Dunelm

The **Home** of Homes

STRONGER TOGETHER

DUNELM GROUP PLC

ANNUAL REPORT AND ACCOUNTS

for the period ended 27 June 2020

In 2020 we learned a lot about ourselves and, above all, that we are stronger together.

To respond to a challenge as all-encompassing as Covid-19 has required a huge effort from every one of our stakeholders. Our colleagues were more committed and adaptable than we could have imagined. Our customers, suppliers, shareholders and communities gave us huge support. Our business model has proven even more resilient than we had expected.

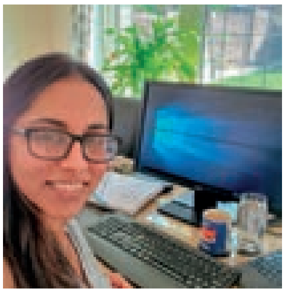
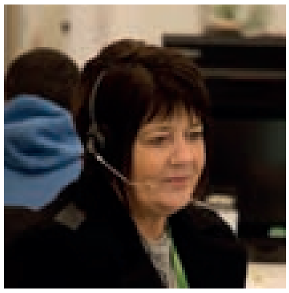
We have learned from our mistakes and from our moments of inspiration. Above all, during the most financially and emotionally challenging period in Dunelm's history, we have learned that we are stronger together. Thank you to you all.

Nick Wilkinson

CEO



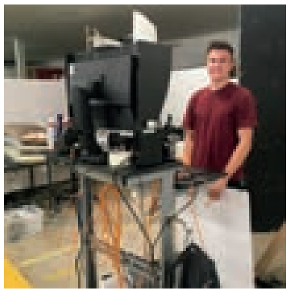
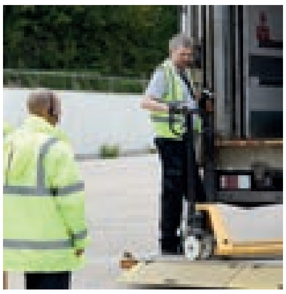
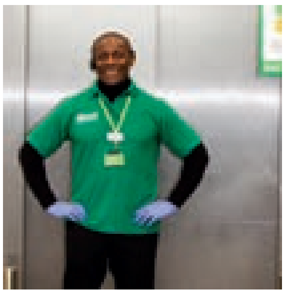


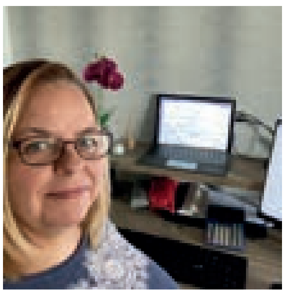











EXCHANGES
Dunelm

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DUNELM
THE HOME OF HOMES

Our purpose is to help everyone create a home they love. We are the UK's #1 homewares retailer with a growing presence in the furniture market. We love creating homes with products that offer choice, value, quality and style, and services that help our customers. We work together to give our customers experiences that are friendly, local, helpful, and build relationships.

2020 PERFORMANCE SUMMARY

ACTIVE CUSTOMER GROWTH[1]

+1.3%

(2019: +8.5%)

+8.8% for first eight months of the year

TOTAL SALES

–3.9%

(2019: +4.8%)

+6.8% for first eight months of the year

FREE CASH FLOW[2]

£174.7m

(2019: £152.8m)

PROFIT BEFORE TAX[3]

£109.1m

(2019: £125.9m)

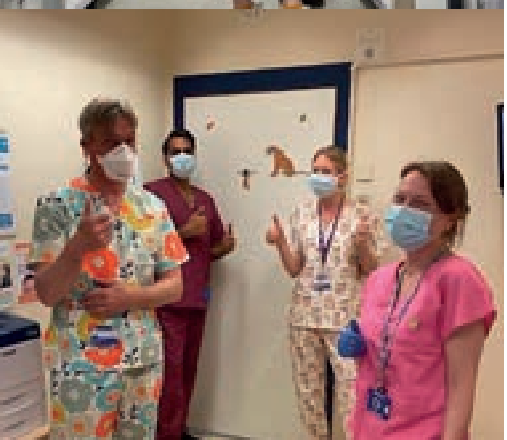
FY20 HIGHLIGHTS

- Response to the crisis highlighted the resilience of our business model, the strength of our balance sheet, the importance of our shared values and our digitally enabled *Customer 1st* strategy, allowing us to innovate at pace.
- Total sales increased in the eight months to February by 6.8%, supported by an 8.8% increase in rolling 12-month unique active customer numbers.
- Online (home delivery) sales grew 105.6% in the fourth quarter.
- Gross margin of 50.3% up 70 bps year-on-year, with gains from sourcing initiatives partially offset by increased clearance activity following the store closure period.
- Full year reduction in PBT reflects impact of Covid-19 and the store closure period.
- Free cash flow generation of £174.7m, including c.£80m of exceptional working capital benefits related to our response to Covid-19, which are expected to largely reverse in FY21.
- Robust balance sheet with year-end net cash of £45.4m, access to £175m of approved banking facilities, and confirmed COVID Corporate Financing Facility (CCFF) eligibility.

1. Unique active customers who have shopped in the last 12 months, based on management estimates using Barclays data.
2. To ensure comparability following the implementation of IFRS 16, free cash flow is defined as net cash generated from operating activities less capex (net of disposals), net interest paid, interest on lease liabilities and repayment of lease liabilities.
3. FY20 PBT on IFRS 16 basis; FY19 on IAS 17. The impact of IFRS 16 on FY20 PBT is a reduction of £2.3m.

CHAIRMAN'S STATEMENT

Our Dunelm values guided us through the Covid-19 crisis



AN EXTRAORDINARY YEAR

Over a long business career, I have experienced a number of recessions and many business challenges, but nothing has come close to the Covid-19 crisis, which is combining a health crisis and an economic crisis with fundamental changes to our social norms. Not surprisingly, Dunelm is being tested like never before. The long-standing foundations of Dunelm have held us in good stead, with the strength of our customer proposition, backed by our new digital capabilities, allowing us to trade whilst our shops were closed. Alongside this, our financial strength continues to provide the resources to weather the storm.

Equally importantly, the commitment of our amazing colleagues, the quality of our leadership, and our Dunelm family values, have guided our decision making at all times. In the darkest and most unpredictable hours of the crisis, our values and our strong desire to the do the right thing for our colleagues, our customers and our communities lit the way. I am immensely proud of how our Dunelm colleagues have performed in the toughest of tests and the social contribution they made, including the manufacture of NHS gowns from our curtain factory, and sewing laundry bags for care homes and other key workers. I would like to say a huge thank you to each and every one of our colleagues.

STRATEGIC PROGRESS

Prior to Covid-19, our business was performing very well on all fronts, delivering for all our stakeholders and ahead of our plans. We made good strategic progress, most notably with the launch of our new online platform and the introduction of Click & Collect. This launch was delivered on a phased basis between August and October 2019, with minimal disruption to the business, and was a critical tool in our response to Covid-19. In addition, our product range improved both in store and online, including further innovations in sustainability.

BOARD

We were delighted to welcome two new members to our Board during the year. Ian Bull joined in July 2019 as a Non-Executive Director and now chairs our Audit and Risk Committee. Paula Vennells joined in September 2019 as a Non-Executive Director. Both have settled in well and are making a strong contribution. We are also pleased to announce that William Reeve, independent Non-Executive Director, and Chair of the Remuneration Committee, has assumed the role of Senior Independent Director, with immediate effect.

DIVIDENDS

The interim dividend of eight pence per share, which was due to be paid in April 2020, was cancelled due to the closure of our stores during lockdown and the urgent need to preserve liquidity. The memories of this enforced shutdown and of the enormous pressure that it put upon our business and our finances remain vivid. Our prudent financial policies and our balance sheet were vital during the shutdown and we were able to partially mitigate its impact with an excellent performance from our newly invested digital channels. Since our stores have re-opened our recovery has continued at pace.

Whilst current trading is very encouraging, the outlook for this financial year is highly uncertain, with heightened economic uncertainty, the possibility of further Covid-related lockdowns and potential Brexit-related disruption. These exceptional circumstances have reinforced our prudence and the Board has decided to retain cash in the business and not to recommend a final dividend.

The Board currently anticipates, in the absence of any further material impact from Covid-19, that we will declare an interim dividend in February 2021. We also expect to return to our published capital policies, which determine both the ordinary dividend and the extent of surplus cash distributions.

"The fundamental strengths of Dunelm, which were so evident during our response to the Covid-19 crisis, have underlined our confidence in our ability to deliver our strategic ambitions, which will create value for all our stakeholders."

Andy Harrison
Chairman

10 September 2020

LOOKING AHEAD

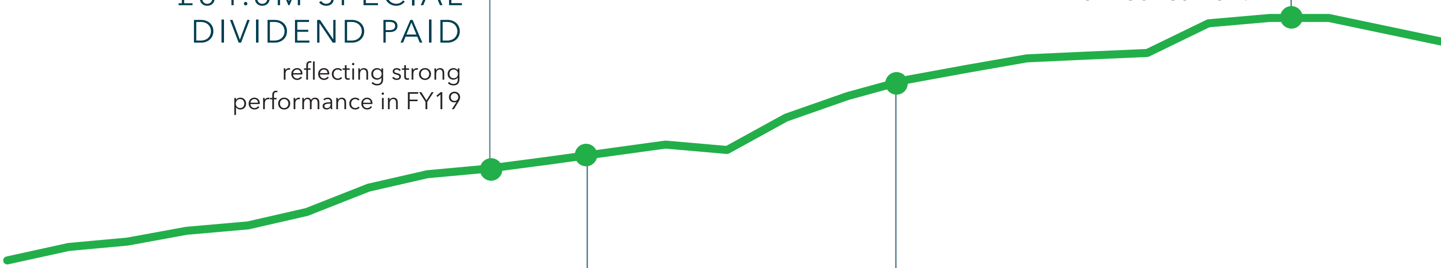
The fundamental strengths of Dunelm, which were so evident during our response to the Covid-19 crisis, have underlined our confidence in our ability to deliver our strategic ambitions, which will create value for all our stakeholders. As a *Customer 1st*, digitally enabled business, we shall reinforce our leadership of the homewares sector in the UK, integrating our store network with our enhanced digital capabilities, supported by the strength and breadth of our product range, developed in partnership with our suppliers. We have also renewed our ambitions to continue making a substantial contribution to our communities, to improving the sustainability of the materials we use, to encouraging recycling, and to reducing our carbon footprint.

We are confident that Dunelm will deliver another strong performance in the coming year, whatever circumstances may be thrown at us, building on our customer-focused business plans, together with the agility to adapt to the unfolding economic and consumer environment. It is impossible to predict our immediate financial outlook, but we look to the future with confidence and great ambition.

SEE PAGES 90 TO 91 SECTION 172 COMPANIES ACT CASE STUDY FOR OUR RESPONSE TO THE COVID-19 CRISIS AS A PRACTICAL EXAMPLE OF HOW THE BOARD AND EXECUTIVE TEAM EXERCISED THEIR DUTIES UNDER S172 COMPANIES ACT 2006 DURING THE HEIGHT OF THE CRISIS.

MAKING STRATEGIC PROGRESS WHILST NAVIGATING THE COVID-19 CRISIS

DUNELM HEADLINES



£64.6M SPECIAL DIVIDEND PAID

reflecting strong performance in FY19

ALL CUSTOMER-FACING OPERATIONS CLOSED

following UK Government lockdown announcement

NEW DIGITAL PLATFORM LAUNCHED

successful phased rollout of digital platform

RECORD PEAK TRADING SEASON

with stores and new website hosting more customers than ever before

Q1 2019/20			Q2 2019/20			Q3 2019/20		
JULY	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR

OPERATIONAL & FINANCIAL EVENTS

JULY 2019

- New season launches and ongoing digital and brand marketing investment.

AUGUST 2019

- Phased transfer to new platform.

SEPT 2019

- The Edwards family features in latest *'Home of Homes'* campaign launched across TV, social and digital channels.
- New Point of Sale till system rolled out across stores.

OCTOBER 2019

- Full transition to new digital platform.
- Click & Collect proposition launched.

DECEMBER 2019

- Unscheduled trading update as full year profits expected to be ahead of previous expectations.
- Boris Johnson wins UK 'snap' general election.
- UK leaves European Union.

JANUARY 2020

- Successful Winter Sale.
- World Health Organisation declares global emergency due to Covid-19.

FEBRUARY 2020

- Channel 4's *First Dates* programme sponsorship starts.
- First Covid-19 case transmitted in UK.
- Interim results show progress against all key customer, operational and financial metrics.

MARCH 2020

- UK Government announced national lockdown and new social distancing rules.
- Dunelm focused on preserving cash and draws down RCF in full.
- Interim dividend cancelled.
- Capital expenditure and non-essential operating costs reduced.
- Worked closely with suppliers to manage stock requirements.
- Liaised with landlords to improve rent payments schedule.

MOVING ANNUAL TURNOVER £M

1,150
1,100
1,050

PHASED RE-OPENING OF ONLINE SERVICES

prioritising the safety of our colleagues and customers

CLICK & COLLECT RELAUNCHED

including new 'contactless' offer for customers

NEW *EDIT* STORE OPENS

trial of smaller high street format store in Crawley

STORES START RE-OPENING

phased opening to ensure safety and compliance with local requirements

PHASED RE-OPENING OF PAUSA CAFES

with UK Government VAT reductions passed on to Dunelm customers

HOMEWARES MARKET RETURNS TO GROWTH

market grew by 11.7% over June and July

Q4 2019/20 — APRIL, MAY, JUNE

Q1 2020/21 — JULY, AUG

APRIL 2020

- Prepared stores and engaged with colleagues for re-opening.
- Colleagues support local communities and NHS.
- COVID Corporate Financing Facility (CCFF) eligibility confirmed.
- Pay reductions taken at Board and Executive Board levels.
- UK social distancing rules extended.

MAY 2020

- Homewares stores included on 'permitted' retailers list.
- Trials of 'dark store' Click & Collect offer commenced.
- Phased re-opening of stores in England with new social distancing measures in place.

JUNE 2020

- FY total revenue down 3.9% year-on-year.
- FY profit before tax £109.1m.
- Final stores in Wales allowed to open on 22 June.
- Covid-19 spike in Leicester triggers local lockdown.

JULY 2020

- Dunelm's third gender pay report published.
- Trading statement highlights positive customer response since re-opening.
- UK Government reduces hospitality VAT rate and launches Eat Out to Help Out Scheme.
- VAT reduction passed on to customers in Pausa cafes.
- £250 special thank you payment for all colleagues announced.
- Sales in July up 59% year-on-year.

AUGUST 2020

- Pausa cafes take part in Eat Out to Help Out scheme.
- Sales in August up 24% year-on-year.

SEPTEMBER 2020

- Preliminary announcement highlights strength of trading for first nine weeks of FY21.

LISTENING, LEARNING AND EMERGING AS A **STRONGER BUSINESS**

EMPOWERED COLLEAGUES AND FLEXIBLE WORKING

WHAT WE LEARNED DURING THE CRISIS

- Colleagues felt more empowered while continuing to respect Dunelm's shared values.
- Across the business we experienced a greater sense of mutual trust.
- Colleagues were flexible, prepared to take on dual roles, and become more engaged in local community activities.

HOW WE WILL EMERGE STRONGER TOGETHER

- Recognise colleague demand for more flexible working and transient roles.
- Review colleague understanding of our shared values post-crisis.
- Rethink job descriptions and geographical boundaries to reflect mutual trust and widen access to internal talent.

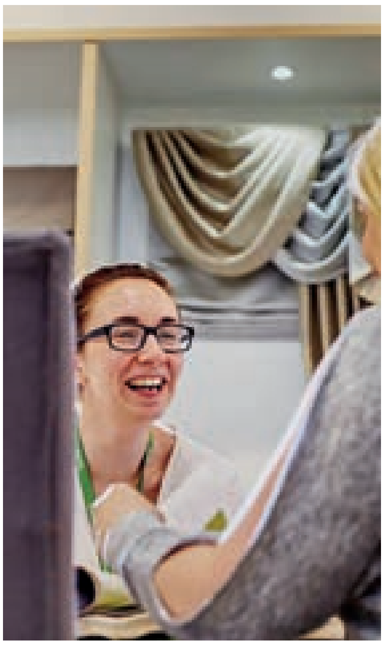
£250

We made a special thank you payment to every colleague to acknowledge their contribution

2 days

In just two days after closing, our customer care and support centres were up and running again, with colleagues working from home

BETTER COMMUNICATIONS AND LISTENING MECHANISMS



WHAT WE LEARNED DURING THE CRISIS

- Weekly communications with our CEO were valued highly – in particular the two-way Q&A session.
- New 'pulse' surveys proved vital to understanding colleague sentiment and safety.
- Targeted local customer communication via social media was effective and appreciated.

HOW WE WILL EMERGE STRONGER TOGETHER

- Focus on more interactive and personal colleague communication.
- Continue weekly 'pulse' surveys to track colleague concerns – we have already expanded these to all hourly-paid colleagues.
- Refocus brand marketing expenditure from national to local campaigns.

8.2/10

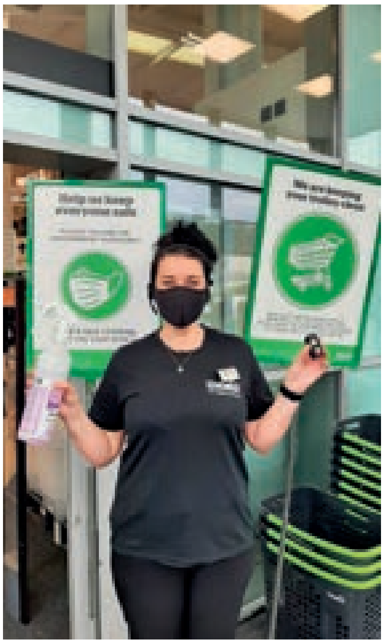
Average score from our colleagues about how safe they felt to return to work

8,000

Peak number of colleagues watching weekly CEO communications

During the Covid-19 crisis we learned how adaptable we were and what made our business resilient. We listened more to our colleagues and communities, and acted upon this insight. We recognised the value of empowerment, communication and relationships. We learned from our experience and emerged stronger together.

GREATER UNDERSTANDING OF COLLEAGUE WELLBEING



WHAT WE LEARNED DURING THE CRISIS

- Government guidelines prompted us to gain new insights into our most vulnerable colleagues.
- Hundreds of colleagues showed interest in our support fund, and wellbeing information hub and app.
- Benefits of understanding personal circumstances better and the 'indivisibility' of social life and work life when working from home.

HOW WE WILL EMERGE STRONGER TOGETHER

- Continue to monitor, measure and protect our most vulnerable people.
- Expand and promote our colleague support fund and Retail Trust resource.
- Strengthen initiatives to promote our colleagues' physical, emotional and financial wellbeing.

5,000

Of our store colleagues have received Mental Health Awareness training to date

16%

Of our colleagues are vulnerable, high-risk vulnerable (HRV), or care for other HRV household members

IMPORTANCE OF COMMUNITY ENGAGEMENT AND KNOWLEDGE

WHAT WE LEARNED DURING THE CRISIS

- Value of 'instant' feedback relating to local customer sentiment and store-by-store opening decisions.
- Importance of heightened community engagement for colleague wellbeing ('sense of purpose') and teamwork (cross-company activities and charitable work).
- Importance and value of community engagement to the Dunelm brand.

HOW WE WILL EMERGE STRONGER TOGETHER

- Allow our colleagues to communicate directly with local stores' customers.
- Provide tailored, more meaningful communication to communities near our stores.
- Increase overall Dunelm brand awareness by representing our brand more meaningfully within our local communities.

