buying and trading with strong and long-standing supplier relationships. Has been instrumental in growing the Group to its current size having developed the out-of-town format in the late 1990s.

Dunelm role: Director and major shareholder, who spends his time on strategic activities which protect and enhance shareholder value and preserve the Group's culture and values. Member of the Nominations Committee.

Joined Dunelm Board: 1992, and has worked for Dunelm for his whole career. He took over the day-to-day running of the Group from his father in 1996. Remained as Chief Executive through the Group's IPO in 2006. Became Deputy Chairman in February 2011 and was reappointed Chief Executive in September 2014. Resumed his role as Deputy Chairman in January 2016. Retains an executive role to support the business in matters agreed with the CEO, and as required. Current focus is on buying, merchandising and mentoring colleagues internally.

Previous experience: All parts of Dunelm's business.

Other commitments: WA Capital Limited.



Nick Wilkinson

Chief Executive Officer

Key strengths: An experienced CEO, with proven business leadership in multi-channel retail businesses operating across a number of consumer brands and geographies.

Dunelm role: Leads the Group and Chairs the Executive Board. Proposes the Strategy to be approved by the Board, and accountable for delivery of strategic and financial objectives. In addition to his Board responsibilities, liaises with the Remuneration Committee in respect of below Board remuneration, and attends Audit and Risk Committee meetings by invitation.

Joined Dunelm Board: February 2018

Previous experience: Chief Executive of Evans Cycles (2011-2016); Chief Executive of Maxeda DIY (2007-2010); Group Buying Director and MD of Currys at Dixons Retail Group (1999-2006). Early career at Unilever and McKinsey & Co.

Other commitments: Trustee of Age UK.



Liz Doherty

Non-Executive Director



Senior Independent Director
Chair of the Audit and Risk Committee

Key strengths: A former Finance Director with extensive operational experience in international consumer and retail businesses, specifically with brands, marketing and online. Long-standing plc experience and shareholder understanding.

Dunelm role: As a Non-Executive Director, provides strategic advice, monitors management performance and oversees risk management. Regularly visits stores and the webstore to meet store colleagues and members of the senior management team. Attends investor presentations and shareholder meetings. Senior Independent Director and Chair of the Audit and Risk Committee.

Joined Dunelm Board: May 2013.

Previous experience: Fellow of the Chartered Institute of Management Accountants (FCMA). Finance Director of Reckitt Benckiser plc (2011 to 2013), Brambles Limited (Australia) (2007 to 2009) and Group International Finance Director of Tesco PLC from 2003 to 2007.

Other commitments: Non-Executive Director of Corbion NV and Novartis International AG.



William Reeve
Non-Executive Director

A N R
Chair of the Remuneration Committee

Key strengths: An entrepreneur and investor with deep digital experience.

Dunelm role: As a Non-Executive Director, provides strategic advice, monitors management performance and oversees risk management. Regularly visits stores and the webstore to meet colleagues and members of the senior management team. Attends investor presentations and shareholder meetings. Chair of the Remuneration Committee.

Joined Dunelm Board: July 2015.

Previous experience: Co-founder of three internet-related businesses: Fletcher Research, LOVEFILM.com, and Secret Escapes. Non-Executive Director of numerous others including Graze.com, Paddy Power plc and Zoopla.

Other commitments: Chief Executive of Oh Goodlord Limited.



Peter Ruis
Non-Executive Director

A N R

Key strengths: A current Managing Director with deep experience in retail and brands, working for both large and more entrepreneurial organisations, with a particular expertise in marketing and product.

Dunelm role: As a Non-Executive Director, provides strategic advice, monitors management performance and oversees risk management. Regularly visits stores and the webstore to meet colleagues and members of the senior management team. Attends investor presentations and shareholder meetings.

Joined Dunelm Board: September 2015.

Previous experience: Chief Executive of Jigsaw (2013-2018). Senior positions at John Lewis Partnership (2005 to 2013), Levi Strauss (2001 to 2004) and Ted Baker (1997 to 2001).

Other commitments: Managing Director of URBN Corporation.



Marion Sears
Non-Executive Director

N
Designated Non-Executive Director for colleague matters

Key strengths: Extensive City, investor and banking experience including mergers and acquisitions. Customer focused and strategic. Long-standing plc experience and shareholder understanding.

Dunelm role: As a Non-Executive Director, provides strategic advice, monitors management performance and oversees risk management. Regularly visits stores and the webstore to meet store colleagues and members of the senior management team. Now non-independent, as defined by tenure, but asked to remain on the Board by the Board members and Adderley family. Attends investor presentations and shareholder meetings. Designated Non-Executive Director for colleague matters.

Joined Dunelm Board: July 2004. Marion was Senior Independent Director and Chair of Remuneration Committee 2006-2015 and Chair of Nominations Committee until 2016.

Previous experience: Robert Fleming, JP Morgan Investment Banking.

Other commitments: Non-Executive Director of Persimmon plc, Fidelity European Values plc, Aberdeen New Dawn Investment Trust plc and Director of WA Capital Limited.

Committee memberships

- A** Audit and Risk Committee member
- N** Nominations Committee member
- R** Remuneration Committee member

Directors and Officers

CONTINUED



Dawn Durrant

Company Secretary



Bill Adderley

Founder and
Life President

Key strengths: Extensive plc company secretarial and legal experience including corporate governance, legal and regulatory compliance, mergers and acquisitions, company and commercial, retail and consumer law.

Dunelm role: Responsible for governance, legal and regulatory matters. Member of the Executive Board.

Joined Dunelm: November 2011.

Previous experience: Qualified as a solicitor at Allen & Overy (1988 to 1994). Company Secretary of Geest plc between 1994 and 2005.

Other commitments: None.

Bill, together with his wife Jean, founded the business in 1979. Although no longer on the Board or actively involved in management, Bill and Jean remain major shareholders and frequently visit stores.

Notes:

John Browett was Chief Executive Officer during the financial year to 30 June 2018. He resigned and stepped down from the Board on 29 August 2017.

Keith Down was Chief Financial Officer during the financial year to 30 June 2018. He resigned and stepped down from the Board on 24 May 2018.

Simon Emeny retired as planned from his role as Senior Independent Director and Chair of the Remuneration Committee at the AGM on 21 November 2017.

Rachel Osborne was appointed to the Board on 1 April 2018 as a Non-Executive Director, and stepped down on 29 August 2018 to take up an executive role on the Board of a competitor.

Laura Carr will join the Board as Chief Financial Officer on 29 November 2018. Details of her background and appointment are in the Nominations Committee Report.

David Stead, Dunelm's former Chief Financial Officer (September 2003 to December 2015) has provided interim support pending Laura's arrival since April 2018, although he has not been appointed to the Board over this short period.



Chairman's Letter

Dear Shareholder

When I wrote to you last year, we had just started the process of recruiting a new Chief Executive Officer. I am pleased that we were able to appoint Nick Wilkinson in February 2018. Nick brings an excellent retail skill-set with multi-channel experience across a number of consumer sectors and geographies. He has made an excellent start and is working well with the rest of the Board and the Executive team.

Shortly after Nick joined, we announced that Keith Down, our Chief Financial Officer, had decided to step down from the Board, to take up a role closer to his family home. I would like to thank Keith for his contribution and commitment to Dunelm.

We have appointed Laura Carr to succeed Keith as Chief Financial Officer, and she will start with us in November. Laura brings a breadth of business and finance experience with multi-national and consumer facing businesses, and I look forward to working with her.

To support the Board and the Executive team during the transition from Keith to Laura, David Stead, Dunelm's former CFO, has served as Interim CFO. I would like to thank David for coming out of retirement to support us during this period.

As I mentioned last year, Simon Emeny retired at the AGM in November 2017, after serving ten years as a Non-Executive Director, latterly as Senior Independent Director and Chair of the Remuneration Committee. Liz Doherty has succeeded Simon as Senior Independent Director, and William Reeve has taken the role of Chair of the Remuneration Committee.

As planned, we were also pleased to appoint an additional Non-Executive Director, Rachel Osborne, in April. Unfortunately, Rachel subsequently changed her executive role which created a competitive conflict and she stood down from the Board in August. We have initiated a search for Rachel's replacement and will update on progress in due course. I thank Rachel for her contribution over her short tenure.

Whilst there have been a number of changes to the Board over the year, we have maintained a core Board team of Will Adderley, Liz Doherty, William Reeve, Peter Ruis, Marion Sears and myself, all of whom have served at least three years on the Board. I thank all my colleagues for their continued support and commitment, and the time given to help with the appointment and induction of my newer colleagues.

Externally, the Government and regulators have continued to focus on the need to strengthen corporate governance and requiring companies to demonstrate higher standards of corporate behaviour and to fully recognise their obligations to all of their stakeholders. As I have written in previous years, good governance is an integral part of our corporate culture, and our business principles encompass a commitment to take long term decisions and to treat our customers, colleagues, suppliers and communities with equal respect, as key stakeholders in our business.

We have reviewed the Financial Conduct Authority's revisions to the Corporate Governance Code, and whilst it is not yet in force, we have implemented some of its recommendations. Marion Sears, who has been on the Board since the Group's flotation in 2006, has agreed to act as the "Designated Non-Executive Director" for our colleagues. She has

attended two meetings of our National Colleague Council and reported back to the Board. In November 2018, members of the Colleague Council will meet with the Board to communicate their views. We have also reviewed how we engage with our other stakeholders, and details are set out in this report. Finally, we have looked at how the Board is monitoring the culture of the business and tabled an annual Board review of these.

In January 2018, we held one of our regular Corporate Governance meetings, attended by Will Adderley, the Non-Executive Directors, the Company Secretary and myself, to which our major institutional shareholders were invited. There was a useful exchange of views on a variety of governance topics, and we intend to repeat this regularly.

In the last two years our annual Board effectiveness review was facilitated by an external third party. This year I conducted an internal review, focused mainly on how we manage succession and Board and Committee effectiveness going forward. Further details are set out in the report below.

At our AGM this year, as usual, all Directors will be seeking reappointment. In addition, in accordance with the Listing Rules, each of the Non-Executive Directors will also be subject to a vote of shareholders independent of the Adderley family.

I look forward to meeting shareholders at the AGM.

Yours sincerely,

Andy Harrison
Chairman

12 September 2018

Corporate Governance Report

Code compliance

This report explains how we have applied the principles of good governance and code of best practice set out in the Corporate Governance Code published in April 2016 (the 'Corporate Governance Code'), which is available from the website of the Financial Reporting Council, www.frc.org.uk.

The Board considers that it has fully complied with the Corporate Governance Code during the financial year covered by this annual report. In making its determination, consideration was given to the independence of Simon Emeny, who had served ten years on the Board in June 2017, and retired as planned at the AGM in November. Further details are given in the section below headed 'Independence of Non-Executive Directors'.

After the year end, one of our independent Non-Executive Directors, Rachel Osborne, resigned as a result of her appointment to an executive role with a competitor. We have started the search for a replacement, to ensure that once our new Chief Financial Officer, Laura Carr, joins us in November, we have an equal number of executives / non-independent Directors and Non-Executive Directors as required by the Corporate Governance Code.

We share the Government's view that good governance helps companies to take better decisions, for their own long term benefit and that of the UK economy overall. Our approach, which has not changed since the flotation of the Company in 2006, is summarised below:

- We believe that good governance leads to stronger value creation and lower risks for shareholders
- It is the Board's responsibility to instil and maintain a culture of openness, integrity and transparency throughout the business, through our policies, communications and by the way in which we act

- We support corporate governance guidelines and apply them in a way that is meaningful to our business and consistent with our culture and values
- If we decide that the interests of the Company and its shareholders can be better served by doing things in a different way, we will explain the reasons why

For more information please see the copies of the presentations that we made to our major institutional investors and shareholder representatives, available in the 'Reports and Presentations' section of our website, www.dunelm.com.

Board role and composition

STRATEGY

- Set the strategy to secure the continued growth of the Group over the long term in the interests of our shareholders, taking account of our responsibilities to colleagues, customers, the communities in which we operate and the interests of our other stakeholders
- Ensure that resources are in place to deliver the strategy

GOVERNANCE

- Instil and maintain a culture of openness, integrity and transparency
- Ensure that financial and other controls and processes for risk management are in place and working effectively
- Set an effective remuneration policy
- Maintain good relationships with shareholders and all of our stakeholders

PERFORMANCE

- Review progress towards strategic and operational goals and the performance of management
- Ensure that Board balance and committee membership are appropriate and effective, and fully compliant with the requirements of the Corporate Governance Code

The Board structure at the date of this report is shown below:

CHAIRMAN – Andy Harrison	
Executives/Non-Independents	Independent Non-Executives
<p>Will Adderley Deputy Chairman</p> <p>Nick Wilkinson Chief Executive Officer</p> <p>Marion Sears Non-Executive Director</p>	<p>Liz Doherty Senior Independent Director</p> <p>William Reeve Non-Executive Director</p> <p>Peter Ruis Non-Executive Director</p>

Note: Laura Carr will join the Board on 29 November 2018 to succeed Keith Down who resigned and stepped down from the Board on 24 May 2018. David Stead, Dunelm's former Chief Financial Officer has provided interim support since April 2018 although has not been appointed to the Board over this short period. We have started the search process for an additional independent Non-Executive Director, to replace Rachel Osborne who stepped down from the Board on 29 August 2018.

Board responsibilities

The Board has adopted written statements setting out the respective responsibilities of the Chairman, the Deputy Chairman and the Chief Executive Officer; these are available on the Group's website or from the Company Secretary. A summary of the names and responsibilities of the Directors is set out below:

CHAIRMAN	
Andy Harrison is responsible for:	
<ul style="list-style-type: none"> • The leadership, effectiveness and governance of the Board • Setting the agenda, style and tone of Board discussions with a particular focus on strategic matters • Ensuring each Non-Executive Director makes an effective contribution to the Board 	<ul style="list-style-type: none"> • Ensuring that the Directors receive accurate, timely and clear information • Chairing the Nominations Committee
DEPUTY CHAIRMAN	
Will Adderley is responsible for:	
<ul style="list-style-type: none"> • Maintaining a close dialogue with the Chairman and the CEO • Contributing to the development of the Group's culture and values by promoting and visibly demonstrating the Company's long established business principles 	<ul style="list-style-type: none"> • Assisting the CEO in strategic and operational activities as requested • Supporting and deputising for the Chairman as required • Member of the Nominations Committee
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR	
Liz Doherty is responsible for:	
<ul style="list-style-type: none"> • Acting as a 'sounding board' for the Chairman and an intermediary for the other Directors • Leading the Non-Executive Directors in their annual assessment of the Chairman's performance 	<ul style="list-style-type: none"> • Making herself available to shareholders, particularly if they have concerns that the normal channels have failed to resolve, or for which such contact would be inappropriate • Chairing the Audit and Risk Committee
CHIEF EXECUTIVE OFFICER	
Nick Wilkinson is responsible for:	
<ul style="list-style-type: none"> • Proposing the strategic objectives of the Group for approval by the Board, and delivering the strategic and financial objectives in line with the agreed strategy 	<ul style="list-style-type: none"> • Leading the Executive Board and senior management in managing the operational requirements of the business • Providing clear and visible leadership in business conduct • Effective and ongoing communication with shareholders
NON-EXECUTIVE DIRECTORS	
Liz Doherty, William Reeve, Peter Ruis, and Marion Sears are responsible for:	
<ul style="list-style-type: none"> • Constructive contribution and challenge to the development of strategy • Monitoring operational and financial performance and scrutiny of management performance in the delivery of strategic objectives 	<ul style="list-style-type: none"> • Oversight of financial and other controls and processes for risk management • William Reeve chairs the Remuneration Committee • With the exception of Andy Harrison and Marion Sears, all Non-Executive Directors chair or sit on all Board Committees
CHIEF FINANCIAL OFFICER	
The Chief Financial Officer (Laura Carr from November 2018) is responsible for:	
<ul style="list-style-type: none"> • Working with the CEO to develop and implement the Group's strategic objectives • The financial delivery and performance of the Group • Ensuring that the Group remains appropriately funded to pursue the strategic objectives 	<ul style="list-style-type: none"> • Ensuring proper financial controls and risk management of the Group and compliance with associated regulation • Investor relations activities, and communications with investors
COMPANY SECRETARY	
Dawn Durrant is responsible for:	
<ul style="list-style-type: none"> • Supporting the Chairman and the Non-Executive Directors with their responsibilities • Advising on regulatory compliance and corporate governance 	<ul style="list-style-type: none"> • Facilitating individual induction programmes for Directors and assisting with their development as required • Communications with shareholders and organisation of the AGM • Overseeing the Sustainability activities of the Group

Corporate Governance Report

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Independence of Non-Executive Directors

As required by the Corporate Governance Code and the Listing Rules of the United Kingdom Listing Authority, the Board considers annually whether all independent Non-Executive Directors continue to exhibit independence of character and judgement prior to putting them forward for reappointment at the AGM. This was last considered in September 2018 and we confirmed that Andy Harrison was independent on appointment and that Liz Doherty, William Reeve and Peter Ruis and are independent.

The Board has treated Marion Sears as a 'non-independent' Director since September 2015 in view of her tenure of more than nine years on the Board, and her subsequent appointment as a director of WA Capital Limited in March 2016. WA Capital Limited is a private limited company established by Will Adderley (the Deputy Chairman, and a major shareholder) to act as a long term holding company for his beneficial interest in the Company and various other investments. The Dunelm Board has determined that this appointment does not affect her judgement as a Director of Dunelm, and that any potential conflict of interest has been cleared on the basis that WA Capital Limited and Will Adderley are parties to a Relationship Agreement (referred to below in the section headed 'Conflicts of Interest') which regulates their conduct.

Marion will put herself forward for reappointment at the AGM by shareholders independent of the Adderley family as well as a full shareholder vote.

As noted in the report of the Nominations Committee, Board refreshment is a continued area of focus and we consider the tenure of all Directors as part of our succession planning. Our policy on Board diversity is explained in the Nominations Committee report.

Change of Non-Executive Director responsibilities

Following the planned retirement of Simon Emeny at the AGM on 21 November 2017, Liz Doherty was appointed Senior Independent Director, and William Reeve took the Chair of the Remuneration Committee.

Board attendance

The Board held 11 meetings in the course of the year, one of which was dedicated to a formal review of strategy. Attendance at meetings was as follows:

DIRECTOR	MEETINGS ATTENDED
Will Adderley	11/11
John Browett	1/1
Liz Doherty*	10/11
Keith Down*	9/10
Simon Emeny	3/3
Andy Harrison	11/11
Rachel Osborne	3/3
Peter Ruis	11/11
William Reeve	11/11
Marion Sears	11/11
Nick Wilkinson	6/6

* Liz Doherty was unable to attend one Board meeting in the year, however, she received papers and communicated her views in advance to Andy Harrison, Chairman. Keith Down did not attend the last Board meeting before he stepped down from the Board.

Board meetings

There is a schedule of matters reserved to the Board for decision or approval, which is available on the Group's website or from the Company Secretary. Examples of such matters include Group strategy and budget, Group capital structure, approval of financial results and Annual Report and financial statements, significant capital or contractual commitments, maintaining internal control and risk management and approval of significant Group-wide policies.

At each meeting, the Chief Executive Officer reports on operational performance (including health and safety) and the Chief Financial Officer reports on financial performance. There is a rolling agenda of other operational, strategic and risk topics which is regularly refreshed to reflect the most up-to-date strategy and 'live' issues in the business. The principal areas of focus discussed by the Board in 2017/18 are set out below.

Areas of focus

STRATEGY	<ul style="list-style-type: none"> ● Group strategy, including our vision, goals and business plans ● Budget ● Impact of Brexit ● Competitor landscape 	<ul style="list-style-type: none"> ● Digital strategy ● Furniture strategy ● Marketing strategy ● Tax strategy
GOVERNANCE AND RISK	<ul style="list-style-type: none"> ● Board succession ● Board independence, composition and diversity ● Investor feedback via advisers ● AGM voting and feedback ● Corporate governance reform ● Stakeholder engagement ● Risk reviews 	<ul style="list-style-type: none"> ● Gender pay statement ● Culture ● Health and safety ● Ethical sourcing and modern slavery ● Cyber security ● The General Data Protection Regulation
OPERATIONAL	<ul style="list-style-type: none"> ● Customer insight ● Store operating model ● Format development ● Stock management 	<ul style="list-style-type: none"> ● People strategy, colleague engagement and succession planning ● Supply chain strategy ● Integration of the Worldstores business

We measure the time spent on strategy, governance and operational performance at each meeting. Over the year, the biggest part of our time was spent on strategy, followed by governance and operational performance, which the Board considers to be appropriate.

Minutes of all Board and Committee meetings are taken by the Company Secretary and circulated for approval. Any unresolved concerns raised by a Director are recorded in the minutes.

Non-Executive Director meetings

There is scheduled "Non-Executive Only" time at the end of each Board meeting, attended by the Chairman and the Non-Executive Directors. This is a useful way of exchanging views and dealing with any concerns or questions. In addition to this, the Chairman and the other Non-Executive Directors regularly have informal, individual, meetings with the Executive Directors and other senior managers in the business, usually at a store location.

Board committees

The Board has three committees, an Audit and Risk Committee, a Nominations Committee and a Remuneration Committee. The terms of reference of each of these committees can be found on the Group's website and are available from the Company Secretary.

Details of the membership of the committees and of their activities during the past financial year can be found in the reports from the Chair of each of the committees.

Training and induction

Upon joining the Board, any new Director is offered a comprehensive and tailored induction programme with visits to key sites and meetings with senior managers and other colleagues.

Nick Wilkinson joined the Board as Chief Executive Officer in February 2018. Prior to this he met with all members of the Board and the Executive Board, and received a briefing from the Company Secretary on the duties of a public company director. He also had access to past Board papers and other relevant documentation. On joining the Group, he completed a comprehensive induction programme, visiting a large number of stores, all non-store sites, and meeting all of the senior management. He "shadowed" a number of colleagues in store and operational roles. He also participated in the interim results presentation and "roadshows", and held separate meetings with advisors.

Corporate Governance Report

CONTINUED

Rachel Osborne joined the Board as a Non-Executive Director in April 2018. Her induction involved meetings with the Chairman, the Deputy Chairman and other Directors and the Company Secretary, as well as other members of the Executive team. She also visited a number of stores and our Stoke distribution centres. She was also given access to past Board papers and the external audit partner.

We have an open culture and Non-Executive Directors are free to make direct contact with senior management and store teams. Throughout the year all Directors have visited stores both informally and together with members of the senior management team.

The Company Secretary reports to the Board at each meeting on new legal, regulatory and governance developments that affect the Group and actions are agreed where needed. Directors attend seminars provided by independent organisations which cover a wide range of governance topics.

As part of the annual Board evaluation, any additional training or development needs are addressed by the Chairman with each Director. Please see the Directors' biographies on pages 46 to 48 for details of the specific skills and experience of each Director.

Evaluation

Each of the Directors receives a formal evaluation of their performance during the year. The Senior Independent Director appraises the Chairman, and the Chairman appraises all of the other Directors individually. In addition, the performance of the Board and committees are formally evaluated as a whole.

2017 External Board evaluation

The recommendations arising from the 2017 review conducted by Lorna Parker, an independent Board Evaluation specialist, and actions implemented in response are set out below:

RECOMMENDATION	ACTION TAKEN
Review the structure of Board meetings and the rolling agenda again to ensure that the Board is allowing enough time for discussion of the external environment, and other "softer" matters such as people and culture.	Rolling agenda reviewed, "people" reviews scheduled twice a year. Culture paper considered in April and culture KPIs agreed Agenda time allocated to a general discussion of trends and share experiences/concerns.
Improve meeting dynamics, in particular to promote more open discussion and focused debate.	Chairman took action to facilitate this, for example by ensuring that the purpose of each agenda item was clear, and summarising the outcome at the end of the discussion.
Review Board papers to ensure that they reflect the rearticulated, customer-centric strategy and objectives, and contain only relevant detail and KPIs.	Regular customer report and KPI pack refocused and finance elements of the pack slimmed down.
Consider whether an additional Non-Executive Director should be appointed, to strengthen the overall skill base amongst the Non-Executive Directors.	Rachel Osborne appointed to replace Simon Emeny, who retired in the year. Rachel's financial expertise filled an identified skill gap. The search for a replacement for Rachel has started.

2018 Board evaluation

The Board held a scheduled external evaluation in 2016, and a follow up by the same provider in 2017. In 2018 the Chairman led an internal evaluation, based on a discussion with each Board member focused on the following topics:

- Review of the Board’s activities over the past year
- Consideration of whether the Board has the correct balance of skills and diversity to deliver the strategic objectives in future years
- Board and committee effectiveness.

The Chairman collated views and these were discussed by the Board. The following actions were agreed:

- Nominations Committee and Board to review the Board succession plan in the light of recent Board changes, likely NED rotations and the ongoing strategic plans for the business
- Further review of Board packs to give greater focus and remove unnecessary detail
- People Director to be requested to provide more visibility of diversity throughout the business to enable the Board to consider how to measure and promote this.

These actions will be progressed during the year and we will report back on them in next year’s report.

s172 Companies Act 2006

As a Board we have always taken decisions for the long term, and collectively and individually our aim is always to uphold the highest standards of conduct. We expect all of our colleagues, at every level of the business, to do the same. Similarly, we understand that our business can only grow and prosper over the long term if we understand and respect the views and needs of our customers, colleagues and the communities in which we operate, as well as our suppliers and the shareholders to whom we are accountable. This is reflected in our “Business Principles”, and our Sustainability report sets out more detail on how we manage our relationships with them.

The Company Secretary sets out the text of s172 Companies Act 2006 on every Board agenda, and as we receive presentations and make decisions, we ensure that the impact on any of these groups is considered. At our meeting in April, we spent time examining how we engage with them. A summary of this is set out below. We will formally review this at least once a year to consider whether there are ways that the Board’s engagement can be improved to help us operate more effectively.