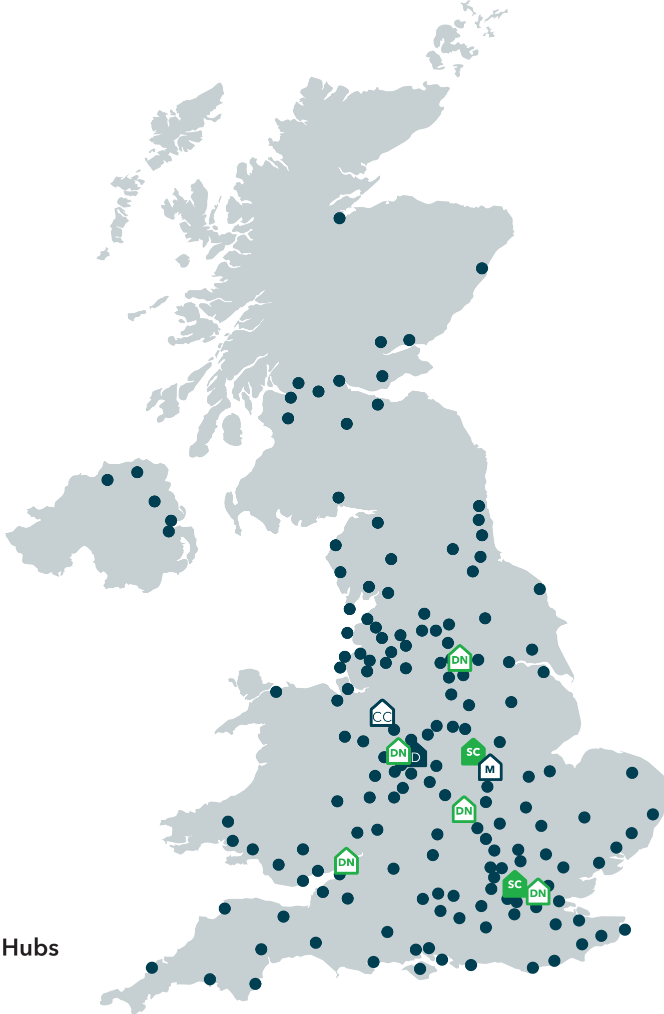
65,000

Gowns manufactured for the NHS when we re-opened our manufacturing centre to support them

173

Facebook groups set up and managed by our store colleagues, improving local engagement

DUNELM
AT A GLANCE



A *Customer 1st*, digitally enabled business

We are the UK's #1 homewares retailer, home to over five million visitors to our stores and website a week, with a growing presence in the furniture market.

OUR EFFICIENT STORE ESTATE AND FULFILMENT NETWORK

Our 173 stores allow us to showcase our product ranges and inspire our customers as they browse. Our in-store colleagues provide valued customer service and build local, helpful relationships. In FY20 we added three stores to our estate and are committed to open three stores in FY21. Our stores are supported by an efficient fulfilment network, which also serves our growing home delivery services.

- Superstores
- M Manufacturing Centre
- CC Customer Care Centre
- SC Support Centre
- DN Dunelm Home Delivery Network Hubs
- D Distribution Centres

173

TOTAL NO. OF STORES

mainly out of town, with many offering made-to-measure blind, curtain, shutter and accessories fitting services.

OPEN

148

PAUSA CAFES

offering a wide range of food and drink, including freshly ground coffee.

10,000

COMMITTED COLLEAGUES

Opened

SMALLER *EDIT* STORE OPENED

with curated Live, Sleep, Eat and Work/Do ranges.

5

DUNELM HOME DELIVERY NETWORK HUBS

1

DEDICATED CUSTOMER CARE CENTRE

currently operated remotely by colleagues working from home, providing 'on call' service.

50,000

TOTAL NO. OF PRODUCT LINES

2

DISTRIBUTION CENTRES

with combined area of over one million square feet.

2

SUPPORT CENTRES

assisting our store, digital and delivery colleagues.

OUR GROWING SERVICE OFFER

We are developing a 'total retail system' – a fully integrated online and in-store service supported by a robust network of customer-facing services, and infrastructure.

UPGRADED CLICK & COLLECT

services with easy options for returns, and a store-to-car pick-up service.

ONLINE GUIDES

providing advice on measuring, fitting and sustainable living.

VIRTUAL SHOPPING SERVICE

trialling virtual shopping via interactive video calls.

IN-HOME BLIND AND CURTAIN FITTING SERVICES

with virtual consultations available via video conference or in store.

IMPROVED HOME DELIVERY OPTIONS

with one and two-man delivery options.

c.4 million

deliveries in FY20

OUR EXCLUSIVE BRANDS

We have the largest in-store range of homeware and furniture products in the UK, including a number of specialised brands, exclusive to Dunelm.

Our **Dunelm** brand is recognised for providing a distinctive and specialist product portfolio, based on choice, quality, value and style.

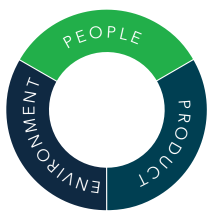
Our made to measure service allows customers to create bespoke curtains, blinds, shutters and accessories with expert help. All accessories are available to purchase at dunelm.com or in store.

With over 100 years as master pillow and quilt makers, Fogarty has grown into one of the country's leading bedding brands.

The Dorma brand was established in 1921. Our Dorma range includes bedding, curtains, cushions and homewares.

EVERYDAY SUSTAINABILITY

We are making sustainability an everyday part of our business, finding our own way to make the biggest difference.



SUSTAINABILITY REVIEW P32

OUR MARKETPLACE

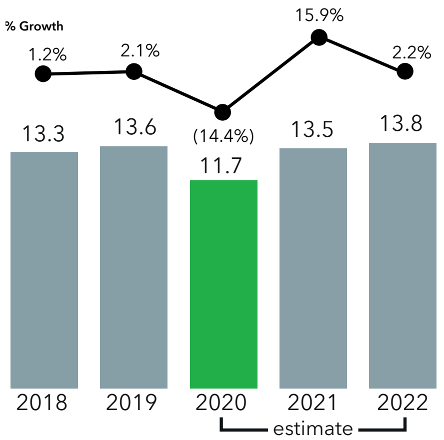
Well positioned in resilient market sectors

UK HOMEWARES MARKET

- UK homewares market was estimated to be worth £13.6bn in 2019.
- Dunelm is market leader with an estimated market share of 7.6%, up 40 bps year-on-year, and has been operating in this market for over 40 years.
- Underlying overall market growth was running at 1-2% per year pre Covid-19 and is forecast to return to previously estimated 2020 levels by 2022.
- Online growth is outperforming overall market > 4x and benefiting from Covid-19 lockdown trends.
- Online penetration is currently c.20% (up from 14% in 2018 and 16% in 2019).

HOMEWARES

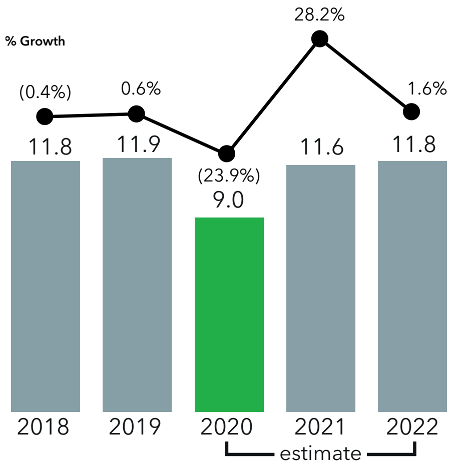
Market size
£bn



Source: GlobalData, June and September 2020.

FURNITURE

Market size
£bn



Source: GlobalData, June 2020.

UK FURNITURE MARKET

- UK furniture market was estimated to be worth £11.9bn (2019).
- Dunelm has c. 1% share in a highly fragmented and challenged market, which has seen competitor erosion as a direct impact of Covid-19 and is expected to consolidate rapidly.
- More so than the homewares market, this market has been impacted by economic uncertainty, lower consumer confidence and the weaker housing market.
- Dunelm's average furniture item value is relatively low and is therefore well placed to withstand an economic downturn.
- Furniture market growth is forecast to return to previously estimated 2020 levels by 2022.
- The online furniture market, however, is one of the fastest-growing online retail markets, with a penetration of approximately 30% (up from c.20% in 2018 and 2019).

WHAT DOES THIS MEAN FOR DUNELM

- We are well positioned to grow market share in our large, addressable markets, which are worth around £26bn combined.
- Market growth was disrupted between March and May 2020, but both sectors grew strongly from June 2020, and we forecast a return to pre Covid-19 growth by 2022.
- Whilst overall consumer outlook remains uncertain, spending on good value-for-money home improvements has shown resilience, reflecting the importance of home to consumers.
- Our brand is being considered by more consumers across more categories as we benefit from digital 'savvy' shoppers who research online and engage on social posts before purchasing.
- Operating in sizeable market sectors and with customers who respond well to our integrated digital and physical offer and value-for-money ranges, we are highly ambitious about Dunelm's prospects to grow share in the UK homewares and furniture markets.

CONSUMER TRENDS

OUR HOME IS OUR HAVEN

Home is where we feel safe, where we work, homeschool and relax

- With ongoing restrictions and uncertainty, our homes have become a safe haven, although this is not the case for all; calls to domestic abuse helplines also rose.
- Our homes became multi-purpose – a place for working, exercising, educating and relaxing.
- We learned to manage our space better than before, repurposing rooms and their functions, knowing that we may be relying on our multi-purpose homes for some time.

CONNECTING WITH NATURE

Outside is the new in, and we no longer take this for granted

- Daily exercise highlighted the importance of connecting with nature for physical and mental wellbeing.
- We became more aware of our surroundings and more mindful of our impact on the environment.
- Gardening became a top activity to fill in time during lockdown.

THINK BEFORE YOU SHOP

Making more mindful and sustainable decisions

- More importance is now placed on the health and wellness of family, friends and pets, rather than material things.
- Many people decluttered their homes and – increasingly concerned about personal finances – are less likely to purchase new items spontaneously.
- People upcycled and repaired products, and became more conscious of food waste, with these trends accelerating.

ONLINE AND VIRTUAL SHOPPING HERE TO STAY

With higher customer expectations

- With many retailers forced to shut and people spending time at home, online shopping becoming more mainstream.
- Product availability and on-time convenient delivery became key reasons for shoppers to choose (or change) brands and retailers.
- Virtual services and other digital tools helped people to shop 'safely', while staying at home.

LOCALISM IS GLOBAL

We want to 'buy local' and support our communities

- There has been a global surge in 'localism', consumers preferring to buy goods and services from their own country.
- Lockdown made consumers more aware of local independent shops and their financial struggles.
- Consumers are advocating 'localism' by buying locally-sourced, artisanal products and supporting community stores.

'SAFE'

The most commonly used word by our consumers in our Home Lovers Panel to describe their home was 'safe'.

>100%

increase in our online (home delivery) sales in Q4 2020.

64%

of consumers will try to support local businesses and buy local.

Source: YouGov w/c 11 June 2020

AT DUNELM

- Online demand for our products rose strongly, with home office, garden furniture and decorating products among the top performers.
- We have introduced products with more upcycled and recycled content, such as bedding, towels and glassware.
- We are using artificial intelligence machine-learning technology to improve our online and home delivery fulfilment service, acknowledging the high importance our customers place on this.
- We help our customers in-store and online to make more considered purchases through 'how to' guides and virtual shopping services.
- We are exploring ways to connect locally with our customers – through store-led customer social media groups and by promoting local services.

SUSTAINABILITY REVIEW
FOR EXAMPLES OF OUR SUSTAINABLE PRODUCT DEVELOPMENTS P50

AMBITIONS, PURPOSE AND STRATEGY

Clear vision and focus which puts our customer first

"Our experience during the Covid-19 crisis taught us about our ability to innovate at pace and gave us the confidence to accelerate our strategic priorities, all of which focus on being *Customer 1st*. These will help us deliver our ambitions and to fulfil our purpose – helping everyone create a home they love."

Nick Wilkinson
CEO

BUSINESS REVIEW P21
OUR SIX FOCUS AREAS P27

OUR AMBITIONS

AMBITIOUS ABOUT **PROFITABLE GROWTH**	AMBITIOUS ABOUT **OUR BRAND**	AMBITIOUS ABOUT BEING **A GOOD COMPANY**
Grow our business for the long term, at pace but always with an efficient use of resources to optimise profitability and value creation	Be the #1 homewares destination, brilliant at service and experience, as well as product	Be a company that operates responsibly in all our communities, is leading on sustainability in homewares, and is a great place to work for everyone

OUR *CUSTOMER 1ST* STRATEGY

PURPOSE AND PROPOSITION

HELPING EVERYONE CREATE A HOME THEY LOVE

- **Products that offer choice, value, quality and style**
- **Services that help – from inspiration to delivery to fitting**
- **Experiences that are friendly, local, helpful and build relationships**

FOCUS AREAS

TO BECOME THE #1 HOMEWARES DESTINATION FOR OUR CUSTOMERS, AND AN EVER BETTER BUSINESS THAT GROWS SUSTAINABLY

- **PRODUCT** Grow our product offer and authority
- **CUSTOMER** Broaden our customer base
- **DIGITAL** Accelerate online, in-store digital and service sales
- **SUSTAINABILITY** Make sustainability accessible for all
- **DELIVERY** Transform post sales delivery experiences
- **OPERATIONS** Evolve smarter stock flows and operations

FOUNDATIONS AND SHARED VALUES

- **Committed colleagues**
- **Committed suppliers**
- **Efficient store estate**
- **Agile and scalable technology**
- **Flexible supply chain**
- **Data-driven decision making**

STRONGER TOGETHER | LONG-TERM THINKING | KEEP LISTENING AND LEARNING | ACT LIKE OWNERS

OUR PURPOSE, PROPOSITION, FOUNDATIONS AND SHARED VALUES IN MORE DETAIL

PURPOSE AND PROPOSITION

OUR PURPOSE

Our purpose – helping everyone create a home they love, unites our whole business internally, reminding us of why we do what we do, and sends a strong message to our customers, colleagues, suppliers and stakeholders.

OUR PROPOSITION

In 2020, we refreshed our proposition, which revolves around our customers, taking into account recent investment in our digital platform, the development of our delivery network, and the strengthening of customer engagement during the UK lockdown. We recognise that we operate in a tough retail space with competition from generalist retailers and online specialists. If we get our customer proposition right, the rest falls into place.

FOUNDATIONS AND SHARED VALUES

OUR FOUNDATIONS

Our foundations (other people's 'key resources and relationships') are areas that we have identified that underpin our value creation. We need to invest in these to maintain competitive advantage and gain market share. The Board and Executive Board reviewed these during the year to better reflect our new ambitions and the benefits of our digital platform launch, which is transforming the way we work.

OUR SHARED VALUES

Our shared values – Stronger Together, Long-Term Thinking, Keep Listening and Learning, and Act Like Owners – are an expression of our unique Dunelm culture and the reason why people want to shop with us, work for us, supply and invest in us. Our Board and Executive Board reviewed our shared values during the year, engaging with colleagues in our latest National Colleague Voice (see page 97) to see how well they resonated with the people to whom they matter most.

OUR FOUNDATIONS

COMMITTED COLLEAGUES

Our colleagues make Dunelm a special place to work and shop, and bring pride to the service we give to our customers every day. Their detailed product knowledge, provided mainly by our customer-facing colleagues in store is a key differentiator and highly valued by our customers.

COMMITTED SUPPLIERS

We have built deep and mutually rewarding relationships with our core suppliers over the last 40 years. Our suppliers are product specialists and allow us to provide our customers with products that offer choice, quality, value and style.

EFFICIENT STORE ESTATE

Our 173 stores allow us to showcase our product ranges, provide great service and inspire our customers as they browse. The store experience remains an important part of our total retail offer.

AGILE AND SCALABLE TECHNOLOGY

The technology upon which our new digital platform is built allows us to release continuous improvements to our customer experience and operating effectiveness. Our Digital teams have been set up to work in an agile way to maximise the opportunity available to them through new technology.

FLEXIBLE SUPPLY CHAIN

The supply chain for our legacy stores fulfilment model is very efficient. As we grow our home delivery business, in line with customer preferences, we are focused on building a similarly efficient home delivery model, which includes both one and two-man delivery.

DATA-DRIVEN DECISION MAKING

The more we understand our customers, the better service, products and experience we can offer them. We are investing significantly in our data and insight capabilities, improving and accelerating our decision making to benefit our customers.

GOVERNANCE REPORT P79

LONG-TERM THINKING

What we do and how we create value

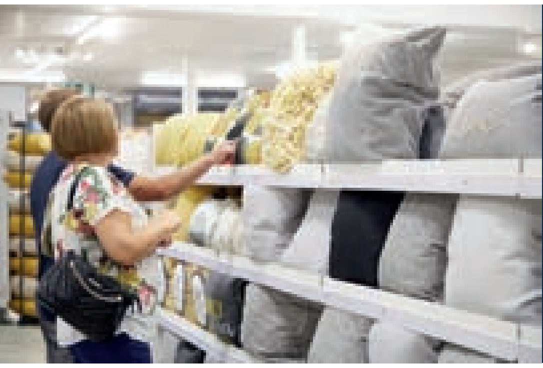
In essence, we operate a simple retail value chain: we **buy** and **sell** an unrivalled choice of homeware and furniture products, and **deliver** them to our customers at home or in-store as efficiently as possible in order to make a financial margin, creating long-term economic and social value for a range of stakeholders (see page 17). However, the way in which our customers browse and buy products has changed dramatically in recent years and even more so during the Covid-19 crisis. We have taken the opportunity to innovate at pace, developing our business faster than ever before in a society that is also changing rapidly.

OUR MARKETPLACE P12

UNITED BY A STRONG PURPOSE AND DIFFERENTIATED BY A CLEAR PROPOSITION

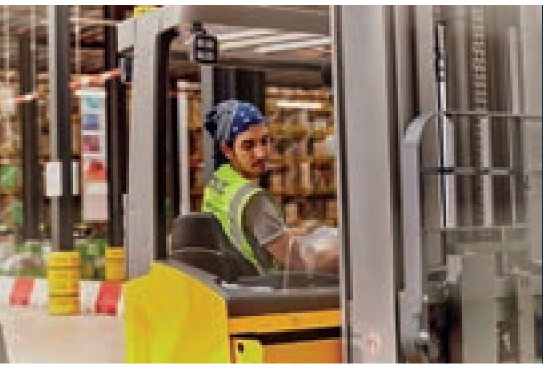
BUY

We source **products that offer choice, value, quality and style** by working closely with our suppliers and sharing customer insights and trends, refreshing and updating our range regularly. We are the UK's homeware category specialist with an unrivalled range – including exclusive brands and own-label ranges – and have become a shopping destination for homeware and furniture.



SELL

Through our 'total retail system' we aim to give our customers the most convenient options for purchasing products, whether online in the comfort of their own home or in our stores. **We provide services that help: from inspiration to delivery to fitting**. At every stage of their purchase, we inspire our customers to make the best choices and communicate with them through our social media channels, dunelm.com website, and in every store.



DELIVER

We manage the most cost-effective and efficient delivery of products to stores or straight to customer homes, giving choice, convenience and excellent friendly service to our customers. Wherever our customers, colleagues and products come together we provide **experiences that are friendly, local, helpful and build relationships.**

UNDERPINNED BY OUR FOUNDATIONS AND SHARED VALUES

CREATING AND SHARING LONG-TERM VALUE

CUSTOMERS AND COMMUNITIES

- More reasons to shop at Dunelm through new ranges, departments, stores and services, with commitment to everyday low prices and two end-of-season clearance sales per year.
- Safe, convenient, inspirational and helpful shopping experiences, however and wherever customers want to shop.
- Increasing focus on local community engagement, communication and charity support through dedicated social media channels and store colleagues.
- Company-supported charity (Macmillan Cancer Support) with funds raised through in-store donations, colleague initiatives, Company fund-matching and proceeds from single-use carrier bags.
- UK corporation tax paid on Company's profits.

£638k

Raised for charity by colleagues and the Group, of which £533k raised in FY20 with a further £105k company top-up made post year end

FOR INFORMATION ABOUT HOW WE ENGAGE WITH STAKEHOLDERS AND HOW THIS AFFECTS OUR DIRECTORS' DECISION MAKING P89

FOR OUR NEW APPROACH TO CLIMATE CHANGE P56

COLLEAGUES

- Employment in a long-term growth business, with opportunities to develop and progress in a diverse and inclusive working environment.
- Fair pay deal with rates above National Minimum/Living Wage levels, plus additional benefits and a commitment to reducing our gender pay gap further.
- Commitment to providing a safe workplace, promoting physical, emotional and financial wellbeing with a heightened focus on diversity and inclusion.

Colleague engagement up by

9%pts

ENVIRONMENT AND CLIMATE CHANGE

- Maximise reuse and recycling in all our operations, targeting zero waste to landfill over the medium term.
- Minimise use of single-use and non-recyclable plastics and introduce more sustainable materials into our product ranges.
- Reduce like-for-like energy usage and carbon emissions every year.
- Improve sourcing policies across our supply chain to reduce social and environmental impacts.

15%

Reduction in CO_2e relative to turnover

SUPPLIERS

- Long-term supplier relationships based on openness, fairness, consistency, honesty, and respect for payment terms.
- External verification of ethical and human rights standards of Tier 1 supply base for own brand products.
- Modern slavery policy and risk-based auditing in place for all suppliers.

Valid ethical audit in place for

99%

Of factory base for own brand products for Tier 1 suppliers

SHAREHOLDERS

- Revised ambitions, proposition and strategic focus to promote growth and long-term value creation.
- Focus on cost control to maximise efficiency and return on capital employed.
- Strong free cash flow generation, allowing investment/distribution decisions to be made.
- Progressive dividend policy with long-term commitment to returning surplus cash to our shareholders whenever we can.

Ten-year TSR growth

480%

Source: Datastream

KEY PERFORMANCE INDICATORS

Measuring progress against our ambitions

The Board uses a range of financial and non-financial key performance indicators (KPIs) to measure overall Group performance, the success of our strategic direction in relation to our new ambitions, and to help determine senior management remuneration. This year we have expanded our number of Group KPIs and regrouped them around our ambitions (our brand, being a good company and profitable growth) to reflect better how we think about, manage and measure what matters most to our business.

REMUNERATION MEASURES

Earnings per share targets are set by the Remuneration Committee to determine long-term incentive plan (LTIP) pay outs. In addition to personal and strategic objectives, Profit Before Tax (PBT), growth in customer net promoter score (NPS) and colleague net promoter score (eNPS) are used as executive bonus measures. Free cash flow is an additional bonus measure for our CFO.

FOR MORE INFORMATION ON INDIVIDUAL EXECUTIVE BONUS REMUNERATION MEASURES SEE P144 AND P145

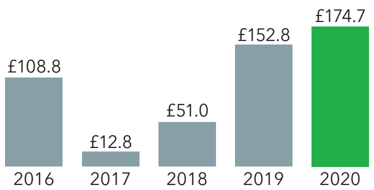
PROFITABLE GROWTH

FREE CASH FLOW

BONUS

£m

£174.7m



Commentary

Free cash flow is defined as net cash generated from operating activities less capex (net of disposals), net interest paid, interest on lease liabilities and repayment of lease liabilities and includes c.£80m of working capital benefit from our Covid-19 response, which is expected to largely reverse in FY21.

Why this measure is important

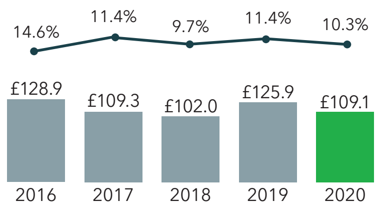
Dunelm is highly cash generative. This measure allows the Board to monitor cash flows to support investment decisions for the long term to support growth, or to return surplus cash to shareholders.

PROFIT BEFORE TAX*

BONUS

£m and % sales

£109.1m



* Profit before tax is presented before exceptional costs.

Commentary

Profit before tax (PBT) in the period was £109.1m (FY19: £125.9m), a reduction of £16.8m year-on-year, reflecting the impact of the store closure period during lockdown, partially offset by the strong sales performance in the first three quarters. The impact of IFRS 16 in the period was to reduce profit before tax by £2.3m.

Why this measure is important

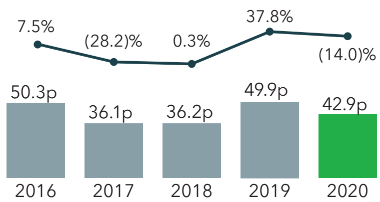
Profit before tax measures overall financial performance of the business, reflecting sales, gross margin and cost control. It is also used as a key bonus measure.

DILUTED EARNINGS PER SHARE

LTIP

pence and growth %

42.9p



Commentary

Diluted earnings per share (EPS) decreased to 42.9p reflecting the lower sales and profit, due to the impact of the store closures.

Why this measure is important

EPS is a key measure for shareholders and one of the performance criteria for senior management remuneration.

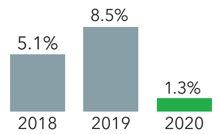
OUR BRAND

UNIQUE ACTIVE CUSTOMERS GROWTH*

NEW

% growth

+1.3%



Commentary
We saw an increase in our active customers by 1.3% in the year, despite our stores being closed for a significant time during this period.

Why this measure is important
We use this metric to measure the acceleration of growth in our active customer base and therefore our ability to reach new customers. This measure combines our active store and online customers.

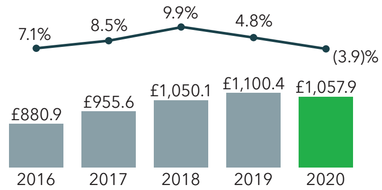
*Unique active customers who have shopped in the last 12 months, based on management estimates using Barclays data.

TOTAL REVENUE

BONUS

£m and growth %

£1,057.9m



Commentary
Total revenue was impacted by the unexpected store closure period, although it grew for the eight months to February by 6.2%, with like-for-like ('LFL') stores growing at 2.5%. Online sales performed particularly well, with growth of 50.5% for the full year and >30% for the eight months to February.

Why this measure is important
We use total revenue figure as an indicator of how meaningful we are to our customers as it demonstrates how successful we are at selling the right products through the most convenient channels.

NET PROMOTER SCORE (NPS)

Year-on-year improvement %pts

BONUS

NEW

+1.8%pts

Commentary
Customer NPS improved year-on-year, although it did reduce in Q4, which impacted the full year performance. Our stores were closed for a significant period and due to high online demand, availability, delivery lead times and service levels were under pressure.

Why this measure is important
The NPS metric is a common business tool that measures how likely people would (or would not) recommend a product, service or company. At Dunelm we use this to measure how our customers rate their full experience with us.

BEING A GOOD COMPANY

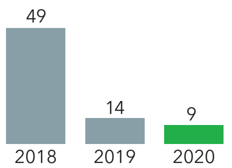
EMPLOYEE NET PROMOTER SCORE (eNPS)

Year-on-year improvement

BONUS

NEW

+9%pts



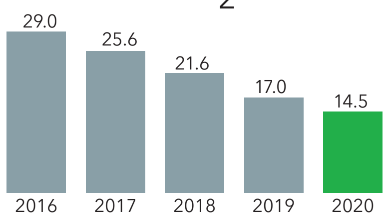
Commentary
We measure our colleague engagement every six months in our colleague survey. Owing to the lockdown period, we postponed the May 2020 survey, and the FY20 year-on-year improvement quoted compares the November 2019 survey to the November 2018 survey. We took weekly 'pulse' surveys to understand how our colleagues felt about our handling of the Covid-19 crisis and more information about this can be found on page 42. We aim to relaunch our annual survey in FY21.

Why this measure is important
This measure rates our colleagues' experience with us and helps us understand where we need to improve. It is also used as an executive bonus measure.

CO_2 EMISSIONS

tCO_2e /£1m Group revenue

14.5 tCO_2e/£1m



Commentary
Store closures during lockdown contributed significantly to the reduction, partially offset by higher Home Delivery Network mileage due to the increase in online sales. We have been proactively removing gas-fired heating systems during our store refit programme. (See page 58 of Sustainability Review).

Why this measure is important
Our ambition is to lead on sustainability in the homewares market by making 'sustainability accessible to all'. Our emissions measure encapsulates our overall commitment to reducing our impact on the environment and helps us focus on energy and fuel management and cost reduction.

AMBITIONS, PURPOSE AND STRATEGY P14

SUSTAINABILITY REVIEW FOR MORE NON-FINANCIAL MEASURES P32

ALTERNATIVE PERFORMANCE MEASURES AND DEFINITIONS P206

INVESTMENT PROPOSITION

Well positioned for sustainable growth

Fundamentally, our reasons to invest have changed very little since the business was floated. They continue to reflect our shared values and our latent business strengths.

1

BRAND PURPOSE

A brand appealing to a wide range of consumer segments, with potential for significant market share gains in a large, fragmented market.

2

CUSTOMER OFFER

A distinctive and specialist offer – quality, value and style from a product portfolio that is largely own brand and sourced from long-term committed suppliers – available to browse, buy and fulfil across channels.

3

TOTAL RETAIL SYSTEM

Our online platform and physical stores are integrated and complementary. We have built agile and scalable technology, a flexible supply chain and an efficient store estate. A significant opportunity to grow through digital capabilities integrated with our local store colleagues.

4

FINANCIAL POSITION

A highly cash generative business with a strong balance sheet, no legacy issues (no defined benefit pension and low cost lease commitments), agility to invest and a track record of returning surplus cash.

5

SHARED VALUES

Entrepreneurial origins alive and well with a total commitment to doing the right thing for the long term, and to being a good company and a great place to work.

BUSINESS REVIEW

"We are emerging from this unprecedented period as a stronger business and with the renewed confidence to accelerate our transition and invest in growth."

Nick Wilkinson
Chief Executive Officer

UNIQUE ACTIVE CUSTOMERS GROWTH

8.8%

for the 12 months to February 2020

FY20 DIGITAL % TOTAL SALES[1]

27%

1. Digital sales include home delivery, Click & Collect (or Reserve & Collect before October 2019) and tablet-based sales in store. This is expressed as a percentage of revenue.

BUSINESS REVIEW
CONTINUED

EMERGING STRONGER TOGETHER

FY20 was an extraordinary year. During the first eight months of the year we made significant progress against our digital and *Customer 1st* priorities.

Trends in sales, unique active customer numbers and margins were all strengthening. Then in March, the Covid-19 crisis hit. Whilst the effects of the pandemic understandably dented our performance for the year, this period also proved to be a great test: of the strength and resilience of our business model and supplier partnerships; of the ability of our teams to respond with agility whilst upholding our values and supporting our local communities; and of our ability to accelerate our transition.

I believe it has been a test that, so far, we have risen to both as a business, and as a team, and one that we are emerging from stronger together. I would like to thank all of my colleagues for their exceptional commitment, resilience and adaptability during this challenging period.

FY20 REVIEW

For the eight months to February 2020, as a result of the progress and investments we had made in digital, product, customer and operational initiatives, we were on track to deliver a year of very strong performance. Total sales were up by 6.8%, with online (home delivery) growth over 30%; gross margin was up by 120 bps; and unique active customers had increased by 8.8% on a 12-month rolling basis to February.

The full year results reflect the disruption in the final four months of the year, including the impact of the forced store closures and new social distancing measures. Total sales declined by 3.9% to £1,057.9m, unique active customers grew by 1.3%, gross margin increased by 70 bps, and PBT of £109.1m was £16.8m lower than the prior year.

Our new digital platform enabled us to respond to the surge in online demand when stores were closed, with online (home delivery) sales growing by over 100% in the final quarter and by 50.5% for the full year. Digital sales as a percentage of total sales reached 27.0% for the full year (FY19: 19.6%).

For the first eight months of the year, we delivered growth across all core homewares categories. The performance of the furniture category was particularly strong, with sales growth of over 40%, both before the Covid-19 disruption, and during the last weeks of the year when the full range of furniture was once again made available in stores and for two-man delivery.

During the lockdown period and since our stores have re-opened, customers have continued to buy into categories across homewares and furniture, with home office furniture, dining furniture, lighting and wallpaper performing particularly well.

Since re-opening, we have observed both a higher level of conversion and a higher basket size in store. Conversely, whilst conversion on our website has also increased, the average order value online has decreased as customers have broadened the range of categories that they are willing to shop online for, moving the mix away from higher value furniture items.

STRATEGIC PROGRESS IN AN UNPRECEDENTED YEAR

Advanced our digital capabilities

We launched our new proprietary digital platform in October 2019, with the technology materially increasing the browsing speed and creating a step change in visitor capacity, enabling us to handle peak traffic periods more effectively. Customers benefited from user experience improvements from browsing to search and checkout, resulting in a more intuitive shopping experience. The new platform also enabled customers to Click & Collect from our stores, replacing the previous Reserve & Collect option and delivering greater conversion, store efficiency and improved customer convenience. Not only was this platform launch an important milestone for our digital ambitions, it also proved crucial for our ability to respond to increased online demand during the Covid-19 crisis.

Since the initial launch we have continued to introduce new capabilities every week, including dynamic product ratings and reviews, a ‘track my order’ function, and numerous new propositions to enable us to react to the Covid-19 pandemic. In the fourth quarter, online (home delivery) sales grew year-on-year by 105.6%.

Extended product choice and value

We continued to extend and refresh our product range across categories. We added more choice, offering additional designs and sizes of bedding, towels and curtains. We also introduced innovative products such as our new Ultra Blackout curtains and extended our furniture ranges – for example, the Bromley range of living room cabinetry now contains over 30 options, including bedroom and hallway designs which are now best sellers.

At the same time, we continued to rebalance the proportion of our range at good, better and best price points, and to offer more choice at entry price points. We also introduced new lower prices in our core Egyptian Cotton and Ultimate towel ranges to strengthen our value for money credentials.

As part of our growing range of sustainable products we introduced bamboo bedding, recycled throws and cushion covers.

Broadened and deepened our customer base

We completed our year-long sponsorship of *This Morning* in May, after 290 episodes averaging 900k viewers per episode, and continued our '*Home of Homes'* marketing campaign, where real families talk about what they love about Dunelm. In February, we began a new partnership as sponsor to Channel 4's *First Dates*. Our following on social media platforms increased during the year, with 1.2 million Facebook and Instagram followers: an increase of 28%.

Unique active customers grew by 8.8% in the 12 months to February 2020. Brand awareness (as measured by YouGov) was at an all-time high of 86.8% as at June 2020 (FY19: 84.8%).

During the fourth quarter, when physical stores were closed and home delivery growth accelerated, we saw a doubling of the number of customers in our online channels. Of this growth in online customers, 40% came from new customers to Dunelm, 33% from customers who had previously shopped in store and 27% from existing online shoppers visiting us more frequently.

OUR RESPONSE TO THE CRISIS – EMERGING STRONGER

Strength of the Dunelm business model

Through a difficult and testing time, the Covid-19 crisis has proven the strength and resilience of our business model. The integration of our online platform and out-of-town stores, suitable for socially distanced shopping, enabled us to adapt and serve customers safely. Our flexible supply chain and deep supplier relationships enabled us to respond with agility to both the sudden changes of the initial lockdown period, with online demand up by over 100%, and the subsequent ramping up of operations and high customer demand after stores re-opened. Our broad product range and strong value credentials are more relevant differentiators than ever. We maintained our focus on operational grip and on efficiency throughout this period, enabling us to respond quickly with mitigating actions. We remain a highly cash generative business, taking immediate cash preservation actions at the beginning of the crisis and realigning operations and investment priorities to support our *Customer 1st* plans. We have a strong balance sheet and maintained our prudent financial policies throughout.

Power of our shared values

This period also reinforced the power of our shared values, and we were guided by our business principles to do the right thing for all our stakeholders. Our teams have strengthened their connection with their local communities, from setting up local Facebook groups for each store community, to supporting local NHS, care workers and charities. We have enhanced our communication with colleagues and are providing both financial and wellness support. To acknowledge their exceptional commitment, resilience and adaptability, we made a special thank you payment of £250 to each of our 10,000 colleagues.

Ability to innovate at pace

We have learnt a lot about how to innovate and develop at pace. We accelerated the delivery rate of our technology releases, enabling frequent enhancements to the online customer experience and operational processes. We introduced new ways to safely deliver products to customers, including safe two-man delivery operations and contact-free Click & Collect. We introduced new ways to serve customers, such as virtual appointments for made-to-measure curtains and blinds and virtual shopping services. We were supported by the agility and innovation of our key suppliers in responding to changing demands. We have learnt from customer feedback that we have many opportunities to develop our customer proposition and further improve our customer experience. In particular, the rapid growth of home delivery demand has highlighted the need to improve delivery lead times and consistency, reduce post-sales customer friction, and become faster at flexing, tuning and building our fulfilment capacity. What we have learnt during the crisis gives us the confidence to accelerate these plans.

BUSINESS REVIEW
CONTINUED

WELL POSITIONED IN A RESILIENT MARKET

The UK homewares and furniture markets are sizeable, with combined sales of c.£26bn[1]. The homewares market declined by 22.5% in March–May, and grew by 11.7% in June–July[2], and in recent months home categories have been among the stronger performing consumer segments. Some of this is the result of pent up demand from lockdown, but our consumer research[3] confirms a post Covid-19 reality – our homes are more important as a place of 'safety' and are being reconfigured to better support the demands of working, educating, entertaining and relaxing.

Dunelm is well positioned to continue to grow its market share. A year ago, we noted the trend we were seeing across all age ranges and demographics for shoppers to be more confident browsing online for homewares categories and to consider a wider portfolio of retailers. This trend has further accelerated in the last 12 months, with Dunelm continuing to benefit, particularly from a growth in younger customers when our stores were closed. In simple terms, our offer is now being considered by more homewares consumers across more categories. Engagement rates on our social posts have increased three-fold since March, and we have seen a 2.0%pts increase in our brand awareness to 86.8% as at June 2020.

Another notable shift we are observing in consumer attitudes is increased price consciousness, whether expressed as 'I always search for the lowest possible price' or the 54% of UK consumers who have said they are now shopping more price consciously, and are likely to continue to do so[4]. Dunelm's low average item value (for example, store basket average item value is around £10), coupled with our broad range and choice, is well suited to an environment in which value for money becomes an ever more important differentiator.

One further consumer change we are seeing as a result of the Covid-19 crisis is the willingness of consumers to use digital technology to connect with our physical stores and local colleagues. Homewares shoppers want to be able to touch and feel products, visualise how they will look in their homes, and be confident in delivery and service. We are also seeing significant growth in services where our customers and colleagues connect digitally. A year ago, this was limited to the use of tablets by colleagues to sell our full range of furniture to customers in store, but now includes virtual consultations for made-to-measure curtains and blinds, and the use of Facebook groups by store colleagues to share news and support their local communities.

STRENGTHENING OUR TOTAL RETAIL SYSTEM

All of these trends mean that we have never been more confident about the opportunity to harness our fast-growing digital and data capabilities, with our local store and colleague presence in communities across the UK. We believe that a total retail offer integrating friendly and appealing local stores with a compelling and convenient digital offering will enable us to reach more customers and serve them better.

Our estate of 173 stores is well placed and highly profitable. New stores opened in the last two years are achieving paybacks which are consistent with historic averages. We expect to open three to five new superstores a year (including relocations) and are currently committed to three new openings in FY21 (of which two are relocations). Our target for our store estate remains at approximately 200 superstores, based on our analysis of target catchment areas, reaching over 65% of the UK within 20-minute drive times.

We anticipate undertaking two to three store refits in FY21, and then expect to revert to a more normal run rate of five to ten refits a year from FY22 onwards. The development of our store format will continue as the changes that Covid-19 is bringing to shopping habits become clearer. Take-up of our Click & Collect offer is increasing significantly, and we are improving the capabilities of customer hosts at selling higher ticket, non-stocked items, such as furniture and made-to-measure curtains, in store. The recent opening of a smaller *Dunelm edit* high street store is providing insight into the effective use of technology in store and how to increase sales densities in our core categories. This trial will inform our superstore format development and we will continue to assess the attractiveness of the *edit* format in its own right.

1. GlobalData combined homewares and furniture market, January to December 2019.
2. GfK homewares market.
3. Dunelm Home Lovers panel.
4. Accenture Covid-19 Consumer Pulse Survey.

OUR AMBITIONS AND WHAT WE WILL DO NEXT

We have learnt a lot in the last few months about how to innovate at pace and how to accelerate our transition, and there is much that we want to do in order to develop our product and services proposition, and improve the experience we give our customers. With a large addressable market, a low market share, and homewares customers responding well to our increasingly integrated digital and physical offer, we are highly ambitious about Dunelm's growth prospects. Covid-19 has been disruptive and has caused significant challenges but it has also created the opportunity to develop our business faster than ever before, in a society that is also changing more quickly.