How the Board engages with its stakeholders

STAKEHOLDER GROUP	HOW THE BOARD ENGAGES	WHY WE ENGAGE	ISSUES RELEVANT TO THIS GROUP
CUSTOMERS	<p>Customer insight report in Management and Board packs, which includes customer satisfaction scores.</p> <p>Customer KPIs reported in Management and Board packs.</p> <p>CEO / Deputy Chairman reply personally to a number of high level customer contacts.</p> <p>Management and Directors visit stores regularly.</p>	<p>We want to be the customer’s chosen partner for creating a home they love – the Home of Homes.</p> <p>We welcome all customers, whatever their age, taste or budget, and offer them the widest range of products for their homes, whenever and however they want to shop.</p>	<p>Product range, price and quality.</p> <p>Convenience and accessibility.</p> <p>Customer service.</p> <p>Fair marketing.</p> <p>Product safety.</p> <p>Responsible use of personal data.</p> <p>Environment.</p> <p>Ethics and corporate responsibility.</p>

Corporate Governance Report

CONTINUED

STAKEHOLDER GROUP	HOW THE BOARD ENGAGES	WHY WE ENGAGE	ISSUES RELEVANT TO THIS GROUP
<p>COLLEAGUES</p>	<p>Designated “Non-Executive” director has Board responsibility for championing the interests of colleagues.</p> <p>Regional and National Colleague Councils in place, feedback goes to the Executive Board and is acted on.</p> <p>Designated NED attends two National Colleague Council meetings a year.</p> <p>Annual Board discussion with Colleague Council representatives.</p> <p>“Always on” engagement mechanism, and full engagement survey twice a year.</p> <p>Colleague KPIs in Management and Board packs.</p> <p>Annual conference for Store managers and senior support colleagues, attended by Chairman, Chief Executive Officer, Chief Financial Officer and Company Secretary.</p> <p>Exec Board and Directors visit stores and other sites regularly.</p> <p>Weekly and monthly “huddles” held, and Gazette magazine published quarterly.</p> <p>Independent whistleblowing helpline.</p>	<p>We believe that to be a great place to shop, Dunelm also needs to be a great place to work - we can only deliver great products and services to our customers through the hard work and commitment of our colleagues.</p>	<p>Fair employment.</p> <p>Fair pay and benefits.</p> <p>Diversity and inclusion.</p> <p>Training, development and career opportunities.</p> <p>Health and safety.</p> <p>Responsible use of personal data.</p> <p>Environment and community.</p>

STAKEHOLDER GROUP	HOW THE BOARD ENGAGES	WHY WE ENGAGE	ISSUES RELEVANT TO THIS GROUP
SUPPLIERS	<p>Annual supplier conference held, attended by the Chairman and Executive management.</p> <p>Supplier presentation to the Group Board.</p> <p>Key suppliers attend the annual colleague conference.</p> <p>Chief Executive Officer and Deputy Chairman meet regularly with key suppliers.</p> <p>Annual Board presentation on ethical trading / modern slavery.</p> <p>Supplier payment terms reported to the Board and published.</p>	<p>We do not manufacture the vast majority of the products that we sell; therefore we need to maintain relationships with suppliers and manufacturers worldwide who can meet our high standards.</p> <p>Suppliers must demonstrate that they operate in accordance with recognised standards that uphold human rights and safety, prohibit modern slavery and promote sustainable sourcing.</p>	<p>Fair trading terms.</p> <p>Anti-bribery.</p> <p>Ethics and slavery.</p> <p>Operational improvement.</p>
ENVIRONMENT	<p>Company Secretary chairs the Sustainability Committee, which considers matters relating to the environment, community and other topics.</p> <p>Annual report to the Exec Board.</p>	<p>We are committed to minimising the impact of our business operations on the environment. It is also important to our colleagues, customers and shareholders.</p>	<p>Energy usage.</p> <p>Recycling.</p> <p>Waste management.</p> <p>Packaging materials (e.g. plastic) and minimisation.</p> <p>Emissions from company vehicles.</p>
COMMUNITY	<p>Charity Committee in place to spearhead charitable and community activity, reports to the Exec Board and the Board.</p> <p>A representative of the company-sponsored charity attends the annual company conference.</p> <p>Charitable activity reported in the "Gazette".</p>	<p>We aspire to be responsible members of our community as it reflects our principle to do the right thing. It is also important to our colleagues, customers and shareholders.</p>	<p>Charitable donations.</p> <p>Employment opportunities.</p> <p>Volunteering.</p> <p>Environmental impact.</p>

Corporate Governance Report

CONTINUED

STAKEHOLDER GROUP	HOW THE BOARD ENGAGES	WHY WE ENGAGE	ISSUES RELEVANT TO THIS GROUP
SHAREHOLDERS AND POTENTIAL SHAREHOLDERS	<p>Annual report and accounts</p> <p>Corporate website.</p> <p>AGM.</p> <p>Results announcements and presentation.</p> <p>Shareholder and analyst meetings with management, followed up by feedback from brokers and financial PR consultants.</p> <p>Capital Markets presentation.</p> <p>Regular Corporate Governance presentation.</p> <p>Engagement via the Company Secretary.</p>	<p>Continued access to capital is important for our business. We work to ensure that our shareholders and their representatives have a good understanding of our strategy business model, opportunity and culture.</p>	<p>Long term value creation.</p> <p>Growth opportunity.</p> <p>Financial stability.</p> <p>Transparency.</p> <p>Ethics and corporate responsibility.</p>

Engaging with our colleagues

Dunelm is a very open business and our colleagues are seldom reluctant to share their views with us! Members of the Board and our leadership team are expected to spend time in store and at other Group locations, and actively seek their opinions on how we can improve. We have an “always on” colleague feedback system, and management review this and respond. We also have a twice yearly engagement survey, the results of which are fed back to managers, the Executive Board, and the People Director covers this as part of her regular presentations to the Board. We have Regional and National Colleague Councils, and this year we have designated Marion Sears as our “Designated Non-Executive Director” for colleague purposes. Marion attended the National Colleague Council meetings in April and September and fed back to the Board afterwards. National Colleague Council members will be meeting with the Board in November.

Investor relations and understanding shareholder views

The table above summarises how we communicate with our shareholders. The Chief Executive Officer and the Chief Financial Officer report back to the Board after the investor roadshows. The Group’s brokers and financial PR advisers also provide a written feedback report after the full and half year results announcements and investor roadshows to inform the Board about investor views, and in addition Non-Executive Directors attend a selection of investor meetings.

In January 2018, we held one of our regular Corporate Governance meetings, attended by Will Adderley, the Non-Executive Directors, the Company Secretary and myself, to which our major institutional shareholders were invited. This gives the corporate governance representatives of our shareholders an opportunity to discuss with us a range of governance topics. Matters discussed included Board composition, the work of the Audit and Risk Committee, remuneration, risk, cyber security, human rights and the environment. We are planning to hold another meeting in January 2019.

Our corporate website contains useful shareholder information, copies of presentations and policies in relation to governance and sustainability. Please see www.dunelm.com.

All Directors will be available at the Annual General Meeting to meet with shareholders and answer their questions.

Culture and the Board

Dunelm has an open and straightforward culture, with a strong moral compass, reflecting the values instilled by the Adderley family. The Board has always been cognisant of the need to retain this culture as the business grows and becomes more complex. "Culture" is one of our "principal risks", which are monitored formally by the Executive Board and the Board twice a year. The Board has defined the Group's "purpose", namely "to help everyone create a home they love - the "Home of Homes". This is supported by five business goals, underpinned by our business principles, which define how we will act towards others. Further details of this are set out in the Strategic Report. Members of the Board and the leadership team are expected to act as role models for our business principles, and all colleagues are appraised against them.

Board members monitor adherence to the culture in a number of ways, including by visiting Group locations and interacting with colleagues and advisors to the Group as part of their Board duties. The Board also reviews a number of "culture" indicators, such as colleague and customer satisfaction scores, accident statistics, internal audit reports, whistleblowing data, and regulatory enforcement. During the year, a "culture scorecard" has been developed, bringing this data together, and was formally reviewed by the Board in September. This will be repeated at least once a year going forward.

Share buyback and Rule 9 waiver

In April 2016, Will Adderley, our Deputy Chairman and a major shareholder, disposed of part of his shareholding. As his shareholding is now below 30%, and the combined Adderley shareholding is above 50%, we are no longer required to seek a Rule 9 waiver at the AGM to support our policy to buy back shares to satisfy employee share option entitlements, so long as this situation remains the case after the Company share purchase. The Rule 9 waiver vote caused a policy difficulty for a number of our institutional shareholders, which can now be avoided.

The Board has reviewed whether our policy to purchase shares in the market to satisfy share option entitlements (as opposed to issuing shares) is still appropriate; we believe that it is in the interests of our shareholder base as a whole as it avoids dilution of shareholdings, and it is supported by the majority of our institutional shareholders. I would like to reassure shareholders again that shares bought back by the Company will be held in treasury and used only to satisfy share option entitlements, and not cancelled. The Company did not purchase any of its own shares during the financial year.

Significant shareholders

The Group's significant shareholders are listed in the Directors' Report on page 102 and voting rights are stated on page 100.

Conflicts of interest

The Companies Act 2006 allows the Board of a public company to authorise conflicts and potential conflicts of interest of individual Directors where the Articles of Association contain a provision to that effect. The Company's Articles of Association give the Board this authority subject to the following safeguards.

- Directors who have an interest in matters under discussion at a Board meeting must declare that interest and abstain from voting
- Only Directors who have no interest in the matter being considered are able to approve a conflict of interest and, in taking that decision, the Directors must act in a way they consider, in good faith, would be most likely to promote the success of the Company
- The Directors are able to impose limits or conditions when giving authorisation if they feel this is appropriate

All Directors are required to disclose any actual or potential conflicts to the Board and the following existing matters have been considered and approved:

- Will Adderley is a major shareholder and connected to other major shareholders. Authorised on the basis that Will continues to abide by the terms of the Relationship Agreement entered into between himself, other major shareholders and the Company on flotation of the Company in 2006
- Marion Sears is a director of WA Capital Limited, a private limited company established by Will Adderley to act as a long term holding company for his beneficial interest in the Company and various other investments. Authorised on the basis that WA Capital Limited is party to the Relationship Agreement referred to above

Any actual or potential conflicts are considered by the Board and any authorisations given are recorded in the Board minutes and reviewed annually by the Board.

Conflicts that have been disclosed are reviewed annually by the Board.

The Board considers that its procedures to approve conflicts of interest and potential conflicts of interest are operating effectively.

Corporate Governance Report

CONTINUED

Appointment and removal of Directors

The Articles of Association of the Company provide that a Director may be appointed by ordinary resolution of the Company's shareholders in general meeting, or by the Board so long as the Director stands down and offers him or herself for election at the next Annual General Meeting of the Company. The Articles also provide that each Director must stand down and offer him or herself for re-election by shareholders at the Annual General Meeting at least every three years. The Board has decided to adopt the requirement of the Corporate Governance Code, that all Directors should stand down and offer themselves for re-election at each Annual General Meeting.

Directors may be removed by a special resolution of shareholders, or by an ordinary resolution of which special notice has been given in accordance with the Companies Act 2006. The Articles also provide that the office of a Director shall be vacated if they are prohibited by law from being a Director, or is bankrupt; and that the Board may resolve that his or her office be vacated if he or she is of unsound mind or is absent from Board meetings without consent for six months or more. A Director may also resign from the Board.

The Nominations Committee makes recommendations to the Board on the appointment and removal of Directors.

In accordance with the Corporate Governance Code, all Directors will retire from the Board and offer themselves for re-election at the Annual General Meeting. Non-Executive Directors will also be subject to a separate vote by shareholders independent of the Adderley family as required by the Listing Rules of the United Kingdom Listing Authority.

Powers of Directors

The business of the Company is managed by the Board, which may exercise all of the powers of the Company, subject to the requirements of the Companies Act, the Articles of Association of the Company and any special resolution of the Company. As stated above, the Board has adopted internal delegations of authority in accordance with the Code and these set out matters which are reserved to the Board or committees and the powers and duties of the Chairman and the Chief Executive Officer respectively.

At the Annual General Meetings of the Company from 2007 onwards, the Board has sought and been given authority to issue shares and to buy back and reissue shares. Similar resolutions are being tabled at the 2018 Annual General Meeting. Any shares bought back would be held in treasury for reissue to employees who exercise options under one of the Group's share incentive schemes. For further details see the Notice of Annual General Meeting which accompanies this report.

Advice and insurance

All Directors have access to the advice and services of the Company Secretary. In addition, Directors may seek legal advice at the Group's expense if they consider it necessary in connection with their duties.

The Group purchases Directors' and Officers' liability insurance cover for its Directors.

Articles of Association

The Company's Articles of Association may only be amended by a special resolution of shareholders.

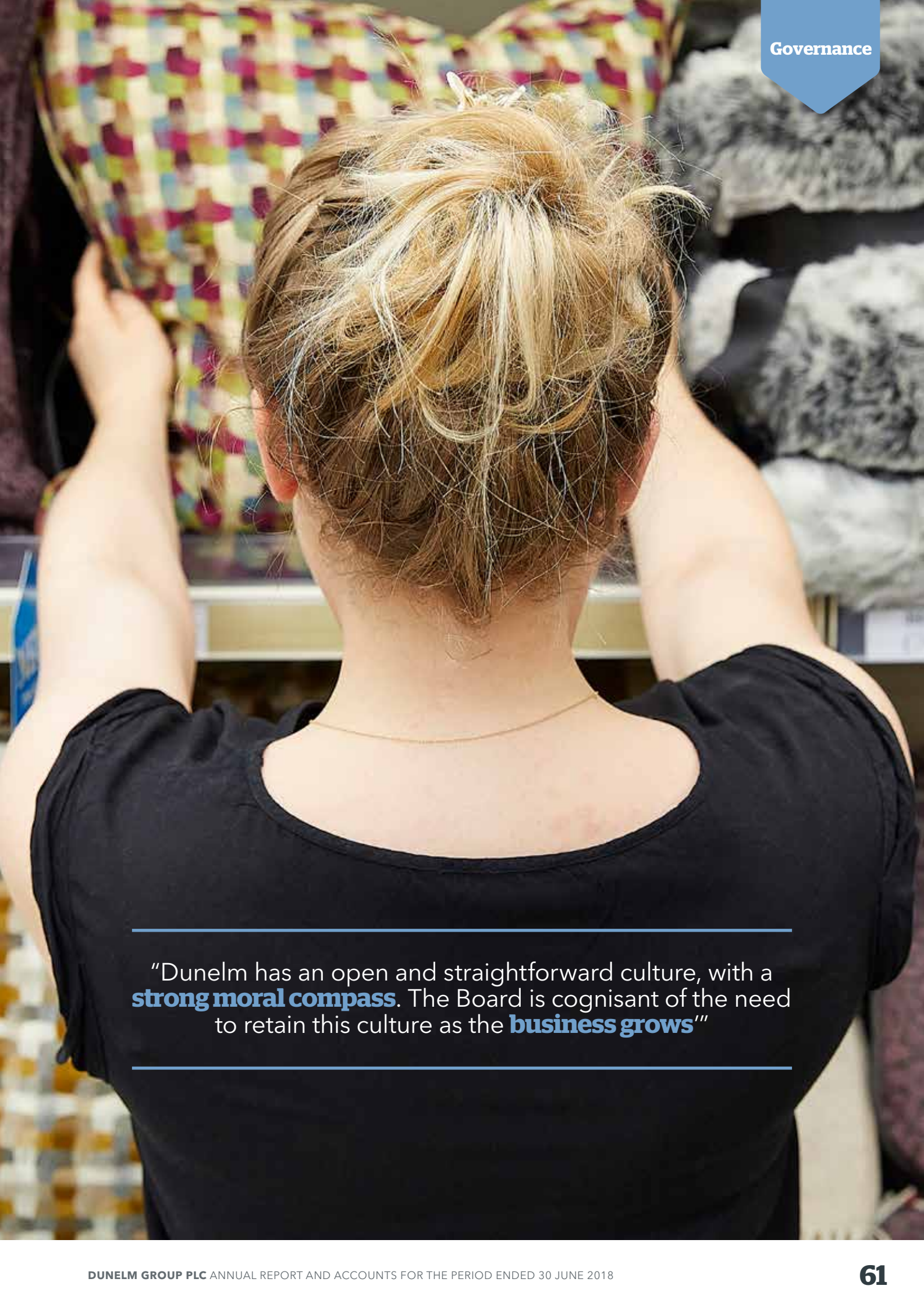
Governance and risk

Details of the Group's risk management framework, systems and controls and internal control framework are set out in the Strategic report on pages 28 to 34.

This report was reviewed and approved by the Board on 12 September 2018.

Andy Harrison

Chairman



“Dunelm has an open and straightforward culture, with a **strong moral compass**. The Board is cognisant of the need to retain this culture as the **business grows**”



Letter from the Chair of the Audit and Risk Committee

Dear Shareholder

Since I last wrote to you Keith Down, our Chief Financial Officer, stepped down in May. Dunelm's former CFO, David Stead, stepped in on an interim basis with immediate effect and will remain until Keith's successor, Laura Carr, starts later in the year. The rest of the Finance team has been in place throughout the financial year and the Committee is therefore comfortable that the CFO transition has not adversely impacted the year end process.

Apart from the executive change, the most significant activity from a controls and risk perspective was the continued integration of the Worldstores group, which has added significant operational complexity to the business. At the end of the financial year this has largely been completed. The most significant financial controls and risk management procedures are in place across the whole business, and financial accounting systems are due to be fully integrated during the next financial year. The Committee has once again closely reviewed the specific items in the Group financial statements relating to the acquisition.

Our programme of internal audit activity, supported where appropriate by external assurance providers and our newly appointed Group Assurance Manager, continued throughout the year. As well as following up the actions from the report on customs and duty, reviews were completed of payment controls, supplier compliance with stock routines, offshore consolidation warehouses, colleague discounts and processes in place with our major supplier of made-to-measure blinds. We also progressed our plan to develop a full internal audit function. Our internal audit team has worked with the Company Secretary to further align our internal audit programme to the risk register, and to develop more robust KPIs to help the Board assess the effectiveness of our controls and risk mitigations.

The Committee has continued its oversight of the controls in place to address cyber risks which continue to pose a risk to all businesses, and noted that further progress has been made in this area. The proper use and safeguarding of personal data has been a high profile topic this year, and we have received regular reports of the plan in place to implement the requirements of the General Data Protection Regulation (GDPR). Whilst we were GDPR compliant by 25 May, and a number of steps were taken to improve our personal data management, there remain a number of points (for which plans are in place) where further work is required. This will be a continued area of focus and we will receive an update on this at each meeting.

In January 2018, Dunelm published our first payment practices report. We also put in place processes to address the offence of facilitating corporate tax evasion which came into force in September 2017. Both of these were reviewed by the Committee. We have also reviewed progress being made towards the implementation of IFRS 16 which will impact Dunelm in the next financial year. Further detail is given in the financial statements on page 122.

We paid our auditors PricewaterhouseCoopers LLP non-audit fees of £15,000 in the financial year in respect of the half year results review (a service now classified as 'non-audit'). This compares to the audit fee of £120,000.

As required by the regulatory guidance we formally reviewed the 2017 audit and found it to be satisfactory. Separately, the Financial Reporting Council's Audit Quality Review team also completed a review of the FY17 audit as part of their routine sampling activity and concluded that only limited improvements were required. The Committee discussed the FRC's recommendations with PricewaterhouseCoopers and concluded that the actions they have agreed to take as a result were reasonable and appropriate given that none of the findings were significant.

We have reviewed our policy on rotation of the statutory auditor and updated it, to bring it in line with regulatory requirements. We will now tender the external audit at least every ten years, and change the audit firm at least every 20 years. This means that whilst there will be a change of audit partner for the FY19 audit; the latest time at which our policy requires us to tender the audit will be for the FY24 financial year.

Looking forward, there are developments in corporate reporting coming into effect within the next two years, including the new Corporate Governance Code, and IFRS 16, which we will review as required.

I look forward to meeting shareholders at the AGM, when I will be happy to take questions on any of this report.

Yours sincerely,

Liz Doherty

Chair of the Audit and Risk Committee

12 September 2018

Audit and Risk Committee Report

SUMMARY OF PRINCIPAL ACTIVITIES

- Reviews of the following:
 - Tax strategy
 - Annual financial statements for FY17 and interim results for FY18
 - Internal controls and the process for the identification and mitigation of principal risks
 - The plan to address the requirement to report on Payment Practices and to address the new corporate offence of facilitating tax evasion
- External Auditor
 - Annual reviews of policy on use of auditors for non audit work
 - Policy on rotation of external auditor revised
 - Review of findings from the FRC Audit Quality Review team’s review of the FY17 audit which required “limited improvements” in three areas
 - Since the year end, approval of the full year annual financial statements for FY18, and approval of the new statutory audit partner for the FY19 audit onwards
- Annual review of the business controls framework and committee terms of reference completed
- Internal Audit/Compliance
 - Further progress made in plan to develop a more formal internal audit function, including appointment of a Group Assurance Manager
 - Internal Audit reviews of payment controls, supplier compliance with stock routines, offshore consolidation warehouses, colleague discounts, and processes in place with our major supplier of made-to-measure blinds
 - Further improvements made to provide assurance in respect of risk controls and mitigations, and to align to internal audit activity
 - Oversight of plan to secure compliance with the General Data Protection Regulation (GDPR)

This report provides details of the role of the Audit and Risk Committee and the work it has undertaken during the year and at its meeting in September 2018 when this annual report and financial statements were approved.

Principal duties

The principal duties of the Committee are to:

- Oversee the integrity of the group’s financial statements and public announcements relating to financial performance
- Hold the relationship with the external auditor and oversee the external audit process
- Establish formal and transparent arrangements for considering how they should apply the corporate reporting, risk management and internal control principles
- Oversee the internal audit process

- Monitor the effectiveness of financial controls and the process for identifying and managing risk throughout the group
- Monitor the financial reporting process and submit recommendations
- Monitor the statutory audit of the annual report and financial statements
- Review and monitor the external auditor’s independence and the provision of additional services

The full terms of reference for the Committee can be found on the Group’s website, www.dunelm.com. These terms were last reviewed by the Committee in June 2018.

The Committee has approved a policy which allows employees to raise legitimate concerns in confidence without fear of discrimination, including access to an independent whistleblowing helpline. A copy of our policy is available on our corporate website <https://corporate.dunelm.com>. During the year, the Committee received reports detailing the calls made to the helpline.

Audit and Risk Committee Report

CONTINUED

Committee membership

The following Directors served on the Committee during the year:

NAME	FROM:	TO:
Liz Doherty (Chair)	1 May 2013	To date
William Reeve	1 July 2015	To date
Peter Ruis	10 Sept 2015	To date
Rachel Osborne	1 April 2018	28 August 2018
Simon Emeny	25 June 2007	21 Nov 2017

The Company Secretary acts as secretary to the Committee.

The Chief Executive Officer, Chief Financial Officer and the Chairman of the Board usually attend meetings by invitation, along with a representative from the external auditor. Other Directors attend by invitation as required.

The Board considers that I have recent and relevant financial experience to chair the Committee, by virtue of my professional qualification and my previous executive roles, including as Chief Financial Officer of Reckitt Benckiser Group plc. Members of the Committee can also demonstrate a breadth of experience across the retail and consumer goods sector through their current and previous roles - please see the Directors' biographies on pages 46 to 48 for full details.

Committee activities in 2017/18

Four meetings were held in the year and members' attendance was as shown in the table below.

NAME	MEETINGS ATTENDED
Liz Doherty	4/4
Simon Emeny	2/2
William Reeve	4/4
Peter Ruis	4/4
Rachel Osborne	1/1

The Committee also met in September 2018.

The activities of the Committee included:

Routine items

- Approval of the full year results issued in September 2017 and the half year results issued in February 2018
- Review of the process for identifying and managing risk and a full review of the principal risks and how they are managed in September 2017, and a mid year review in February 2018
- Verification of the independence of the auditor and approval of the scope of the audit plan and the audit fee
- Review of fraud and Bribery Act controls and cyber security, which are standing agenda items for each meeting

- Receipt of internal audit reports (see below)
- Approval of the annual Audit and Risk Committee report
- Review of whether the FY17 and FY18 annual reports are 'fair, balanced and understandable'
- Annual review of business control framework and committee terms of reference
- Formal review of auditor performance
- Formal review of Committee effectiveness

Specific topics

- Approval of Tax Strategy
- Consideration of the plans to address the requirements of the General Data Protection Regulation and the duty to report on Payment Practices
- Internal audit reviews of payment controls risk, supplier compliance with stock routines, offshore consolidation warehouses, colleague discounts, and processes in place with our major supplier of made-to-measure blinds

Committee effectiveness

At its meeting in June 2018, the Committee carried out a review of its own effectiveness, using a checklist prepared by one of the major accounting firms. The conclusion was that the Committee is functioning well, broadly in accordance with regulatory and "best practice" requirements, and provides appropriate assurance to the Board.

Significant areas of judgement

Within its terms of reference, the Committee monitors the integrity of the annual and interim reports, including a review of the significant financial reporting issues and judgements contained in them.

At its meetings in September 2017 and 2018, the Committee reviewed a comprehensive paper prepared by the Chief Financial Officer, which analysed the Group's results for the financial year; highlighted matters arising in the preparation of the Group financial statements; and provided information to support the Directors' viability and going concern statements. The Committee also considered a paper prepared by the external auditor, which included significant reporting and accounting matters.

The major accounting issues discussed by the Committee in September 2018 in relation to the FY18 Annual Report and Accounts were as follows:

Provisions for inventory

The Committee considered the approach taken by management and assessed available evidence. Particular attention was given to reviewing the provision for obsolete, slow-moving or discontinued inventories including the utilisation of provisions reported in prior periods. The Committee concluded that the values recorded in the financial statements are appropriate.

Exceptional items

The Committee considered the requirement to identify, measure and disclose exceptional items, and concluded that the approach taken and the values reported in the financial statements are appropriate.

Fair, balanced and understandable

At the request of the Board, the Committee also considered whether the annual report and financial statements as a whole are "fair, balanced and understandable". Factors taken into account included:

- Does the narrative of the Business Review and Financial Review fairly reflect the performance of the Group over the period reported on?
- Are the narrative sections consistent with each other, and with the financial statements?
- Is the connection between strategy and remuneration clearly described?
- Can readers easily identify key events that happened during the year?
- Committee members received the draft annual report in advance and had the opportunity to make comments in advance of the formal meeting at which the report was tabled for approval

Following its review, the Committee confirmed to the Board that in its view the FY18 annual report was fair, balanced and understandable.

External auditor

The report and financial statements were audited by PricewaterhouseCoopers LLP, following that firm's appointment as statutory auditor in January 2014. Mark Smith has been the audit partner since the firm's appointment. The audit partner for the FY19 audit onwards will be Mark Skedgel.

PricewaterhouseCoopers LLP attended the Committee meetings in September and October 2017, February, June and September 2018. The Committee also met privately with them during the September meetings, and as Chair of the Committee I had dialogue with the audit partner on a number of occasions.

Audit effectiveness

It is the responsibility of the Audit and Risk Committee to assess the effectiveness of the external audit process.

The Chief Financial Officer and his team presented their review of the FY17 audit in February 2018. This covered a number of aspects including:

- The quality of reports provided to the Committee and the Board and the quality of advice given
- The level of understanding demonstrated by the audit team of the Group's businesses and the retail sector
- The objectivity of the external auditor's views on the controls around the Group and the robustness of challenge and findings on areas which required management judgement
- The findings from the FRC's annual inspection of auditors published in May 2017

The conclusion was that the audit had been effective and that no significant issues had been highlighted; this was endorsed by the Committee.

The FY17 audit was also reviewed by the Financial Reporting Council's Audit Quality Review team as part of their routine sampling activity. Their assessment was that "limited improvements" were required in three specific areas. A summary of their recommendations and the actions that PricewaterhouseCoopers have agreed to take as a result were discussed by the Committee in June, and we agreed that none of the findings were significant.

Auditor appointment for FY18

It is the Committee's responsibility to make recommendations to the Board in relation to the appointment, reappointment and removal of the external auditor, and to agree the audit fee.

In February 2018, the external auditor presented their strategy for the 2017/18 audit to the Committee. The Committee reviewed and agreed with the external auditor's assessment of risk. The Committee also reviewed and agreed the audit approach and the approach to assessing materiality for the Group.

The fee proposed by PricewaterhouseCoopers LLP for the statutory audit of the Group and Company financial statements and the audit of Group subsidiaries pursuant to legislation was £120,000.

Taking into account the review of the FY17 audit and the proposed plan and fee, the Committee agreed that PricewaterhouseCoopers LLP be reappointed as auditor for the FY18 audit for the fee proposed. Resolutions to reappoint PricewaterhouseCoopers LLP as auditor and to authorise the Directors to agree their remuneration will be put to shareholders at the AGM.

Audit and Risk Committee Report

CONTINUED

Use of auditors for non-audit work

The Committee is aware that the use of audit firms for non-audit work is a sensitive issue for investors and corporate governance analysts, as it could potentially give rise to a conflict of interest.

Following the issue of the EU Audit Directive in June 2016, we reviewed our policy on the use of auditors for non-audit work in September 2016. The full policy is available on our website, www.dunelm.com, but in summary from FY17:

- Fees for non-audit services provided by the statutory auditor in any year may not exceed 70% of the average fees for the Group statutory audit in the three previous years
- The auditor is prohibited from providing certain non-audit services, including: almost all tax work; internal audit; corporate finance; involvement in management activities, including working capital and cash management and the provision of financial information
- The external auditor may not be engaged to provide any non-audit services without the agreement of the Audit and Risk Committee Chair

During the period we paid PricewaterhouseCoopers LLP £135,000, of which £15,000 was for their review of the interim financial statements (considered to be a non-audit service). No other non-audit services were provided by the external auditor. Fees paid to PricewaterhouseCoopers LLP for audit work were £120,000.

Auditor rotation

In June 2018 we updated our Auditor Rotation policy to bring it into line with the current EU Audit Directive. This means that we will tender the audit at least every 10 years (previously 5); we will change auditor at least every 20 years (no change); and we will invite at least one firm outside the 'Big Four' to participate (no change). The latest date for the next tender will therefore be for the 23/24 audit. A competitive tender is in the best interests of shareholders.