We have always been ***ambitious about profitable growth***, achieving long-term growth in sales, profits and cash through the efficient use of our resources. We are also ***ambitious about our brand***, and in recent years have been developing our brand with the aim to be the number one destination for homewares in the UK. But it is our renewed commitment to ***being a good company*** that feels most significant as we navigate the Covid-19 crisis and its aftermath. We are ambitious about being a socially responsible and progressive business. That means being a good place to work, focused on colleague wellbeing, development and diversity; good for our communities, something we have discovered new ways of doing during this crisis; and continue to be committed to successful long-term partnerships with suppliers as well as strong ethical sourcing standards. We are also committed to do more to make sustainable living more affordable for consumers.

In order to deliver on these ambitions and to fulfil our purpose to 'help everyone create a home they love', we have prioritised six focus areas, some of which have been a part of our existing strategy and some of which have been clarified by our learnings from the crisis.

1. **Grow our product offer and authority**

   Product has always been at the core of what we do. We will deepen our relationships with new and long-term supplier partners to strengthen our supply chain and further our sustainability ambitions, which are detailed further below. We will focus on continuous product innovation, informed by how our customers are using their homes to Live, Sleep, Eat and Work/Do. We will increase the emphasis on affordability in established categories, combined with quality and style. We will extend choice where our offer is less mature, such as in sleep, upholstery and decorating. We will work to offer customers more sustainable choices including the opportunity to *care and repair* for products they already have, in every category.

2. **Broaden our customer base**

   We will maintain our investment across brand awareness and consideration through our proven brand campaigns, including the *First Dates* sponsorship that runs until February 2021, but we will also now scale our customer acquisition programmes through our digital channels. This will be an iterative process as our data and technology capabilities begin to support better understanding of our customer lifetime value. In addition, we will engage the local community surrounding each store, initially centred around Facebook groups, and enable stores to offer local post-sales support to their customers.

3. **Accelerate online, in-store digital and service sales**

   We continue to develop dunelm.com into the best site for UK home lovers. We will enhance the checkout experience and delivery promises and add a credit payment capability. We will improve search, navigation and browse functionality. We will also continue to pilot new ways of selling, supported through our local stores, such as scaling and upgrading online made-to-measure consultations and testing whether we can sell products directly to local store Facebook groups.

4. **Make sustainability accessible for all**

   We are making sustainability an everyday part of our business. We will introduce more products and services to help customers live sustainably. We are growing our range of recycled products, for example with the introduction of recycled curtains and voiles in the autumn. We will set up local pilots to encourage reuse and repair. We will continue to source our raw materials in an ever more responsible way, focusing on packaging, cotton and timber.

   We are partnering with the Carbon Trust to measure our carbon footprint and help us set an ambitious long-term carbon reduction target. We will publish our targets for scope 1 and scope 2 emissions in the new calendar year, and set targets for scope 3 in areas where we can make the biggest impact.

   We will continue to build on our strong ethical sourcing compliance programme, which has been monitored by a third-party assurance specialist since October 2018, extending audits to high risk tier two facilities. We will also continue to build engagement and trust with our colleagues, with a step-change approach to diversity, and continued priority of wellbeing.

5. **Transform 'post-sale' customer experiences**

   We will reduce post-sale customer friction and enhance our data flows and insight to improve the speed, consistency and cost of home deliveries. We will target the areas that make the biggest impact to improve our customer experience. We will improve the visibility and communication of order status from basket to delivery and make this easily accessible to customers, their local stores, and via our central customer services support. We will develop more responsive customer service tools, such as live-chat.

BUSINESS REVIEW
CONTINUED

6. **Evolve smarter stock flows and operations**

   We are working to ensure Dunelm has a robust, flexible and scalable infrastructure that enables our growth ambitions. As we evolve the customer proposition, we are focused on ensuring our back-end systems and processes are effective, efficient and fit for purpose.

   We will develop our supply chain infrastructure, both increasing capacity and optimising the flow of goods between suppliers, our distribution centres and our Home Delivery Network. We will increase our home delivery capacity (both centrally fulfilled and direct to home from our suppliers) in advance of peak trading in FY21, as well as widen the range of products that are available for Click & Collect later in this financial year. We will also test the effectiveness of using store stock to fulfil home deliveries to provide greater convenience to our customers. We are introducing streamlined in-store stock processes and reducing stock levels in store back rooms.

INVESTING FOR GROWTH AND DRIVING FOR EFFICIENCY

Whilst acknowledging our significant growth ambitions, we will remain balanced and prudent in the allocation of our resources. As we expand our customer proposition, we will need to invest more, predominantly in technology and supply chain, to ensure that we can continue to deliver profitable growth. We will also continue to invest in maintaining the quality of our in-store experience.

To ensure we have the right resources in place to fulfil our ambitions, we have reviewed our support centre operations and realigned functions and roles to ensure our teams are structured efficiently and focused on delivering strategic progress and/or operational excellence.

Capital expenditure for FY21 will be c.£25m across stores, supply chain and technology. Additionally, we anticipate an increase of around £15m in operating costs in FY21 to support our *Customer 1st* plans and growth ambitions across digital, data and supply chain. This amount includes £3m annualisation impact from moving from capitalising to expensing internal digital development costs following the launch of our new digital platform in FY20, and represents an acceleration of our plans compared to the £8m noted in the Q4 trading statement.

Social distancing requirements will continue to have an impact on our operations during FY21. We remain focused on ensuring the safety of our colleagues and customers and have been cautious in our approach to date. Social distancing measures within the operating models of both stores and distribution have led to higher costs to operate; in total, we estimate these costs to be around £125,000 per week. Furthermore, whilst operating in this way, we will be unable to deliver some of the productivity savings that we had previously anticipated to offset wage inflation (e.g. National Living Wage increases), resulting in an estimated cost increase of c.£5m.

WELL POSITIONED FOR SUSTAINABLE GROWTH

We made good strategic progress in the first eight months of the year, which was reflected in the excellent growth delivered in unique active customers, sales, gross margin and PBT. Our strong foundations, including our new online platform, our amazing colleagues, our committed suppliers and our shared values, enabled us to navigate the disruption that we faced in the final months of the financial year. Spending on the home has been relatively resilient during the crisis and we are well placed to continue to gain share in this now ever more relevant market.

I am very pleased with the response from our customers since we have fully reopened operations. In the first two months of the new financial year, we have continued to see strong sales growth across channels and categories. We do, however, remain cautious regarding the wider economic outlook, the potential impact of further regional or national lockdowns and possible Brexit-related disruption. Therefore, to be prudent, we are retaining cash in the business during this period of uncertainty and anticipate returning to our normal capital policies in FY21.

We are emerging from this unprecedented period as a stronger business and with the renewed confidence to accelerate our transition and invest in growth, as we continue to navigate an uncertain external environment. We are the leading homewares specialist in a large market with great potential, our brand awareness is at an all-time high and our customer base is growing. We have an integrated total retail offer with our online platform and local stores providing choice and convenience to our customers. Our business model is highly cash generative, which allows us to invest for the long term to take advantage of further opportunities to grow market share. We are, therefore, well positioned to deliver sustainable growth and help even more customers create a home they love.

Nick Wilkinson
Chief Executive Officer

10 September 2020

OUR SIX FOCUS AREAS

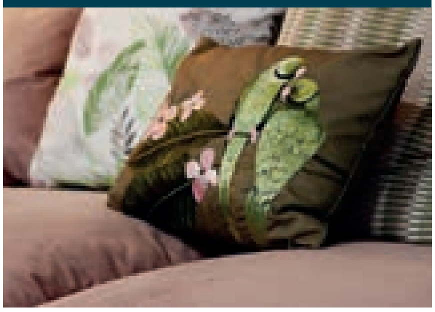
TO BECOME THE #1 HOMEWARES DESTINATION FOR OUR CUSTOMERS, AND AN EVER BETTER BUSINESS THAT GROWS SUSTAINABLY

PRODUCT

GROW OUR PRODUCT OFFER AND AUTHORITY

What we will do next:

- Deepen and add to our long-term supplier partnerships.
- Focus on continuous product innovation.
- Increase emphasis on affordability and extend choice in newer categories.
- Help our customers to *care and repair* in every category.

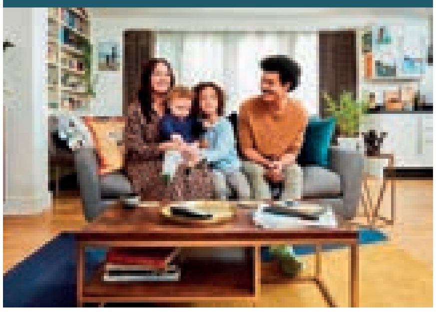


CUSTOMER

BROADEN OUR CUSTOMER BASE

What we will do next:

- Maintain brand awareness through brand campaigns and *First Dates* sponsorship.
- Scale customer acquisition as we build understanding of customer lifetime value.
- Build local community base around each store.

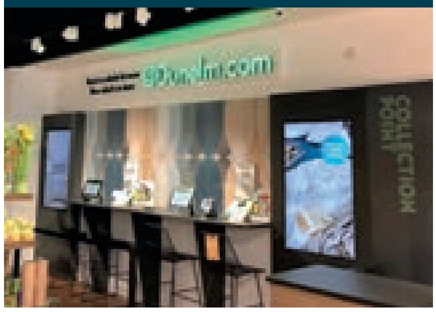


DIGITAL

ACCELERATE ONLINE, IN-STORE DIGITAL AND SERVICE SALES

What we will do next:

- Continue to develop dunelm.com into the best site for home lovers.
- Enhance the checkout experience and add credit payment capability.
- Improve search, navigation and browse.
- Pilot new ways of selling supported by local stores.



SUSTAINABILITY

MAKE SUSTAINABILITY ACCESSIBLE FOR ALL

What we will do next:

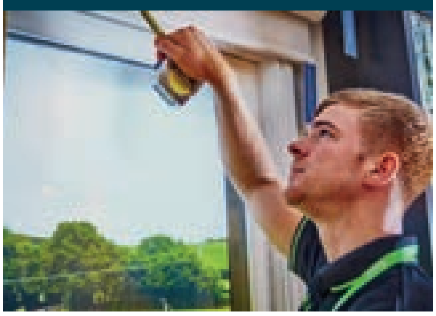
- Introduce more products and services to help customers live sustainably.
- Set up local pilots to encourage reuse and repair.
- Partner with Carbon Trust to set long-term carbon reduction target.
- Continue to build on strong ethical sourcing and colleague engagement and wellbeing fundamentals.

DELIVERY

TRANSFORM POST-SALES DELIVERY EXPERIENCES

What we will do next:

- Reduce post-sale customer friction.
- Improve speed, consistency and cost of home delivery.
- Improve visibility and communication of order status.
- Develop more responsive customer services tools (e.g. live-chat).

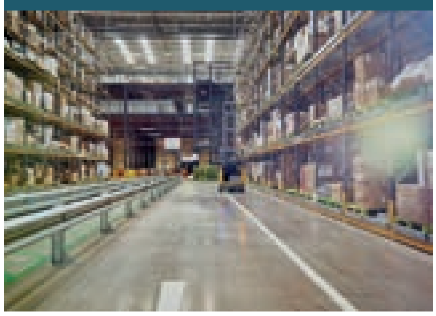


OPERATIONS

EVOLVE SMARTER STOCK FLOW AND OPERATIONS

What we will do next:

- Develop supply chain infrastructure to increase capacity and optimise flow of goods.
- Increase home delivery capacity and introduce centrally fulfilled Click & Collect capability.
- Streamline in-store stock processes.
- Continue to invest in digital and data capabilities.



FINANCIAL
REVIEW

"For the first eight months of FY20, we were on track to deliver another record year. By reacting quickly and decisively to the unexpected closure of our stores, we were able to offer reassurance to our many stakeholders, and have emerged with an even stronger balance sheet to support our future growth ambitions."

Laura Carr
Chief Financial Officer

TOTAL REVENUE GROWTH FOR THE FIRST EIGHT MONTHS

6.8%

ONLINE SALES GROWTH FOR THE FULL YEAR

50.5%

	52 weeks to 27 June 2020 Revenue £m	YoY Growth £m	YoY Growth %	Pre Covid-19 8 months to Feb YoY Growth %
LFL Stores	816.2	(119.1)	(12.7)%	+2.5%
Online (home delivery)	211.1	70.8	50.5%	+32.7%
Total LFL	**1,027.3**	**(48.3)**	**(4.5)%**	**+6.2%**
Total Dunelm	1,057.9	(39.0)	(3.5)%	+7.4%
Total Group	**1,057.9**	**(42.5)**	**(3.9)%**	**+6.8%**
Digital % total sales[1]	*27.0%*	*19.6%*	*+7.4%pts*	*20.9%*

REVENUE

Total revenue for the 52 weeks to 27 June 2020 fell by 3.9% to £1,057.9m (FY19: £1,100.4m), with sales impacted by the store closure period during the final months of the year. As an indicator of performance prior to Covid-19, total revenue for the eight months to February grew by 6.8%, with like-for-like ('LFL') stores growing at 2.5%. Online (home delivery) sales performed particularly well, with growth of 50.5% for the full year, and 32.7% for the eight months to February.

Revenues during the last four months of the year were significantly disrupted by Covid-19. From an almost 100% loss of revenue at the end of March when all stores and online operations were closed, the business recovered well towards the end of the year when all operations could reopen.

Trading in the new financial year has been very encouraging, with total sales growth of +59% in July and +24% in August. As customers have become more used to the social distancing measures in store, we have seen strong sales, which in part reflects a level of pent up consumer demand and the timing of our Summer Sale. Online (home delivery) sales have also continued to be strong, with growth of c.130% in the first nine weeks of the new financial year.

In the eight months to February 2020, we outperformed the market and grew market share. With our stores closed, we underperformed the market. Once our stores re-opened, the market returned to growth and we began to regain share.

It is very difficult to forecast future revenue trends at present given the uncertainty in the wider economy and the potential impact of further regional or national lockdowns.

GROSS MARGIN

Gross margin of 50.3% was 70 bps higher than the prior year. Gross margin in the first half improved by 120 bps as a result of sourcing gains and lower product markdowns across our categories. In the second half, gross margin was flat, continuing to benefit from sourcing gains, which were offset by additional clearance activity and mix impacts following the unexpected store closure period.

In the absence of any further material impact from Covid-19, we anticipate gross margin to be broadly consistent in FY21. We will continue to target sourcing gains and will continue to invest in price to maintain our value proposition for our customers.

OPERATING COSTS

Prior to the store closure period, the operating costs to sales ratio was tracking in line with the prior year. During this period, the growth in costs was driven largely by higher sales volumes online, and increased investment in technology and digital. Productivity gains were achieved to offset wage inflation.

The operating costs to sales ratio for the full year was, however, impacted by the store closure period, with a largely fixed store cost base and reduced store sales. Operating costs for the period were £416.4m, a decrease of £2.3m year-on-year, representing an operating cost to sales ratio of 39.4% (FY19: 38.0%).

Higher costs as a result of social distancing measures in the period totalled £1.3m. FY20 operating costs include the benefits of Covid-19 related government support, including a business rates holiday of £7m and claims under the Job Retention Scheme (JRS) of £14.5m. Additionally, a further £4m of other cost savings were made during the crisis, including voluntary pay reductions for the Board and Executive team and reduced brand marketing costs. FY20 operating costs also include £2.4m of restructuring costs relating to the realignment of our support centre operations to our strategic priorities.

Following the successful launch of the new digital platform, digital development costs are now expensed through the Income Statement; this change in approach led to an increased charge of £4.8m in the period. These cost increases were partially offset by a £3.2m benefit to operating costs from implementing IFRS 16[2].

The impact of Covid-19 has triggered the requirement under IAS 36 for a review of the profitability of each 'cash generating unit', defined by management as each individual store and the online operation. Whilst this test generated significant headroom in total cashflows, one specific store required an impairment, which was not material.

In FY21 we anticipate operating cost leverage improvements from higher sales, which will be partly offset by costs relating to social distancing (which we estimate at c.£125,000 per week), National Living Wage inflation of c.£5m and increased investments of c.£15m in digital, data and supply chain to support the strategic focus areas.

1. Digital sales include home delivery, Click & Collect (or Reserve & Collect before October 2019) and tablet-based sales in store. This is expressed as a percentage of revenue.

2. The impact of IFRS 16 in the year has been to reduce operating costs by £3.2m and increase financial expenses by £5.5m and therefore reduce PBT by £2.3m.

FINANCIAL REVIEW

CONTINUED

This amount includes £3m of annualisation of the move to expense digital development costs.

In FY21, the benefit from three quarters of the business rates holiday of £21m is equal to the level of government support received in Q4 FY20 that will not be received again in FY21 (rates £7m; JRS £14.5m). However, we note that the timing of these amounts will have a benefit in the first half and an adverse impact in the second half of the year. With our stores now fully re-opened, we have not made any further claims under the JRS in FY21 and will not claim the 'JRS Bonus'.

PROFIT AND EARNINGS PER SHARE

Operating profit for the period was £116.0m (FY19: £126.9m), a reduction of £10.9m, reflecting the impact of the store closure period, partially offset by the strong sales performance in the first three quarters, improved gross margin and the £3.2m benefit from the adoption of IFRS 16.

CASH GENERATION AND NET CASH

In the period, the Group generated £174.7m of Free Cash Flow (FY19: £152.8m).

There was a net cost of £6.9m (FY19: £1.0m) in respect of financial items in the period. This included interest on IFRS 16 lease liabilities of £5.5m, interest payable and amortisation of arrangement fees relating to the Group's Revolving Credit Facility amounting to £1.8m (FY19: £1.9m), partially offset by a gain of £0.3m (FY19: £0.6m gain) resulting from foreign exchange differences on the translation of dollar denominated assets and liabilities. Interest received on cash deposits was £0.1m (FY19: £0.3m).

PBT in the period was £109.1m (FY19: £125.9m), a reduction of £16.8m year-on-year. The impact of IFRS 16 in the period was to reduce profit before tax by £2.3m. Profit after tax of £87.7m (FY19: £101.3m) reflects an effective tax rate of 19.6% (FY19: 19.5%).

Basic earnings per share (EPS) for the period were 43.4 pence (FY19: 50.2p). Diluted earnings per share were 42.9 pence (FY19: 49.9p).

Total capital investment was £24.9m for the year (FY19: £25.0m capex less £5.4m disposal proceeds). FY20 included investment in one freehold store (£5.6m), five new store openings including two relocations (£7.6m), technology and digital infrastructure (£4.9m), and store refit expenditure in existing stores (£6.2m). We expect capital expenditure in FY21 to be broadly consistent with FY20.

Tax paid of £34.3m (FY19: £20.5m) reflected the one-off impact of the new rules on the timing of corporation tax payments, which resulted in two additional payments on account being made within the period. This will normalise to four payments per year from FY21.

After total dividend payments in the period of £106.0m (FY19: £54.6m), including a special dividend of 32.0 pence per share paid in October 2019, the Group ended the year with a net cash position of £45.4m (FY19: net debt £25.3m). This

	FY20 IFRS 16 £m	FY19 IAS 17 £m
Operating profit	116.0	126.9
Depreciation and amortisation[1]	80.2	39.4
Working capital inflow	**80.1**	**26.5**
Share-based payments	2.1	1.4
Tax paid	(34.3)	(20.5)
Interest received (FY19 only)	–	0.3
Net cash generated from operating activities	**244.1**	**174.0**
Capex (net of disposals)	(24.9)	(19.6)
Net interest[2]	(1.3)	(1.6)
Interest on lease liabilities	(5.5)	–
Repayment of lease liabilities	(37.7)	–
Free cash flow	**174.7**	**152.8**

Working capital inflow of £80.1m (FY19: £26.5m inflow) reflected exceptional creditors of c.£40m, including a deferral of £19m VAT, £10m of rental payments (paid in full but on a monthly rather than quarterly basis), and £10m of other accruals and deferred income, as well as c.£40m of lower stock levels and delayed purchases. These benefits are largely expected to reverse in FY21, mainly in the second half.

1. Including impairment and loss on disposal.

2. Excluding interest on lease liabilities. FY19 represents interest paid only, with interest received included within net cash generated from operating activities.

consisted of cash of £90.0m (FY19: £19.0m) and borrowings of £44.6m (FY19: £44.3m), being the Group's Revolving Credit Facility ('RCF'), which has since been repaid in full. On an underlying basis, excluding the exceptional working capital benefit, net debt would have been c.£35m.

BANKING AGREEMENTS

The Group has in place a £165m syndicated RCF which matures in 2023. The terms of the RCF are consistent with normal practice and include covenants (both calculated on a pre-IFRS 16 basis) in respect of leverage (net debt to be no greater than 2.5x EBITDA) and fixed charge cover (EBITDA to be no less than 1.75x fixed charges), both of which were met comfortably as at 27 June 2020. The Group's ability to meet these covenants has been stress tested as part of viability modelling, which is described in more detail below.

In addition, the Group maintains £10m of uncommitted overdraft facilities and has an accordion option within the RCF for a maximum facility of £75m. During the period, the Group secured eligibility from the Bank of England for funding under the COVID Corporate Financing Facility ('CCFF'). The Board does not currently anticipate any need to draw down on the CCFF facility.

CAPITAL AND DIVIDEND POLICY

The Board policy on capital structure targets an average net debt level (excluding lease obligations and short-term fluctuations in working capital) of between 0.2x and 0.6x of the last 12 months' EBITDA (on a post-IFRS 16 basis). The Group's capital and dividend policy targets ordinary dividend cover of between 1.75x and 2.25x earnings per share during the financial year to which the dividend relates.

The Board will continue to consider returning surplus cash to shareholders if average net debt over a period consistently falls below the minimum target of 0.2x EBITDA, subject to known and anticipated investment plans at the time.

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

DIVIDENDS

The Board declared an interim dividend of 8 pence per share at the Interim results, which was due to be paid in April 2020. However, this payment was cancelled when the stores were forced to close at the end of March and the priority was to secure liquidity.

The Board's capital and dividend policies, which are set out above, are unchanged. However, given the current level of uncertainty for the outlook due to Covid-19, the Board has decided not to recommend a final dividend for the year and to maintain cash in the business to mitigate the risk of any further enforced store closures and to maintain maximum liquidity ahead of the peak winter trading season.

As set out in the Chairman's statement, the Board currently anticipates, in the absence of any further material impact from Covid-19, that we will declare an interim dividend in February 2021. We also expect to return to our published capital policies which determine both the ordinary dividend and the extent of surplus cash distributions.

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.

NEW ACCOUNTING STANDARDS ADOPTED IN THE PERIOD

The Group has adopted IFRS 16 'Leases' for the first time in the period, using the modified transition approach, which means that the prior period has not been restated and is presented on an IAS 17 basis. The implementation of IFRS 16 has no impact on cash flows generated and does not impact management's decisions on how the business is run. It does, however, have an impact on the assets, liabilities and Income Statement of the Group.

The impact of IFRS 16 on PBT in the period is a reduction of £2.3m.

FUTURE PRESENTATION OF FINANCIALS

As previously announced, as we move towards a more integrated total retail system, where customers will have multiple touchpoints with our brand, we will report 'total sales', as opposed to sales by channel, in order to provide a more meaningful measure of performance.

We will also disclose digital sales participation and the proportion of sales which continue to be fulfilled via our store estate (including Click & Collect from stores).

The Q1 trading statement, due to be released on 15 October, will include the new disclosures.

Laura Carr
Chief Financial Officer

10 September 2020

SUSTAINABILITY REVIEW

MAKING SUSTAINABILITY ACCESSIBLE FOR ALL

"Good sustainable practices are relevant to our whole business, recognised in our focus areas and embedded in every decision we take – making sustainability accessible for all."

Dawn Durrant
Chair of Sustainability Focus Group

THIS YEAR'S SUSTAINABILITY REVIEW

To align our reporting more closely to how we approach sustainability across the business, we have restructured our review as follows: people, product and environment.

PEOPLE

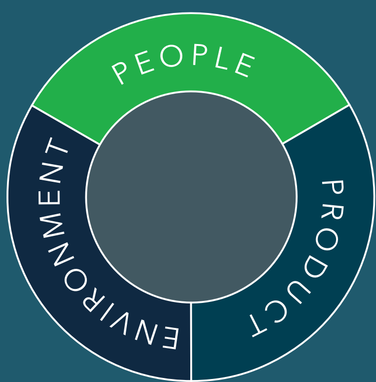
- Customers and communities page 36.
- Colleagues (including diversity and inclusion) page 40.
- Health and safety page 44.
- Bribery, fraud and tax evasion (including culture) page 48.

PRODUCT

- Sustainable supply chains and products (including human rights) page 50.

ENVIRONMENT

- Energy, CO_2 emissions and waste reduction (including our new approach to climate change) page 56.
- Energy usage page 57.
- Greenhouse gas emissions page 58.
- Waste management page 60.



OUR AMBITIONS

PROFITABLE **GROWTH**	OUR **BRAND**	BEING A GOOD **COMPANY**

At Dunelm we are ambitious about profitable growth, our brand, and being a good company – and this means doing things properly for the long term on many different levels. For example, our customers want products that offer choice, value, quality and style, while neither harming the environment nor the people who make them. Our colleagues want a safe, respectful working environment that allows them to give our customers the best service and shopping experience. Our long-lasting relationships with suppliers are maintained and built on trust, fair practices and shared objectives. Good sustainable practices are interlinked and relevant to our whole business and our recognition of this is reflected in our strategy as one of our six focus areas – making sustainability accessible for all.

HOW WE MANAGE SUSTAINABILITY ACROSS THE GROUP

Our sustainability management framework can be found on page 34. We believe that sustainability, like our governance and our shared values, is most effective when it is part of how we operate day-to-day, and not a separate function. Our overall sustainability strategy and targets are set by the Board and the Executive Board, and reflect the areas that our customers, colleagues, communities, suppliers, shareholders and the UK Government consider are most important, and where we can make the most impact. The actions that we need to take to deliver against our targets form part of our everyday activities – for example our product development and sourcing process takes into account the sustainability of raw materials, packaging, and the social welfare and environmental practices of the factories in which the goods are produced.

UPDATE ON ACTIVITIES 2019/20

We experienced an extraordinary year, with the impact of the Covid-19 crisis drastically affecting our ways of working. In some areas, progress against targets was hindered, whereas some of our colleague and community work was able to accelerate. During the year, sustainability remained high on the Board agenda, with our Board and Executive Board discussing specific sustainability topics throughout the year, and reviewing our overall approach to sustainability twice in the year. Progress made during the year included:

- Board review of Company ambitions and strategy, which formally put sustainability at the heart of our ambition to be 'a good company' and made it a key strategic focus area.
- Appointed Carbon Trust to help us measure our carbon footprint, set long-term carbon reduction targets and assess the impact of climate change on our business in FY21, starting with a 'teach in' for the Board and Executive Board on their Strategy Day.
- Increased ranges of sustainable products and made it easier for our customers to shop sustainably through our in-store and online guides.
- Worked with experts from a specialist compliance and supply chain risk services provider to develop our responsible sourcing policy and put in place a verification programme for our own brand cotton products.
- Established a process to assess the environmental practices of factories which supply our own brand products, with a view to grading them and setting improvement targets.
- Accelerated our focus on mental health from detection to prevention, training all of our managers and being particularly mindful of colleagues who were on furlough while our shops were closed.
- Increased our focus on colleague diversity and inclusion, recognising progress in some areas but not significant enough in others.
- Set up local groups on Facebook during the Covid-19 crisis to provide a community forum and facilitate colleague volunteering, which built engagement and informed our understanding of how Dunelm could best support local communities.
- Supported our Group charity partner, Macmillan Cancer Support, through remote colleague fundraising, live community events and a discretionary corporate donation of £105,000 to make up for shortfall of funds raised through in-store activity.
- Diverted production in our curtain and blinds manufacturing facility to hospital gowns for the NHS, and encouraged colleagues on furlough to sew wash bags for NHS colleagues and volunteer in community initiatives.

In the pages that follow, we update on our progress in more detail and set out our plans for the next financial year. If you have any comments that you would like to share with us, please email me at investorrelations@dunelm.com.

Dawn Durrant
Chair of Sustainability Focus Group

10 September 2020

SUSTAINABILITY REPORTING FRAMEWORK

HOW WE EMBED SUSTAINABILITY IN OUR BUSINESS

BOARD

- Approves the sustainability strategy.
- Overall responsibility for our sustainability performance.
- Role models and has oversight of the shared values.
- Monitors progress through KPIs and Board reports.
- Annual presentations on sustainability topics.

EXECUTIVE BOARD

- Approves the sustainability strategy prior to submission to the Board.
- Role models the shared values.
- Members have line responsibility for managing specific sustainability topics.
- Regular Executive Board meeting agenda items.
- Monitors progress through KPIs, Board reports and customer and colleague feedback and engagement.

SUSTAINABILITY FOCUS GROUP

- Keeps up to date with legislative and best practice sustainability developments.
- Develops strategic objectives, policy, targets and initiatives for recommendation to the Executive Board and Board.
- Monitors progress against sustainability targets.
- Chaired by the Company Secretary, who reports to the Executive Board and the Board on progress.

COLLEAGUES

- Appraised by reference to our shared values.
- Individual accountabilities for specific sustainability topics.
- Engaged to drive forward Company-wide objectives, such as energy and waste reduction.

OUR SUSTAINABILITY PERFORMANCE AT A GLANCE

PEOPLE

Focus	Dunelm targets	Progress 2019/20
Customers » P36 United Nations Sustainable Development Goals UN SDGs: 3, 12	Grow active customer base by 2 million between FY19 and FY23	**On track:** 1.3% increase
Communities » P36 UN SDGs: 3, 12	Exceed previous year's charitable funds raised by at least 10%	**Achieved:** following discretionary Group contribution*
Colleagues » P40 UN SDGs: 3, 5, 8, 10	Improve colleague engagement score by end of FY20	**Achieved:** +9%pts YoY increase
Health and safety » P44 UN SDGs: 3	Reduce RIDDOR reportable accidents year-on-year	**Achieved:** reduced by two
Bribery, fraud and tax evasion » P48 UN SDG: 12	100% of internal training completed	**Not achieved:** increased to 94%* but target not achieved

HOW WE ENGAGE ON SUSTAINABILITY ISSUES WITH OUR STAKEHOLDERS

Customers and communities: through our dunelm.com website, Customer Care Centre and social media, including store-based local Facebook groups, signage in store, informative packaging.

Colleagues: monthly 'huddles', National Colleague Voice, *Home Comforts* in-house communication tool, engagement survey, 'pulse' surveys, local Facebook groups.

Suppliers: quality policies, third-party ethical audits, annual conference, and meetings throughout the year.

Investors/potential shareholders: Annual Report, corporate website, biannual corporate governance presentation, ad hoc contact via the Company Secretary.

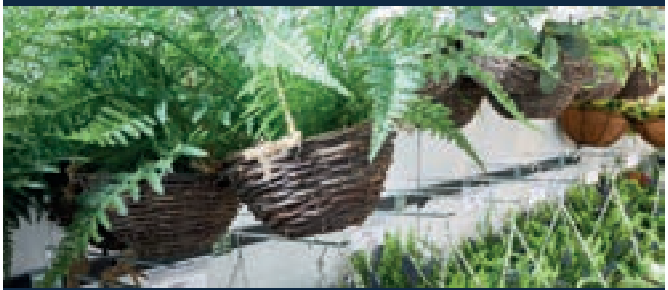
Others: social media, local Facebook groups, corporate website.

PRODUCT

Focus	Dunelm targets	Progress 2019/20
Sustainable supply chains and products » P50 UN SDGs: 3, 5, 8, 10, 12, 13, 14, 15	All own brand cotton products to be from responsibly sourced cotton by 2025	**On track**
	All Dunelm and Pausa own brand products that contain palm oil to be 100% sustainably sourced by the end of FY20	**Not achieved:** improved to 90% but target not achieved*
	100% of all timber to be from legally harvested sources by FY20, and 50% of all timber used in Dunelm own brand products to be responsibly sourced by FY25	**On track***
	30% of all plastic packaging of own brand products to be from recycled content by 2022	**On track**
	100% of Tier 1 factory base for own brand products with audit no more than two years old by FY20	**Not achieved:** improved to 99%* but target not achieved
	90% low or medium risk audits by FY21	**On track**

* Performance impacted by Covid-19.

ENVIRONMENT

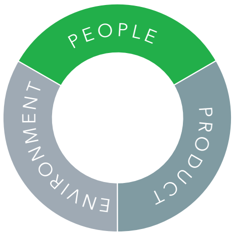


Focus	Dunelm targets	Progress 2019/20
Energy use, greenhouse gas (GHG) emissions and waste management » P56 UN SDGs: 12, 13	Reduce LFL electricity consumption by 5% in FY20	**Achieved:** 12.8% decrease*
	Reduce car fleet emissions by 2% p.a. to FY25	**On track**
	Increase MPG by 2% p.a. for vehicles in our Dunelm home delivery fleet	**Achieved:** 2.6% improvement
	Achieve 100% diversions from landfill for all operational waste with 80% to be recycled by FY21	**On track**

ADDRESSING GLOBAL SUSTAINABILITY CHALLENGES

The 17 Sustainable Development Goals ('SDGs'), created by the United Nations in 2015, are designed to improve health and education, reduce inequality, and spur economic growth – while tackling climate change and working to preserve our oceans and forests. Companies worldwide have a role to play in achieving these objectives. In the tables above and opposite we highlight how our sustainability work aligns with these recognised goals.

PEOPLE: CUSTOMERS AND COMMUNITIES



EXECUTIVE RESPONSIBILITY:
Customer Director

LINK TO FOUNDATIONS:
Committed colleagues, efficient store estate, agile and scalable technology, data-driven decision making

LINK TO PRINCIPAL RISKS:
Competition, market and customers, people and culture

OUR TARGETS:
- Grow active customer base by 2 million between FY19 and FY23.
- Exceed previous year's charitable funds raised by at least 10%.

OUR COMMITMENT

Our purpose is to help everyone create a home they love, and our commitment to customers is embedded in our customer proposition, which was updated in 2020. We also aim to be good neighbours and make a difference in the communities in which we trade, and we know that this matters to our shareholders, customers and colleagues alike.

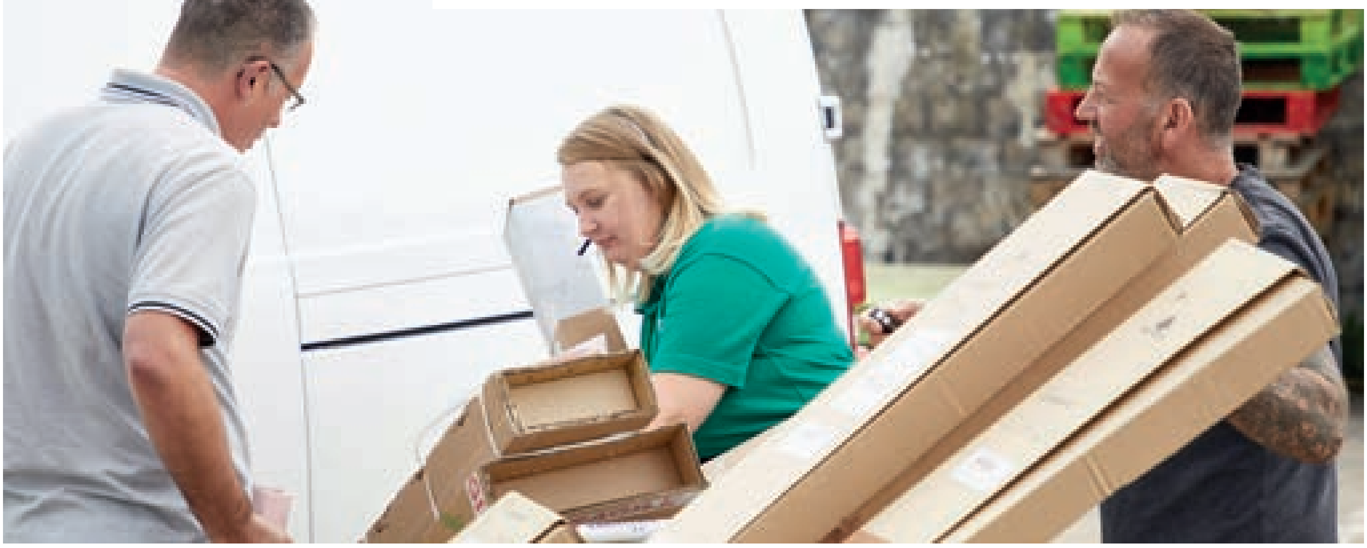
ABOUT OUR **CUSTOMERS AND COMMUNITIES**

Under normal trading circumstances, we have over 5 million visits across our 173 stores and website each week. Meaningful engagement with our communities through social media channels and local activities, alongside the development of relevant product ranges and services, help drive brand awareness and increase our unique active customer base, with these rising by 2.0%pts and 1.3%pts respectively during the year.

COVID-19 IMPACT AND LEARNINGS

During the Covid-19 crisis our stores closed to customers for at least seven weeks and we only re-opened them when we felt it was safe to do so for customers and colleagues (see Health and safety page 44). While our stores were closed to customers, we witnessed a significant increase in online purchases, with more people using our home delivery services, as well as our contactless Click & Collect offer, which we were able to provide safely in advance of stores fully re-opening. Shopping behaviour and attitudes changed, and we are monitoring these trends to ensure that our product range and services continue to meet customer demand.

The way we communicated with our customers and communities during the Covid-19 crisis also changed. We learned rapidly the importance of having a 'voice' in our local communities and how our customers and colleagues benefitted from meaningful community initiatives. This experience will profoundly affect the way we engage with customers and communities in the future. We expand on some of our learnings below, alongside updates on previously announced initiatives which we share in the context of our evolving customer proposition.



PURPOSE AND PROPOSITION

HELPING EVERYONE CREATE A HOME THEY LOVE

Products that offer choice, value, quality and style	Services that help – from inspiration to delivery to fitting	Experiences that are friendly, local, helpful and build relationships

UPDATE ON ACTIVITIES 2019/20

PRODUCTS THAT OFFER CHOICE, VALUE, QUALITY AND STYLE

Our commitment to customers includes product range improvements that meet their choice, value, quality and style criteria. During the year we refreshed approximately 10% of our product range, including designs and prints exclusive to Dunelm. We also developed ranges with more recyclable content and from more sustainable sources (see Sustainable supply chains and products page 50). During the Covid-19 crisis, people's homes adapted to become offices, gyms, restaurants and communication hubs. Our customers invested more time on DIY projects, learning new skills and upcycling. Our products and 'how to' guides played an important role during this period and we will continue to focus on these 'home essentials' based on our customer insight.

SERVICES THAT HELP – FROM INSPIRATION TO DELIVERY TO FITTING

Enhancing our online customer experience

In October 2019 we launched our new digital platform which allowed us to provide a more user-friendly browsing and shopping experience on our website, and better delivery options to improve customer choice and convenience. This major investment in digital resource proved critical during the Covid-19 crisis, allowing us to continue to serve our customers and generate revenue. Planned improvements to browsing and transaction speeds were fast-tracked during this time, enabled by the agility and empowerment of colleagues – particularly our Digital team.

Expanding customer services

We developed new customer services to keep our customers safe as they returned to our stores, and more convenient options for those staying at home. We introduced clear in-store social distancing and hygiene measures, and a contactless store-to-car service for Click & Collect orders. We trialled and rolled out interactive video technology, allowing customers to access personal shopping and personalised advice on made-to-measure curtains and blinds without leaving their homes.

Developing store formats

In 2019/20 we continued to develop our store formats and in-store concepts to inspire our customers. As well as refitting six of our older stores in our latest formats, at the end of May 2020 we opened a smaller-sized *edit* high street store in Crawley, which has dedicated Live, Sleep, Eat and Work/Do zones and gives customers access to interactive and augmented reality technology. We are monitoring sales and footfall to evaluate future roll out opportunities.