In accordance with relevant ethical standards, the PricewaterhouseCoopers LLP audit partner (Mark Smith) will rotate after the FY18 audit, and the new partner Mark Skedgel will be responsible for the FY19 audit onwards.

I can confirm that the Company has complied with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 during the financial year.

Risk management

The Committee is responsible for assessing the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks, and to consider the level of assurance.

The Committee carried out a formal risk review in September 2017 and February 2018. During the year, at the Committee's request, further work has been conducted by management to assign KPIs to all of the principal risks, to measure the impact of each risk, so as to better understand the mitigating actions necessary and how effective they are, and to align the Internal Audit programme more closely with the Risk Register. Further work on this is planned in FY19.

The Committee also asked for the register to include details of the assurance activities which assess the strength of mitigating factors in respect of principal risks.

Internal control framework

In 2015 the Committee adopted a formal internal control framework, covering the following areas: business ethics including anti-bribery controls; accountabilities; people management, including succession planning; development and alignment of incentives; risk management processes; internal financial control; crisis management; monitoring and reporting. Details of internal and external assurance are included. The framework and the controls in place are reviewed annually, the last review was in June 2018; no significant control weaknesses have been identified.

Viability statement and risk management

In September 2018, the Committee reviewed the viability statement given by the Board in this report and the process in place to support the assurance given and confirmed that it is appropriate and in compliance with regulatory requirements. This review took into account the principal risks facing the Group and the process by which they are managed by the Board and management.

Internal audit/external assurance

The Committee initiated a formalised programme in 2013 with activities conducted either by an internal team that is independent of the area under review, or by an external party, decided on a case-by-case basis. In either case, the review is conducted on behalf of the Committee and reports back to them.

In June 2017 the Committee adopted a plan to develop a more formal internal audit function by the end of the 2019 financial year, reflecting the increased complexity of the business. Following a review of the internal audit function's quality and expertise, at the beginning of the financial year a Group Assurance Manager with a financial accounting background was appointed. Her role is to conduct internal assurance activity which would previously have been outsourced, and to bring a more strategic approach to the department's activity.

At the Committee's suggestion, the Executive Board was involved in making recommendations for future topics to be addressed, in conjunction with the risk review process.

Reviews completed in the year are set out below:

	Reviewed by
Payment controls	Internal Audit
Supplier compliance with stock routines	Internal Audit
Offshore consolidation warehouses	Internal Audit
Colleague discounts	Internal Audit
Blinds supplier compliance	Internal Audit

Reports were discussed by the Committee and the Board and a remediation plan agreed by management to improve controls.

In addition, the Committee monitored progress against actions agreed following the reports received in the 2016-17 financial year from internal audit /external assurance providers and noted that these had been completed.

Cyber security and data protection/GDPR

Information security remains one of the most important risk areas and it is a standing Committee agenda item, as well as being one of the Board's principal risks, as outlined in the 'Risks and Uncertainties' section of this annual report. The coming into force of the General Data Protection Regulation in May 2018 has raised the profile and importance of managing personal data safely and lawfully, and has increased the severity of the consequences of a personal data breach. The Committee had oversight of the plan in place to secure compliance, and data protection is now considered alongside cyber security in general at every meeting.

The Committee noted that continued progress has been made over the year to strengthen controls over cyber and data security. A number of practices and systems considered "high risk" have been closed as part of the GDPR implementation plan, and training has been rolled out across the business to increase awareness. A risk treatment plan is in place to make further improvements during FY19. In addition, legacy Worldstores systems will be fully integrated during the coming financial year, which will further enhance security and integrity.

Approved by the Board on 12 September 2018.

Liz Doherty

Chair of the Audit and Risk Committee



Letter from the Chair of the Remuneration Committee

Dear Shareholder

This is my first letter to you since taking over from Simon Emeny as Remuneration Committee Chair of Dunelm after the AGM in November 2017. I would like to thank Simon for his sound stewardship of the Committee over the past three years, and for overseeing the adoption of the 2017 Remuneration Policy at the AGM, with a vote of 99% in favour.

At the moment, I have four objectives as Chair of the Remuneration Committee. Firstly, I want the Committee to help the Board ensure a strong Policy framework for securing the best talent for Dunelm. Secondly, we should ensure that remuneration for senior appointments follows the principles set out in our Policy or, where we need to consider exceptions, that there is appropriate challenge and rationale. Thirdly, I want to help the Board keep abreast of our shareholders' and wider stakeholders' views. Finally, I want us to follow best practices, taking professional advice if necessary, but in a Dunelm way that fits our strong and positive culture.

Since I became Chair, we have made two Executive Director appointments: CEO Nick Wilkinson in February 2018, and Laura Carr who starts in November.

The remuneration packages for both Nick and Laura are in line with our 2017 Policy, and with that of their predecessors. We have however taken the opportunity to reduce pension entitlement for both to 10% of salary, to align this more closely to that of our senior management. We believe that it is important for our Executive Directors to live close to our Syston Support Centre, and so both have been offered relocation assistance, and for Nick Wilkinson a travel allowance and temporary accommodation assistance.

In order to ensure that Laura does not incur a significant penalty by joining Dunelm, we also had to agree to compensate her partially. We are never happy about having to make payments of this nature, but having considered the matter carefully and taken expert advice, the Committee decided that, together with a requirement to invest in Dunelm shares upon appointment, the arrangements are acceptable and in the best interests of the Company. More details are set out in the report.

John Browett and Keith Down both stepped down from the Board in the year. John was paid salary and benefits to date of termination and for his six month notice period, plus bonus entitlement in respect of the 2017 financial year during which he was employed. Keith worked part of his notice period and was paid salary and benefits to the date of termination only. No other amounts were paid, and all other bonus and share option entitlements have lapsed.

Our 2017 Remuneration Policy requires Executive Directors to make an investment in Dunelm shares on joining, and then to invest two-thirds of performance pay earned (after payment of tax and national insurance) in Dunelm shares. Executives also have to build a personal shareholding equivalent to 1× salary after three years and 2× salary after five years. Nick Wilkinson invested £250,000 in Dunelm shares shortly after his arrival, and a further £250,000 in July 2018. Laura Carr has agreed to invest a significant sum in Dunelm shares on joining the Group. Nick has qualified for bonus during FY18 and his purchase of shares in July includes an investment of two thirds of this after tax .

We have published our Gender Pay report during the year. We are committed to paying men and women equally for roles of the same size and scale. We are proud that 67% of our colleagues are female. However, in common with many other retailers, 80% of our colleagues are employed in our retail operations, and these roles tend to be lower paid. As a result, we have a significant gap in the pay between genders (our mean gap is 17.4% and our median gap is 4.8%), very much in line with our peers in the UK retail sector. We have made progress over the twelve months to improve, and we have more activity planned, including the launch of an Empowering Female Leaders programme, widening our internal mentoring programme, and looking at how we can reduce friction for women returning to work after maternity leave. We are leading by example; 33% of our senior leadership roles are held by women, and following Laura Carr's appointment to the Board, at least before Rachel Osborne had to step down for competitive reasons, four of our nine Board members, and half of our Executive Board were female.

Finally, we have reviewed proposed governance changes, including the new Corporate Governance Code and supporting guidance. We support these changes and have already taken steps to implement them as follows:

- We have strengthened the ability of the Committee to recover bonus and LTIP awards through malus and clawback to cover a wider range of events of corporate or individual failure
- We have changed the Committee's terms of reference to give the Committee formal approval of remuneration of the Executive Board and the Company Secretary
- We are taking steps to ensure that Board and the Committee engage more directly with our colleagues on executive pay and other matters, and to reinforce the Board oversight of all matters relating to our People, including diversity and the gender pay gap

I look forward to meeting shareholders at the AGM.

Yours sincerely

William Reeve

Chair of the Remuneration Committee

12 September 2018

Remuneration Report

How Our Policy is linked to Our Strategy

GROUP STRATEGY

DELIVER SHAREHOLDER VALUE THROUGH LONG TERM, SUSTAINABLE, PROFITABLE GROWTH

REMUNERATION STRATEGY

- Pay fairly for an individual's role and responsibilities
- Reward strong performance
- Focus on long term value creation
- Align Executives with shareholders through share ownership

REMUNERATION STRUCTURE

- Base pay and benefits at median or below
- Annual bonus at median
- Long Term Incentive Plan at upper quartile
- Two thirds of variable pay retained in shares for duration of employment and half of these for a further two years

Our binding Remuneration Policy was last updated in 2017, and approved by shareholders at the AGM on 21 November 2017 with 99.4% of votes in favour of it.

The principles behind, and the reasons for, the overall remuneration structure that we have adopted for our Executive Directors are directly related to our long term strategic goal of delivering shareholder value through the profitable growth of a quality business.

Since the flotation of the Company our Executive remuneration has been structured specifically:

- To pay fairly and appropriately for an individual's role and responsibilities
- To reward strong performance
- To be focused on long term value creation
- To align Executives strongly with shareholders through share ownership

The majority of the Executive Directors' potential remuneration is variable and performance-related in order to encourage and reward superior business performance and shareholder return. Discretion is allowed in certain circumstances to ensure rewards are appropriate and overall levels of pay are analysed carefully each year.

This is consistent with the creation of long term, sustainable growth in shareholder value through delivery of the objectives set out in our corporate strategy, which are all long term in nature; namely to become the customer's number one choice for helping consumers create homes they love: famous for style, value and quality, and the best multichannel retailer in terms of convenience and customer experience. Our approach is also in keeping with the family origin of the business, and is important to the Adderley family who remain our majority shareholders.

It is our intention to maintain a simple and transparent remuneration structure for the benefit of all parties.

Introduction

This Directors' Remuneration Report is divided into three sections: **the Letter from the Chair of the Remuneration Committee**, set out on page 68 to 69; the **Policy Report**; and the **Annual Report on Implementation**.

The **Policy Report** sets out the 2017 Remuneration Policy which has been in force since 21 November 2017, when it was approved by shareholders at the AGM with a vote of 99.4% in favour of it. No changes to our Policy are being put forward this year.

The **Annual Report on Implementation** sets out how the policies approved in November 2014, 2015 and 2017 have been applied during the financial year being reported on and how policy will be applied in the coming year. This report will be put to shareholders for approval at the Annual General Meeting in November 2018, although the vote on the implementation report is advisory.

This report complies with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013 (as amended), as well as the UK Corporate Governance Code and the UKLA Listing Rules.

The Policy Report

Directors' Remuneration Policy 2017

The policy set out below (the "2017 Policy") is the policy approved by shareholders at the AGM on 21 November 2017, and applied from that date.

The information contained in this report is unaudited unless specifically stated as being audited.

Future policy table

The following table sets out the structure of remuneration for Directors of the Company.

Executive Directors

BASE SALARY	
Purpose and link to strategic objectives	<ul style="list-style-type: none"> ● Fixed remuneration for the role ● To attract and retain the high-calibre talent necessary to develop and deliver the business strategy ● Reflects the size and scope of the Executive Director's responsibilities
Operation	<ul style="list-style-type: none"> ● Normally paid monthly ● Base level set in the context of: <ul style="list-style-type: none"> – Pay for similar roles in companies of similar size and complexity in the relevant market – Scale and complexity of the role ● Should comprise a minority of potential remuneration
Maximum opportunity	<ul style="list-style-type: none"> ● Reviewed annually, with percentage increases in line with the Company-wide review unless other circumstances apply, such as: <ul style="list-style-type: none"> – A significant change in the size, scale or complexity of the role or of the Company's business – Development and performance in role (for example on a new appointment base salary might be initially set at a lower level with the intention of increasing over time) ● The Committee does not consider it to be appropriate to set a monetary limit on the maximum base salary that may be paid to an Executive Director within the terms of this policy
Performance metrics	<ul style="list-style-type: none"> ● None, although performance of the individual is considered at the annual salary review ● No recovery provisions apply to base salary

Remuneration Report

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RETIREMENT BENEFITS	
Purpose and link to strategic objectives	<ul style="list-style-type: none"> To provide a competitive post-retirement benefit To attract and retain the high-calibre talent necessary to develop and deliver the business strategy
Operation	<ul style="list-style-type: none"> Contribution equivalent to a percentage of base salary made to a defined contribution plan or paid as a cash allowance
Maximum opportunity	<ul style="list-style-type: none"> Up to 15% of base salary (for Executive Directors appointed from November 2017 onwards. For Executive Directors appointed prior to that the maximum is 20% of base salary). No element other than base salary is pensionable
Performance metrics	<ul style="list-style-type: none"> None No recovery provisions apply to retirement benefits

BENEFITS	
Purpose and link to strategic objectives	<ul style="list-style-type: none"> To provide a competitive benefits package To attract and retain the high-calibre talent necessary to develop and deliver the business strategy
Operation	<ul style="list-style-type: none"> A range of benefits are provided, which may include car or car allowance; private health insurance for the individual and their family; permanent health cover; life assurance; mobile phone; use of a car and driver in connection with the role; colleague discount Additional benefits, such as relocation expenses, housing allowance and school fees may also be provided in certain circumstances if considered reasonable and appropriate by the Committee For non-UK Executives (none at present) the Committee may consider additional allowances in accordance with standard practice
Maximum opportunity	<ul style="list-style-type: none"> Current benefits provided are described in the Annual Report on Implementation on page 83. The Committee reserves the right to provide such benefits as it considers necessary to support the strategy of the Company The Committee does not consider it to be appropriate to set a maximum cost to the Company of benefits to be paid
Performance metrics	<ul style="list-style-type: none"> None No recovery provisions apply to benefits

ANNUAL BONUS - AWARDS TO BE MADE TO EXECUTIVE DIRECTORS OTHER THAN WILL ADDERLEY, WHO HAS REQUESTED THAT HE NOT BE CONSIDERED FOR ANNUAL BONUS.	
Purpose and link to strategic objectives	<ul style="list-style-type: none"> Rewards and incentivises delivery of annual financial, strategic and personal targets
Operation	<ul style="list-style-type: none"> Paid in cash, after the results for the financial year have been audited, subject to performance targets having been met Two-thirds of bonus earned must be invested in Dunelm shares after tax and National Insurance obligations have been met
Maximum opportunity	<ul style="list-style-type: none"> Maximum opportunity - 125% of base salary per annum For on-target performance - 40% of maximum opportunity For threshold performance - 5% of maximum opportunity
Performance metrics	<ul style="list-style-type: none"> Stretching performance targets are set each year. Performance targets for the Executive Directors are typically based on financial and strategic objectives set by the Remuneration Committee annually Financial objectives include, but are not limited to, budgeted PBT for the financial year taking into account market consensus and individual broker expectations The strategic objectives will vary depending on the specific business priorities in a particular year Typically, the majority of the annual bonus for Executives is subject to financial objectives Awards are subject to recovery provisions (malus) at the discretion of the Committee if there has been a misstatement of results for the year in respect of which the bonus is paid, or if there has been an error in calculating performance, or in the case of gross misconduct The Remuneration Committee also has the discretion to claw back the bonus up to three years after payment in the above circumstances and in cases of fraud, the Committee can apply malus and clawback for an unlimited period of time

Remuneration Report

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LONG TERM INCENTIVE PLAN - AWARDS TO BE MADE TO EXECUTIVE DIRECTORS OTHER THAN WILL ADDERLEY, WHO HAS REQUESTED THAT HE NOT BE CONSIDERED FOR LTIP AWARDS.	
Purpose and link to strategic objectives	<ul style="list-style-type: none"> • Supports delivery of strategy by targeting EPS growth, which the Committee believes to be closely aligned to the drivers of growth in the business over the long term • Rewards strong financial performance and sustained increase in shareholder value over the long term • Aligns with shareholder interests through the delivery of shares, the majority of which (after payment of tax liabilities) are retained
Operation	<ul style="list-style-type: none"> • Conditional awards are made annually (which can take the form of a conditional award, nil-cost option or nominal value option), with vesting subject to performance over three financial years • Two-thirds of all shares vesting must be retained by the Executive (after sale of shares to meet tax and National Insurance obligations)
Maximum opportunity	<ul style="list-style-type: none"> • For awards to be made in respect of the FY18-FY20 performance period, the maximum annual award is 110,000 shares for the Chief Executive Officer and 60,000 shares for the Chief Financial Officer, subject in either case to such adjustment as the Committee determines to take account of any variation in the Company's share capital • For awards to be made in respect of the FY19-FY21 performance period and awards to be made in future years, the maximum annual award for Executive Directors is shares with a value up to 200% of salary, calculated by reference to the market price of Dunelm shares on the date preceding the date of grant • For threshold performance: 10% of the award will vest • For maximum performance: 100% of the award will vest • Straight-line vesting between the threshold and maximum levels will apply for performance between threshold and maximum points • Dividend accruals may be made in respect of special dividends paid during the performance period applicable to an award and up to the vesting date. Payment would only be made in respect of shares vesting after applying performance criteria. This will apply to all awards vesting after the 2017 Policy comes into effect
Performance metrics	<ul style="list-style-type: none"> • Growth in fully diluted EPS over the three year performance period compared with growth in the index of retail prices (RPI) over the same period • The Remuneration Committee considers the target annually taking into account market consensus and individual broker expectations • For information, the target applicable to awards to be made are: No part of the award will vest until compound annual EPS growth exceeds RPI growth by 3% For awards to be made in respect of the FY18-FY20 performance period, 10% of the award vests at compound annual EPS growth in excess of RPI plus 3%. 100% of the award vests at compound annual EPS growth in excess of RPI plus 15% For awards to be made in respect of the FY19-FY21 performance period, and for awards made in future years, 10% of the award vests at compound annual EPS growth in excess of RPI plus 3%. 100% of the award vests at compound annual EPS growth in excess of RPI plus 12% Between those figures the award will vest on a straight-line basis • Awards are subject to recovery provisions (malus) at the discretion of the Committee if there has been a misstatement of results for the performance period to which the award relates, or if there has been an error in calculating performance or in the case of gross misconduct • The Remuneration Committee also has the discretion to claw back vested awards for up to three years from vesting in these circumstances and in cases of fraud, the Committee can apply malus and clawback for an unlimited period of time

LIFETIME LOCK-IN AND PERSONAL SHAREHOLDING TARGETS

Purpose and link to strategic objectives	<ul style="list-style-type: none"> Aligns with shareholder interests through shareholding and promotes long term thinking
Operation	<ul style="list-style-type: none"> Executive Directors are required to build a beneficial holding of shares equal to 100% of salary after three years and 200% of salary after five years from appointment A personal investment in Dunelm shares should be made on appointment as an Executive Director (subject to closed periods) Two-thirds of amounts earned under the annual bonus and the LTIP (after payment of tax and National Insurance) must be retained in Dunelm shares These shares must be held during employment and at least 50% of them retained for at least two years after employment ends The Remuneration Committee retains the right to waive this requirement in exceptional circumstances, such as death, divorce, ill health or severe financial hardship
Maximum opportunity	<ul style="list-style-type: none"> Not applicable
Performance metrics	<ul style="list-style-type: none"> Not applicable

ALL EMPLOYEE SHARE PLAN (SHARESAVE)

Purpose and link to strategic objectives	<ul style="list-style-type: none"> Promotes share ownership by all eligible colleagues (including Executive Directors)
Operation	<ul style="list-style-type: none"> All UK employees with a minimum service requirement are eligible to join the UK tax approved Dunelm Group Savings Related Share Option Plan (the Sharesave) Monthly savings are made over a period of three years linked to the grant of an option over Dunelm shares at a discount of up to 20% of the market price (or such other amount as permitted by law) at the date of invitation to join the plan Invitations are normally issued annually at the discretion of the Remuneration Committee, which also has discretion to set the minimum service requirement, maximum discount, maximum monthly savings and any other limits (such as scaling back) within the terms of the scheme rules
Maximum opportunity	<ul style="list-style-type: none"> Maximum participation limits are set by the UK tax authorities. Currently the maximum limit is savings of £500 per month
Performance metrics	<ul style="list-style-type: none"> None

Remuneration Report

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Non-Executive Directors

FEES	
Purpose and link to strategic objectives	<ul style="list-style-type: none"> To attract and retain a high calibre Chairman and Non-Executive Directors by offering competitive fee levels
Operation	<ul style="list-style-type: none"> Fees for the Chairman and Non-Executive Directors are set by the Board. No Director participates in any decision relating to his or her own remuneration The Chairman is paid an all-inclusive fee for all Board responsibilities The Non-Executive Directors receive a basic fee, with supplemental fees for additional Board responsibilities The level of fee reflects the size and complexity of the role and the time commitment Fees are reviewed annually and increased in line with the Company-wide increase. In addition, there will be a periodic review against market rates and taking into account time commitment and any change in size, scale or complexity of the business Flexibility is retained to increase fee levels in certain circumstances, for example, if required to recruit a new Chairman or Non-Executive Director of the appropriate calibre With the exception of colleague discount, no benefits are paid to the Chairman or the Non-Executive Directors, and they do not participate in any incentive scheme
Maximum opportunity	<ul style="list-style-type: none"> Maximum fees to be paid by way of fees to the Non-Executive Directors are set out in the Company's Articles of Association Fees paid to each Director are disclosed in the Annual Report on Implementation
Performance metrics	<ul style="list-style-type: none"> None

The Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the policy, where the terms of the payment were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration, and in relation to an award over shares, the terms of payment are 'agreed' at the time the award is granted. This includes the satisfaction of the Joining Award granted to Keith Down on 7 December 2015 to compensate him for deferred shares earned with his previous employer which were forfeited when he resigned.

The Committee may also make minor changes to this policy which do not have a material advantage to Directors, to aid its operation or implementation without seeking shareholder approval, but taking into account the interests of shareholders.

Performance measures and how targets are set

The Remuneration Committee selects performance measures that it believes are:

- Aligned with the Group's strategic goals
- Unambiguous and easy to calculate
- Transparent to Directors and shareholders

Annual bonus

For the financial year 2018/19, 80% of the annual bonus is linked to PBT and 20% to personal and strategic objectives. Each Director's annual bonus is therefore linked primarily to delivery of Group financial performance, but also to personal performance and contribution to the strategic progress of the Group. The PBT target is set by the Remuneration Committee each year, taking into account market consensus and broker expectations. Personal and strategic objectives are set at the commencement of the year and assessed by the Remuneration Committee.

The Committee reserves the right to adjust the financial performance target or change the performance condition if justified by the circumstances, for example if there was a major capital transaction.

For future years, the Committee will determine the financial measures and the weighting of financial and non-financial measures based on specific business priorities in a particular year.

LTIP

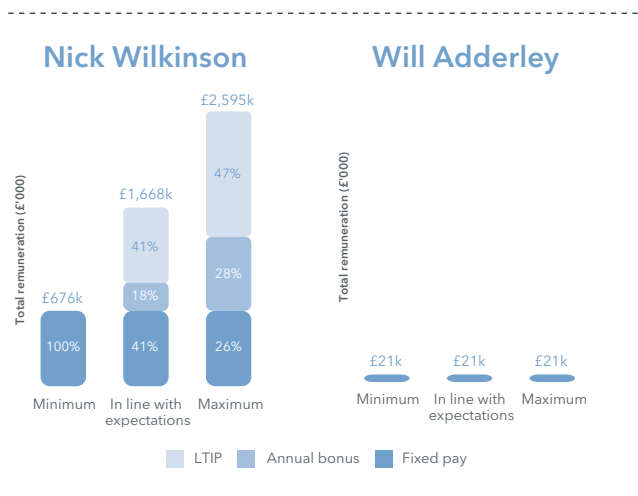
The EPS target for the LTIP is based on growth in fully diluted EPS compared to the increase in the Index of Retail Prices (RPI) over each performance period. The targets that apply to awards are set out in the Policy table on page 74.

The Remuneration Committee considered the use of EPS as a performance measure carefully when the Company was floated in 2006, and has discussed it with shareholders regularly. EPS is believed to be closely aligned to the drivers of growth for the business and in the long term, EPS performance is expected to be reflected in shareholder value. EPS is a more suitable performance measure for Dunelm than for many other companies and it is therefore considered appropriate to use it as a single measure for the LTIP. The use of EPS as a primary measure for Dunelm’s LTIP is considered appropriate because of the low level of leverage in the business and because the capital expenditure controls exercised by the Board are sufficiently rigorous to avoid EPS accretion by means of ineffective investment of capital.

The number of shares comprised in an award or the performance target which applies may be adjusted by the Remuneration Committee in accordance with the plan rules if justified by the circumstances, for example, if there were a major capital transaction. Any amendment and the reason for it would be fully disclosed. A copy of the plan rules is available from the Company Secretary on request.

Illustrative performance scenarios

The following graphs set out what Will Adderley and Nick Wilkinson, the Executive Directors in office at the date of this report, could earn in the financial year 2018/19 under the following scenarios:



The following assumptions have been made in respect of the scenarios above:

Minimum (performance below threshold) - Fixed pay (comprising base salary, benefits and pension) only with no vesting under the annual cash bonus or LTIP (see table below).

	Base (last known salary) £'000	Benefits (as in single figure table) £'000	Pension (10% of last known salary) £'000
Will Adderley	–	21	–
Nick Wilkinson	591	31	54 ¹

¹ 10% of salary reflecting pension provision for 2018/19

Remuneration Report

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In line with expectations – Fixed pay plus annual cash bonus at on-target performance of 40% of maximum opportunity (i.e. 50% of salary) and vesting of 59% of the award of shares under the LTIP.

Maximum performance – Fixed pay plus 100% of maximum annual bonus opportunity (i.e. 125% of salary) and 100% of shares vesting under the LTIP.

Please note that two-thirds of performance pay earned by Nick Wilkinson (after payment of tax and National Insurance liability) must be invested in Dunelm shares pursuant to the 'Lifetime Lock-in'.

Will Adderley has requested that his annual salary be maintained at £1 per annum, and he has waived his entitlement to receive an LTIP award.

It should be noted that the illustrative performance number is likely to be different to the actual pay that is earned by Nick Wilkinson during the year:

- Actual pay will reflect Company and personal performance over the relevant performance period
- We are required to show the value of the LTIP awards that are expected to be made in the year, not those which will actually vest. This valuation is based on the expected face value at the date of grant without making any assumptions for share price growth, and assuming that the award vests in full at the end of the three year performance period. The value of the LTIP award to be made is based on the grant to Nick Wilkinson of an award over shares to the value of 200% of salary
- No adjustment is made for payment of special dividend equivalents as the level of these cannot be determined at the date of this report

Recovery

There is provision for recovery of variable pay, as highlighted in the policy table.

For bonus and LTIP awards made prior to the date of this report, at the discretion of the Remuneration Committee, recovery (malus) may be made against any unpaid cash bonus or unvested LTIP options in the following circumstances:

- performance to which a bonus or LTIP award relates proves to have been misstated or
- there has been a miscalculation in the extent to which performance conditions have been met in respect of previous awards made to the individual that have vested and been exercised or
- there has been gross misconduct on the part of the individual

Clawback may be operated at the discretion of the Remuneration Committee against all variable awards in the above circumstances, for up to three years from payment or vesting as appropriate; and in cases of fraud the Committee can apply malus and clawback for an unlimited period of time.

In recent years, it has become best practice for malus and clawback to apply in a wider set of circumstances. Therefore, in respect of bonus and LTIP awards made from the date of this report onwards, the Remuneration Committee will have discretion to apply malus and clawback as stated above in the following circumstances:

- a material misstatement of any Group company's financial results;
- a material error in assessing a performance condition applicable to the award or in the information or assumptions on which the award was granted or vests;
- a material failure of risk management in any Group company or a relevant business unit
- serious reputational damage to any Group company or a relevant business unit
- serious misconduct or material error on the part of the Participant
- a material corporate failure as determined by the Board; or
- any other circumstances which the Committee in its discretion considers to be similar in their nature or effect to those set out above

Salary, pension, benefits and Sharesave options are not subject to recovery.

Service contracts and loss of office payments

All of the Executive Directors have service contracts. The notice period for termination for Will Adderley is 12 months from either party, and for Nick Wilkinson (and Laura Carr when she joins) is six months from either party. If the Company terminates the employment of the Executive Director it would honour its contractual commitment. Any payment of salary on termination is contractually restricted to a maximum of the value of salary plus benefits for the notice period. If termination was with immediate effect, a payment in lieu of notice may be made. The Remuneration Committee may apply mitigation in respect of any termination payment.