EXPERIENCES THAT ARE FRIENDLY, LOCAL, HELPFUL AND BUILD RELATIONSHIPS

Building local relationships

During the Covid-19 crisis our colleagues set up 173 Facebook groups in their communities and these evolved organically. At the outset, our colleagues used social media to help organise local initiatives to help the NHS, care homes and support vulnerable individuals – involving over 7,000 customer volunteers; then to understand local customer and colleague sentiment about re-opening stores. These groups are now thriving communities which balance the activity between community – generating great conversations with our customers and colleagues – and commerce, where we talk about our products, offers and offer local customer care. This instant connection between colleagues and customers is building stronger emotional ties and more meaningful awareness of the Dunelm brand in our communities. We now have over 152,000 social media followers on our community groups, growing organically by around 5,000 followers every week. We aim to appoint colleague ambassadors as trusted voices, empowering them to run community networks more formally.

Understanding our local audiences

We also learned that our customers want a personalised, authentic experience with communication that relates directly to them and the rhythm of their home. For these reasons we are focusing on creating and hosting local events with meaning in the community, working with faces and names people know and trust. This will also allow us to represent the social and ethnic diversity in our local communities more accurately and meaningfully.

Fundraising and charities

Although earlier in the year we were on track to raise a record sum for our chosen charities, unfortunately, some of our regular fundraising activities – such as the donation of proceeds from plastic bag sales and cups of tea in our Pausa cafes to Macmillan Cancer Support and Groundwork – were negatively impacted by store closures. However, we continued to support our Group charity partner, Macmillan Cancer Support, through remote colleague fundraising and live events on our community groups, and we have agreed to make an additional corporate donation to Macmillan Cancer Support of £105,000 to make up the shortfall. As mentioned above, our colleagues looked for other opportunities to 'give back' to their communities – making over 40,000 personal protection equipment items for the NHS and supporting local hospitals, care homes and schools with hampers and essential items. We will place greater emphasis on local community-based charitable activities in the future.

PEOPLE: CUSTOMERS AND COMMUNITIES

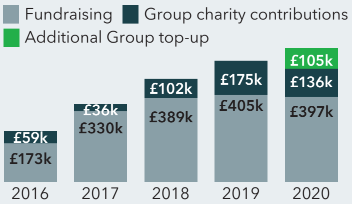
CONTINUED

PERFORMANCE AGAINST TARGETS

COMMUNITIES

GROUP AND COLLEAGUES FUNDRAISING AND GROUP CASH CHARITY CONTRIBUTIONS

£638k



Why this measure is important

- It demonstrates the Group's commitment to supporting charities and events close to the hearts of our colleagues and communities.

2019/20 performance

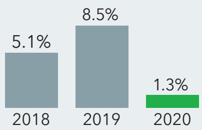
- Early in the year we were on track to exceed our target of a 10% year-on-year increase. However, as our stores and support sites were closed for between seven and fourteen weeks/three months respectively, we were unable to undertake some of our regular fundraising activity. As a result we did not meet our target. However, as part of our commitment to 'be a good company', we have agreed to make an additional company cash contribution of £105,000 to Macmillan Cancer Support to make up the shortfall. Therefore the total value of cash charitable donations made by the Group in the period ended 27 June 2020 was £241,000 (2019: £175,000). Total funds raised for charity by the Group and colleagues were £638,000 (2019: £580,000). In addition the Group donated goods with a retail value of £74,000 as part of our support to the NHS and local communities throughout the crisis.

CUSTOMERS

GROUP KPI

UNIQUE ACTIVE CUSTOMER GROWTH

+1.3%



Why this measure is important

- We use this metric to measure the acceleration of growth in our active customer base and therefore our ability to reach new customers. This measure combines our active store and online customers.

2019/20 performance

- Year-on-year growth in unique active customers* was 1.3%. Our growth was impacted by our store closures but we are still on track to meet our FY23 target of growing our base by 2 million over five years. Growth in unique active customers was running at 8.8% as at February 2020, on a rolling twelve-month basis.

* Unique active customers who have shopped in the last 12 months, based on management estimates using Barclays data.

WHAT'S NEXT FOR 2020/21

- Building further customer insight through our dedicated Data Insight team, to help us provide products and services that meet our customers' needs.
- Monitoring new services and continuing to develop new ways of shopping and engaging with our customers.
- Increasing customer and community engagement activity at the local store level through social media and colleague activity.
- Focusing on local charities and hosting events 'with meaning' in and with our communities.
- Evolving our advertising campaigns to ensure they are relevant and meaningful to our customers, and building on the *Home of Homes* campaign featuring Dunelm families.
- Evaluating our *edit* store format to establish rollout potential.

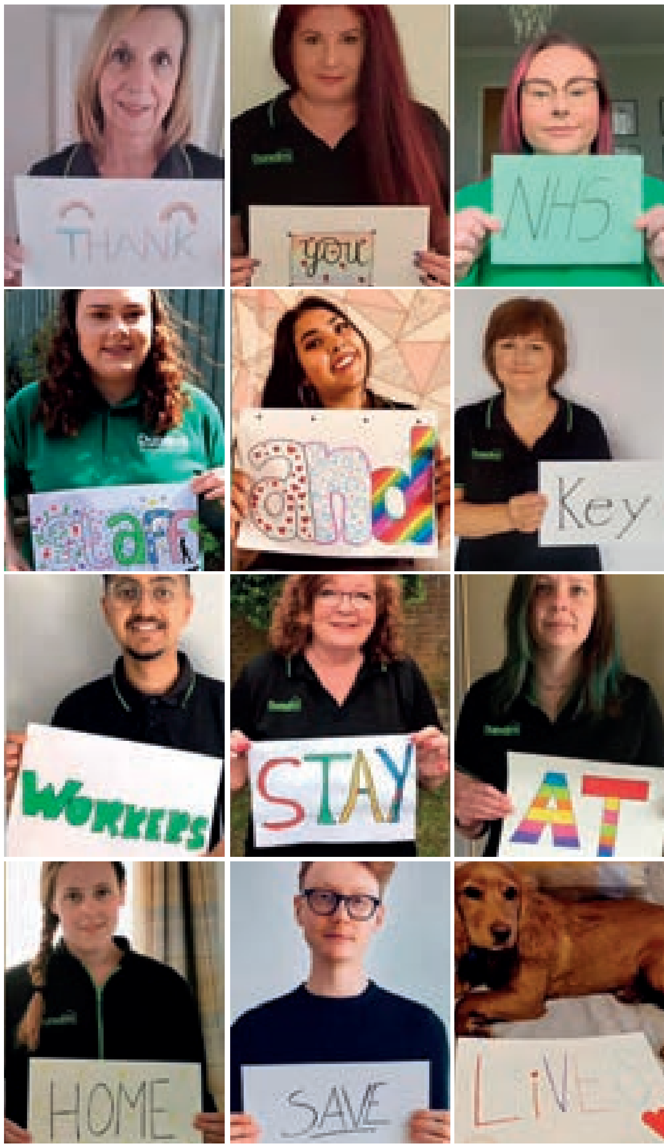
CASE STUDY

Supporting the NHS during the Covid-19 crisis

We supported the NHS by using our manufacturing centre to make surgical gowns at cost for two hospital trusts, and child-friendly masks for the children's ward at a Leicester hospital. We donated furniture to the family room at London's Nightingale hospital and gave NHS employees a 15% discount via the Blue Light app. Our colleagues took the initiative to volunteer and coordinate volunteers in their communities to make and distribute wash bags and scrubs for NHS workers and social carers.

65,000

GOWNS MADE FOR THE NHS



COMMUNITY POLICIES

Our approach to charity contributions

We have focused on driving colleague and customer engagement with a number of charitable activities to ensure we are giving back as much as possible. Each store also has a 'Charity Champion' and more autonomy will be given to local stores to work with their own local charities. Amounts raised by store are reported monthly, and the best-performing stores are featured regularly in Company-wide communications.

Carrier bag sales

All proceeds from carrier bag sales are donated to charity – in England and Scotland to Macmillan Cancer Support, and in Wales to Groundwork, a charitable organisation which aims to create more green spaces and get people back into work through creating green jobs.

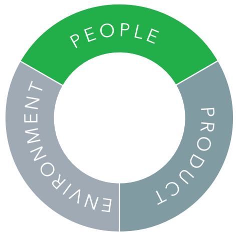
Donation matching

We support colleagues who are raising money for charities of their choice, by matching the sums raised by a donation to Macmillan Cancer Support.

Charity days

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.

PEOPLE: COLLEAGUES



EXECUTIVE RESPONSIBILITY:
People and Stores Director

LINK TO FOUNDATIONS:
Committed colleagues, data-driven decision making

LINK TO PRINCIPAL RISKS:
People and culture

OUR TARGETS:
- Improve colleague engagement score by the end of FY20.

OUR COMMITMENT

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.

ABOUT OUR **COLLEAGUES**

During the year we employed an average of over 9,500 colleagues across our business, with around 7,500 working in our stores. Approximately two-thirds of colleagues work part-time or on seasonal contracts, and one-third are on full-time contracts, reflecting the significance of store-based hourly contracts in our industry.

COVID-19 IMPACT AND LEARNINGS

At the outset of the Covid-19 crisis our immediate focus was to make our colleagues feel safe and supported – financially, physically and emotionally. Our decisions were made in a thoughtful and principled way by listening to and engaging with our colleagues more frequently.

We paid all of our colleagues their full pay during March and April 2020, and continued to pay all vulnerable colleagues and carers of vulnerable family members in full throughout. From May 2020, we paid colleagues who were on furlough 80% of their pay, and put in place a hardship fund to 'top up' pay to the full amount if they were in severe financial hardship. We provided assistance to 43 colleagues in this way. By July 2020, most of our colleagues (other than those in the vulnerable group above) were back at work on full pay.

We envisage that many new initiatives introduced during this period will stay, including: weekly video updates from our CEO, a deeper consideration of our diverse populations in our decision making (e.g. how we have protected our vulnerable colleagues), using the 'virtual workplace' to expand internal recruitment, and investigating flexible working arrangements built on stronger mutual trust and honesty. We have also retained our colleague hardship fund.

UPDATE ON ACTIVITIES 2019/20

SUPPORTING COLLEAGUE HEALTH AND WELLBEING

We have been increasing our focus on mental health awareness in the business for around two years, primarily educating and engaging colleagues through face-to-face training for our managers and via our *Home Comforts* in-house communication tool. We are now using our insight to tailor mental health and wellbeing initiatives more effectively, focusing on early intervention and prevention. In May 2020, we partnered with a provider who develops clinically-approved content (licensed from the Black Dog institute) to develop an app with mental health and mood-tracking modules. Around 500 colleagues have signed up to date and we are receiving positive feedback.

We also used *Home Comforts* to understand and react to colleague sentiment and wellbeing during the Covid-19 crisis, expanding it to include a 'Wellbeing hub' where we collated information and advice on finances, healthy eating, and emotional wellbeing. Over 1,000 colleagues have logged in to this content.

OUR EQUALITY AND DIVERSITY POLICY

We aim to provide fair employment to all colleagues, regardless of disability, race, religion or belief, sex, sexual orientation, gender reassignment, marital status or age. Further details are in our equality and diversity policy, which is available at corporate.dunelm.com, which is incorporated into this report by reference.

DIVERSITY AND INCLUSION

We believe that having a diverse and inclusive working environment correlates directly with the health and wellbeing of our colleagues. We are committed to:

- Educating and raising awareness (by explaining, for example, the background of Pride month and Black Lives Matter demonstrations).
- Promoting colleague engagement (through conversations and internal network building).
- Understanding and celebrating colleague diversity (starting with better data collection).

Our programme is fully endorsed by our leadership team and the Board, and we have appointed a strategic partner to audit our policies and practices and help to build awareness and make our commitments resonate more strongly in our workplace. We are also looking to extend diversity and inclusion training, and audit our colleague practices from a diversity and inclusion point of view.

This year we collected ethnicity data from new joiners. At the end of February 2020 our data covered 59% of our colleagues and, of these, 89% are white British. Our planned colleague census in April 2020 was put on hold owing to the Covid-19 crisis; however, we intend to complete data collection by the end of 2020. We are also supporting our 300 or so colleagues who are EU nationals to obtain 'settled status' in advance of the end of the Brexit transition period on 31 December 2020.

We published our third gender pay report in July 2020 and were pleased to report that we reduced both key gender pay gap metrics. Our 2019 median gap was 7.6% (2018: 7.9%) and our mean gap was 18.0% (2018: 19.2%). We know we need to work hard to meet our aim to reduce these gaps further given the skew towards women holding lower-paid roles in our business – as is the case in the UK retail sector in general. At Dunelm, for example, 80% of our colleagues are hourly paid in our stores and, of these, 74% are female. Nonetheless, we are committed to improving and remaining open to change. During the Covid-19 crisis, for example, around 70 furloughed store colleagues took on flexible home-based roles supporting the Customer Care Centre. While this approach alone will not reduce our gender pay gap sufficiently, it serves as a reminder that there may be other solutions to consider.

At the end of June 2020, the overall breakdown of male and female colleagues remained at 32:68 with no significant movement over the year. The analysis by job role is as follows:

	Male	Female	% Female
Group Board	6	3	**33%**
Executive Board	4	5	**55%**
Dunelm Leadership Team (including Executive Board members)	14	12	**46%**
All other colleagues	3,180	6,653	**68%**

PEOPLE: COLLEAGUES

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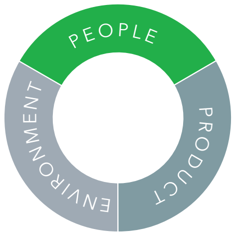


COLLEAGUE ENGAGEMENT

We engage with our colleagues formally and informally, using regular 'huddles' (informal team briefings), weekly topical emails, *Home Comforts*, Intouch and Yammer intranet communications, an annual strategy communication event and a Company-wide 'new year celebration' which marks the start of the financial year. During the Covid-19 crisis we supplemented these with weekly Company-wide CEO updates via video, a weekly listening group at our distribution centre in Stoke, and 'pulse' surveys to understand store colleague concerns as they returned to work; these have now been extended to all hourly-paid colleagues.

Our regular National Colleague Voice (NCV) meetings (colleague council meetings) are attended by senior management and enable colleagues to raise and discuss issues. At the last meeting held virtually in June 2020, agenda points included: colleague feedback on our new business foundations and shared values; learnings from the Covid-19 experience; and structural changes. Colleagues were represented by 13 voices and the Group Board was represented by our CEO (Nick Wilkinson), Remuneration Committee Chair (William Reeve) and our designated Non-Executive Director for employee matters (Marion Sears). The matters discussed are fed back at the next Group Board meeting. Key learnings (which we are already implementing) from holding virtual NCV meetings are that: we can make them more inclusive and collaborative, hold them more frequently, make them shorter, discuss more relevant topics 'in depth', and use the information from this important consultation body more effectively in our decision making.

TALENT MANAGEMENT, TRAINING AND COLLEAGUE RETENTION

We aim to grow and retain talent in the business, filling management roles internally where possible and investing in colleague training and development: 97% of store manager roles were filled internally in the year (2019: 92%). To build our next generation of leaders, we launched our retail apprenticeship scheme in September 2019 with 13 colleagues taking part in this new initiative, in addition to taking on 13 graduates through our graduate recruitment programme.

During the year, our Senior Leadership team took part in a series of behaviour-based leadership debates, facilitated by a third party. We are currently re-evaluating 'what makes a good leader' in light of our learnings from the Covid-19 experience, looking to update and tailor our framework where appropriate.

In line with our *Customer 1st* strategy, we established and resourced a new, standalone Data Insight team to bolster our capability. To achieve this, we recruited a higher number of external candidates to fill highly specialised digital and marketing roles.

Prior to the Covid-19 pandemic we were pleased to report a downward trend in labour turnover for a third year in a row. This trajectory, however, has been more difficult to interpret since the pandemic.

CASE STUDY

Changing the boundaries

The Covid-19 crisis changed traditional boundaries. Technology and homeworking empowered many colleagues, giving them opportunities to take on roles that previously would have been impossible. Store colleagues joined forces with our Customer Care Centre many miles away from each other, and curtain fitters and furniture delivery teams pooled resources to coordinate services. We have realised that by removing geographical boundaries and rigid job descriptions we have access to a larger, highly valuable pool of motivated, empowered colleagues and a greater opportunity to fulfil our aim to recruit and promote internally.

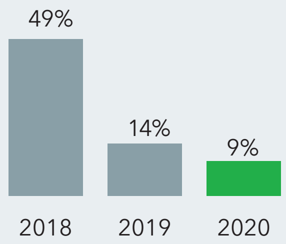
PERFORMANCE AGAINST TARGET

EMPLOYEE NET PROMOTER SCORE (eNPS) %pts
Year-on-year improvement

GROUP KPI

BONUS

+9%pts



Why this measure is important

- This measure rates our colleagues' experience with us and helps us understand where we need to improve.

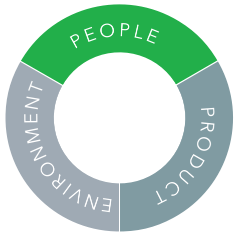
2019/20 performance

- Our annual survey (due to be completed May 2020) was postponed; our last engagement survey was completed in November 2019 so we have used a half-year on half-year figure as this provides the most appropriate comparison; this demonstrated an increase of 9%pts.
- Our external Glassdoor ranking was fourth in the retail group as at July 2020.

WHAT'S NEXT FOR 2020/21

- Evaluate and shape our colleague agenda based on key learnings from changes during the Covid-19 crisis.
- Continue to improve colleague engagement through more regular, relevant and interactive communication.
- Evaluate more flexible colleague working arrangements and empowered roles.
- Continue to focus on preventative initiatives in relation to physical, emotional and financial wellbeing.
- Extend our diversity and inclusion work, including audits of our existing practices and education for all colleagues.

PEOPLE: HEALTH AND SAFETY



EXECUTIVE RESPONSIBILITY:
Company Secretary

LINK TO FOUNDATIONS:
Committed colleagues

LINK TO PRINCIPAL RISKS:
Regulatory and compliance, people and culture

OUR TARGETS:

- Reduce RIDDOR reportable accidents year-on-year.

OUR COMMITMENT

We want to ensure the safety and wellbeing of our customers, our colleagues and all our visitors. This is a Company-wide focus with stringent policies and procedures implemented at all levels of the business.

ABOUT OUR **HEALTH AND SAFETY**

We are responsible for the health and safety of over 9,500 colleagues across our business, and over one million shopping trips that our customers make to our stores each week.

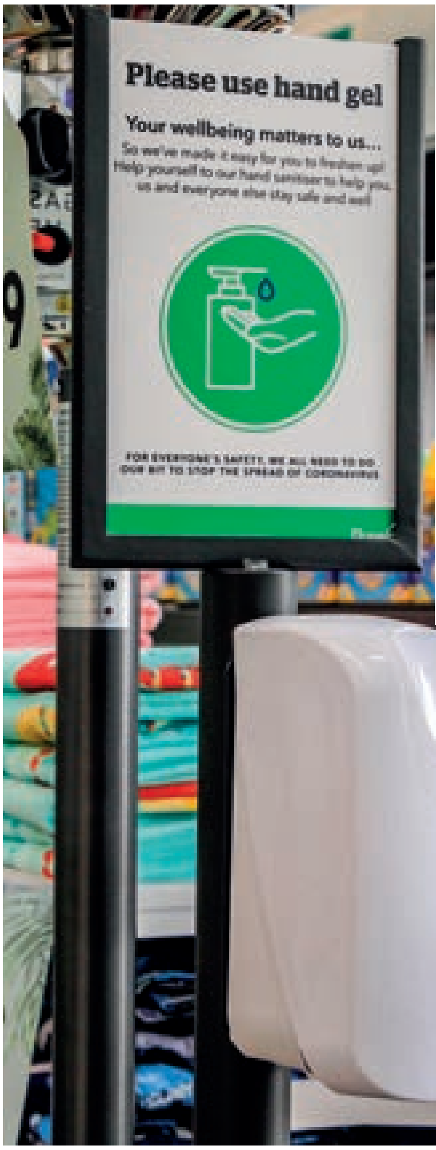
COVID-19 IMPACT AND LEARNINGS

Since March 2020, we have focused on ensuring the physical safety of our colleagues and customers in all operations, specifically on the design and implementation of effective policies and social distancing measures at all of our sites. These will continue to evolve as the Covid-19 crisis develops, and UK Government and best practice guidance changes. In addition, we are increasingly supporting the mental health and wellbeing of our colleagues, which is detailed in our Colleagues section on page 40.

HOW WE MANAGE HEALTH AND SAFETY

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.

Health and safety is a standard agenda item at every Board and monthly Executive Board meeting, supported by a monthly report and a formal annual presentation from the Group's Health and Safety Manager covering accident/risk analysis, review of previous objectives, and agreement of new objectives for the next year based on risks highlighted through accident trends, industry changes and colleague feedback. For example, one of our priorities this year was to improve the personal security of our store colleagues, by addressing the regrettable societal increase in aggressive and, sometimes, violent public behaviour.



In our stores and at each of our sites, the site or store manager is responsible for implementing his or her respective health and safety policy and procedures, supported by the area manager (for stores) and the Group Health and Safety team. 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 use our in-house health and safety audit to monitor compliance to policy and procedures. It is reviewed annually to ensure that it meets best practice industry standards and addresses specific identified risks. Our stores and distribution centres complete a monthly online self-audit, and area managers audit each of their stores at least once a year.

These protocols are backed up by our in-house operational Health and Safety team who report to the Group Head of Health and Safety. Regular review meetings are held between the Group's Head of Health and Safety and senior management from operational functions, and we have cross-functional safety committees covering retail, distribution, food safety and colleague personal safety. We also have an ongoing programme of education and training, including DVDs and interactive computer-based learning.

We have a proactive approach to safety, and colleagues are encouraged to report all potential hazards and risks and to feed back suggestions and concerns through Local/National Colleague Voice meetings, and specific safety meetings at our distribution centres. At all sites, listening groups obtain feedback on how our social distancing measures are operating, so that we can improve them for the safety of all.

OUR POLICIES

A copy of our full health and safety policy is available at corporate.dunelm.com

UPDATE ON ACTIVITIES 2019/20

As well as the Covid-19 related activities, which were our priority focus during the latter part of the year, we achieved the following:

FOCUS ON KNIFE SALE CONTROLS

Previously in the year we updated our policy and controls around the sale of knives and other age-restricted products in our stores, with guidance from our Primary Authority, and completed refresher training. We continued our programme of independent 'mystery shopper' checks, and achieved an industry-leading pass rate.

IN-STORE COLLEAGUE PERSONAL SAFETY

Following the unfortunate rise in assaults on store colleagues, we set up a Colleague Personal Safety working group to promote the personal safety of our store colleagues. We have provided safety training videos, procedures to deal with threats of violence, a pocket guide with helpful tips, personal alarms, and improved exterior lighting at stores.

PEOPLE: HEALTH AND SAFETY

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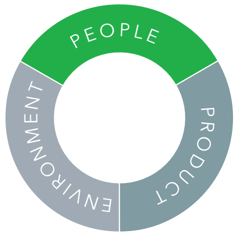
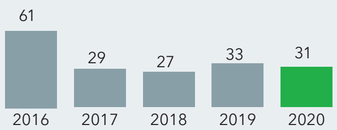


PERFORMANCE AGAINST TARGETS

NUMBER OF REPORTABLE ACCIDENTS UNDER RIDDOR*

31



Why this measure is important

- It is a reliable, externally comparable measure of how safe our premises are.

2019/20 performance

- 31 (year-on-year decrease of two).

* Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR).

UPDATE ON ACTIVITIES 2019/20

STORE SAFETY PROCESSES

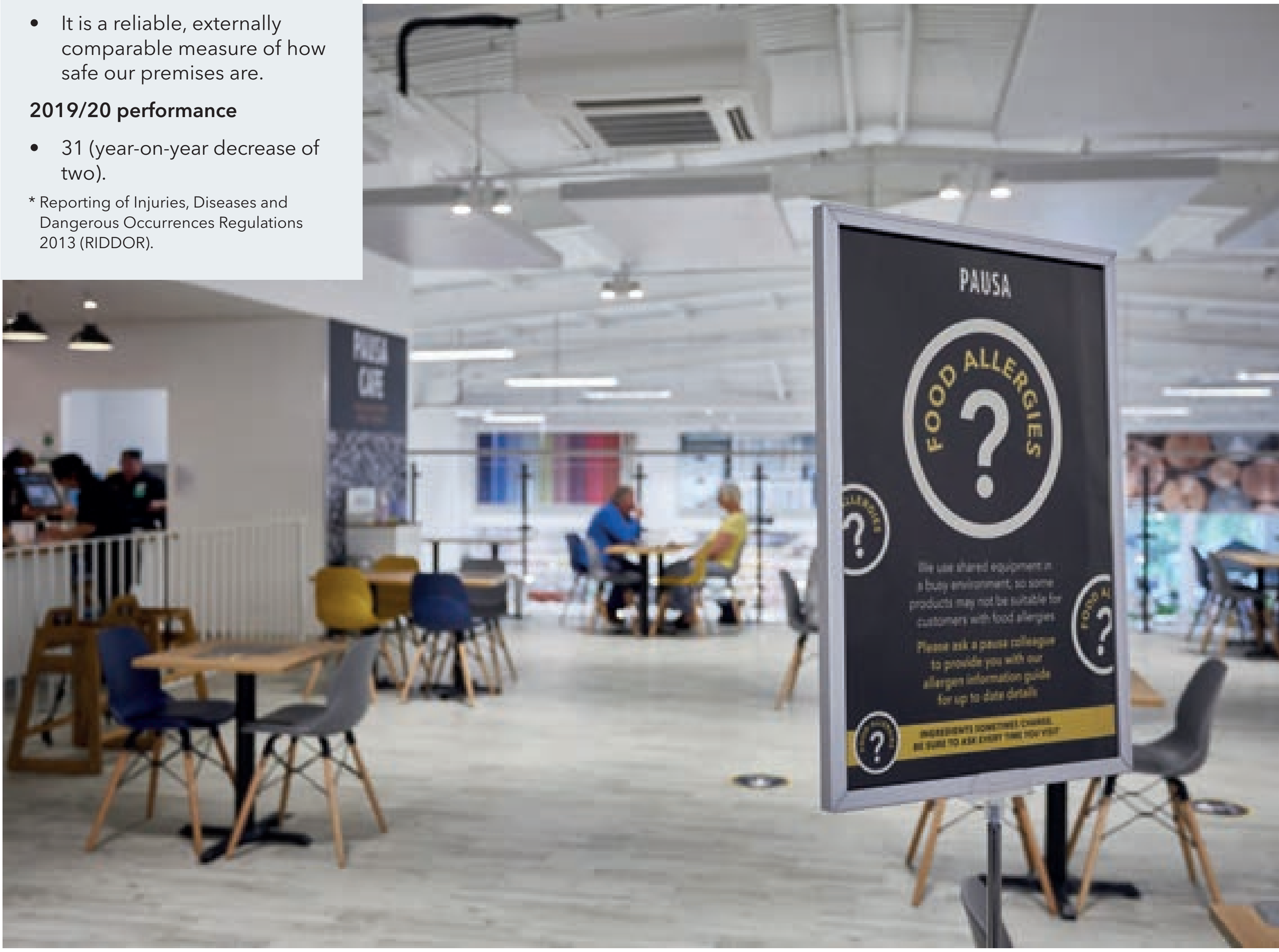
We rolled out a simplified and time-saving new compliance process for completing health and safety checks on electronic tablets. We are now able to track compliance remotely across the business using this new process. We delivered half-day health and safety training courses for 412 store managers and store keyholders.

ONGOING SAFETY INITIATIVES IN PAUSA

We updated our allergen booklets in our Pausa cafes, and repeated hygiene and allergen training. We also automated the reporting of food quality issues, enabling us to track and address trends with our suppliers.

FORKLIFT TRUCK REMOVAL PROGRAMME

Our aim remains to remove all forklift trucks from stores by the end of 2021 and, to date, we have achieved this in 144 of our stores. However, as this programme is linked to new store and refit activity, which has been delayed due to Covid-19, it may take a little longer than expected to achieve our goal.



CASE STUDY

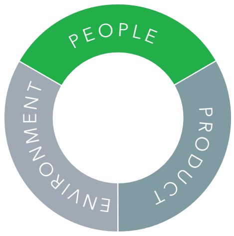
Behind the scenes during the Covid-19 crisis

Prior to re-opening our distribution centre, Home Delivery Network and manufacturing centre, we reassessed all operational risks, taking into account health and safety factors relating to the Covid-19 pandemic. In less than a week we produced new comprehensive briefing guides – down to details such as driver traceability and satnav usage rules for our drivers and fitters on the road. In our distribution and manufacturing centres we rerouted walkways and thoroughfares and introduced signs to demarcate new zones and promote new protocols. Throughout the process we held weekly listening groups with colleagues to alleviate concerns and discuss ideas.

WHAT'S NEXT FOR 2020/21

- Continue to support, oversee and monitor the effectiveness of Covid-19 secure safety practices across the business, and adapt as required – including the re-opening of our Pausa cafes and our support centres.
- Continue to improve safety standards for our customers and colleagues in our Pausa cafes.
- Work with our Colleague Personal Safety working group to enhance colleague safety in stores.
- Work with our Home Delivery Network to continue to improve safety and reduce accident rates.
- Continue to work on the removal of forklift trucks from stores.

PEOPLE: BRIBERY, FRAUD AND TAX EVASION



EXECUTIVE RESPONSIBILITY:
Company Secretary

LINK TO FOUNDATIONS:
Committed colleagues, committed suppliers

LINK TO PRINCIPAL RISKS:
Regulatory and compliance

OUR TARGETS:

- 100% of internal training completed.

OUR COMMITMENT

We are committed to acting legally, fairly and honestly in all of our business dealings and relationships.

ABOUT OUR **APPROACH TO BRIBERY, FRAUD AND TAX EVASION**

We apply our policies across all of our operations, and also require all of our suppliers to commit to apply the same or equivalent policies.

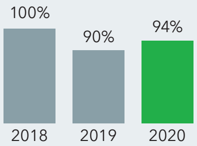
COVID-19 IMPACT AND LEARNINGS

We reinforced the need for vigilance and adherence to our commitment, and took steps to address additional risk, for example, potential online fraud due to the prevalence of home working. We also put in place new listening groups and a live blog on *Home Comforts* to enable colleagues to feed back comments on our Covid-19 safety procedures.

PERFORMANCE AGAINST TARGET

INTERNAL TRAINING COMPLETED, % COLLEAGUES

94%



Why this measure is important

- To provide assurance that our colleagues are aware of the legal requirements and can identify wrongdoing by others.

2019/20 performance

- During the year 94% of eligible colleagues completed initial or refresher training; however, we did not meet our target of 100% owing to colleagues being on furlough. Refresher training has been rolled out in July 2020.

WHAT'S NEXT FOR 2020/21

- Continue with face-to-face and refresher awareness training.
- Review the status of any remaining self-employed contractors in advance of the tax law changes in April 2021.
- Refresh awareness of our whistleblowing/'Speak Up' helpline.

UPDATE ON ACTIVITIES 2019/20

- Additional training provided to Finance and Logistics teams.
- Externally hosted whistleblowing helpline rebranded as 'Speak Up' and awareness raised through colleague communications.
- Policy and process for engaging self-employed contractors updated to include analysis of tax risk, audit completed of all self-employed contractors, and many engaged as employees.

OUR POLICIES

Anti-corruption, anti-bribery and tax evasion

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 corporate.dunelm.com

Potential risks to our business

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

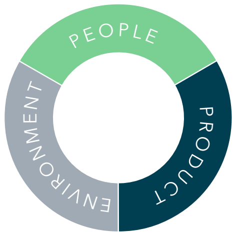
- A colleague accepting a bribe or some other personal advantage in return for awarding a contract.
- A supplier acting on Dunelm's behalf offering or accepting a bribe or other personal advantage.
- A Dunelm colleague facilitating tax evasion by a third party, for example by making an 'off book' payment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

Bribery Act 2011

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 and 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.

PRODUCT: SUSTAINABLE SUPPLY CHAINS AND PRODUCTS



EXECUTIVE RESPONSIBILITY:
Commercial Director

LINK TO FOUNDATIONS:
Committed suppliers

LINK TO PRINCIPAL RISKS:
Brand damage, regulatory and compliance, climate change

OUR TARGETS:

- All own brand cotton products to be from responsibly sourced cotton by 2025.
- All Dunelm and Pausa own brand products which contain palm oil to be 100% responsibly sourced by the end of FY21.
- 100% of all timber to be from legally harvested sources by FY20, and 50% of all timber used in Dunelm own brand products to be responsibly sourced by FY25.
- 30% of all plastic packaging of own brand products to be from recycled content by 2022.
- 100% of Tier 1 factory base for own brand products to have an audit that is no more than two years old by FY20.
- 90% low or medium risk factory audits by FY21.

OUR COMMITMENT

We are committed to helping everyone create a home they love and this includes making it easy and affordable for our customers to shop and live sustainably. To achieve this, we need to understand and improve our environmental, social and governance (ESG) impacts across our supply chains.

Our commitments include reducing our carbon footprint, progressively improving the sustainability of raw materials and packaging, and ensuring that our suppliers (and colleagues) operate in accordance with recognised standards that uphold human rights and safety, and prohibit modern slavery.

ABOUT OUR **SUSTAINABLE SUPPLY CHAINS AND PRODUCTS**

We need to ensure our products are legal, fit for purpose, sourced ethically and, increasingly, meeting customer demand for higher environmental credentials. We have a pragmatic, risk-based approach, focusing primarily on products which are Dunelm branded or exclusive to us. These ranges account for 80-90% of our revenue and are sourced from around 150 suppliers with approximately 850 manufacturing sites. Gradually, we have extended our overall approach to cover other products such as food and drinks served in our Pausa cafes and third-party warehouses which store our products (see policy on opposite page).

Our focus on ethical sourcing and the prevention of modern slavery extends to all of our suppliers of goods and services, and all suppliers are required to commit to our Code of Conduct (or equivalent policy). Further details are set out in our Ethical Code of Conduct, which is available at corporate.dunelm.com/media/2729/dunelm-ethical-code-of-conduct-update-march-2020.pdf, and our most up-to-date modern day slavery statement, which is available at corporate.dunelm.com/media/2720/modern-slavery-statement-2019.pdf

COVID-19 IMPACT AND LEARNINGS

Although Covid-19 related restrictions on travel and the closing of operations limited the number of site audits against our Code of Conduct that were carried out during the year, overall our progress was not materially affected. We learned that during the Covid-19 crisis our customers became more mindful about the environment and the sustainability of products, including evaluating ways to 'make do', reuse and upcycle, backing up the rationale behind product development ideas that were already in our pipeline.

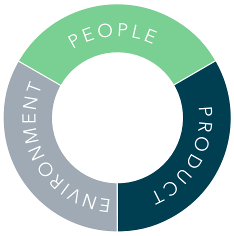
OUR POLICY

Suppliers have to demonstrate compliance before we onboard them.

- All sites that manufacture a finished product for a Dunelm brand, including warehouses that hold Dunelm brand products, must have a social and ethical audit.
- The audit must be under two years old and carried out by an independent approved audit body that is APSCA accredited.
- Audits must be unannounced or semi-unannounced i.e. within a minimum two week window.
- All manufacturing sites in Asia must provide a valid structural report or buildings certificate.
- Vertically shared manufacturing sites are not permitted.
- Sites with annual turnover less than £25,000 ($35,000) including warehouses may provide an audit or complete a Self-Assessment on the online portal.
- Failure to obtain and provide an audit or risk assessment will subject the site to inactivation.
- Failure to notify Dunelm of a new site will lead to a £25,000 fine and loss of profit if goods cannot be sold.

Our Quality Manual sets out our standards including factory approval process, audit requirements, sharps policy and manufacturing standards.

PRODUCT: SUSTAINABLE SUPPLY CHAINS AND PRODUCTS
CONTINUED



UPDATE ON ACTIVITIES 2019/20

During the year, we developed our sustainability 2021 sourcing roadmap, taking into consideration environmental and social risks. This work helps set product sourcing priorities, standards and aspirations on a risk-assessed basis and covers five areas: materials, manufacturing, packaging, transportation and customers.

MATERIALS

We are currently assessing our carbon footprint, but based on industry estimates the materials used in our products account for around 40% of our total carbon footprint. Some of our high-volume materials also entail other environmental and social risks. Based on these factors, our priority focus areas for materials are: cotton, timber, animal-derived materials (e.g. sheepskin, leather and feathers) and palm oil.

RESPONSIBLY SOURCED COTTON

Cotton

We use cotton in most of the textile-based products that we sell, such as bed linen, curtains and fabric. Cotton is farmed in over 100 countries and its production and export is vital to economies in many developing countries. However, there are also environmental and social risks associated with its farming and processing (e.g. high water and pesticide use, and poor regional working conditions). In 2019 we worked with a third-party specialist to map our cotton supply chains against these risks and identify high-risk regions or suppliers. Our first step is to work with suppliers to increase scrutiny and seek documented evidence to demonstrate compliance with our responsible sourcing standards. If no action is taken within an acceptable period, Dunelm will stop buying products from that supplier and supply chain. More information can be found in our Cotton Responsible Sourcing Policy, available to view and download from our website corporate.dunelm.com/media/2730/dunelm-responsible-cotton-policy-2020.pdf

Timber

Timber is a scarce resource owing to illegal harvesting and deforestation. This is a global issue as forests play a critical role in limiting climate change and supporting biodiversity. In Europe, timber importers must comply with the European Timber Regulations (EUTR), which enforce demonstration of legal sourcing, and we request this information from suppliers who use timber or paper in Dunelm products. We also support the Forestry Standards Commission (FSC) certification scheme, which sets standards for well-managed forests.

We are working with an independent third-party to assess risks in our timber supply chains based on timber type and country of origin. This work is part of our commitment to source 100% of timber and paper in our own brand products from responsibly managed forests by 2025. We are also looking to introduce recycled timber in our products and reviewing other certified schemes. More details can be found in our current Responsible Sourcing Policy: Timber and Paper, available on our website corporate.dunelm.com/media/2721/dunelm-timber-policy-v20.pdf

Animal-derived materials

Although we aim to seek alternatives if possible, some materials used in our products come from animals. These products include sheepskin and leather (used predominantly in our furniture ranges), down and feathers, wool and animal hair (used in quilts, pillows, cushions and upholstery). Our policy is unequivocal – we only use humanely-sourced materials, which are a by-product of the food industry and from conventionally farmed animals. No materials are sourced from reptiles, exotic or domestic animals, and no real fur may be used. We ban imports from certain countries where poor practices have been identified, for example, in the tanning process. Our animal and welfare policy is guided by the Farm Animal Welfare Committee's Five Freedoms and used in conjunction with all current UK, EU and international animal welfare legislation and relevant import and trade regulations. More details can be found on our website corporate.dunelm.com/media/2079/animal-welfare-policy.pdf

Palm oil

We set ourselves the target of using sustainably sourced palm oil in all Dunelm brand and Pausa products by the end of FY20. At June 2020 our compliance was 90%. We have engaged a third-party assessor to manage this on our behalf alongside our responsible timber and cotton programme. We anticipate meeting our target of 100% by December 2020.

MANUFACTURING

Environmental assessment

In 2019 we established a process to assess the environmental practices of all sites that manufacture our own brand products. This covers assessments for water, energy, waste and emissions reduction. We have assessed over 50% of our sites and already have a far better view of where we can make the most positive impact. For example, we have identified opportunities to reduce emissions by reducing pack sizes and weight and optimising use of transport. Much of this work overlaps with our packaging reduction initiatives referred to on page 54. We will align this work to the carbon reduction targets that are being developed in FY21 to enable us to set priorities with our suppliers.

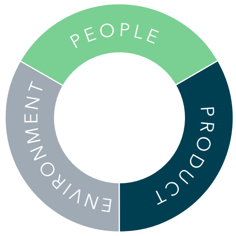
Promoting an ethical supply chain

We use a third-party assessor to manage our social compliance auditing and modern day slavery due diligence. The Dunelm Quality team receives 'live' updates of supply chain risk ratings and works closely with our third-party assessor to actively manage continuous improvement of factory standards. We hold an industry-leading position, having carried out ethical audits in over 99% of Tier 1 supplier factories (for Dunelm own brand and exclusive products) with over 37% of audited supplier sites graded low risk, and a further 35% medium risk. The programme has been extended to our Pausa suppliers and third-party branded suppliers. In 2020 we launched our supplier portal that sets out compliance standards for working conditions in all our factories.