The Remuneration Committee has discretion to make a payment in respect of annual bonus, provided that it is pro-rated to service.

The limited circumstances in which unexercised LTIP awards might be exercised following termination of an Executive Director's service contract are set out below. If the Remuneration Committee exercises its discretion to allow exercise of an unvested LTIP award, it may make a cash payment in lieu of the anticipated value of the award, calculated at the date of the payment (taking into account prorating of the award and the extent to which performance criteria may apply, as appropriate).

Non-Executive Directors have letters of appointment. The term is for an initial period of three years with a provision for termination on one month's notice from either party, or three months' notice from either party in the case of Andy Harrison, the Chairman. Letters are renewed for up to two additional three year terms, and then renewed annually. The letter of appointment will terminate without compensation if the Director is not reappointed at the AGM.

The Directors' service contracts and letters of appointment are available for inspection by shareholders at the Company's registered office.

Exercise of LTIP and Sharesave options following termination of employment

LTIP

If a participant leaves the employment of the Group, the following provisions apply to options granted under the LTIP:

- Options that have vested but have not yet been exercised may be exercised within six months of cessation of employment (12 months in the case of death)
- Except in the case of dismissal for gross misconduct, options which have not yet vested, but where the performance period has elapsed (for example if cessation of employment occurs during the deferral period applicable to LTIP options granted to David Stead (former Finance Director) from 2013 onwards), may be exercised within six months of the relevant vesting date (or 12 months in the case of death), to the extent that the performance condition has been met. The Remuneration Committee has discretion to allow earlier exercise but would only use this in exceptional circumstances (such as death or ill health retirement), or at its discretion for a good leaver
- If the participant leaves the Group before an option has vested and before the performance period has elapsed, the option will usually lapse. Except in the case of dismissal for gross misconduct, the Remuneration Committee has the discretion to allow the exercise of options for which the performance period has not elapsed at the date of cessation of employment, within six months of the relevant vesting date (or 12 months in the case of death). The Remuneration Committee also has discretion to allow earlier exercise. The Remuneration

Committee would only use this discretion in exceptional circumstances (such as death or ill health retirement), or at its discretion for a good leaver

- If early exercise is permitted, the Remuneration Committee may apply an adjustment to take into account the amount of time that has elapsed through the performance period and the extent to which any performance criteria have been met

In all cases, unexercised LTIP awards would be subject to recovery (malus) in the relevant circumstances. In respect of LTIP awards made after 1 July 2014, clawback may also apply to vested awards.

Sharesave

If a participant leaves the Group, options granted under the Sharesave will normally lapse, but may be exercised within six months from the cessation of employment due to injury, disability, retirement, or redundancy (or 12 months in the case of death), or the employing company leaving the Group or, provided that the option has been held for at least three years, cessation for any other reason (apart from dismissal by the Company).

Change of control and other corporate events

LTIP

The following provisions apply to awards made under the Long Term Incentive Plan in accordance with the Plan rules if there is a change of control or winding up of the Company:

- Any vested but unexercised options may be exercised
- Any options in respect of which the performance period has elapsed and to which the performance condition has been applied will vest and may be exercised
- Any options in respect of which the performance period has not elapsed may be exercised at the discretion of the Remuneration Committee, subject to any adjustment to take into account the amount of time that has elapsed through the performance period and the extent to which any performance criteria have been met
- The Executive Director may agree that his or her awards are 'rolled over' into shares of the acquiring company as an alternative

If the Company has been or will be affected by any demerger, dividend in specie, special dividend or other transaction which will adversely affect the current or future value of any awards under the LTIP, the Plan rules allow the Remuneration Committee, acting fairly and reasonably, to determine the extent to which any awards should vest and the period within which Options may be exercised.

A copy of the Plan rules is available from the Company Secretary on request.

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Sharesave

Sharesave options may be exercised within six months following a change of control or winding up of the Company, using savings in the participant's account at the date of exercise. The participant may agree that his or her awards are 'rolled over' into shares of the acquiring company as an alternative.

If the Company has been or will be affected by a capitalisation, rights issue, subdivision, reduction, consolidation, special dividend or other variation in respect of which HMRC will allow the variation of options, the Plan rules allow the Remuneration Committee, with the consent of HMRC, to vary the number and/or nominal value of shares covered by an option or the option price to be varied proportionately.

A copy of the Plan rules is available from the Company Secretary on request.

Executive pay and the pay of other colleagues

The principles set out on the Remuneration Strategy on page 70 are applied consistently to pay throughout the Group.

Pay for all colleagues is set at a level that is fair for the role and responsibilities of the individual, and is designed to attract and retain high calibre talent that is needed to deliver the Group's strategy, without paying too much.

The remuneration of Executive Directors is more heavily weighted towards variable pay than other colleagues, so that a greater part of their pay is linked to successful delivery of strategy and aligned with shareholders. They are also required to retain two-thirds of post-tax performance pay in Dunelm shares to be held for the duration of employment and beyond, and are subject to higher personal shareholding targets.

The remuneration of colleagues below the Board reflects the seniority of the role, market practice and the ability of the individual to influence Company performance.

All eligible colleagues are encouraged to participate in the Sharesave plan, which enables them to become shareholders at a discounted rate. Participation is usually offered annually at the maximum price discount permitted (currently 20%), at the discretion of the Remuneration Committee.

In setting the policy for the Executive Directors' remuneration, the Committee takes note of the overall approach to remuneration in the Group. In previous years, the Committee had formal oversight of the remuneration of Executive Board members. In accordance with the Government's corporate governance reform:

- From June 2018 the Committee has formally approved the remuneration of the Company Secretary and all members of the Executive Board
- From October 2018, in at least one of her twice yearly Board updates, the People Director will provide information about workforce policies and practices

The base salary of Executive Directors may be increased annually in line with the Company-wide award unless other circumstances apply, as set out in the policy table.

The Committee does not formally consult with colleagues specifically in relation to executive pay. However, through the new processes introduced in the financial year, members of the National Colleague Council have the opportunity to raise any concerns directly with Marion Sears, the Non-Executive Director who has been designated to consider colleague views. Marion attends two National Colleague Council meetings each year and Council members are also invited annually to attend a Board meeting. Colleagues may also raise any concerns via the People Director, or anonymously through our engagement survey. To date, executive pay has not been raised as a concern.

Shareholder views

The Board is committed to ongoing engagement with shareholders in respect of all governance matters, including executive remuneration.

In addition to this, the Company holds a Corporate Governance Day, usually every two years, hosted by the Chairman, the Deputy Chairman and the other Non-Executive Directors, to which all major shareholders are invited. This enables both parties to discuss governance topics informally, including remuneration. In addition, the Chairman and Non-Executive Directors usually attend results presentations and a selection of shareholder meetings. The last Corporate Governance Day was in January 2018, and a copy of the presentation is on our website corporate.dunelm.com.

Formal feedback on shareholder views is given to the Board twice per annum by the Company's brokers and financial public relations advisers. The AGM reports issued by the Investment Association (IA), the Pension and Lifetime Savings Association, ISS and Pensions Investment Research Council (PIRC) are also considered by the Board.

All Directors usually attend the Annual General Meeting, and the Chairman and the Chair of the Remuneration Committee may be contacted via the Company Secretary during the year.

If any significant change to policy were proposed, the Committee would consult with major shareholders in advance. Shareholders were consulted prior to putting forward both the 2015 Policy and the 2017 Policy for approval.

Approach to recruitment remuneration

The Remuneration Committee will apply the principles set out below when agreeing a remuneration package for a new Director (whether an external candidate or an internal promotion). These have been applied in the recruitment of Nick Wilkinson who joined the Board on 1 February 2018 and of Laura Carr who will join on 29 November 2018. Further details of their remuneration are set out in the Implementation Report.

- The package must be sufficient to attract and retain the high calibre talent necessary to develop and deliver the Company's strategy
- No more should be paid than is necessary
- Notwithstanding the approved policy, the maximum pension entitlement (or cash allowance) for a newly appointed Executive Director will be 10% of salary
- Remuneration should be in line with the policy approved by shareholders set out above; however, the Committee reserves the discretion to make appropriate remuneration decisions outside the standard policy to meet the individual needs of the recruitment provided the Committee believes the relevant decisions are in the best interests of the Company

These circumstances might include:

- Where an interim appointment is made on a short term basis, including where the Chairman or another Non-Executive Director has to assume an executive position
- Where employment commences at a time in the year when it is inappropriate to provide a bonus or share incentive award as there is insufficient time to assess performance, the quantum for the subsequent year might be increased proportionately instead
- An executive is recruited from a business or location that offered benefits that the Committee considers it appropriate to 'buy out' but cannot do so under the specific terms of the Regulations, or which the Committee considers it appropriate to offer

Examples of remuneration decisions that the Committee may make are set out below:

- It may be appropriate to offer a lower salary initially, with a series of increases to reach the desired salary over a period of time, subject to performance
- A longer notice period of up to a maximum of 24 months might be offered, reducing by one month for every month served until the policy position is reached
- The Committee may also alter the performance criteria applicable to the initial annual bonus or LTIP award so that they are more applicable to the circumstances of the recruitment
- An internal candidate would be able to retain any outstanding variable pay awarded in respect of their previous role that pays out in accordance with its terms of grant
- Appropriate costs and support will be provided if the recruitment requires the relocation of the individual

The maximum level of variable pay that could be awarded to a new Executive Director in the first year of employment, excluding any buyout arrangements, would normally be in line with the policy table set out on pages 72 to 76. The Committee would explain the rationale for the remuneration package in the next annual report of the Company.

In addition, on hiring an external candidate the Committee may make arrangements to buy out remuneration that the individual has forfeited on leaving a previous employer. The Committee will generally seek to structure buyout awards and payments on a comparable basis to remuneration arrangements forfeited. These awards or payments are excluded from the maximum level of variable pay referred to in the policy tables; however, the Committee's intention is that the value awarded or paid would be no higher than the expected value of the forfeited arrangements.

In order to implement the arrangements described, the Committee may rely on the exemption in Listing Rule 9.4.2, which allows for the grant of share or share option awards to facilitate, in unusual circumstances, the recruitment of a Director.

The Committee does not intend to use any discretion in this section to make a non-performance related incentive payment (for example a 'golden hello').

On the appointment of a new Chairman the fee will be set taking into account the experience and calibre of the individual and pay for similar roles in companies of similar size and complexity in the market. All other Non-Executive Directors receive the same base and Committee chair fees, which are set at median or below. No share incentives or performance related incentives would be offered.

Remuneration Report

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Annual Report on Implementation

This section of the report sets out how the Directors' Remuneration Policy which was approved by shareholders on 21 November 2017 has been applied in the financial year being reported on.

Committee membership and meetings

The following Directors served on the Remuneration Committee during the year:

Table 1 - Committee membership

MEMBER	PERIOD FROM:	TO:
William Reeve (Chair from 22 November 2017)	1 July 2015	To date
Liz Doherty	1 May 2013	To date
Andy Harrison	1 September 2014	To date
Peter Ruis	10 September 2015	To date
Rachel Osborne	1 April 2018	28 August 2018
Simon Emeny (Chair until his retirement on 21 November 2017)	25 June 2007	21 November 2017

The Company Secretary acts as secretary to the Committee.

Six meetings were held in the year and members' attendance was as shown in the table below.

Table 2 - Attendance at Committee meetings

MEMBER	MEETINGS ATTENDED:
William Reeve (Chair)	6/6
Liz Doherty*	5/6
Andy Harrison	6/6
Peter Ruis	6/6
Rachel Osborne	2/2
Simon Emeny	2/2

* Liz Doherty received the papers and fed back comments to the Committee Chair in advance of the meeting

No Director ever participates when his or her own remuneration is discussed.

Advisers

The Committee uses Deloitte for general advice in relation to executive remuneration on an ad hoc basis. Deloitte is a member of the Remuneration Consultants' Group and as such voluntarily operates under a code of conduct in relation to executive remuneration consulting in the UK. Deloitte does not have any other ongoing business relationship with the Group. The Committee is satisfied that the advice that they have received from Deloitte in the year has been objective and independent.

Total fees paid to Deloitte for remuneration related work in the year were £8,150 (2017: £10,780).

The Chief Executive Officer attends Committee meetings by invitation to make recommendations as to the remuneration payable to below Board executives. The People Director attends all meetings by invitation to advise on remuneration related issues and provide details of the remuneration applied throughout the Group so that a consistent approach can be adopted.

Single figure for total remuneration (audited information)

The following table sets out total remuneration for Directors for the period ended 30 June 2018:

Table 3 - Directors' remuneration - single figure table

Director	Salary/fees ⁶ £'000		Benefits ³ £'000		Bonus ^{4,7} £'000		LTIP awards ² £'000		Pension ⁵ £'000		Total £'000	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Executive												
Nick Wilkinson	221	–	28	–	37	–	–	–	22	–	308	–
Keith Down ^{1,2}	327	357	20	21	–	62	172	66	49	54	568	560
Will Adderley	–	–	21	21	–	–	–	–	–	–	21	21
John Browett ^{1,2}	347	510	13	21	–	89	–	–	69	102	429	722
Non-Executive												
Andy Harrison	208	204	–	–	–	–	–	–	–	–	208	204
Marion Sears	50	49	–	–	–	–	–	–	–	–	50	49
Liz Doherty ¹	64	55	–	–	–	–	–	–	–	–	64	55
William Reeve ¹	56	49	–	–	–	–	–	–	–	–	56	49
Peter Ruis	50	49	–	–	–	–	–	–	–	–	50	49
Rachel Osborne ¹	12	–	–	–	–	–	–	–	–	–	12	–
Simon Emeny ¹	26	61	–	–	–	–	–	–	–	–	26	61
Total	1,361	1,334	82	63	37	151	172	66	140	156	1,792	1,770

¹ John Browett stepped down from the Board on 29 August 2017, Simon Emeny retired on 21 November 2017 and Keith Down stepped down from the Board on 24 May 2018. Rachel Osborne joined the Board on 1 April 2018. Liz Doherty was appointed the Senior Independent Director and William Reeve was appointed Chair of the Remuneration Committee on 22 November 2017. Basic salary / fee, SID fees and Committee Chair fees for Simon Emeny, Rachel Osborne, Liz Doherty and William Reeve, and salary, pension and benefits for John Browett and Keith Down are pro rated over the year. The total figure for John Browett includes £322,120 in respect of salary and benefits paid for his six month notice period.

² As John Browett and Keith Down stepped down during the year neither of them qualified for bonus in respect of FY18 and all LTIP and Sharesave options have lapsed. The sum for 2018 LTIP paid to Keith Down relates to the second tranche of his Joining Award over 26,488 shares which was exercised on 19 September 2017. The closing mid market share price of Dunelm shares on vesting date (15 September 2017) was 650p.

³ Benefits include the cost to the Company of a car allowance and private health insurance for the individual and their family. Nick Wilkinson is also entitled to an allowance of 5% of his annual salary towards the cost of travel from home to Leicester; and a relocation allowance of £50,000, partially in the form of Dunelm store credit, plus a contribution of £1,500 per month towards the cost of temporary accommodation for the first 12 months of employment.

⁴ Annual bonus is the amount earned in respect of FY18. Details of how this was calculated are set out below.

⁵ Pension is 20% of salary for John Browett, 15% of base salary for Keith Down and 10% for Nick Wilkinson. Will Adderley waived his entitlement to pension from 1 July 2015.

⁶ From 1 July 2018, Nick Wilkinson's base salary was increased by 2%, in line with the Company-wide award for monthly paid colleagues. Will Adderley's base salary is held at £1 per annum. The fee for the Chairman and the base fee for the other Non-Executive Directors, the SID fee and the Committee fees were also increased by 2%.

⁷ Nick Wilkinson was awarded an annual performance-related cash bonus for FY18 with a maximum potential payment of 125% of salary. The performance conditions which applied to the bonus were those set in September 2017 for Keith Down (this was prior to Nick's appointment on 1 February 2018). The performance condition was linked to PBT versus budget (80%), and performance against personal and strategic objectives (20%). Although not exercised this year, the Committee has the ability to apply judgement to increase or decrease the amount payable by application of the formula, although no more than the maximum potential opportunity would be paid. Will Adderley has asked that he not be considered for a bonus award.

Remuneration Report

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Financial target - 80% of bonus opportunity

For the period ended 30 June 2018, budget PBT was £125.0m, pre-exceptional items of £7.0m. The financial target set was such that no bonus would be paid until PBT reached £118.75m and maximum bonus would be paid at £131.25m. Between those numbers, bonus would be payable calculated on a straight-line basis. Market consensus for 2017-18 PBT at the date the target was set in early September 2017 was £121.9m. In considering performance against targets for the purposes of the annual bonus, the Remuneration Committee has decided that PBT pre budgeted exceptional items should apply. However, this made no difference to the overall bonus outcome in 2017/18.

PBT for 2017-18 was £93.1m, and pre exceptional items was £102.0m. There was no payment in respect of this PBT element of the bonus.

Strategic and personal objectives - 20% of bonus opportunity

Assessment was made by reference to personal performance and implementation of strategy as a whole, including progress against the eight Business Plans agreed by the Board in May 2017 and set out in last year's annual report, as well as a number of specific measurable objectives. Performance against these specific objectives was assessed as follows:

TARGET	PERFORMANCE
Combine Dunelm and Worldstores into one business	Achieved
Integrate worldstores.com and Dunelm.com to one website	Progress made - completion expected February 2019
Open 10 new stores (2 relocations) and 10 refits, hitting financial targets	Achieved
Improve colleague engagement score	Achieved
Launch instore ordering with meaningful sales	Progress made, completion expected October 2019
Launch click & collect service with meaningful sales	Progress made, completion expected February 2019

Taking all of the above into account, it was determined that 67% (2017: 70%) of this element of the bonus had been earned, giving rise to a payment of £36,879 to Nick Wilkinson (2017: £nil), pro-rated to service during the year. As John Browett and Keith Down stepped down from the Board during the year, neither was entitled to a bonus payment. Will Adderley has asked not to be considered for bonus entitlement.

Total bonus earned is set out in the table below:

Table 4 - Annual bonus earned in respect of 2017-18 performance

	Bonus awarded £	Percentage of maximum award
Nick Wilkinson	£36,879	13.3%
John Browett	Nil	N/A
Keith Down	Nil	N/A
Will Adderley (waived entitlement)	–	N/A

LTIP - awards earned in respect of performance in 2016-18

The only LTIP award which is due to mature in respect of 2016-18 performance is that granted to the former Chief Financial Officer, David Stead in 2015, who retired on 31 December 2015. The Remuneration Committee determined that as a 'good leaver', David would be entitled to receive part of this award, subject to performance criteria, and pro-rated by time served over the performance period (the three financial years ended 30 June 2018). In the case of the award maturing on 15 October 2018, and exercisable from 15 October 2020, this would equate to a maximum of 7,350 shares. The performance criteria applicable to this award was based on growth in fully diluted EPS over the performance period. For further information please see the policy report on page 74.

Over the three year performance period which ended on 30 June 2018, reported fully diluted EPS declined at a compound annual rate of -5.4%. This is 8.2% below the compound annual growth in RPI over the same period. Accordingly, the award granted to David Stead in October 2015 will lapse.

Table 5 - LTIP awards earned in respect of performance in 2016-18

	Shares vesting	Percentage of maximum award
David Stead	0	0%

Will Adderley waived his entitlement to receive an LTIP award in 2015. Awards granted to John Browett and Keith Down have lapsed.

Remuneration Report

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LTIP awards made to Directors during 2017-18

LTIP awards were made on 18 October 2017 to Keith Down, and on 28 February 2018 to Nick Wilkinson as set out below. Keith Down stepped down from the Board on 24 May 2018, his award has lapsed.

Table 6 - LTIP awards made to Directors during 2017-18

Name	Award	Number of shares	Face value at date of award	Performance condition	Performance period	Vesting date	% vesting at threshold performance
Nick Wilkinson	Nil cost option under LTIP	110,000	£642,400 ¹	<p>Growth in fully diluted EPS over the three year performance period compared with growth in the index of retail prices (RPI) over the same period.</p> <p>No part of the award will vest until compound annual EPS growth exceeds RPI growth by 3%.</p> <p>10% of the award vests when compound annual growth in EPS exceeds RPI growth by 3%.</p> <p>100% of the award vests when compound annual growth in EPS exceeds RPI by 15%. Between those figures the award will vest on a straight-line basis.</p> <p>Two-thirds of shares vesting (after payment of tax and National Insurance) must be held for the duration of employment, and 50% of these retained for two years following termination</p>	July 2017 to June 2020	28 February 2021	10%
Keith Down	Nil cost option under LTIP	60,000	£451,500 ²	As for Nick Wilkinson	July 2017 to June 2020	Lapsed	0%

¹ Based on the closing share price on 28 February 2018 of 584.0p per share.

² Based on the closing share price on 17 October 2017 of 752.5p per share.

Joining award made to Keith Down in 2015

Following approval by shareholders at the AGM on 24 November 2015, and as noted in the 2016 annual report, a joining award was made to Keith Down on 7 December 2015 over 33,958 shares in the form of a nil cost option, under the terms of the Share Award Agreement approved by shareholders on 24 November 2015. The market value of the award was £335,000 based on the closing share price on 4 December 2015, of 986.5p per share. 7,470 (22%) of these shares vested on 15 September 2016, and 26,488 (78%) of these shares vested on 15 September 2017.

Payments to past Directors and for loss of office (audited)

David Stead

David Stead retired from the Board on 31 December 2015. David received his salary, benefits and pension allowance as usual until his leaving date of 31 December 2015, at the rate set out in the Annual Report for 2014/15.

At 31 December 2015, David had three outstanding awards under the LTIP:

Table 7 - David Stead's LTIP awards at his retirement date (31 December 2015):

Award date	Performance period	Normal vesting date	No. of shares	No. of shares pro-rated to 31 December 2015	No. of shares to vest after applying performance condition
7 October 2013	FY14-FY16	7 October 2018*	49,216	40,976	18,029
9 October 2014	FY15-FY17	9 October 2019*	53,922	27,035	Nil
15 October 2015	FY16-FY18	15 October 2020*	44,592	7,350	n/a

* Includes two year holding period following the end of the three year performance period.

The Remuneration Committee determined that as a 'good leaver' with 12 years' service during a time of substantial growth in shareholder value, David may exercise the above awards, subject to time pro-rating, and after applying the applicable performance criteria over the full performance period. The maximum possible vesting, if performance conditions are fully met, is set out in the table above (column headed "No. of shares pro-rated to 31 December 2015").

The awards may be exercised within six months of the normal vesting date specified above.

The above arrangements are fully in line with the Remuneration Policy approved at the AGM in November 2015. The LTIP award made to David Stead in October 2015 was disclosed in the 2015 and 2016 remuneration reports which were approved by shareholders. The Remuneration Committee's decision reflects the service provided by David over the financial years covered by the applicable performance periods and has been pro-rated according to that service over those periods.

No further payments have been or are being made to David Stead in respect of loss of office or the termination of his employment.

Having retired on 31 December 2015, on 16 April 2018, at the request of the Board, David Stead entered into a new short-term service contract with the Company to provide interim support to on a part time basis pending the appointment of a permanent CFO to replace Keith Down. David was not appointed as a director of Dunelm Group plc or any other Group company. Details of payments made to David in the year can be found in Note 26 to the Financial Statements.

John Browett

John Browett resigned from his position as Chief Executive Officer and stepped down from the Board on 29 August 2017. In accordance with the Dunelm Remuneration Policy approved on 24 November 2015 (which was current at that date), and in line with his contractual arrangements John was paid salary, pension and benefits to date of termination of his employment at the rates set out in Dunelm's 2017 Annual Report and Accounts, and £322,120 in respect of salary, pension and benefits for the six month notice period under his service contract. This was paid in six monthly instalments on the last day of the month, commencing 31 October 2017. John also received a payment of £89,250 in respect of bonus earned for the financial year to 1 July 2017, following application of performance criteria. This was paid on 31 October 2017.

Payment of bonus earned in respect of the financial year to 1 July 2017 was considered to be fair and reasonable given that John was Chief Executive Officer for the period to which this payment relates. No bonus was paid in relation to the period of his employment during the financial year to 30 June 2018 and all options granted under the Long Term Incentive Plan and the Sharesave Plan lapsed. The arrangements set out above were considered carefully by the Remuneration Committee in consultation with its advisors and reflect the fact that John was a "good leaver".

No further payments have been or are being made to John Browett in respect of loss of office or the termination of his employment.

Remuneration Report

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Simon Emeny

Having completed 10 years' service on the Board, Simon Emeny retired from his position as Senior Independent Director and Chair of the Remuneration Committee and stepped down from the Board on 21 November 2017. Simon continued to receive a fee for his role on the Board up to and including 21 November 2017 at the rate set out in Dunelm's 2017 Annual Report and Accounts. He did not receive any payment in lieu of notice or for loss of office. As a Non-Executive Director, Simon Emeny was not entitled to participate in the Company's bonus, employee share plans or pension arrangements and no further payments have been or are being made to Simon Emeny in respect of loss of office or the termination of his employment.

Keith Down

Keith Down resigned from his position as Chief Financial Officer and stepped down from the Board on 24 May 2018. He was paid salary, pension and benefits to that date at the rate set out in Dunelm's 2017 Annual Report and Accounts. He did not receive any payment in lieu of notice or for loss of office. As Keith left the Company during the financial year, he has no entitlement to bonus in respect of the financial year, and all options under the Long Term Incentive Plan and Sharesave scheme have lapsed. No further payments have been or are being made to Keith Down in respect of loss of office or the termination of his employment.

Statement of Directors' share interests (audited)

Executive Directors are subject to a shareholding target which requires them to build a beneficial holding of Dunelm shares with a value of 1x salary after three years and 2x salary after five years (measured by reference to share price at the financial year end). In addition, they are required to make a personal investment in Dunelm shares on appointment (subject to Company close periods); and to invest two-thirds of any annual bonus paid and LTIP awards earned (after payment of tax and national insurance liability on exercise) in Dunelm shares.

Will Adderley complies with this requirement at the financial year end.

Nick Wilkinson was appointed on 1 February 2018.

Table 8 and Table 9 show the interests of the Directors in shares of the Company at 30 June 2018.

Table 8 - Directors' beneficial shareholdings (audited)

	At 30 June 2018 1p Ordinary Shares	At 1 July 2017 1p Ordinary Shares
Will Adderley	54,161,779	54,161,779
Andy Harrison	416,480	202,932
Marion Sears	105,000	105,000
Nick Wilkinson	38,855	–
William Reeve	12,500	7,000
Liz Doherty	2,500	2,500
Peter Ruis	–	–
Rachel Osborne	–	–

Between the financial year end and the date of this report Directors have purchased shares as follows:

Director	Date of purchase	No. purchased	Price	Total beneficial holding following purchase
Nick Wilkinson	20 July 2018	48,876	508.95	87,731

Table 9 - Directors' interests in options at the period end (audited)

Director	Date of award	Nature of award		End of performance period	Option price	Market price of shares at date of award
Will Adderley	–	–	Nil	–	–	–
Nick Wilkinson	Feb 2018	2018-20 LTIP	110,000	June 2020	Nil	584.0p

The LTIP award above granted to Nick Wilkinson is subject to the performance condition noted in Table 6 above.

Share options and dilution

The Remuneration Committee considers the provisions of the Investment Association's Guidelines on Executive Remuneration when determining the number of shares over which share scheme incentive awards may be made. At the date of this report, over the last 10 year period options have been granted over 0.6% of the Company's issued share capital (adjusted for share issuance and cancellation). The Group does not hold any shares in an employee benefit trust.

Service contracts

In accordance with the Group's policy, the service contracts of the Executive Directors have no fixed term, the notice period for termination is 12 months from either party for Will Adderley, and six months for Nick Wilkinson. Service contracts for the executives include a non-compete arrangement. Payments on termination are restricted to a maximum of the value of base salary and benefits for the notice period. The Remuneration Committee may apply mitigation in respect of any termination payment.

The Non-Executive Directors have letters of appointment for an initial period of three years with a provision for termination of one month's notice from either party, or three months' notice from either party in the case of Andy Harrison, the Chairman.

Table 10 - Directors' service contracts

	Start Date under contract	Unexpired term	Notice period
Will Adderley	28 September 2006	n/a	12 months
Nick Wilkinson	1 February 2018	n/a	6 months
Marion Sears	22 July 2004	10 months	1 month
Liz Doherty	1 May 2013	7 months	1 month
Andy Harrison	1 September 2014	23 months	3 months
William Reeve	1 July 2015	33 months	1 month
Peter Ruis	10 September 2015	36 months	1 month

Since Marion Sears has now served 14 years on the Board (12 of which are post flotation of the Company in 2006), her contract is renewed for one year terms (rather than three), with the notice period referred to above.

Remuneration Report

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Relative TSR performance

The graph below shows the Group's performance over nine years, measured by total shareholder return, compared with the FTSE General Retail Index and the FTSE 250. The Remuneration Committee has chosen these indices for comparison because they provide a range of comparator companies which have similar market capitalisation, which are in the same sector and which face similar market and economic challenges in the long term.

Table 11 - Total shareholder return performance graph (rebased to 2 July 2009 = 100)

The shares traded in the range 505.0p to 753.5p during the year and stood at 505.0p at 30 June 2018.



Table 12 - Historic Chief Executive Officer pay

The table below sets out the prescribed remuneration data for each of the individuals undertaking the role of Chief Executive Officer during each of the last nine financial years:

		CEO Single figure of total remuneration £'000	Annual bonus payment against maximum opportunity %	Long term incentive vesting rates against maximum opportunity %
FY17/18	Nick Wilkinson ⁵	308	13.3%	n/a
FY17/18	John Browett ⁵	429	n/a	n/a
FY16/17	John Browett	722	14.0%	n/a
FY15/16	John Browett ¹	489	57.7%	n/a
FY15/16	Will Adderley ¹	10	n/a	n/a
FY14/15	Will Adderley ²	507	5%	n/a
FY14/15	Nick Wharton ²	110	n/a	n/a
FY13/14	Nick Wharton ³	1,509	22.5%	77.5%
FY12/13	Nick Wharton	1,292	97.0%	86.7%
FY11/12	Nick Wharton	853	100.0%	n/a
FY10/11	Nick Wharton ⁴	429	6.0%	n/a
FY10/11	Will Adderley ⁴	1,413	4.0%	100.0%
FY09/10	Will Adderley	1,366	100.0%	100.0%

¹ Will Adderley was succeeded by John Browett as Chief Executive Officer on 1 January 2016. The data for each Director for 2015/16 is pro-rated by time of service as Chief Executive Officer. Will Adderley's base salary was reduced to £1 on 1 July 2015.

² Will Adderley was reappointed Chief Executive Officer on 11 September 2014, following the resignation of Nick Wharton on 10 September 2014. The data for each Director for 2014/15 is pro-rated by time of service as Chief Executive Officer.

³ Nick Wharton's first LTIP award vested and was exercised in December 2013. No LTIP awards have vested to John Browett since his appointment.

⁴ Will Adderley was Chief Executive Officer until he was succeeded by Nick Wharton on 1 February 2011. The data for each Director for 2010/11 is pro-rated by time of service as Chief Executive Officer.

⁵ John Browett left the Group on 29 August 2017. He was succeeded by Nick Wilkinson on 1 February 2018. The total figure for John Browett includes £322,120 in respect of salary and benefits paid for his six month notice period. The data for each Director for 2017/18 is pro-rated by time of service as Chief Executive Officer.

Remuneration Report

CONTINUED

The table below sets out the increase in total remuneration of the Chief Executive and that of our other colleagues.

Table 13 - Relative change in Chief Executive Officer pay

	Change in base salary 2016/17 to 2017/18	Change in benefits 2016/17 to 2017/18	Bonus earned as % of salary 2017/18	Bonus earned as % of salary 2016/17	% change in bonus earned 2016/17 to 2017/18	% change in bonus earned 2015/16 to 2016/17
Chief Executive Officer ²	11.4%	95.2%	6.5%	17.5%	58.6%	(75.3%)
All colleagues (per capita)	1.8%	11.3%	6.0% ¹	5.4% ¹	101.9%	(55.3%)

¹ Bonus percentage has been calculated in relation to only those employees receiving a bonus in the period as this is considered a more appropriate comparator group.

² John Browett left the Group on 29 August 2017. Nick Wilkinson was appointed on 1 February 2018. Chief Executive Officer figures used in the above calculation include both John Browett and Nick Wilkinson and are as per the Single Figure Table (Table 3). These therefore include £322,120 in respect of John Browett's salary and benefits paid for his six month notice period and one off benefits for Nick Wilkinson, and do not reflect the annual salary increase of Nick Wilkinson on 1 July 2018 of 2% and the bonus earned for FY18 which was lower than that of his predecessor in FY17.

Table 14 - Relative spend on pay

The table below shows the all employee pay cost and returns to shareholders by way of dividends (including special dividends) and share buyback for 2017-18 and 2016-17.

	2017/18 £'m	2016/17 £'m	% Increase
Total spend on pay	139.8	129.3	8.1%
Ordinary dividend to shareholders	53.4	51.6	3.7%
Distributions to shareholders via treasury share purchases	–	4.2	(100%)
Special distributions to shareholders	–	–	n/a
Total distributions to shareholders	53.4	55.8	(4.1%)

This information is based on the following:

Total spend on pay - total employee costs excluding car allowances and bonuses from note 6 on page 126.

Dividends taken from note 9 on page 128.

Share buyback taken from Consolidated Statement of Changes in Equity on page 116.

Executive Director external Board appointments

Executive Directors are permitted to hold one external appointment as a Non-Executive Director or similar advisory or consultative role, subject to the Board being satisfied that there is no conflict of interest and that the position will not impact negatively on the Executive's commitment to their Dunelm role. The Board may allow the Executive to retain any remuneration received in respect of the appointment.

Will Adderley does not hold any external PLC Board appointments.

John Browett was a Director of Octopus Capital Limited and Octopus Investments Limited (effectively one external role) during the period. He retained his Director fees (£7,945 pro rated to 29 August 2017).

Keith Down was a Non-Executive Director of Topps Tiles plc during the period until he stepped down on 24 May 2018. He retained his Director fees (£39,154).

Nick Wilkinson was a trustee of Age UK. This role is unremunerated.

Senior Executive remuneration

The Remuneration Committee provides formal approval of the remuneration of the Company Secretary and Executive Board members. The package for new appointments is formally presented to the Committee for approval. In conducting its assessment of Executive Board remuneration, the Committee pays particular regard to whether any individual is incentivised to take risks inappropriate to their role and responsibilities.

Members of the Executive Board and Senior Management Team are eligible for awards under the LTIP.

All members of senior management who receive share awards are also subject to shareholding targets as follows:

Executive Board and certain other senior Executives	1 × base salary to be acquired over time
Other Executives	0.5 × base salary to be acquired over time

Gender pay disclosures

At the end of March, Dunelm published its Gender Pay report. We are committed to paying men and women equally for roles of the same size and scale. We are proud that 67% of our colleagues are female. However, in common with many other retailers, 80% of our colleagues are employed in our retail operations, and these roles tend to be lower paid. As a result, we have a significant gap in the pay between genders (our mean gap is 17.4% and our median gap is 4.8%), very much in line with our peers in the UK retail sector. We have made progress over the twelve months to improve, and we have more activity planned, including the launch of an Empowering Female Leaders programme, widening our internal mentoring programme, and looking at how we can reduce friction for women returning to work after maternity leave. We are leading by example; 33% of our senior leadership roles are held by women, and following Laura Carr's appointment to the Board, three of our eight Board members, and half of our Executive Board will be female.

Engaging with our colleagues on pay

Details of how we engage with our colleagues are set out in the Corporate Governance Report.

Statement of implementation of policy in the 2018/19 financial year

Base salary, benefits and pension

Base salary and benefits for each of the Executive Directors for 2018/19 are set out in the table below:

Table 15 - Base salary, benefits and pension for 2018/19

	Base salary	Increase to base salary year on year	Benefits	Increase to benefits year on year	Pension	Increase to pension year on year
Nick Wilkinson	£540,600	2%	Car allowance; travel allowance of 5% of salary; private health insurance for the individual and their family; permanent health cover; life assurance; mobile phone; colleague discount; relocation expenses	N/A	£54,060	2%
Laura Carr*	£365,000	N/A	Car allowance; private health insurance for the individual and their family; permanent health cover; life assurance; mobile phone; colleague discount ; relocation expenses	N/A	£36,500	N/A
Will Adderley	£1	Nil	As above	Nil	Nil	n/a

Basic salary increase for Nick Wilkinson is in line with the Company-wide award for monthly paid colleagues of 2%.

* The pay of Laura Carr reflects the annual salary and benefits which will apply when she starts work on 29 November 2018 and has not been pro rated.

Will Adderley has asked that he not be considered for a pay increase.

Remuneration Report

CONTINUED

Annual bonus

Nick Wilkinson has been awarded a bonus opportunity of up to 125% of base salary. The performance conditions attached to the bonus are:

80% linked to achievement of Budget PBT;

20% linked to achievement of strategic and personal targets, aligned to the Group strategy.

The Budget PBT is set taking into account market consensus and broker expectations. The actual financial and strategic targets have not been disclosed at this time as they are commercially sensitive. The targets and an assessment of the extent to which they have been achieved will be disclosed in next year's remuneration report.

On her appointment, Laura Carr will be entitled to receive a bonus of up to 125% of salary, with 80% linked to Budget PBT and 20% to strategic and personal targets. This will be pro-rated to service over the financial year.

Nick Wilkinson and Laura Carr have committed that two-thirds of the bonus earned (after payment of income tax and National Insurance) will be invested in Dunelm shares, to be held for the duration of employment, with 50% of these shares to be retained for two years following cessation of employment.

Will Adderley has asked that he not be considered for a bonus award.

LTIP

An award is expected to be made to Nick Wilkinson (in October 2018) and Laura Carr (shortly after she joins in November 2018) under the Long Term Incentive Plan over shares to the value of 200% and 160% of salary respectively.

The award will vest, subject to continued employment, on the third anniversary of the grant date, to the extent that performance conditions have been met. Two-thirds of vested shares (after sale to cover tax and national insurance liability on exercise) must be retained for the duration of employment, and 50% of these must be retained for two years following cessation of employment.

Will Adderley has asked that he not be considered for an LTIP award.

Joining arrangements

We recruited both Nick Wilkinson and Laura Carr during FY18. Both Directors were offered remuneration packages in line with that of their predecessors, except that their pension entitlement (10% of base salary) is lower, reflecting our desire to align this better with workforce entitlement (previous entitlements 20% for CEO and 15% for CFO).

In order to secure their services we needed to agree certain joining arrangements. These were fully in line with our Remuneration Policy. Dunelm has a very conservative approach to executive remuneration with long term commitment and alignment through shareholding underpinning our approach. We are never happy about making any additional payments of this nature. We considered the proposed joining arrangements very carefully, and took professional advice from Deloitte in relation to each Director's remuneration package as a whole. In view of the strength of the Nominations Committee's recommendation, and the need to secure a permanent candidate of calibre, the Committee decided that these joining arrangements were acceptable and in the interests of Dunelm. Details are set out below:

Nick Wilkinson

We asked Nick to relocate his family from London to Leicester; we have therefore agreed to award Nick a travel allowance of 5% of salary, and to pay up to £50,000 by way of relocation costs. We have also agreed to pay a temporary accommodation allowance of up to £1,500 per month for up to 12 months.

We were not asked to compensate Nick for any remuneration foregone.

Laura Carr

Laura will be financially disadvantaged by leaving her current role after a relatively short tenure to join Dunelm. We have also asked her to relocate her family to Leicestershire. We have therefore agreed that we will partially compensate her. The exact amounts have not been finalised at the date of this report, but the maximum will be similar to the joining arrangements put in place for her predecessor, Keith Down, in 2015; and the majority of the payment, after deduction of tax and national insurance, must be invested in Dunelm shares which are subject to the "Lifetime Lock-in". If Laura voluntarily leaves the business or is lawfully dismissed within two years of commencing her employment with the Company, she will be liable to repay the gross amounts paid to her by way of joining arrangements set out above. All payments to be made are within our agreed Remuneration Policy, and full disclosure will be made in the FY19 annual report.

Sharesave

An invitation will be issued in October 2018 to all eligible employees, to apply for options to be granted under the Sharesave scheme at a 20% discount to the closing market price of Dunelm Group shares on the dealing day preceding the issue of the invitation. The maximum monthly savings will be £500 per month. Executive Directors employed at the eligibility date may apply for Sharesave options, subject to the plan rules.

Non-Executive Director fees for 2018/19

Fees to be paid to Non-Executive Directors are as set out in the table below:

Table 16 - Non-Executive Director Fees

	Position	Base Fee	Committee/ SID Fee	Increase in base fee year on year	Increase in Committee fee year on year	Comment
Andy Harrison	Chairman	£212,160	Nil	2%	n/a	
Liz Doherty	Audit and Risk Committee Chair	£50,938	£10,200	2%	2%	
	Senior Independent Director		£6,369	2%	2%	SID fee applied from 22 November 2017
William Reeve	Non-Executive Director	£50,938	£10,200	2%	n/a	Committee chair fee applied from 22 November 2017
Peter Ruis	Non-Executive Director	£50,938	Nil	2%	n/a	
Marion Sears	Non-Executive Director	£50,938	Nil	2%	n/a	

Base fee, Senior Independent Director (SID) fee and Committee Chair fee increases with effect from 1 July 2018 were in line with the Company-wide increase of 2%.

Statement of shareholder voting

At the Annual General Meeting on 21 November 2018, the total number of shares in issue with voting rights (excluding treasury shares) was 201,709,777. Details of voting on remuneration related resolutions are set out below:

Table 17 - Voting on remuneration related resolutions at the 2017 AGM

Resolution	Votes for	% of votes cast	Votes against	% of votes cast	Votes withheld	% withheld
Approve 2017 Remuneration Policy	180,477,797	99.40%	1,086,936	0.60%	115,469	0.06%
Approve Annual Remuneration Report	180,381,216	99.64%	648,496	0.36%	650,490	0.36%
Approve changes to LTIP rules	180,248,756	99.28%	1,314,385	0.72%	117,061	0.06%

Approved by the Board on 12 September 2018.

William Reeve

Chair of the Remuneration Committee



Letter from the Chair of the Nominations Committee

Dear Shareholder

This has been a year of change for the Board, and a particularly busy one for the Committee, as we have recruited three new Directors. As we are a small and collegiate Board, we always take great care with the appointment of any new colleague, and so this is a very thorough and time-consuming process.

When I wrote to you last year, we had just started to look for a new Chief Executive Officer. We were pleased to welcome Nick Wilkinson to the Board at the start of February this year. Nick brings an excellent retail skill-set with multi-channel experience across a number of consumer sectors and geographies, and is an excellent cultural fit. The Board is confident that Nick's proven business leadership and track record will help us to deliver our ambitious plans for growth in market share and creation of substantial value for shareholders. Nick has instigated a review of our "purpose" and the goals that we have in place to achieve this, the results of which are reflected in this report.

In May, Keith Down, the Chief Financial Officer, stepped down from the Board for personal reasons, to take up a role closer to his family home. Keith was CFO for two and half years and I would like to thank him and wish him well in his next role.

We have appointed Laura Carr as our new CFO. Laura will join us in November. She brings a breadth of business and finance experience, which will really help us to achieve our ambitious business plans to become the leading multi-channel retailer in our space. She will also work well with Nick and the rest of the Executive team, and will be a welcome addition to our Board.

David Stead, Dunelm's former CFO, has been our interim CFO since April, and I am grateful to him for stepping out of retirement and providing us with the diligent and astute support which we valued so much in the past.

Simon Emeny retired from the Board at the AGM as planned. I would like to thank Simon for his ever-relevant challenge and useful input over a momentous decade for both retailing generally and Dunelm specifically.

We appointed Rachel Osborne as a Non-Executive Director, to replace Simon, and also strengthen the financial expertise on our Board and Audit and Risk Committee. Shortly after joining us, Rachel changed her executive role which created a competitive conflict, and as a result decided to step down from the Dunelm Board. I thank Rachel for her contribution over her short tenure. We have started the process to appoint a successor. We may also consider the appointment of an additional Non-Executive Director this coming year should a suitable candidate become available.

Whilst we have welcomed new Directors to the Board this year, we have continued to benefit from the advice and counsel offered by my other Board colleagues, all of whom have now served at last three years on the Board. Two of them have taken on additional responsibilities following Simon Emeny's retirement: Liz Doherty was appointed Senior Independent Director, and William Reeve assumed the chair of the Remuneration Committee.

The Committee has continued to monitor external developments, including the increasing emphasis on diversity and culture. When Laura joins us in the Autumn, 37% of our Board will be female (44% if you include the Company Secretary). The Executive Board will be 50% female. Whilst we are proud of this, our gender pay gap has shown us that there is more to do to enable more of our female colleagues to progress. We know that we also have more work to do to promote diversity in the wider sense.

Preservation of our culture has always been a priority, as we seek to retain the values instilled by the Adderley family who founded the business as we continue to grow. This year the Board formally looked at how we monitor culture in the "governance" sense of how the business treats its colleagues, customers and others, and we have agreed a set of KPIs to help us monitor this.

In the last two years we had an externally facilitated Board review. This year I conducted an internal review based on a number of questions aimed at improving the Board's effectiveness as we move forward. We agreed a number of actions around succession planning, diversity and meeting effectiveness. Further details are set out in the corporate governance report.

I look forward to meeting shareholders at the AGM.

Yours sincerely,

Andy Harrison

Chair of the Nominations Committee

12 September 2018

Nominations Committee Report

Summary of principal activities

- Appointment of Nick Wilkinson as Chief Executive Officer in February 2018
- Appointment of Rachel Osborne as a Non-Executive Director in April 2018
- Appointment of Laura Carr as Chief Financial Officer, to start in November 2018
- Board now 37% female (44% including the Company Secretary)

This report provides details of the role of the Nominations Committee and the work it has undertaken during the year.

Principal duties

The purpose of the Committee is to assist the Board by keeping the composition of the Board under review and conducting a rigorous and transparent process against objective criteria, and with due regard for the benefits of diversity of the Board, when new appointments to the Board are made. The full terms of reference for the Committee can be found on the Company's website, www.dunelm.com.

While all Board appointment processes and succession discussions are led by the Nominations Committee, these are viewed as important whole-Board topics and no appointment has been or will be made to the Board without agreement of all Directors.

Committee Membership

The following Directors served on the Committee during the year:

MEMBER	PERIOD FROM:	TO:
Andy Harrison (Chair)	1 September 2014	To date
Will Adderley	17 February 2011	To date
Liz Doherty	1 May 2013	To date
William Reeve	1 July 2015	To date
Peter Ruis	10 September 2015	To date
Marion Sears	18 January 2005	To date
Rachel Osborne	1 April 2018	28 August 2018
Simon Emeny	25 June 2007	21 November 2017

There were seven Committee meetings held in the year and members' attendance was as shown in the table below. The Company Secretary acts as secretary to the Committee.

No Director attended that part of a meeting during which his or her own position was discussed.

MEMBER	MEETINGS ATTENDED:
Andy Harrison (Chair)	7/7
Will Adderley	7/7
Liz Doherty	7/7
William Reeve	7/7
Peter Ruis	7/7
Rachel Osborne	1/1
Marion Sears	7/7
Simon Emeny	3/3

Committee Activities in 2017-18

Board changes in 2017-18

We have had a number of significant Board changes during the year, and the Nominations Committee has led the process throughout.

We started a search process for a new Chief Executive Officer in August 2017, after John Browett stepped down from the Board, and we were pleased to announce the appointment of Nick Wilkinson in December. Nick has extensive retail experience across a number of consumer brands, most recently as Chief Executive of Evans Cycles, the UK's leading cycling specialist. Previous roles included Chief Executive of Maxeda DIY, a Belgian and Dutch home improvement retailer; and MD of Currys, part of Dixons Retail. Importantly, Nick is also a good cultural fit with the Board and shares the Dunelm values. We were pleased that Nick was able to start with us in February.

Shortly after Nick's appointment, our Chief Financial Officer, Keith Down, advised the Board that he wished to step down in the summer for personal reasons, to take up a role closer to his family home. In May, we announced the appointment of Laura Carr, who joins us in November from Compass Group, the FTSE 30 multinational contract food, hospitality and support services company, where she was Group Financial Controller. Roles prior to this include CFO of Indigo Books & Music, Canadian listed company, and senior finance roles with Japan Tobacco International and PriceWaterhouseCoopers. We are confident that Laura will work well with the Board and management team.

Nominations Committee Report

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Finally, we appointed Rachel Osborne as a Non-Executive Director, to replace Simon Emeny, who retired in November 2017 as planned. Whilst we were able to finalise Rachel's appointment in November, she was unable to join us until April 2018 due to her other commitments. Rachel was until recently Chief Financial Officer of Domino's Pizza Group plc, and is an experienced finance and strategy specialist. She is a chartered accountant, and has held a number of finance director and strategic planning roles with large consumer and retail businesses, including Vodafone, John Lewis, Sodexo, Kingfisher and Pepsi Co. Rachel resigned from the Board on 28 August 2018, to take up an executive role with a competitor.

We adopted a similar search process for all three directors: the Nominations Committee drew up a detailed role and person specification. An independent external search consultant (MWM Consulting) was appointed to conduct the process, and as is usual, we asked for an equal number of male and female candidates to feature on the "long list". Candidates met initially with the Chairman and at least one other Board member, and finalists met with other Board members. Extensive references were taken, and both Nick and Laura completed psychometric tests. Whilst the process was led by the Committee, who made the final recommendation, any Board appointment is regarded as a "whole Board" issue, no appointment is made without unanimous Board support.

Board Succession Planning

For a number of years we have had a formal, long range plan for how Board membership should develop. As usual, we aim to balance continuity with regular refreshment of skill and experience and the corporate governance guidance on Chairman and Non-Executive Director tenure.

As part of our Board evaluation process, we review the balance of skills on the Board as a whole, taking account of the future needs of the business, and the knowledge, experience, length of service and performance of the Directors. In accordance with our policy, we also had regard to the requirement to achieve a diversity of characters, backgrounds and experiences amongst Board members.

We also have a short term / contingency plan, which we have put into operation during the year. During the five months between the resignation of our former Chief Executive Officer and our new Chief Executive Officer joining us, I provided interim leadership, supported by Will Adderley, the Deputy Chairman, and Keith Down, the CFO. We also have an experienced and capable Executive Board, who were able to continue to run the business in the absence of a permanent CEO. During the period between Keith Down stepping down as CFO and Laura Carr joining us, members of the CFO's management team were able to ensure that the Finance function continued to operate effectively. We were also fortunate that David Stead, our former CFO, was able to provide interim support on a part time basis.

Board evaluation

The Board held a scheduled external evaluation in 2016, and a follow up by the same provider in 2017. In 2018 I led an internal evaluation, based on a discussion with each Board member focused on a number of relevant topics, followed by a Board discussion of the output from this.

The results of the evaluation are described in the Corporate Governance report.

Culture and values

Dunelm was founded by the Adderley family, and Will Adderley, our Deputy Chairman, has a particular interest and accountability for ensuring that the Dunelm culture is preserved. Will formulated the Business Principles which describe the Dunelm culture, these form part of induction, appraisal and colleague communications. A key theme running through our principles is to "do the right thing", whether this relates to our decisions, or how we deal with customers, colleagues, suppliers, the community, investors, and regulators. Our approach is also reflected in our Code of Business Conduct, our Anti-bribery policy, our Ethical Policy and our Tax Strategy.

In April, the Board reviewed how it sets and monitors our business culture. Following the guidance issued by the Financial Reporting Council in 2016, we looked at how we have defined the Group's purpose, vision and values, and the business principles referred to above. We then considered what "culture indicator" KPIs are available to give assurance that the systems that management have in place to embed these are working effectively. The Board has oversight through regular agenda items, such as our risk management procedures, regular presentations from the People Director, and meetings with senior management and visits to stores and other company operations. We also review a number of "culture" KPIs regularly (customer satisfaction, employee engagement, regulatory breaches for example). To provide a more specific focus, we decided to draw up a "culture scorecard" bringing all of our culture KPIs together, which is reviewed alongside our risk register twice a year.

Diversity and gender pay

In 2011 we set out the Board's policy on diversity which we believe remains appropriate for Dunelm. It can be summarised as follows:

- Our overriding concern is to ensure the Board comprises outstanding individuals who can lead the Group, and we believe the Group's best interests are served by ensuring that these individuals represent a range of skills, experiences, backgrounds and perspectives, including gender. Naturally it is our policy is that the Board should always be of mixed gender
- We support the objective of promoting diversity on our Board and throughout the Group. Quotas are a blunt instrument but they do bring focus, as well as the risk of compromised decisions on Board membership, quality and size, particularly with a small and collegiate Board
- We shall continue to ensure that specific effort is made to bring forward female candidates for Board appointments
- We will monitor the Group's approach to people development to ensure that it continues to enable talented individuals, regardless of gender and background, to enjoy career progression within Dunelm

Details of the gender balance within the Group are set out in the Sustainability report on page 37. The Committee is pleased that there is a good level of gender diversity at Board, Executive Board and senior management level (37%, 50% and 33% respectively).

In the financial year we made our first gender pay disclosures, these are described more fully in the Remuneration Report. This year we will also be collecting data about ethnic diversity within our business and considering whether there is more action needed in this area.

The Board as a whole understands the importance of engaging our colleagues in order to deliver our strategy. The Board has oversight of all matters relating to our People, including diversity and the gender pay gap, and we receive presentations from our People Director twice a year. In addition, Marion Sears is our "Designated NED" for colleague matters, and in November the Board will receive its first presentation from the National Colleague Council.

Tenure and Re-election of Directors

The tenure of the Non-Executive Directors is set out below.

	Appointment	Current term (years)	Next renewal	Additional Board role
Andy Harrison	September 2014	4	September 2020	Chairman
Marion Sears	July 2004	14	July 2019	
Liz Doherty	May 2013	5	May 2019	SID, Audit and Risk
William Reeve	July 2015	3	July 2021	Remuneration
Peter Ruis	September 2015	3	September 2021	

Marion Sears has served 14 years on the Board. Marion is now considered by the Board to be 'non-independent' in view of her tenure.

In accordance with the UK Corporate Governance Code, all Directors, will seek re-election at the 2018 AGM, and as now required by the Listing Rules, the Non-Executives will be subject to an additional vote by shareholders independent of the Adderley family.

Executives below Board

The Committee has for some years had both formal and informal oversight of the Executive team below Board. Dunelm Board members have regular contact with these Executives, both through formal Board presentations, attendance of the Executive Board at the annual Strategy Days, and in regular store visits, where a Non-Executive

Director meets a member of the Executive Board on a less formal basis. The Board receives an annual Talent Management presentation from the People Director which provides an assessment of performance of the Executive Board and other members of the Leadership Team, together with succession planning.

Although these activities are not formally conducted as part of the work of the Nominations Committee, we see this as a useful way of preserving our culture and an important aspect of our oversight of the Executive team development and succession process.

Approved by the Board on 12 September 2018.

Andy Harrison

Chair of the Nominations Committee

12 September 2018

Directors' Report

The Directors present their report together with the audited financial statements for the period ended 30 June 2018.

Where reference is made to other sections of the Annual Report and Accounts, these sections are incorporated into this report by reference.

Strategic Report

The Group's Strategic Report is set out on pages 8 to 43. This contains an indication of likely future developments in the business of the Company and the Group.

Results and Dividends

The consolidated profit for the year after taxation was £73.3m (2017: £73.1m). The results are discussed in greater detail in the Financial Review on pages 22 to 25.

A final dividend of 19.5p per share (2017: 19.5p) is proposed in respect of the period ended 30 June 2018, to add to an interim dividend of 7.0p per share paid on 13 April 2018 (2017: 6.5p). The final dividend will be paid on 7 December 2018 to shareholders on the register at 16 November 2018.

Shareholder and Voting Rights

All members who hold Ordinary Shares are entitled to attend and vote at the Annual General Meeting. On a show of hands at a general meeting every member present in person shall have one vote and on a poll, every member present in person or by proxy shall have one vote for every Ordinary Share held.

On 2 October 2006, Jean Adderley, Bill Adderley and Will Adderley (all shareholders) entered into a Relationship Agreement with the Company, pursuant to which each of Jean Adderley, Bill Adderley and Will Adderley undertook to the Company that, for so long as, individually or together, they are entitled to exercise, or to control the exercise of, 30% or more of the rights to vote at general meetings of the Company or they are able to control the appointment of Directors who are able to exercise a majority of votes at Board meetings of the Company, they will:

- Conduct all transactions and relationships with any member of the Group on arm's length terms and on a normal commercial basis
- Not take any action which precludes or inhibits any member of the Group from carrying on its business independently of Jean and Bill Adderley and their associates (as defined in the Listing Rules)

- Not exercise any of their voting rights or other powers to procure any amendment to the Articles of Association of the Company which would be inconsistent with or undermine any of the provisions of the Relationship Agreement
- Abstain from voting on any resolution to which LR11.7.R(4) of the Listing Rules applies involving Jean Adderley, Bill Adderley or Will Adderley or any of their associates as the related party
- Not carry on (other than through their holding of securities of the Company) or have any financial interest (other than a financial interest in securities which are held for investment purposes only) in any person who carries on a business as a homewares retailer, to the extent that it would be inconsistent with or undermine any provisions of the Relationship Agreement
- Only enter into, amend or terminate any transaction, agreement or relationship between themselves or any of their associates and any member of the Group with the approval of a majority of the independent Non-Executive Directors

WA Capital Limited and Nadine Adderley, to whom Will Adderley transferred shares by way of a gift, have subsequently become party to this agreement.

In July 2014, the Relationship Agreement was amended so as to comply with Listing Rule LR 9.2.2A(2)(a), which came into effect on 16 May 2014. The following additional undertakings were given by the parties:

- No action will be taken that would have the effect of preventing the Company from complying with its obligations under the Listing Rules
- No resolution will be proposed, or procured to be proposed, which is intended to, or appears to be intended to circumvent the proper application of the Listing Rules

In addition, the Articles of Association of the Company provide that the election and re-election of independent Directors must be conducted in accordance with the election provisions set out in LR 9.2.2ER and LR 9.2.2FR. This means that the election or re-election of each independent Director at the Annual General Meeting will be subject to an additional separate resolution upon which parties controlling 30% or more of the voting shares of the Company are not eligible to vote.

The Company confirms that it has complied with its obligations under the Relationship Agreement during the financial period under review, and that so far as it is aware, all other parties to that agreement have complied with it.

The Company confirms that there are no contracts of significance between any member of the Group and any of the parties to the Relationship Agreement, with the exception of Will Adderley's service agreement as a Director of the Company, the terms of which are outlined in the Remuneration Report.

There are no restrictions on the transfer of Ordinary Shares in the Company other than certain restrictions imposed by laws and regulations (such as insider trading and marketing requirements relating to closed periods) and requirements of the Listing Rules whereby Directors and certain employees of the Company require Board approval to deal in the Company's securities.

UK Listing Authority Listing Rules (LR) - compliance with LR 9.8.4C

The majority of the disclosures required under LR 9.8.4 are not applicable to Dunelm. The table below sets out the location of those requirements that are applicable:

Applicable sub-paragraph within LR 9.8.4	Disclosure provided
(14) A statement made by the Board that the Company has entered into an agreement under LR 9.2.2A, that the Company has, and as far as it is aware, the other parties to the agreement have, complied with the agreement.	See above section headed 'Shareholder and Voting Rights'.

Change of Control

The Company is not party to any significant agreements which take effect, alter or terminate solely on a change of control of the Company following a takeover bid.

There are no agreements between the Company and its Directors or employees providing for additional compensation for loss of office or employment (whether through resignation, redundancy or otherwise) that occurs because of a takeover bid.

Details of the rights of employees to exercise options on a change of control of the Company are set out in the Remuneration Policy section of this report.

Share Capital and Treasury Shares

The Company has only one class of shares, Ordinary Shares of 1p each.

The issued Ordinary Share capital of the Company has not changed during the period.

At 30 June 2018, the Company held 914,635 Ordinary Shares in treasury (2017: 1,150,642).

During the period the Company did not purchase any Ordinary Shares into treasury. 236,007 shares were transferred to employees who exercised options under a share incentive scheme or Directors under the LTIP scheme. Details of option exercises by Directors are set out in the Remuneration Report.

Since the financial year end, nil Ordinary Shares have been moved out of treasury to employees who exercised options under a share incentive scheme.

Directors' Report

CONTINUED

Substantial Shareholders

At 30 June 2018 the following had notified the Company of a disclosable interest in 3% or more of the nominal value of the Company's Ordinary Shares:

	Ordinary Shares	Percentage of share capital
Will Adderley	54,161,779	26.9
Bill Adderley	48,070,000	23.8
Royal London Asset Management Limited	10,612,144	5.26
Standard Life Aberdeen plc	10,274,359	5.09

Will Adderley is also deemed to hold a legal interest in 967,250 Ordinary Shares held by The Stoneygate Trust (formerly known as The Leicester Foundation) and 172,750 Ordinary Shares held by the Paddocks Discretionary Trust, by virtue of the fact that he is a trustee of those trusts.

Since the period end date, we have been notified by Royal London Asset Management Limited that their holding is now 9,907,809 Ordinary shares, 4.9% of the issued share capital.

There have been no other changes in the holdings of substantial shareholders between the period end date and 12 September 2018.

Directors

Details of the Directors of the Company who served on the Board during the year, and the biographies of those on the Board at the date of this report are set out on pages 46 to 48. Details of changes to the Board during the period are set out on page 48.

Powers of Directors

Specific powers of the Directors in relation to shares and the Company's Articles of Association are referred to in the Corporate Governance report on page 60.

Employee Information

Information relating to employees of the Group, including our approach to disabled persons, is set out in the "People" section of the Sustainability report on page 37.

Share incentive schemes in which employees participate are described in the Remuneration Report on pages 74 to 75.

Donations

The Group does not make any political donations.

Greenhouse Gas Emissions

The Sustainability report on page 42 sets out the greenhouse gas emissions disclosures required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Treasury and Risk Management

The Group's approach to treasury and financial risk management, including its use of hedging instruments, is explained in the Principal Risks and Uncertainties section on page 33 and note 18 to the annual financial statements.

Independent Auditors

In accordance with section 489 of the Companies Act 2006 and the recommendation of the Audit and Risk Committee, a resolution is to be proposed at the AGM for the reappointment of PricewaterhouseCoopers LLP as auditor of the Group.

Disclaimer

This Directors' Report, Strategic Report and the Financial Statements contain certain forward-looking statements with respect to the financial condition, results, operations and business of Dunelm Group plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this Directors' Report and Strategic Report or in these Financial Statements should be construed as a profit forecast.

Annual General Meeting

The Annual General Meeting will be held at 11.00am on Thursday 29 November 2018 at the Dunelm Store Support Centre, Watermead Business Park, Syston, Leicester, LE7 1AD. A formal notice of meeting, explanatory circular and a form of proxy will accompany this annual report and financial statements.

This report was reviewed and signed by order of the Board on 12 September 2018.

Dawn Durrant

Company Secretary

Statement of Directors' Responsibilities

IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial 52 week period. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group and parent company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and IFRSs as adopted by the European Union have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The directors are also responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' confirmations

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group and parent company's position and performance, business model and strategy.

Each of the directors, whose names and functions are listed in Corporate Governance Report confirm that, to the best of their knowledge:

- the parent company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the company;
- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the group and parent company, together with a description of the principal risks and uncertainties that it faces

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the group and parent company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group and parent company's auditors are aware of that information

Customer First

We must continue to give customers clear (and more) reasons to shop with us. We will be famous for style, value, quality and ease of shopping. This means well designed, brilliant quality, own label products at the best possible prices. We must offer more than today - more newness, choice and seasonality and desirable brands, for example in dorma and fogarty. We will broaden our appeal. We want everyone to create a home they love and to feel comfortable in ours.



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Independent Auditor's Report

TO THE MEMBERS OF DUNELM GROUP PLC

Report on the audit of the financial statements

Opinion

In our opinion, Dunelm Group Plc's group financial statements and parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2018 and of the group's profit and the group's and the parent company's cash flows for the 52 week period (the "period") then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the consolidated and parent company statements of financial position as at 30 June 2018; the consolidated income statement and consolidated statement of comprehensive income, the consolidated and parent company statements of cash flows, and the consolidated and parent company statements of changes in equity for the 52 week period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company. Other than those disclosed in the Audit and Risk Committee Report, we have provided no non-audit services to the group or the parent company in the period from 2 July 2017 to 30 June 2018.

Our audit approach

Overview

- Overall group materiality: £5.1 million (2017: £5.5 million), based on 5% of profit before taxation after adjusting for exceptional items
- Overall parent company materiality: £1.2 million (2017: £1.2 million), based on 0.5% of total assets
- The group is structured with one segment which comprises a consolidation of seven legal entities
- We conducted an audit of the complete financial information of six of these entities, together with additional procedures performed, including over the Group consolidation. These accounted for 100% revenue, 100% of profit before tax and 100% of net assets
- Inventory provisions (Group)
- Presentation of exceptional items (Group)



The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates, and considered the risk of acts by the group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the group and parent company financial statements, including, but not limited to, Companies Act 2006, the Listing Rules and UK Tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with regulators, review of board minutes and enquiries of management.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

KEY AUDIT MATTER

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

Inventory provisions

Inventory represents a significant asset on the group's balance sheet and is carried at the lower of cost and net realisable value ("NRV"). The determination of the NRV provision involves judgement in assessing slow moving and obsolete inventory. The group's accounting policy is to determine a provision based upon an analysis of the number of weeks' cover of inventory (i.e. number of weeks' sales held in inventory) based upon an average of the previous 26 weeks of sales. Provisions are recorded according to type of inventory, the number of weeks' cover, certain classifications, such as whether inventory is a continuity line or discontinued, and management's assessment of the expected realisable value for each category of inventory.

We tested the inputs to the provision calculation, including the classification of inventory and sales data for 0-26 weeks, to reports from the buying department, which is segregated from the finance department, and found them to be consistent. This also included testing the average cost of inventory by agreeing the inputs to source documentation and testing freight and duty costs. We also re-performed the weeks' cover calculation, identifying no exceptions. We challenged the expected realisable value of inventory by reference to the historical experience of selling inventory at below cost and management's intended plans for future routes of clearance. We found that the provision rates were consistent with the evidence obtained, based on past activity, and appropriately applied.

Presentation of exceptional items

The ongoing integration of the Worldstores group, acquired on 28 November 2016, has resulted in further costs considered to be exceptional in nature during FY18. As a result of the post acquisition assessment of the Worldstores group, asset disposal / impairments, accelerated amortisation and inventory write offs have been treated as exceptional items, as well as associated integration and redundancy costs.

We tested items which have been presented as exceptional to determine whether they are one off in nature and non-recurring in line with group policy.

We have understood the costs which management have deemed exceptional and challenged the likelihood of whether these will occur again.

We have challenged and tested whether there are other costs which should be classified as exceptional and have found no omissions.

Independent Auditor's Report CONTINUED

TO THE MEMBERS OF DUNELM GROUP PLC

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the parent company, the accounting processes and controls, and the industry in which they operate.

The group is structured with one segment. The group financial statements are a consolidation of seven legal entities within this segment, comprising the group's operating business and centralised functions.

In establishing the overall approach to the group audit, we identified one legal entity: Dunelm (Soft Furnishings) Limited, which, in our view, required an audit of its complete financial information due to its financial significance to the group.

In addition, we also conducted the statutory audits of a further five non-significant legal entities such that the audit work was complete prior to finalisation of the audit of the group financial statements, thereby providing further evidence in support of our group opinion.

The audits of these six legal entities, together with the additional procedures performed at the group level, including over the group consolidation, gave us the evidence we needed for our opinion on the group financial statements as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Overall materiality	£5.1 million (2017: £5.5 million).	£1.2 million (2017: £1.2 million).
How we determined it	5% of profit before taxation after adjusting for exceptional items.	0.5% of total assets.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, as we believe this is the key measure used by the shareholders in evaluating the performance of the group.	We have applied this benchmark, a generally accepted auditing practice, as we believe this is the key measure used by the shareholders in evaluating the performance of the parent company.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £0.06 million and £4.8 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.25 million (group audit) (2017: £0.25 million) and £0.25 million (parent company audit) (2017: £0.25 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

REPORTING OBLIGATION	OUTCOME
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report, Directors' Report and Corporate Governance Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 30 June 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Report on pages 50 to 61 about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ("DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Report on pages 50 to 61 with respect to the parent company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a Corporate Governance Report has not been prepared by the parent company. (CA06)

Independent Auditor's Report CONTINUED

TO THE MEMBERS OF DUNELM GROUP PLC

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 34 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated
- The directors' explanation on page 34 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit. (*Listing Rules*)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 103, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and parent company obtained in the course of performing our audit
- The section of the Annual Report on page 63 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee
- The directors' statement relating to the parent company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (*CA06*)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 14 January 2014 to audit the financial statements for the year ended 28 June 2014 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 28 June 2014 to 30 June 2018.

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

12 September 2018

Consolidated Income Statement

FOR THE 52 WEEKS ENDED 30 JUNE 2018

	Note	2018 52 weeks £'m Underlying	2018 52 weeks £'m Exceptional Items (Note 3)	2018 52 weeks £'m Reported	2017 52 weeks £'m Underlying	2017 52 weeks £'m Exceptional Items (Note 3)	2017 52 weeks £'m Reported
Revenue	1	1,050.1	–	1,050.1	955.6	–	955.6
Cost of sales		(546.5)	–	(546.5)	(488.0)	(0.5)	(488.5)
Gross profit		503.6	–	503.6	467.6	(0.5)	467.1
Operating costs	4	(398.9)	(8.9)	(407.8)	(355.9)	(16.4)	(372.3)
Operating profit	5	104.7	(8.9)	95.8	111.7	(16.9)	94.8
Financial income	7	–	–	–	0.2	–	0.2
Financial expenses	7	(2.7)	–	(2.7)	(2.6)	–	(2.6)
Profit before taxation		102.0	(8.9)	93.1	109.3	(16.9)	92.4
Taxation	8	(21.0)	1.2	(19.8)	(22.4)	3.1	(19.3)
Profit for the period		81.0	(7.7)	73.3	86.9	(13.8)	73.1
Earnings per Ordinary Share - basic	10	40.1p		36.3p	43.1p		36.3p
Earnings per Ordinary Share - diluted	10	40.0p		36.2p	42.8p		36.1p

Consolidated Statement of Comprehensive Income

FOR THE 52 WEEKS ENDED 30 JUNE 2018

	2018 52 weeks £'m	2017 52 weeks £'m
Profit for the period	73.3	73.1
Other comprehensive income/(expense):		
Items that may be subsequently reclassified to profit or loss:		
Movement in fair value of cash flow hedges	1.6	1.4
Transfers of cash flow hedges to inventory	2.6	(9.4)
Deferred tax on hedging movements	(0.7)	1.4
Other comprehensive income/(expense) for the period, net of tax	3.5	(6.6)
Total comprehensive income for the period	76.8	66.5

Consolidated Statement of Financial Position

AS AT 30 JUNE 2018

	Note	30 June 2018 £'m	1 July 2017 £'m
Non-current assets			
Intangible assets	11	28.6	27.5
Property, plant and equipment	12	198.6	195.2
Deferred tax assets	13	–	0.3
Derivative financial instruments	18	1.4	–
Total non-current assets		228.6	223.0
Current assets			
Inventories	14	154.7	165.3
Trade and other receivables	15	23.9	26.4
Derivative financial instruments	18	2.8	1.1
Cash and cash equivalents	16	15.0	17.4
Total current assets		196.4	210.2
Total assets		425.0	433.2
Current liabilities			
Trade and other payables	17	(101.8)	(133.1)
Liability for current tax		(7.8)	(7.0)
Derivative financial instruments	18	(0.7)	(0.4)
Total current liabilities		(110.3)	(140.5)
Non-current liabilities			
Bank loans	19	(139.0)	(139.5)
Trade and other payables	17	(38.3)	(39.8)
Deferred tax liabilities	13	(1.0)	–
Provisions	20	(1.7)	(1.7)
Derivative financial instruments	18	–	(1.6)
Total non-current liabilities		(180.0)	(182.6)
Total liabilities		(290.3)	(323.1)
Net assets		134.7	110.1
Equity			
Issued share capital	21	2.0	2.0
Share premium account		1.6	1.6
Capital redemption reserve		43.2	43.2
Hedging reserve		2.8	(0.7)
Retained earnings		85.1	64.0
Total equity attributable to equity holders of the Parent		134.7	110.1

The financial statements on pages 112 to 141 were approved by the Board of Directors on 12 September 2018 and were signed on its behalf by:

Nicholas Wilkinson
Chief Executive Officer

Consolidated Statement of Cash Flows

FOR THE 52 WEEKS ENDED 30 JUNE 2018

	Note	2018 52 weeks £'m	2017 52 weeks £'m
Profit before taxation		93.1	92.4
Adjustment for exceptional operating costs	3	8.9	16.9
Adjustment for net financing costs	7	2.7	2.4
Operating profit before exceptional operating costs		104.7	111.7
Depreciation and amortisation	5	33.5	29.3
Loss on disposal of non-current assets	5	1.4	1.2
Operating cash flows before exceptional operating costs and movements in working capital		139.6	142.2
Decrease/(increase) in inventories		8.6	(45.0)
Decrease/(increase) in trade and other receivables		2.5	(4.6)
(Decrease)/increase in payables		(31.4)	23.4
Net movement in working capital before exceptional operating costs		(20.3)	(26.2)
Share-based payments expense/(credit)	6	0.3	(0.3)
Interest received		–	0.1
Tax paid		(18.9)	(25.0)
Net cash generated from operating activities before exceptional operating costs		100.7	90.8
Cash flows in respect of exceptional operational costs	3	(2.2)	(11.3)
Net cash generated from operating activities		98.5	79.5
Cash flows from investing activities			
Acquisition of intangible assets		(12.1)	(11.4)
Proceeds on exceptional disposal of property, plant and equipment and intangible assets	3	0.6	0.2
Acquisition of property, plant and equipment		(34.1)	(46.6)
Amounts due to secured creditor on acquisition	2	–	(7.5)
Net cash used in investing activities		(45.6)	(65.3)
Cash flows from financing activities			
Proceeds from issue of treasury shares	22	1.3	0.9
Purchase of treasury shares	22	–	(4.2)
Drawdowns on revolving credit facility	19	10.0	50.0
Repayments of revolving credit facility	19	(10.0)	(5.0)
Interest paid	7	(1.9)	(1.4)
Loan transaction costs		(0.8)	–
Ordinary dividends paid	9	(53.4)	(51.6)
Net cash flows used in financing activities		(54.8)	(11.3)
Net (decrease)/increase in cash and cash equivalents		(1.9)	2.9
Foreign exchange revaluations		(0.5)	(0.4)
Cash and cash equivalents at the beginning of the period	16	17.4	14.9
Cash and cash equivalents at the end of the period	16	15.0	17.4

Consolidated Statement of Changes in Equity

FOR THE 52 WEEKS ENDED 30 JUNE 2018

	Note	Issued share capital £'m	Share premium account £'m	Capital redemption reserve £'m	Hedging reserve £'m	Retained earnings £'m	Total equity £'m
As at 2 July 2016		2.0	1.6	43.2	5.9	46.9	99.6
Profit for the period		–	–	–	–	73.1	73.1
Fair value gains of cash flow hedges	18	–	–	–	1.4	–	1.4
Gains on cash flow hedges transferred to inventory	18	–	–	–	(9.4)	–	(9.4)
Deferred tax on hedging movements	13	–	–	–	1.4	–	1.4
Total comprehensive income for the period		–	–	–	(6.6)	73.1	66.5
Purchase of treasury shares	22	–	–	–	–	(4.2)	(4.2)
Proceeds from issue of treasury shares	22	–	–	–	–	0.9	0.9
Share-based payments	23	–	–	–	–	(0.3)	(0.3)
Deferred tax on share-based payments	13	–	–	–	–	(0.6)	(0.6)
Current tax on share options exercised		–	–	–	–	(0.2)	(0.2)
Ordinary dividends paid	9	–	–	–	–	(51.6)	(51.6)
Total transactions with owners, recorded directly in equity		–	–	–	–	(56.0)	(56.0)
As at 1 July 2017		2.0	1.6	43.2	(0.7)	64.0	110.1
Profit for the period		–	–	–	–	73.3	73.3
Fair value gains of cash flow hedges	18	–	–	–	1.6	–	1.6
Loss on cash flow hedges transferred to inventory	18	–	–	–	2.6	–	2.6
Deferred tax on hedging movements	13	–	–	–	(0.7)	–	(0.7)
Total comprehensive income for the period		–	–	–	3.5	73.3	76.8
Proceeds from issue of treasury shares	22	–	–	–	–	1.3	1.3
Share-based payments	23	–	–	–	–	0.3	0.3
Deferred tax on share-based payments	13	–	–	–	–	(0.3)	(0.3)
Current tax on share options exercised		–	–	–	–	(0.1)	(0.1)
Ordinary dividends paid	9	–	–	–	–	(53.4)	(53.4)
Total transactions with owners, recorded directly in equity		–	–	–	–	(52.2)	(52.2)
As at 30 June 2018		2.0	1.6	43.2	2.8	85.1	134.7

Accounting Policies

FOR THE 52 WEEKS ENDED 30 JUNE 2018

General information

The Group financial statements consolidate those of Dunelm Group plc ('the Company') and its subsidiaries (together referred to as 'the Group'). The Company financial statements on pages 142 to 151 present information about the Company as a separate entity and not about its Group.

Dunelm Group plc and its subsidiaries 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, England, LE7 1AD.

The primary business activity of the Group is the sale of homewares in the UK through a network of stores and websites.

Basis of preparation

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards 'IFRS' and IFRS Interpretations Committee 'IFRS IC' interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS and these are presented on pages 112 to 141.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

The annual financial statements are prepared under the historical cost convention except for financial assets and financial liabilities (including derivative financial instruments and share-based payments), which have been stated at fair value. The financial statements are prepared in pounds sterling, rounded to the nearest hundred thousand.

Going concern

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. In their consideration of going concern, the Directors have reviewed the Group's future cash forecasts and profit projections, which are based on market data and past experience. The Directors are of the opinion that the Group's forecasts and projections, which take into account reasonably possible changes in trading performance, show that the Group is able to operate within its current facilities and comply with its banking covenants for the foreseeable future.

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.

Further information regarding the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Strategic Report on pages 6 to 43. The financial position of the Group, its cash flows, liquidity position and borrowing

facilities are described in the Financial Review on pages 22 to 25. In addition, note 18 to the Annual Report and Accounts includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposures to credit risk and liquidity risk.

Use of estimates and judgements

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

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

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

Estimate: Inventory provisions

The Group provides against the carrying value of the inventories held where it is anticipated that net realisable value (NRV) will be below cost. NRV is calculated as the expected selling price. Future price reductions are assumed to be in line with the Group's standard approach to clearing discontinued and slow-moving inventory and are applied to such proportion of inventory as deemed appropriate given the level of cover in relation to recent sales history, on a line-by-line basis.

Judgement: Exceptional items

The Group exercises its judgement in the classification of certain items as exceptional and outside of the Group's underlying results. The determination of whether an item should be separately disclosed as an exceptional item requires judgement on its materiality, nature and incidence, as well as whether it provides clarity on the Group's underlying trading performance. In exercising this judgement, the Group takes appropriate regard of IAS 1 'Presentation of financial statements' as well as guidance issued by the Financial Reporting Council on the reporting of exceptional items and alternative performance measures. The overall goal of the Group's financial statements is to present the Group's underlying performance without distortion from one-off or non-trading events regardless of whether they are favourable or unfavourable to the underlying result. Further details of the individual exceptional items, and the reasons for their disclosure treatment, are set out in note 3.

Accounting Policies CONTINUED

FOR THE 52 WEEKS ENDED 30 JUNE 2018

Basis of consolidation

Business Combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for an acquisition is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquired assets and any equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition related costs are expensed as they are incurred.

Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Consistent accounting policies have been adopted across the Group.

Revenue

Revenue is generated from the sale of homewares and related goods and services through the Group's stores and websites, excluding sales between Group companies and is after deducting returns, any discounts given and VAT. Revenue is recognised when risk and reward passes to the customer, which is predominantly at the point of sale.

The exceptions to this are for: custom-made products, where revenue is recognised at the point that the goods are collected; gift vouchers, where revenue is recognised when the vouchers are redeemed; and web sales, where revenue is recognised at the point of delivery. Revenue is settled in cash at the point of sale.

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 non-recurring nature and are presented within the line items to which they best relate.

Expenses

Property leases

Lease incentives received in respect of operating leases are recognised in the income statement evenly over the full term of the lease.

Where leases for land and buildings provide for fixed rent review dates and amounts, the Group financial statements account for such reviews by recognising, on a straight-line basis, the total implicit minimum lease payments over the non-cancellable period of the lease term.

Financial income and expenses

Financial income and expenses comprise interest payable on borrowings calculated using the effective interest method, interest receivable on funds invested and foreign exchange gains and losses.

Retirement benefits

The Group operates a defined contribution pension plan using a third-party provider. Obligations for the contributions to this plan are recognised as an expense in the income statement as incurred.

Share-based payments

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- Including any market performance condition (for example, an entity's share price);
- Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period), and
- Including the impact of any non-vesting conditions (for example, the requirement for employees to save)

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When options are exercised, the Company either issues new shares, or uses treasury shares purchased for this purpose. For new issued shares, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and the share premium account.

Social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

Foreign currencies

Transactions in foreign currencies are recorded at the prevailing rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currency are translated at the rates ruling at the balance sheet date. Resulting exchange gains or losses are recognised in the income statement for the period in financial income and expenses.

Taxation

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be recognised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Dividends

Dividends are recognised as a liability in the period in which they are approved such that the Company is obligated to pay the dividend. Interim dividends are recorded when paid.

Intangible assets

Intangible assets comprise software development and implementation costs, trademarks and brands and are stated at cost less accumulated amortisation and impairment (see below). Costs incurred in developing the Group's own brands are expensed as incurred.

Separately acquired brands and customer lists are shown at historical cost. Software, brands and customer lists acquired in a business combination are recognised at fair value at the acquisition date. These assets are deemed to have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives.

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

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured

Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Computer software development costs recognised as assets are amortised over their estimated useful lives.

Amortisation

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

Software development and licences	3 years
Rights to brands and customer lists	5 to 15 years

Accounting Policies CONTINUED

FOR THE 52 WEEKS ENDED 30 JUNE 2018

Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses (see below). Cost includes the original purchased price of the asset and the costs attributable to bringing the asset to its working condition for intended use.

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

Depreciation

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

Freehold buildings	50 years
Leasehold improvements	over the remaining period of the lease
Refit improvements	7 years
Plant and machinery	4 years
Fixtures and fittings	3 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Derivative financial instruments

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

Certain derivative financial instruments are designated as hedges in line with the Group's treasury policy. These are instruments that hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a highly probable forecasted transaction.

For cash flow hedges the proportion of the gain or loss on the hedging instrument that is determined to be an effective hedge, as defined by IAS 39 'Financial Instruments: Recognition and Measurement', is recognised in equity, directly in the hedge reserve with any ineffective portion recognised in the income statement. Such hedges are tested, both at inception to ensure they are expected to be effective and on an ongoing basis to assess continuing effectiveness. The gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged cash flows affect the income statement.

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

Financial assets

Classifications

The Group classifies its financial assets in the following categories: at fair value through profit or loss; loans and receivables; and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period where they are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (notes 15 and 16).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Other (losses)/gains - net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'Gains and losses from investment securities'.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and then carried at amortised cost using the effective interest method, net of impairment provisions.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is derived using the average cost method and includes costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price less cost to sell in the ordinary course of business. Provisions are made for obsolete, slow-moving or discontinued stock and for stock losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits. All cash equivalents have an original maturity of three months or less.

Trade and other payables

Trade and payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Bank borrowings and borrowing costs

Interest-bearing bank loans are initially recorded at their fair value and subsequently held at amortised cost. Transaction costs incurred are amortised over the term of the loan.

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

Impairment

The carrying amounts of the Group's assets are reviewed annually at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount is the greater of fair value less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time-value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for assets grouped at the lowest levels for which there are largely independent cash flows, i.e. the cash-generating unit to which the asset belongs.

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

Share capital

Where the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Provisions

A provision is recognised in the balance sheet when the Group has a current legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount has been reliably measured. A provision for onerous contracts, including property leases, is recognised when the expected benefit to be derived by the Group from a contract is lower than the unavoidable costs of meeting its obligations under the contract.

A dilapidations provision is recognised when there is an expectation of future obligations relating to the maintenance of leasehold properties arising from events such as lease renewals or terminations.

Accounting Policies CONTINUED

FOR THE 52 WEEKS ENDED 30 JUNE 2018

Operating leases

The Group leases certain property, plant and equipment and motor vehicles. Where a significant portion of the risks and rewards of ownership are retained by the lessor, these leases are classified as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

New standards and interpretations

No new standards, amendments or interpretations, effective for the first time for the period beginning on or after 2 July 2017 have had a material impact on the Group or Parent Company.

At the balance sheet date, there are a number of new standards and amendments to existing standards in issue but not yet effective. IFRS 9 and IFRS 15 are not expected to have a significant effect on the financial statements of the Group or Parent Company. IFRS 16 is expected to have a significant impact on the financial statements of the Group. The effect and consideration of these standards are set out below:

IFRS 9, 'Financial Instruments', addresses the classification, measurement and recognition of financial assets and liabilities and replaces IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets. It is effective for periods beginning on or after 1 January 2018. The Company has identified that the adoption of IFRS 9 will impact its consolidated financial statements in the following areas:

- The Group will need to apply an expected credit loss model when calculating impairment losses on its trade and other receivables. This will result in increased impairment provisions and greater judgement due to the need to factor in forward looking information when estimating the appropriate amount of provisions. In applying IFRS 9 the Group must consider the probability of a default occurring over the life of its trade receivables on initial recognition of those assets. Under the existing incurred loss model, there has been no impairment of the gross carrying amount of receivables over the last five years so there is no expectation that there will be change under the new model
- The Group has decided to adopt the hedge accounting provisions in IFRS 9 to enable it to apply hedge accounting to foreign exchange options taken out that were not designated as qualifying hedge relationships under IAS 39. In addition, a hedging relationship which failed to qualify for hedge accounting under IAS 39 due to its 80-125% hedge effectiveness criterion, will qualify for hedge accounting under IFRS 9. As both of these changes in policy will be applied prospectively from 1 July 2018 there is no change to net assets as at 30 June 2018 or reported profit for the year then ended

IFRS 15, 'Revenue from Contracts with Customers', will be effective from the period ending June 2019 onwards.

The Group's sales are mainly from individual products which are sold directly to customers via our stores or websites. The standard establishes a principle based approach for revenue recognition that we recognise revenue to reflect the transfer of goods and services, measured as the amount to which the entity expects to be entitled in exchange for those goods or services.

The Group has assessed the impact of the changes proposed by IFRS 15 on our revenue processes and do not expect material impact on recognition of revenue when IFRS 15 is adopted.

A further assessment was made on the proposed changes relating to the recognition of delivery charges and this is not expected to impact the financial statements as the Group's current method is aligned with the approach adopted in the standard.

IFRS 16, 'Leases', will be effective from the period ending June 2020 onwards.

The changes required under IFRS 16 will lead to the creation of a right-of-use asset and a lease liability on the balance sheet that did not previously exist. The right-of-use asset will be subject to depreciation on a straight-line basis over the term of the lease. An interest charge will be recognised on the lease liability that will be higher in the earlier years of the lease term. The total expense recognised in the Income Statement over the life of the lease will be unaffected by the new standard. However, IFRS 16 will result in the timing of lease expense recognition being accelerated for leases which would be currently accounted for as operating leases.

The presentation of the Cash Flow Statement will change significantly, with an increase in net cash flows generated from operating activities being offset by an increase in net cash flows used in financing activities. This will, however, have no net impact on cash flows.

The Group has established a Steering Committee which regularly reports to the Audit Committee. To date, progress has been made on a number of areas including collection of relevant data, IT systems, identification of leases as prescribed by the standard, and consideration of transition options. The accounting policy is also under review.

The Group intends to apply the retrospective modified approach on transition and will not restate the comparative information. Under this approach, at the date of transition the right-of-use asset will equal the lease liability for all leases. As a result, there will be no impact on retained earnings. Furthermore, the Group has begun working through the recently published technical amendments to the tax legislation following the introduction of IFRS 16. Given the complexities of IFRS 16 and the material sensitivity to key assumptions, such as discount rates, it is not yet practicable to fully quantify the effect of IFRS 16 on the financial statements of the Group.

Notes to the Consolidated Financial Statements

FOR THE 52 WEEKS ENDED 30 JUNE 2018

1 Segmental reporting

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

Customers access 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.

2 Acquisitions and disposals

In the prior year, on 28 November 2016 the Group acquired the whole of the trade and certain assets and liabilities of the Worldstores 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 fair value amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out 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	-

As part of this acquisition, the Group acquired a subsidiary registered in Cyprus, Achica Brand Management Limited 'ABML', whose principal activity is to hold the Achica trademarks.

On 16th February 2018, the trade and assets of Achica were sold to BrandAlley UK Limited, a London-based flash sales business for a total consideration of £0.6m. The transaction included the sale of trademarks and customer lists and resulted in an overall loss on disposal of £0.3m.

Notes to the Consolidated Financial Statements CONTINUED

FOR THE 52 WEEKS ENDED 30 JUNE 2018

3 Exceptional items

We have treated as exceptional those non-recurring items which relate to the acquisition, integration and/or disposal of the Worldstores businesses.

	2018 52 weeks £'m	2017 52 weeks £'m
Exceptional cost of sales		
Fair value adjustments in respect of acquired inventory	–	0.5
	–	0.5
Exceptional operating costs		
Acquisition costs - administrator fees	–	0.9
Acquisition costs - other professional fees	–	0.4
Welcome payments for continuation of supply	–	7.3
Retention and redundancy payments	1.2	2.7
Loss on disposal, asset write-offs, impairments and accelerated amortisation	5.8	2.9
Other integration costs	1.9	2.2
	8.9	16.4
	8.9	16.9

Management retention and redundancy payments were made in the year in accordance with contractual agreements.

A review of the websites and other intangible IT assets of both the existing Dunelm business and the acquired business has been undertaken. Decisions have been made to integrate the available assets, and as a result, certain assets have been written off and others' useful economic lives have been reduced, resulting in accelerated amortisation.

During the period, management took the decision to develop Dunelm's kids and nursery category under the Dunelm brand, rather than within the standalone Kiddicare brand. As a result, the Kiddicare brand acquired as part of the Worldstores acquisition was deemed to be fully impaired and as such was written off. As well as this, aged Kiddicare stock and various other intangible assets relating to the development of the Kiddicare website were also written off.

As outlined in note 2, certain costs relating to the sale and subsequent restructure of the business have been classified as exceptional. These costs include the write-off of assets relating to Achica and onerous contracts. The proceeds from the sale of the Achica business were £0.6m.

Other integration costs include professional advisory support, and costs associated with the transfer of the London head office to a new location.

The taxation credit for the period relating to exceptional items was £1.2m (2017: £3.1m).

Of the above exceptional cost items, £1.6m were cash outflows in the period. We do not expect to report exceptional items in relation to the acquisition, integration or divestment of the Worldstores business in the next financial period.

4 Operating costs before exceptional items

	2018 52 weeks £'m	2017 52 weeks £'m
Selling and distribution costs	345.9	304.9
Administrative expenses	53.0	51.0
	398.9	355.9

5 Operating profit

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

	2018 52 weeks £'m Underlying	2018 52 weeks £'m Exceptional Items	2018 52 weeks £'m Reported	2017 52 weeks £'m Underlying	2017 52 weeks £'m Exceptional Items	2017 52 weeks £'m Reported
Cost of inventories included in cost of sales	539.2	–	539.2	481.0	–	481.0
Amortisation of intangible assets	7.3	1.1	8.4	7.3	1.0	8.3
Depreciation of owned property, plant and equipment	26.2	–	26.2	22.0	–	22.0
Loss on disposal and impairment of property, plant and equipment and intangible assets	1.4	2.9	4.3	1.2	1.9	3.1
Operating lease rentals	51.1	–	51.1	45.2	–	45.2

The cost of inventories included in cost of sales includes the adverse impact of a net increase in the provision for obsolete inventory of £2.6m (2017: £0.8m).

The analysis of the auditor's remuneration is as follows:

	2018 52 weeks £'000	2017 52 weeks £'000
Fees payable to the Company's auditor for the audit of the Parent and consolidated annual financial statements	18	18
Fees payable to the Company's auditor and their associates for other services to the Group		
– audit of the Company's subsidiaries pursuant to legislation	102	82
– audit of Globe Online Limited and opening balance sheet	–	67
– other services (see Audit and Risk Committee Report on page 66 for further information)	15	15

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FOR THE 52 WEEKS ENDED 30 JUNE 2018

6 Employee numbers and costs

The average monthly number of people employed by the Group (including Directors) was:

	2018 52 weeks Number of heads	2018 52 weeks Full time equivalents	2017 52 weeks Number of heads	2017 52 weeks Full time equivalents
Selling	8,353	5,172	7,759	4,823
Distribution	706	689	651	615
Administration	698	690	752	718
	9,757	6,551	9,162	6,156

The aggregate remuneration of all employees including Directors comprises:

	2018 52 weeks £'m	2017 52 weeks £'m
Wages and salaries including termination benefits	143.5	135.0
Social security costs	10.0	8.3
Share options granted to Directors and employees (note 23)	0.3	(0.3)
Pension costs - defined contribution plans	2.4	1.8
	156.2	144.8

Details of Directors' remuneration, share options, long-term incentive schemes and pension entitlements are disclosed in the Remuneration Report on pages 70 to 95.

7 Financial income and expenses

	2018 52 weeks £'m	2017 52 weeks £'m
Finance income		
Interest on bank deposits	–	0.2
	–	0.2
Finance expenses		
Interest on bank borrowings	(1.9)	(1.7)
Amortisation of issue costs of bank loans	(0.3)	(0.3)
Net foreign exchange losses	(0.5)	(0.6)
	(2.7)	(2.6)
Net finance expense	(2.7)	(2.4)

8 Taxation

	2018 52 weeks £'m	2017 52 weeks £'m
Current taxation		
UK corporation tax charge for the period	19.8	19.8
Adjustments in respect of prior periods	(0.3)	(0.8)
	19.5	19.0
Deferred taxation		
Origination of temporary differences	(0.4)	0.1
Adjustments in respect of prior periods	0.7	0.2
	0.3	0.3
Total tax expense	19.8	19.3

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

	2018 52 weeks £'m	2017 52 weeks £'m
Profit before taxation	93.1	92.4
UK corporation tax at standard rate of 19% (2017: 19.75%)	17.7	18.2
Factors affecting the charge in the period:		
Non-deductible expenses	1.4	1.5
Profit on disposal of non-qualifying assets	0.4	0.2
Adjustments in respect of prior periods	0.4	(0.6)
Utilisation of previously unrecognised tax losses	(0.1)	–
Tax charge	19.8	19.3

The taxation charge for the period as a percentage of profit before tax is 21.3% (2017: 20.9%).

The UK Government substantively enacted a reduction in future tax rates by 1% from 1 April 2017 to 19% and a further 1% reduction to 18% from 1 April 2020. In September 2016, the Government substantively enacted a further 1% reduction in corporation tax to 17% from 1 April 2020.

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FOR THE 52 WEEKS ENDED 30 JUNE 2018

9 Dividends

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

		2018 52 weeks £'m	2017 52 weeks £'m
Final for the period ended 2 July 2016	- paid 19.1 pence	–	38.5
Interim for the period ended 1 July 2017	- paid 6.5 pence	–	13.1
Final for the period ended 1 July 2017	- paid 19.5 pence	39.3	–
Interim for the period ended 30 June 2018	- paid 7.0 pence	14.1	–
		53.4	51.6

The Directors are proposing a final dividend of 19.5 pence per Ordinary Share for the period ended 30 June 2018 which equates to £39.4m. The dividend will be paid on 7 December 2018 to shareholders on the register at the close of business on 16 November 2018.

10 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 (note 22).

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:

	2018 52 weeks '000	2017 52 weeks '000
Weighted average number of shares in issue during the period	201,801	201,622
Impact of share options	936	956
Number of shares for diluted earnings per share	202,737	202,578

	2018 52 weeks £'m	2017 52 weeks £'m
Profit for the period	73.3	73.1
Profit for the period before exceptional costs	81.0	86.9
Earnings per Ordinary Share - basic	36.3p	36.3p
Earnings per Ordinary Share - basic before exceptional costs	40.1p	43.1p
Earnings per Ordinary Share - diluted	36.2p	36.1p
Earnings per Ordinary Share - diluted before exceptional costs	40.0p	42.8p

11 Intangible assets

	Software development and licences £'m	Rights to brands & customer lists £'m	Total £'m
Cost			
At 2 July 2016	26.2	9.8	36.0
Additions	11.2	–	11.2
Assets purchased on acquisition of business	5.2	2.3	7.5
Disposals	(1.1)	(0.5)	(1.6)
At 1 July 2017	41.5	11.6	53.1
Additions	13.2	–	13.2
Disposals	(10.6)	(0.6)	(11.2)
At 30 June 2018	44.1	11.0	55.1
Accumulated amortisation			
At 2 July 2016	12.1	5.3	17.4
Charge for the financial period	8.0	0.3	8.3
Disposals	(0.1)	–	(0.1)
At 1 July 2017	20.0	5.6	25.6
Charge for the financial period	8.1	0.3	8.4
Impairment	0.5	1.2	1.7
Disposals	(9.0)	(0.2)	(9.2)
At 30 June 2018	19.6	6.9	26.5
Net book value			
At 2 July 2016	14.1	4.5	18.6
At 1 July 2017	21.5	6.0	27.5
At 30 June 2018	24.5	4.1	28.6

All amortisation is included within operating costs in the income statement.

Within software development and licences, £3.9m (2017: £3.1m) of additions relates to internally generated assets.

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12 Property, plant and equipment

	Land and buildings £'m	Leasehold improvements £'m	Refit improvements £'m	Plant and machinery £'m	Fixtures and fittings £'m	Total £'m
Cost						
At 2 July 2016	83.5	131.7	–	4.6	80.4	300.2
Additions	13.0	16.0	4.3	0.3	15.7	49.3
Assets purchased on acquisition of business	–	–	–	0.2	0.6	0.8
Disposals	(0.2)	(2.6)	–	(0.1)	(2.9)	(5.8)
At 1 July 2017	96.3	145.1	4.3	5.0	93.8	344.5
Additions	2.1	10.4	2.5	0.3	15.5	30.8
Disposals	–	(1.8)	–	(0.1)	(2.3)	(4.2)
At 30 June 2018	98.4	153.7	6.8	5.2	107.0	371.1
Accumulated depreciation						
At 2 July 2016	11.4	53.7	–	3.4	62.8	131.3
Charge for the financial period	1.6	10.0	0.2	0.5	9.7	22.0
Disposals	(0.2)	(1.4)	–	–	(2.4)	(4.0)
At 1 July 2017	12.8	62.3	0.2	3.9	70.1	149.3
Charge for the financial period	1.7	11.1	0.9	0.4	12.1	26.2
Disposals	–	(1.0)	–	–	(2.0)	(3.0)
At 30 June 2018	14.5	72.4	1.1	4.3	80.2	172.5
Net book value						
At 2 July 2016	72.1	78.0	–	1.2	17.6	168.9
At 1 July 2017	83.5	82.8	4.1	1.1	23.7	195.2
At 30 June 2018	83.9	81.3	5.7	0.9	26.8	198.6

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

13 Deferred tax assets/(liabilities)

Deferred tax is provided in full on temporary differences under the liability method using a taxation rate of 17% (2017: 17%).

Deferred taxation assets are attributable to the following:

	Assets		Liabilities		Net (liabilities)/assets	
	2018 £'m	2017 £'m	2018 £'m	2017 £'m	2018 £'m	2017 £'m
Property, plant and equipment	0.2	0.4	–	–	0.2	0.4
Share-based payments	–	–	(0.6)	(0.2)	(0.6)	(0.2)
Hedging	–	0.1	(0.6)	–	(0.6)	0.1
	0.2	0.5	(1.2)	(0.2)	(1.0)	0.3

	Assets		Liabilities		Net (liabilities)/assets	
	2018 £'m	2017 £'m	2018 £'m	2017 £'m	2018 £'m	2017 £'m
Deferred tax recoverable/(payable) after more than 12 months	0.2	0.4	(0.6)	(0.2)	(0.4)	0.2
Deferred tax recoverable/(payable) within 12 months	–	0.1	(0.6)	–	(0.6)	0.1
	0.2	0.5	(1.2)	(0.2)	(1.0)	0.3

The movement in the net deferred tax balance is as follows:

	Balance at 2 July 2016 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 1 July 2017 £'m
Property, plant and equipment	0.4	–	–	0.4
Share-based payments	0.7	(0.3)	(0.6)	(0.2)
Hedging	(1.3)	–	1.4	0.1
	(0.2)	(0.3)	0.8	0.3

	Balance at 1 July 2017 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 30 June 2018 £'m
Property, plant and equipment	0.4	(0.2)	–	0.2
Share-based payments	(0.2)	(0.1)	(0.3)	(0.6)
Hedging	0.1	–	(0.7)	(0.6)
	0.3	(0.3)	(1.0)	(1.0)

14 Inventories

	2018 £'m	2017 £'m
Goods for resale	154.7	165.3

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FOR THE 52 WEEKS ENDED 30 JUNE 2018

15 Trade and other receivables

	2018 £'m	2017 £'m
Trade receivables	0.3	0.4
Other receivables	4.3	4.3
Prepayments and accrued income	19.3	21.7
	23.9	26.4

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

A total of £14.7m of prepayments and accrued income are property related (2017: £13.4m).

No impairment was incurred on trade and other receivables and no provision is held at period end (2017: nil). Materially, no amounts are overdue (2017: nil).

16 Cash and cash equivalents

	2018 £'m	2017 £'m
Cash at bank and in hand	15.0	17.4

The Group deposits funds only with institutions that have a credit rating of 'A' and above and the term is less than three months.

17 Trade and other payables

	2018 £'m	2017 £'m
Current		
Trade payables	51.1	78.7
Accruals and deferred income	36.6	42.4
Taxation and social security	13.8	10.7
Other payables	0.3	1.3
Total current trade and other payables	101.8	133.1
Non-current		
Accruals and deferred income	38.3	39.8
Total non-current trade and other payables	38.3	39.8
Total trade and other payables	140.1	172.9

Current accruals and deferred income include lease incentives of £5.6m (2017: £4.8m) and capital accruals of £2.7m (2017: £4.9m).

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

	2018 £'m	2017 £'m
One to two years	5.8	5.9
Two to five years	15.6	15.6
After five years	16.9	18.3
	38.3	39.8

18 Financial risk management

The Board of Directors has overall responsibility for the oversight of the Group's risk management framework. A formal process for reviewing and managing risk in the business is in place.

There are no changes to exposures to risk and how they arise and the Group objectives, policies and procedures for managing the risk and methods used to measure the risk from the previous period.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's deposits with banks and financial institutions as well as foreign exchange hedging agreements with its banking counterparties. The Group only deals with creditworthy counterparties and uses publicly available financial information to rate its counterparties, and as such, credit risk is considered to be low.

Group policy is that surplus funds are placed on deposit with counterparties approved by the Board, with a minimum of 'A' credit rating. Credit limits with approved counterparties are limited to £25m for any individual party.

The Group's maximum exposure to credit risk is represented by the carrying amount of financial assets. No collateral is held (2017: none). At the period end the maximum exposure is detailed in the table below.

	2018 £'m	2017 £'m
Cash and cash equivalents	15.0	17.4
Trade and other receivables	4.6	4.7
Derivative financial instruments	4.2	1.1
Total financial assets	23.8	23.2

Trade and other receivables include rebates due back from suppliers. The rebates are recovered through deductions from future payments to suppliers and therefore management is confident of the recoverability of these balances.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and extreme circumstances. The Group manages this risk by continuously monitoring cash flow forecasts. Further details of the Group's available facilities can be found in note 19.

The table below analyses estimated future contractual cash flows in respect of the Group's financial liabilities, according to the earliest date on which the Group could be required to settle the liability. Floating rate interest payments are estimated based on market interest rates prevailing at the balance sheet date.

	Total £'m	Less than one year £'m	One to two years £'m	Two to five years £'m	More than five years £'m
At 1 July 2017					
Borrowings	140.0	140.0	–	–	–
Derivative financial instruments	2.0	0.4	1.6	–	–
Accruals (excluding deferred income)	76.5	36.8	5.9	15.6	18.2
Trade and other payables	80.0	80.0	–	–	–
At 30 June 2018					
Borrowings	140.0	140.0	–	–	–
Derivative financial instruments	0.7	0.7	–	–	–
Accruals (excluding deferred income)	70.0	31.7	5.8	15.6	16.9
Trade and other payables	51.4	51.4	–	–	–

Borrowings of £140m (2017: £140m) above reflect the level of facility drawdown at the period end on the Group's revolving credit facilities.

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18 Financial risk management continued

Interest rate risk

The Group's bank borrowings incur variable interest rate charges. The Group's policy aims to manage the interest cost of the Group within the constraints of its financial covenants. The Group will continue to monitor movements in the interest rate swap market.

At the period end, if Libor interest rates had been 10 basis points higher with all other variables held constant, post-tax profit would have been £0.1m lower (2017: £0.1m lower) as a result of higher interest expense on floating rate borrowings.

Foreign currency risk

All of the Group's revenues are in pounds sterling. The majority of purchases are also in sterling, but some goods purchased direct from overseas suppliers are paid for in US dollars, accounting for just under 20% of stock purchases in the period ended 30 June 2018.

The Group uses various means to cover its exposure to US dollars: holding US dollar cash balances and taking out forward foreign exchange contracts for the purchase of US dollars.

All the Group's foreign exchange transactions are designed to satisfy US dollar denominated liabilities. The maximum level of hedging coverage which will be undertaken is 100% of anticipated expenditure on a three-month horizon, stepping down to 75% on a four to 12-month horizon and 40% on a 13 to 18-month horizon. Coverage beyond 18 months is minimal.

Cash flow hedges are in place to manage foreign exchange rate risk arising from forecast purchases denominated in US dollars. At the balance sheet date, the fair value of US dollar foreign exchange forward contracts held in cash flow hedges was £3.5m asset (2017: £0.9m liability) which relates to a commitment to purchase \$164m (2017: \$140m) for a fixed sterling amount. A fair value movement of £1.6m (2017: £1.4m) was recognised in other comprehensive income and no ineffectiveness (2017: nil) was noted on cash flow hedges during the period. In the period, a loss of £2.6m (2017: £9.4m gain) was recycled from the cash flow hedge reserve to inventory to offset foreign exchange movements on purchases. The remaining hedge reserve balance will be recycled to the income statement to offset future purchases occurring after the balance sheet date, the majority of which expire in the next 12 months.

The outstanding US dollar liabilities at the period end were \$0.3m (2017: \$0.3m).

In the event of a significant adverse movement in the US dollar exchange rate, the Group could seek to minimise the impact on profitability by changing the selling price of goods, renegotiating terms with suppliers or sourcing from alternative markets.

At the period end, if GBP had strengthened by 10% against USD with all other variables held constant, post-tax profit would have been £0.4m higher (2017: £0.2m higher) as a result of foreign exchange gains on translation of USD denominated trade payables compensated by foreign exchange losses on translation of USD cash and cash equivalents. Other components of equity would have been £9.0m lower (2017: £7.7m lower) as a result of a decrease in fair value of derivatives designated as cash flow hedges.

Conversely, if GBP had weakened by 10% against USD with all other variables held constant, post-tax profit for the year would have been £0.5m lower (2017: £0.2m lower) and other components of equity would have been £11.0m higher (2017: £9.4m higher).

The US dollar period end exchange rate applied in the above analysis is 1.3152 (2017: 1.3002).

18 Financial risk management continued

Capital management

The Company considers equity plus debt as the capital. There are no externally imposed capital requirements on the Company.

The Board's objective with respect to capital management is to ensure the Group continues as a going concern in order to optimise returns to shareholders. The Board's policy is to retain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development. The Board regularly monitors the level of capital in the Group to ensure that this can be achieved.

From time to time the Group purchases its own shares on the market. The shares are intended to be used for issuing shares under the Group's share option programmes. The Board has authorised a share purchase programme designed to ensure that all options expected to vest under share option schemes can be fulfilled out of treasury shares.

During the period, the Group amended and extended its syndicated Revolving Credit Facility ('RCF'). The RCF was increased to £165m and extended until 2023. The optional accordion facility of £75m remains in place. The terms of the RCF are unchanged and 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 1.75× fixed charges), both of which were met comfortably as at 30 June 2018. In addition, the Group maintains £20m of uncommitted overdraft facilities with two syndicate partner banks.

The gearing ratio and net debt as a percentage of EBITDA was as follows:

	2018 £'m	2017 £'m
Total borrowings (note 19)	140.0	140.0
Less: unamortised debt issue costs (note 19)	(1.0)	(0.5)
Less: cash and cash equivalents (note 16)	(15.0)	(17.4)
Net debt	124.0	122.1
Total equity	134.7	110.1
Total capital	258.7	232.2
Gearing ratio	48%	53%
EBITDA before exceptional operating costs	139.6	142.2
Net debt as % of EBITDA	89%	86%

Fair values

The fair value of the Group's financial assets and liabilities are equal to their carrying value. The fair value of foreign currency contracts are amounts required by the counterparties to cancel the contracts at the end of the period.

Fair value hierarchy

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

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

All derivative financial instruments carried at fair value have been measured by a Level 2 valuation method, based on observable market data.

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FOR THE 52 WEEKS ENDED 30 JUNE 2018

18 Financial risk management continued

Financial assets/(liabilities)

The carrying value of all financial assets and financial liabilities was materially equal to their fair value.

	Loans and receivables £'m	Other financial liabilities at amortised cost £'m	Derivatives used for hedging £'m	Financial assets/liabilities at fair value through profit and loss £'m	Total £'m
At 1 July 2017					
Cash and cash equivalents	17.4	–	–	–	17.4
Trade and other receivables	4.7	–	–	–	4.7
Forward exchange contracts	–	–	1.1	–	1.1
Total financial assets	22.1	–	1.1	–	23.2
Trade and other payables	–	(80.0)	–	–	(80.0)
Accruals (excluding deferred income)	–	(76.5)	–	–	(76.5)
Bank borrowings	–	(139.5)	–	–	(139.5)
Forward exchange contracts	–	–	(2.0)	–	(2.0)
Total financial liabilities	–	(296.0)	(2.0)	–	(298.0)
Net financial assets/(liabilities)	22.1	(296.0)	(0.9)	–	(274.8)

	Loans and receivables £'m	Other financial liabilities at amortised cost £'m	Derivatives used for hedging £'m	Financial assets/liabilities at fair value through profit and loss £'m	Total £'m
At 30 June 2018					
Cash and cash equivalents	15.0	–	–	–	15.0
Trade and other receivables	4.6	–	–	–	4.6
Forward exchange contracts	–	–	4.2	–	4.2
Total financial assets	19.6	–	4.2	–	23.8
Trade and other payables	–	(51.4)	–	–	(51.4)
Accruals (excluding deferred income)	–	(70.0)	–	–	(70.0)
Bank borrowings	–	(139.0)	–	–	(139.0)
Forward exchange contracts	–	–	(0.7)	–	(0.7)
Total financial liabilities	–	(260.4)	(0.7)	–	(261.1)
Net financial assets/(liabilities)	19.6	(260.4)	3.5	–	(237.3)

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

	2018 £'m	2017 £'m
Sterling	8.8	16.8
US dollar	5.9	0.3
Euro	0.3	0.3
	15.0	17.4

19 Bank loans

	2018 £'m	2017 £'m
Total borrowings	140.0	140.0
Less: unamortised debt issue costs	(1.0)	(0.5)
	139.0	139.5

During the period, the Group amended and extended its syndicated Revolving Credit Facility ('RCF'). The RCF was increased to £165m (2017: £150m) and extended until 5 March 2023 (note 18). £140m of this facility was drawn down at 30 June 2018 (2017: £140m). The carrying amount of bank borrowings is equal to fair value. The Group also has an accordion option with a maximum facility of £75m, as well as an overdraft facility of £20m.

The below analysis shows the reconciliation of net debt:

	2018 £'m	2017 £'m
Net debt at 1 July 2017 and 2 July 2016	(122.1)	(79.3)
Net (decrease)/increase in cash and cash equivalents	(1.9)	2.9
Effect of foreign exchange	(0.5)	(0.4)
Repayments of revolving credit facility	10.0	5.0
Drawdowns on revolving credit facility	(10.0)	(50.0)
Loan transaction costs	0.8	–
Change in net debt resulting from cash flows	(1.6)	(42.5)
Amortisation of debt issue costs	(0.3)	(0.3)
Movement in net debt	(1.9)	(42.8)
Net debt represented by		
Cash and cash equivalents (note 16)	15.0	17.4
Non-current borrowings (note 19)	(140.0)	(140.0)
Net debt including unamortised debt issue costs	(125.0)	(122.6)
Unamortised debt issue costs	1.0	0.5
Net debt at 30 June 2018 and 1 July 2017	(124.0)	(122.1)

20 Provisions

	Balance at 1 July 2017 £'m	Utilised in the period £'m	Created in the period £'m	Released in the period £'m	Balance at 30 June 2018 £'m
Property related	1.7	(0.3)	1.2	(0.9)	1.7

Property related provisions consist of costs associated with vacant property and dilapidations. Dilapidations are based on the Directors' best estimate of the Group's future liabilities.

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21 Issued share capital

	2018 Number of Ordinary Shares of 1p each	2017 Number of Ordinary Shares of 1p each
In issue at the start of the period	202,833,931	202,833,931
In issue at the end of the period	202,833,931	202,833,931

	2018 Number of shares	2018 £'m	2017 Number of shares	2017 £'m
Ordinary Shares of 1p each:				
Authorised	500,000,000	5.0	500,000,000	5.0
Allotted, called up and fully paid	202,833,931	2.0	202,833,931	2.0

Proceeds received in relation to shares issued during the period were £nil (2017: £nil).

22 Treasury shares

	2018 Number of shares	2018 £'m	2017 Number of shares	2017 £'m
Outstanding at the beginning of the period	1,150,642	10.3	846,455	7.8
Purchased during the period	–	–	500,000	4.2
Reissued during the period in respect of share option schemes	(236,007)	(2.1)	(195,813)	(1.7)
Outstanding at the end of the period	914,635	8.2	1,150,642	10.3

The Group acquired no shares through purchases on the London Stock Exchange during the period (2017: 500,000).

The Group reissued 236,007 (2017: 195,813) treasury shares during the period for a total value of £2.1m (2017: £1.7m).

Proceeds from the issue of treasury shares included in the Consolidated Statement of Cash Flows of £1.3m (2017: £0.9m) is the amount employees contributed.

The Group has the right to reissue the remaining treasury shares at a later date.

23 Share-based payments

As at 30 June 2018, the Group operated four share award plans:

- a. Dunelm Group Share Option Plan ('GSOP')
- b. Dunelm Group Savings Related Share Option Plan ('Sharesave')
- c. Long Term Incentive Plan ('LTIP')
- d. Restricted Stock Award

There were 64,329 exercisable options in total under these schemes as at 30 June 2018 (2017: 79,168).

The fair value of options granted during the period was determined using the Black-Scholes valuation model. Full disclosures have not been given based on the immateriality of the figures.

a) Dunelm Group Share Option Plan

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

23 Share-based payments continued

The number and weighted average exercise price of options under the GSOP at 30 June 2018 were as follows:

	Number of shares under option 2018	Weighted average exercise price 2018	Number of shares under option 2017	Weighted average exercise price 2017
Outstanding at beginning of the period	81,658	828.0p	76,114	851.0p
Granted during the period	–	–	20,000	772.5p
Lapsed during the period	–	–	(14,456)	873.0p
Outstanding at end of the period	81,658	828.0p	81,658	828.0p

No options were exercised during the period (2017: none).

b) Dunelm Group Savings Related Share Option Plan

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

The number and weighted average exercise price of options outstanding under the Sharesave at 30 June 2018 were as follows:

	Number of shares under option 2018	Weighted average exercise price 2018	Number of shares under option 2017	Weighted average exercise price 2017
Outstanding at beginning of the period	1,276,252	659.1p	1,152,090	704.8p
Granted during the period	844,672	602.0p	759,151	618.5p
Exercised during the period	(209,519)	650.5p	(139,973)	696.7p
Lapsed during the period	(613,248)	639.5p	(495,016)	692.6p
Outstanding at end of the period	1,298,157	632.6p	1,276,252	659.1p

The weighted average share price at the time of exercise was 664.6p (2017: 758.2p).

c) Long Term Incentive Plan

The LTIP was approved by the Board in 2006, enabling the Group to award shares to particular individuals, normally in the form of nominal cost options. The LTIP is administered by the Remuneration Committee. Two grants were made in the period, to the Executive Directors and senior management. These grants are exercisable in November 2020 and February 2021, dependent on the level of growth in Group EPS relative to RPI, as well as continuing employment. The maximum life of options under the LTIP is ten years from the date of grant. Full details of this plan are included in the Remuneration Report on pages 70 to 95.

The number and weighted average exercise price of options under the LTIP at 30 June 2018 were as follows:

	Number of shares under option 2018	Weighted average exercise price 2018	Number of shares under option 2017	Weighted average exercise price 2017
Outstanding at beginning of the period	1,046,375	–	772,013	–
Granted during the period	666,804	–	532,240	–
Exercised during the period	(26,488)	–	(55,840)	–
Lapsed during the period	(636,323)	–	(202,038)	–
Outstanding at end of the period	1,050,368	–	1,046,375	–

The weighted average share price at the time of exercise was 639.0p (2017: 783.9p).

Notes to the Consolidated Financial Statements

CONTINUED

FOR THE 52 WEEKS ENDED 30 JUNE 2018

23 Share-based payments continued

d) Restricted Stock Award

The Restricted Stock Award was approved by the Board in this financial period, enabling the Group to award shares to particular individuals, normally in the form of nominal cost options. The Restricted Stock Award is administered by the Remuneration Committee. One grant was made in the year, to Senior and Store Managers. These grants are exercisable in November 2020, dependent on continuing employment and fulfilment of a performance condition. The maximum life of options under the Restricted Stock Award is ten years from the date of grant. No Directors of Dunelm Group plc are eligible to receive a Restricted Stock Award.

The number and weighted average exercise price of options under the Restricted Stock Award at 30 June 2018 were as follows:

	Number of shares under option 2018	Weighted average exercise price 2018	Number of shares under option 2017	Weighted average exercise price 2017
Outstanding at beginning of the period	–	–	–	–
Granted during the period	12,800	–	–	–
Exercised during the period	–	–	–	–
Lapsed during the period	(800)	–	–	–
Outstanding at end of the period	12,000	–	–	–

No options were exercised during the period (2017: none).

Impact on income statement

The total expense/(income) recognised in the income statement arising from share-based payments were as follows:

	2018 £'m	2017 £'m
GSOP	–	–
Sharesave	0.1	0.5
LTIP	0.2	(0.8)
Restricted Stock Award	–	–
	0.3	(0.3)

24 Commitments

As at 30 June 2018, the Group had entered into capital contracts for new stores and refits amounting to £5.7m (2017: £14.5m) and £1.9m (2017: nil) for intangible assets.

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

	2018 Motor vehicles £'m	2018 Land and buildings £'m	2018 Plant and machinery £'m	2018 Total £'m	2017 Motor vehicles £'m	2017 Land and buildings £'m	2017 Plant and machinery £'m	2017 Total £'m
Within one year	0.9	52.9	2.4	56.2	0.8	48.8	1.0	50.6
In the second to fifth year inclusive	1.1	178.3	4.9	184.3	0.8	175.2	2.4	178.4
After five years	–	159.1	0.4	159.5	–	167.2	0.5	167.7
	2.0	390.3	7.7	400.0	1.6	391.2	3.9	396.7

The Group has 167 (2017: 164) operating leases in respect of properties. These leases run for periods of up to 20 years, with an option to renew leases on expiry. Lease payments are typically reviewed every five years.

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

25 Contingent liabilities

The Group had no contingent liabilities at the period end date (2017: none).

26 Related parties

Identity of related parties

The Group has related party relationships with its subsidiaries and with its Directors. Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation for the Group. A list of subsidiaries can be found in note 4 to the Parent Company financial statements.

Key management personnel

The key management personnel of the Group comprise members of the Board of Directors, the Executive Board and David Stead, the Group's interim Chief Financial Officer.

Directors of the Company and their close relatives control 51.5% (2017: 51.4%) of the voting shares of the Company.

Disclosures relating to remuneration of Directors are set out in the Remuneration Report on pages 70 to 95. The remuneration of the key management personnel, excluding David Stead is set out below:

	2018 £'m	2017 £'m
Short-term employee benefits	5.7	4.3
Post-employment benefits	0.3	0.5
Share-based payments	0.1	(0.4)
	6.1	4.4

David Stead's remuneration is set out below:

	2018 £'000	2017 £'000
Short-term employee benefits	48.9	–
Post-employment benefits	3.1	–
	52.0	–

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

27 Ultimate controlling party

The Directors consider that the Adderley family is the ultimate controlling party of Dunelm Group plc by virtue of their combined shareholding.

28 Subsequent events

There are no reportable subsequent events for Dunelm Group plc.

Parent Company Statement of Financial Position

AS AT 30 JUNE 2018

	Note	30 June 2018 £'m	1 July 2017 £'m
Non-current assets			
Investments	4	52.5	52.2
Deferred tax assets	5	0.1	0.1
Total non-current assets		52.6	52.3
Current assets			
Trade and other receivables	6	181.6	191.0
Total current assets		181.6	191.0
Total assets		234.2	243.3
Current liabilities			
Trade and other payables	7	–	(0.1)
Liability for current tax	8	–	(0.3)
Total current liabilities		–	(0.4)
Total liabilities		–	(0.4)
Net assets		234.2	242.9
Equity			
Issued share capital	11	2.0	2.0
Share premium account		1.6	1.6
Non-distributable reserves		7.3	7.0
Capital redemption reserve		43.2	43.2
Retained earnings		180.1	189.1
Total equity attributable to equity holders of the Parent		234.2	242.9

The Company made a profit after tax of £43.1m (2017: £1.5m).

The financial statements on pages 142 to 151 were approved by the Board of Directors on 12 September 2018 and were signed on its behalf by:

Nicholas Wilkinson

Director

Company number 4708277

Parent Company Statement of Cash Flows

FOR THE 52 WEEKS ENDED 30 JUNE 2018

There were no cash movements during the period for the Company as any cash transactions were executed by other members of the Dunelm Group plc Group on behalf of the Company. As a result, no statement of cash flows has been presented in these financial statements.

Parent Company Statement of Changes in Equity

FOR THE 52 WEEKS ENDED 30 JUNE 2018

	Note	Issued share capital £'m	Share premium account £'m	Non-distributable reserve £'m	Capital redemption reserve £'m	Retained earnings £'m	Total equity £'m
As at 2 July 2016		2.0	1.6	7.1	43.2	242.8	296.7
Profit for the period		–	–	–	–	1.5	1.5
Total comprehensive income for the period		–	–	–	–	1.5	1.5
Purchase of treasury shares		–	–	–	–	(4.3)	(4.3)
Issue of treasury shares	12	–	–	–	–	0.9	0.9
Share-based payments	13	–	–	(0.1)	–	(0.1)	(0.2)
Current corporation tax on share options exercised	8	–	–	–	–	(0.1)	(0.1)
Dividends	3	–	–	–	–	(51.6)	(51.6)
Total transactions with owners, recorded directly in equity		–	–	(0.1)	–	(55.2)	(55.3)
As at 1 July 2017		2.0	1.6	7.0	43.2	189.1	242.9
Profit for the period		–	–	–	–	43.1	43.1
Total comprehensive income for the period		–	–	–	–	43.1	43.1
Proceeds from issue of treasury shares	12	–	–	–	–	1.3	1.3
Share-based payments	13	–	–	0.3	–	–	0.3
Dividends	3	–	–	–	–	(53.4)	(53.4)
Total transactions with owners, recorded directly in equity		–	–	0.3	–	(52.1)	(51.8)
As at 30 June 2018		2.0	1.6	7.3	43.2	180.1	234.2

The non-distributable reserve's purpose is to reflect movements in share-based payments in respect of awards given by the Parent Company to employees of subsidiaries.

Parent Company Accounting Policies

FOR THE 52 WEEKS ENDED 30 JUNE 2018

General information

Dunelm Group plc is 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, England, LE7 1AD.

Basis of preparation

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

The financial statements of the Company are prepared under the historical cost convention, in accordance with the Companies Act 2006, applicable accounting standards and specifically in accordance with the accounting policies set out below.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Financial income and expenses

Financial income comprises interest receivable on intercompany balances held with other Group entities.

Share-based payments

The Company operates one equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- Including any market performance conditions (for example, an entity's share price);
- Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- Including the impact of any non-vesting conditions (for example, the requirement for employees to save)

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company either issues new shares, or uses treasury shares purchased for this purpose. For issued new shares, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

Taxation

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be recognised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Dividends

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

Financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period where they are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' (note 6).

Trade and other receivables

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

Share capital

Where the Company purchases its own equity share capital (treasury shares) the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Investments

Investments in subsidiary undertakings are stated at the adjusted cost of the investment. IFRS 2 requires the Parent Company to recognise an increase in the cost of its investment in a subsidiary which has issued share options in the Parent Company's shares to its employees.

New standards and interpretations

No new standards, amendments or interpretations, effective for the first time for the period beginning on or after 2 July 2017, have had a material impact on the Parent Company.

At the balance sheet date there are a number of new standards and amendments to existing standards in issue but not yet effective. None of these is expected to have a significant effect on the financial statements of the Parent Company. Further details of these can be found in Accounting Policies in the Group's financial statements on pages 112 to 141.

Notes to the Parent Company Financial Statements

FOR THE 52 WEEKS ENDED 30 JUNE 2018

1 Income statement

The Company made a profit after tax of £43.1m (2017: £1.5m). The Directors have taken advantage of the exemption available under section 408 of the Companies Act 2006 and have not presented an income statement for the Company alone.

The Company is not required to give details of the fees paid to its auditor in accordance with the Companies (Disclosure of Auditors' Remuneration) Regulations 2005.

2 Employee costs

The Company has no employees other than the four Executive Directors and the Non-Executive Directors. Full details of the Directors' remuneration and interests are set out in the Remuneration Report on pages 70 to 95. Share-based payments details are given in note 13 on page 150.

The Parent Company does not receive any recharge in respect of Directors' remuneration.

3 Dividends

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

		2018 52 weeks £'m	2017 52 weeks £'m
Final for the period ended 2 July 2016	- paid 19.1 pence	-	38.5
Interim for the period ended 1 July 2017	- paid 6.5 pence	-	13.1
Final for the period ended 1 July 2017	- paid 19.5 pence	39.3	-
Interim for the period ended 30 June 2018	- paid 7.0 pence	14.1	-
		53.4	51.6

The Directors are proposing a final dividend of 19.5 pence per Ordinary Share for the period ended 30 June 2018 which equates to £39.4m. The dividend will be paid on 7 December 2018 to shareholders on the register at the close of business on 16 November 2018.

4 Investments

Shares in subsidiary undertakings:

	£'m
As at 2 July 2016	52.3
Share-based payments	(0.1)
As at 1 July 2017	52.2
Share-based payments	0.3
As at 30 June 2018	52.5

The following were subsidiaries as at 30 June 2018 and 1 July 2017:

Subsidiary	Proportion of ordinary shares held	Nature of business
Dunelm Limited	100%	Holding company
Dunelm (Soft Furnishings) Limited*	100%	Retailer of soft furnishings
Dunelm Estates Limited*	100%	Property holding company
Zoncolan Limited*	100%	Property holding company
Fogarty Holdings Limited*	100%	Non-trading company
Globe Online Limited*	100%	Dormant
Achica Brand Management Limited (Registered in Cyprus)*	100%	Intellectual property holding company

* Share capital held by subsidiary undertaking.

Dunelm Group plc, the Parent Company and its subsidiaries (excluding Achica Brand Management Limited) are incorporated and domiciled in the UK. The registered office is Watermead Business Park, Syston, Leicestershire, England, LE7 1AD.

Achica Brand Management Limited was incorporated in Cyprus on 27 June 2011 as a private limited liability company under the provisions of the Cyprus Companies Law, Cap. 113. Its registered office is at 28 Oktovriou, 261, View Point Tower, 3035, Limassol, Cyprus.

5 Deferred tax assets

	Assets	
	2018 £'m	2017 £'m
Employee benefits	0.1	0.1

The movement in deferred tax assets is as follows:

	Balance at 2 July 2016 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 1 July 2017 £'m
Employee benefits	0.2	(0.1)	–	0.1

	Balance at 1 July 2017 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 30 June 2018 £'m
Employee benefits	0.1	–	–	0.1

Notes to the Parent Company Financial Statements CONTINUED

FOR THE 52 WEEKS ENDED 30 JUNE 2018

6 Trade and other receivables

	2018 £'m	2017 £'m
Amounts owed by group undertakings	181.6	191.0
	181.6	191.0

Amounts owed by subsidiary undertakings are immediately repayable. Interest is charged monthly on all intercompany balances at an annual rate of 2%.

These amounts pose no liquidity or credit risk as they are owed by other group undertakings and are expected to be settled by group transactions.

7 Trade and other payables

	2018 £'m	2017 £'m
Other taxation and social security	–	0.1
	–	0.1

8 Taxation

	2018 52 weeks £'m	2017 52 weeks £'m
Current taxation		
UK corporation tax charge for the period	–	0.2
	–	0.2
Deferred taxation		
Origination of temporary differences	–	0.1
	–	0.1
Total tax expense	–	0.3

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

	2018 52 weeks £'m	2017 52 weeks £'m
Profit before taxation	43.1	1.8
UK corporation tax at standard rate of 19% (2017: 19.75%)	8.2	0.4
Factors affecting the charge in the period:		
Non-deductible expenses	–	(0.1)
Income not subject to tax	(8.0)	–
Group relief	(0.2)	–
Tax charge	–	0.3

The UK Government substantively enacted a reduction in future tax rates by 1% from 1 April 2017 to 19% and a further 1% reduction to 18% from 1 April 2020. In September 2016, the Government substantively enacted a further 1% reduction in corporation tax to 17% from 1 April 2020.

9 Interest bearing loans and borrowings

The Company has no committed borrowing facilities as any cash transactions are executed by other members of the Dunelm Group on behalf of the Company.

10 Financial risk management

Capital management

The Board's objective with respect to capital management is to ensure the Company continues as a going concern in order to optimise returns to shareholders. The Board's policy is to retain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development. The Board regularly monitors the level of capital in the Group to ensure that this can be achieved.

11 Issued share capital

	Number of Ordinary Shares of 1p each 2018	Number of Ordinary Shares of 1p each 2017	Number of B Shares of 0.001p each 2018	Number of B Shares of 0.001p each 2017
In issue at the start of the period	202,833,931	202,833,931	–	–
In issue at the end of the period	202,833,931	202,833,931	–	–

Proceeds received in relation to shares issued during the period were £nil (2017: £nil).

	2018 Number of shares	2018 £'m	2017 Number of shares	2017 £'m
Ordinary shares of 1p each:				
Authorised	500,000,000	5.0	500,000,000	5.0
Allotted, called up and fully paid	202,833,931	2.0	202,833,931	2.0

The holders of the Ordinary Shares are entitled to receive dividends as declared and are entitled to one vote per share.

12 Treasury shares

	2018 Number of shares	2018 £'m	2017 Number of shares	2017 £'m
Outstanding at the beginning of the period	1,150,642	10.3	846,455	7.8
Purchased during the period	–	–	500,000	4.2
Reissued during the period in respect of share option schemes	(236,007)	(2.1)	(195,813)	(1.7)
Outstanding at the end of the period	914,635	8.2	1,150,642	10.3

The Group acquired no shares through purchases on the London Stock Exchange during the period (2017: 500,000).

The Group reissued 236,007 (2017: 195,813) treasury shares during the period for a total value of £2.1m (2017: £1.7m).

Proceeds from the issue of treasury shares included in the Consolidated Statement of Cash Flows of £1.3m (2017: £0.9m) is the amount employees contributed.

The Group has the right to reissue the remaining treasury shares at a later date.

Notes to the Parent Company

Financial Statements CONTINUED

FOR THE 52 WEEKS ENDED 30 JUNE 2018

13 Share-based payments

As at 30 June 2018, the Company operated one share award plan:

- Long Term Incentive Plan ('LTIP')

There were no exercisable options under this scheme as at 30 June 2018 (2017: nil).

Long Term Incentive Plan

The LTIP was approved by the Board in 2006, enabling the Group to award shares to particular individuals, normally in the form of nominal cost options. The LTIP is administered by the Remuneration Committee. One grant was made in the period, to the Executive Directors and senior management. This grant is exercisable in February 2021, dependent on the level of growth in Group EPS relative to RPI, as well as continuing employment. The maximum life of options under the LTIP is ten years from the date of grant. Full details of this plan are included in the Remuneration Report on pages 70 to 95.

The fair value of options granted during the period was determined using the Black-Scholes valuation model. The significant inputs into the model are detailed below. The volatility is measured at the standard deviation of share returns based on the daily share price over the 20 days prior to the grant date.

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

	February 2018	October 2015	October 2013
Share price at date of grant	584.0p	942.5p	876.5p
Volatility	29.00%	31.90%	39.85%
Dividend yield	4.0%	4.0%	4.0%
Option life	3 years	3 years	3 years
Risk-free interest rate	1.02%	1.00%	1.35%
Discount factor, based on dividend yield to vesting date	0.670	0.669	0.670
Fair value of option	391.4p	631.0p	587.4p

The fair value of additional options granted and the assumptions used in the calculations are as follows:

	October 2013
Share price at date of grant	876.5p
Volatility	32.78%
Dividend yield	4.0%
Remaining option life	15 months
Risk-free interest rate	1.40%
Discount factor, based on dividend yield to vesting date	0.718
Fair value of option	629.5p

13 Share-based payments continued

The number and weighted average exercise price of options under the LTIP at 30 June 2018 is as follows:

	Number of shares under option 2018	Weighted average exercise price 2018	Number of shares under option 2017	Weighted average exercise price 2017
Outstanding at beginning of the period	418,904	–	279,320	–
Granted during the period	170,000	–	170,000	–
Exercised during the period	(26,488)	–	(7,470)	–
Lapsed during the period	(427,036)	–	(22,946)	–
Outstanding at end of the period	135,380	–	418,904	–

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

	2018 £'m	2017 £'m
LTIP	–	0.3

14 Contingent liability

The Company and certain subsidiaries have given joint and several guarantees in connection with all bank facilities provided by the Group's principal bankers.

15 Related party disclosure

The amount due to the Company from subsidiary undertakings is set out in note 6. Transactions between the Company and its subsidiaries were as follows:

	2018 £'m	2017 £'m
Dividends received	42.0	–
Net interest received	3.9	4.3
	45.9	4.3

Key management personnel

All employees of the Company are key management personnel including David Stead, the Group's interim Chief Financial Officer.

Directors of the Company and their close relatives control 51.5% (2017: 51.4%) of the voting shares of the Company.

Disclosures relating to the remuneration of Directors are set out in the Remuneration Report on pages 70 to 95. Disclosures relating to the remuneration of David Stead are set out in note 26 in the Group's financial statements.

16 Subsequent events

There are no reportable subsequent events for Dunelm Group plc.

Advisers and Contacts

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LEGAL ADVISERS

Allen & Overy LLP

One Bishops Square
London E1 6AO
Tel: 020 3088 0000

INDEPENDENT AUDITOR

PricewaterhouseCoopers LLP

Cornwall Court
19 Cornwall Street
Birmingham B3 2DT
Tel: 0121 265 5000

PRINCIPAL BANKERS

Barclays Bank PLC

Midlands Corporate Banking
PO Box 333
15 Colmore Row
Birmingham B3 2WN
Tel: 0345 755 5555

REGISTRARS

Equiniti

Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Tel: 0371 384 2030¹

FINANCIAL PUBLIC RELATIONS

MHP Communications

60 Great Portland Street
London W1W 7RT
Tel: 020 3128 8100

REGISTERED OFFICE

Store Support Centre

Watermead Business Park
System
Leicestershire LE7 1AD
Company Registration No: 4708277

INVESTOR RELATIONS

corporate.dunelm.com

Tel: 0116 264 4439
Email: investorrelations@dunelm.com

¹ If dialling internationally, call +44 121 415 7047. The helpline is open Monday to Friday 8.30 am to 5.30 pm, excluding bank holidays.

Store Listing

Superstores

Aberdeen	Coventry	Kilmarnock	Rustington
Altrincham	Cramlington	Kirkcaldy	Salisbury
Ashford	Crewe	Lancaster	Scarborough
Aylesbury	Croydon	Leeds	Scunthorpe
Ballymena	Darlington	Leicester Thurmaston	Sheffield Kilner Way
Banbury	Dartford	Lincoln	Sheffield Woodseats
Bangor	Derby	Liverpool Garston	Shoreham
Barnet	Doncaster	Liverpool Sefton	Shrewsbury Sundorne
Barnsley	Dumfries	Livingstone	Sittingbourne
Barnstaple	Dundee	Llanelli	Slough
Barrow-in-Furness	Dunstable	Londonderry	Solihull
Basingstoke	Eastbourne	Loughborough	Southampton
Beckton	Edinburgh Straiton	Lowestoft	Southport
Bedford	Enfield	Maidstone	St Albans
Belfast	Exeter	Manchester Ashton-under-Lyne	St Helens
Birmingham Bordesley	Falkirk	Manchester Radcliffe	Staples Corner
Birmingham Erdington	Fareham	Manchester Trafford	Stafford
Blackburn	Farnborough	Mansfield	Stevenage
Blackpool	Glasgow Clydebank	Milton Keynes	Stockport
Bolton	Glasgow Paisley	Newbury	Stockton-on-Tees
Bournemouth	Glasgow Uddingston	Newport	Stoke-on-Trent Fenton
Bradford	Gloucester	Newport Isle of Wight	Sunderland
Bridgend	Grantham	Newtonabbey	Swansea
Bristol Brislington	Grimsby	North Shields	Swindon
Broadstairs	Halifax	Northampton	Taunton
Bromborough	Harlow	Norwich	Telford
Burton	Hartlepool	Nottingham	Thurrock
Bury St Edmunds	Hastings	Nuneaton	Torquay
Cambridge	Hemel Hempstead	Oldbury	Truro
Cannock	Hereford	Oxford	Wakefield
Canterbury	High Wycombe	Perth	Walsall
Cardiff	Horsham	Peterborough	Warrington
Carlisle	Huddersfield	Peterborough Kiddicare	Wellingborough
Carmarthen	Hull	Plymouth	West London Greenford
Catford	Huntingdon	Pontypridd	West London Harrow
Chelmsford	Ilkeston	Preston	Weston-super-Mare
Cheltenham	Inverness	Reading	Wisbech
Chester	Ipswich	Redditch	Wolverhampton
Chesterfield	Jersey	Rochdale	Worcester
Chichester	Keighley	Romford	Workington
Colchester	Kettering	Rotherham	Wrexham
Coleraine	Kidderminster	Rugby	York
Colliers Wood			

High Street

Boston (2 stores)
Newcastle-under-Lyme

Online

dunelm.com

[corporate.dunelm.com](https://www.corporate.dunelm.com)

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