EXAMPLE OF SUPPLY CHAIN RISK RATING QUESTIONS: ETHICAL EMPLOYMENT AND TERMS AND CONDITIONS

- Work is not voluntary, for example, unpaid overtime, bonded, forced or trafficked.
- Any involuntary prison labour.
- Retention by employer or employment agent of original identification papers and/or passports unless required by law.
- Complete absence of toilet and rest breaks.
- Substantial loans held by workers, with excessive interest rates and/or onerous financing schemes and/or unreasonable repayment terms.
- Workers are led to believe that if they do not comply with what is being asked of them they, or their family, will be subject to physical, social or financial retribution.
- Workers are controlled through religion/faith, violence or threats either to self or others.
- Undocumented migrant workers have been subjected to threats of being returned to their home country and/or reported to authorities if they leave employment.
- Workers who refuse overtime are penalised, for example, threats of dismissal, pay cuts, demotion, etc.
- Workers are not allowed to leave the facility when shifts end.
- Workers are not able to resign from the factory.
- Workers paying deposits when they commence employment.
- Unreasonable delays in payments due to workers when they leave.
- Monetary deposits, for example, for work tools, PPE, training.
- Excessive monetary deposits for accommodation.
- Workers monitored when they go to the toilet.
- No policy on prison labour.
- No free employment policy.
- Extended probation period.

PRODUCT: SUSTAINABLE SUPPLY CHAINS AND PRODUCTS CONTINUED



Packaging and recycling

With growing consumer awareness of plastic pollution, increased consumer demand for more recyclable packaging and rising producer responsibility associated with the UK Government's proposed plastic packaging tax, reducing our overall packaging has been high on our agenda.

We launched our first Sustainable Packaging Manual, which sets out best practice for the packaging used by all our suppliers on our products. We have reduced our overall use of plastic by around 50 tonnes in the year and virtually eliminated all single-use plastic (plastic that cannot be recycled) on the packaging of our own brand products. Where we need plastic to protect products, we use polyethylene-based materials (which can be recycled) and plastics with recycled content.

A major initiative during the year was to roll out On Pack Recycling Labelling on our products to make it easier for customers to understand the best disposal or recycling option for all packaging types. We also reviewed the feasibility of providing to customers a textiles 'take back' scheme.

Customers

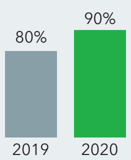
We are committed to making it easier for our customers to make sustainable choices – reducing their own environmental footprint and saving money in the process. For example, we indicate clearly which products can be washed at low temperatures or do not need to be ironed, and we have introduced product ranges made from recycled materials. For the kitchen, we sell fully biodegradable beeswax wraps as an alternative to plastic wraps, food storage containers made from 100% recycled plastic (with a lifetime warranty) and glassware made from recycled and reclaimed glass. Bedding and throws made from a mix of recycled plastic bottles and upcycled cottons and high-quality polyester curtains spun from reclaimed plastic bottles are also available.

We also offer water-saving and waste-segregation products and advice in our stores and on our website. During the Covid-19 crisis, our customers recycled, repaired, reused and upcycled more, and became increasingly aware of environmental impacts. We were already in the process of incorporating these trends into our product development and are accelerating launches of products that help customers live more sustainably.

PERFORMANCE AGAINST TARGETS

% OF SUSTAINABLY SOURCED PALM OIL IN DUNELM AND PAUSA OWN BRAND PRODUCTS

90%



Why this measure is important

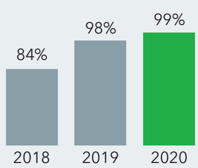
- Palm oil has been and continues to be a major driver of deforestation of some of the world's most biodiverse forests.

2019/20 performance

- We increased our compliance to 90% (2019: 80%).

% OF TIER 1 FACTORY BASE (FOR OWN BRAND PRODUCTS) WITH ETHICAL AUDITS LESS THAN TWO YEARS OLD

99%



Why this measure is important

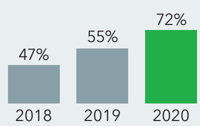
- This provides an independent assessment of supplier compliance with our policies.

2019/20 performance

- 99% of factories have a valid audit which is no more than two years old.

% OF FACTORY AUDITS WITH LOW OR MEDIUM RISK RATINGS

72%



Why this measure is important

- This demonstrates how compliant our factories are with our policies.

2019/20 performance

- 72% of our factories are graded low or medium risk.

WHAT'S NEXT FOR 2020/21

- Introduce more sustainable materials into our product ranges, including more recycled, responsibly sourced and alternative materials.
- Continue to reduce packaging and work towards our target to increase the recycled content of plastic packaging to 30% by 2022.
- Help customers live more sustainably by introducing more re-usable, energy-saving and waste saving products alongside providing advice and tools to help them repair and upcycle the products we sell.
- Grow business with suppliers that meet our ethical and environmental standards.

SUPPLY CHAIN POLICIES

Sustainable sourcing

All suppliers sign our Code of Conduct, which requires them to minimise waste and dispose of it in accordance with legal requirements, reduce packaging to optimise usage/best-fit and improve the recycled content of their products and packaging; and to commit to a strategy of carbon reduction. Suppliers of our own brand products are also required to comply with the cotton, timber and animal welfare policies mentioned on page 52.

Human rights and modern slavery

Effective management of human rights throughout our supply chain is built into our product procurement procedures. All product suppliers 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.

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. 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.

We have 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 statement made pursuant to the Modern Slavery Act 2015, which contains further information, is available at corporate.dunelm.com/media/2720/modern-slavery-statement-2019.pdf

Fair and consistent

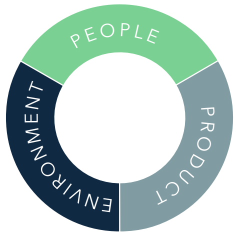
One of our business principles is to deal with suppliers in an open and honest way. We require all of our suppliers to sign our standard terms and conditions in advance of commencing trade, and we have signed up to the Prompt Payment Code. The average time taken to pay suppliers in the period was 46 days (2019: 45 days), and we consistently pay over 98% of our invoices within agreed terms (2019: 97%).

OUR COMMITMENT TO SUPPLIERS DURING COVID-19

We engaged with our suppliers early on and by 9 April 2020 had agreed our commitments to them, all of which we kept. These included:

- Ongoing payment (if deferred, by prior agreement only).
- Honouring range developments due for launch in July 2020 and January 2021.
- Taking end-of-season stock.
- Placing orders with them for replenishment as soon as possible.
- Supporting them with health and safety, financial and banking advice.

ENVIRONMENT: ENERGY, CO_2 EMISSIONS AND WASTE REDUCTION



EXECUTIVE RESPONSIBILITY:
Company Secretary

LINK TO FOUNDATIONS:
Smart operations

LINK TO PRINCIPAL RISKS:
Brand damage, climate change

OUR TARGETS:

- Reduce like-for-like electricity consumption by 5% in FY20.
- Reduce car fleet emissions by 2% p.a. to FY25.
- Increase miles per gallon (mpg) by 2% p.a. for vehicles in our Dunelm home delivery fleet by FY21.
- Achieve 100% diversion from landfill for all operational waste, with 80% to be recycled over the medium term.
- Measure scope 1, 2 and 3 emissions and set reduction targets which are Paris-aligned in FY21.

OUR ENVIRONMENTAL POLICIES AT A GLANCE

ENERGY USE

Our current policy objective is to reduce energy usage year-on-year. We will be developing long-term energy reduction targets during FY21.

GREENHOUSE GAS EMISSIONS (CO_2E)

Our current policy objective is to reduce CO_2 usage year-on-year. We will be developing an ambitious long-term target during FY21.

WASTE MANAGEMENT

Our policy is to be fully compliant with all relevant waste legislation and our policy objectives are to:

- Promote reduction, reuse, rework and recycling, and minimise non-recyclable waste across the business.
- Reduce use of landfill and other adverse environmental impacts.

OUR COMMITMENT

We are committed to minimising the impact of our business on the environment. When looking at our own operations, the focus areas are reducing energy consumption and carbon (CO_2) emissions and reducing waste through recycling and careful waste management.

As part of our approach to climate change, we are measuring our carbon footprint across all of our business operations, including our products, and we will use this to inform how we can take more action to reduce our impact. See further details below:

OUR NEW APPROACH TO CLIMATE CHANGE

Responding to growing demands from our shareholders, colleagues and customers, and consistent with our shared value of long-term thinking, we have appointed Carbon Trust to help us to:

- Measure our carbon footprint across the whole of our operations and supply chain.
- Set an ambitious long-term carbon reduction target, that is aligned to the 'Science-Based Targets Initiative', and a supporting action plan which integrates carbon reduction into our decision making.
- Carry out a climate change risk assessment, to understand the risks and opportunities for our business.

This work will be fed into our *Customer 1st* strategy to help us develop our focus area of 'making sustainability accessible for all'.

We have also committed to report against the guidelines set by the Task Force for Climate-related Financial Disclosures by the end of FY22.

Our Board, Executive Board and colleagues are excited about how this work will help us to understand how we can reduce our impact on the environment, and promote the global effort to prevent irreversible climate damage.

CARBON TRUST

ENVIRONMENT: ENERGY USAGE

ABOUT OUR **ENERGY MANAGEMENT**

Since 1 April 2019, we have purchased all of our electricity from renewable sources. 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 and reduce accidental usage through systemised cut-offs, 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.

Electricity forms the majority of our energy usage and carbon emissions. Over the past year we have continued to invest in more energy-efficient LED lighting, and over 98% of our estate (179 out of 183 sites) now have this installed. During the year we completed LED upgrades at our Crewe, Newport, Rugby, Scunthorpe, Barnsley, Rustington, Hull and Shrewsbury stores and across our regional home delivery depots.

UPDATE ON ACTIVITIES 2019/20

Raise awareness of good energy management across the business through internal communications.

Our Energy Manager attended store area meetings resulting in positive engagement with store and area managers, and we will continue to develop this. We were unable to attend all area meetings due to timing clashes and the restrictions of Covid-19.

Our specialist partner completed an assessment under phase 2 of the *Energy Savings Opportunity Scheme* (ESOS). The majority of the recommendations were 'housekeeping' improvements: all of them have been reviewed and are being actioned where appropriate. Others have been fed into the work being carried out by Carbon Trust on our behalf (see page 56).

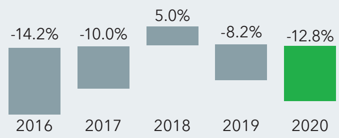
Test new technology that will further improve our energy performance by remotely detecting wasted or excessive energy usage.

We had mixed results. A trial to adjust the hours of operation of our heating and cooling in stores made the temperature uncomfortable for our colleagues and customers. A review by our specialist partner of how stores optimised energy usage did not identify any opportunities for improvement. However, we completed upgrades of external sensors during the year to enable us to make accurate LUX readings and so reduce the time when lights are switched on.

PERFORMANCE AGAINST TARGETS

% REDUCTION IN LIKE-FOR-LIKE ELECTRICITY CONSUMPTION %

72%



Why this measure is important

- Electricity consumption forms the largest part of the carbon emissions from our own operations.

2019/20 performance

- In 2020 we reduced like-for-like electricity consumption by 12.8% (2019: 8.2%) against a target reduction of 5%. This was favourably impacted by the closure of our stores from the end of March until mid-May.

  Before our stores closed in March we had achieved a like-for-like electricity reduction of 2.4% against FY19. This was lower than our 5% target, as we chose to heat our stores during extended periods of working in November 2019 and February 2020 to keep our colleagues warm. We also responded to a request from the National Colleague Voice to keep external lighting on later in the evening during the winter to improve the safety of colleagues who leave the building late at night.

WHAT'S NEXT FOR 2020/21

- Target a 3% reduction in electricity usage v FY19.
- Participate in the work with Carbon Trust to identify further opportunities to reduce energy usage.

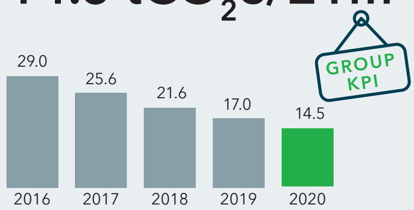
ENVIRONMENT: GREENHOUSE GAS (GHG) EMISSIONS (CO_2e)

PEOPLE PRODUCT ENVIRONMENT

PERFORMANCE AGAINST TARGETS

CO_2 EMISSIONS TONNE CO_2e/£1M GROUP REVENUE

14.5 tCO_2e/£1m



Commentary

- In 2020 we reduced emissions relative to turnover by 15% (in 2019 by 21%), meeting our directional target to reduce this figure each year.

Why this measure is important

- Our emissions measure encapsulates our overall commitment to reducing our impact on the environment and helps us focus on waste management and cost reduction.

DELIVERY FLEET – MILES PER GALLON (mpg)

Why this measure is important

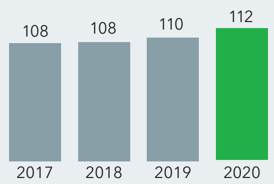
- This forms part of our commitment to reduce the carbon impact from our operations.

2019/20 performance

- In 2020, the average miles per gallon of the Home Delivery Network improved by 2.6% from 14.9 mpg to 15.3 mpg.

AVERAGE CAR FLEET EMISSIONS CO_2G/KM

112 CO_2G/km



Why this measure is important

- Our company car fleet, including fitter vans, but excluding vehicles hired on demand, is graded on emissions and we encourage the use of fuel-efficient vehicles in all schemes. Please note that this measure excludes emissions from business-related journeys which are undertaken by colleagues in their own vehicles.

2019/20 performance

- In FY20 our average emissions were 112 CO_2 g/km (2019: 110 CO_2 g/km). We are therefore not currently on track to meet our target to reduce car fleet emissions by 2% per annum to FY25. However, vehicles added to the fleet during FY20 averaged 93 CO_2 g/km, a significant reduction from those added in the previous year, which averaged 118 CO_2 g/km. We will encourage this trend to continue, which puts us on track to achieve our target by FY25.

WHAT'S NEXT FOR 2020/21

- Participate in the work with Carbon Trust to set a long-term carbon target with milestone targets and KPIs, and a programme to deliver this.

ABOUT OUR GHG (CO_2e) MANAGEMENT

The vast majority of our greenhouse gas emissions are generated by our electricity consumption. During the year we purchased all of our electricity from renewable sources, which has a significantly reduced carbon impact, and we intend to continue to do so. Other contributors to our emissions are usage of gas, emissions from our vehicle fleet, and a small element from use of refrigerants.

We have invested in photovoltaic systems (solar power) 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 work with specialist partners to consult on our energy-buying strategy, investments in energy-saving technology and to further focus on reducing our carbon emissions.

UPDATE ON ACTIVITIES 2019/20

- **Continue to reduce CO_2 emissions relative to turnover year-on-year.** A reduction of Tonne CO_2e per £1m Group revenue of 15% was achieved in the year.

  While gas accounts for a smaller part of our energy usage than electricity, during the year as part of our store refit activity, gas-fired heating systems were removed from our Newport store and heating and cooling converted to more energy-efficient electric power. In Crewe we reduced our reliance on gas-fired heating by 50%.

- **Target a 2% year-on-year reduction in emissions from our company car fleet, and increase mileage per gallon achieved across our home delivery fleet.** Please see table opposite on page 59.

- **Introduce charging points for electric vehicles in our car parks at support centres and assess certain stores for suitability.**

  We agreed to invest in the installation of charging points at our Store Support Centre, and a proposal was being prepared for our Stoke distribution centres. However, the work was delayed due to Covid-19. We intend to complete this work in FY21. We have adopted a flexible working policy for our support centre team and a 'remote first' protocol for all of our meetings, which will significantly reduce the number of commuting car journeys made by our colleagues.

- **Continue to review and assess our company car fleet to introduce more zero-emissions and low-emissions options for colleagues.**

  We opened up our company car list to include all hybrid and electric cars irrespective of vehicle make, whereas before we were tied to a small number of specific manufacturers; this increased the choice for colleagues.

STREAMLINED ENERGY AND CARBON REPORTING (SECR)

ENERGY AND TRANSPORT FUEL CONSUMED

	FY20 MWh	FY19 MWh	% change
Purchase of energy	50	57	(11)%
Vehicles on Company business	2	3	(22)%
Vehicles in the Home Delivery Network	12	9	26%
	64	69	(8)%

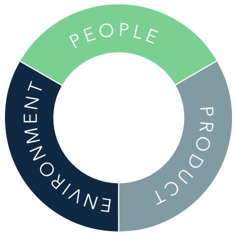
The principal measures to improve energy efficiency in stores are described above in relation to our electricity consumption. Miles driven by the Home Delivery Network increased by 30% year-on-year as a result in the growth of our home delivery sales, whereas energy usage only increased by 26%. The increase in mileage per gallon (mpg) was achieved through improved driver training and focusing on mpg analysis.

GREENHOUSE GAS (GHG) EMISSIONS

	FY20 Tonne CO_2e	FY19 Tonne CO_2e	% change
Direct emissions (scope 1)	5,800	5,880	(1)%
Indirect emissions (scope 2)	9,510	12,774	(26)%
Total GHG emissions	15,310	18,654	(18)%
Turnover	£1,057.9m	£1,100.4m	
GHG intensity per £1m turnover	14.5	17.0	(15)%

The reduction in indirect emissions is a result of reduced electricity usage of 12%, and the reduction of UK grid electricity carbon intensity. Increased energy used within the Home Delivery Network as a result of the increase in miles driven has been offset by reduced gas usage in stores and reduced natural gas conversion factors.

ENVIRONMENT: WASTE MANAGEMENT



ABOUT OUR **WASTE MANAGEMENT**

Our approach to recycling and reducing waste generally is to adopt the following prioritisation: Reduce, Re-use, Rework, Recycle.

Last year we set recycling targets and communicated them to our colleagues through site huddles and Company-wide communications. Our partner, Biffa, conducts ten store audits a year and feeds back the results to store managers at their area meetings, with recommended actions. This year we identified the opportunity to improve the disposal of our food waste, and to improve our management of less than perfect stock by selling at a discount, rather than sending it for recycling or disposal.

All operational sites have cardboard balers, and all sites have colour-coded bins to segregate waste for recycling. Our distribution centres in Stoke recover and process our product packaging from our distribution centre and store operations (cardboard and polypropylene) for recycling. We have dry mixed recycling collections from our sites for paper, plastic bottles and cans, which are then sorted and recycled offsite. We also recycle wooden pallets and metal fixtures. All electrical waste is recycled through a WEEE compliant scheme. We also work with over 100 charity partners nationwide to donate ex-display or less-than-perfect quilts and pillows that cannot be sold to customers.

Food waste from our cafes and any remaining waste that is not sorted for recycling within the business is sent offsite for further sorting, and wherever possible is sent to an energy from waste-generation facility.

WHAT'S NEXT FOR 2020/21

- Continue to promote sound recycling and waste disposal throughout the Group through education and audit.
- Identify opportunities to help our customers to recycle their used products, as part of our commitment to help them live more sustainably.

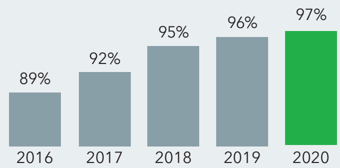
UPDATE ON ACTIVITIES 2019/20

- Continued to improve recycling performance aiming towards 100% landfill diversion over the medium term.
- Improved compliance in stores and in our Stoke distribution centres by continuing our in-store training and communications campaigns.
- Our recycling partner Biffa attended area meetings to highlight opportunities to reduce waste sent to landfill, focusing on better management of food waste, and less-than-perfect stock. This work was interrupted by Covid-19 store closures but will be relaunched in FY21.
- We set up working groups in our Stoke operations to review waste management opportunities, we will continue this in FY21 and set targets for that site.

PERFORMANCE AGAINST TARGETS

% DIVERSION FROM LANDFILL

97%



Why this measure is important

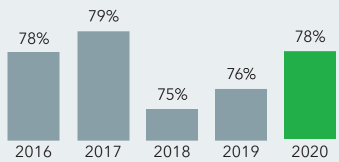
- It measures our success in diverting waste away from landfill to recycling or more sustainable disposal methods.

2019/20 performance

- In 2020, we diverted 97% of waste from landfill (2019: 96%) against our FY21 target of achieving 100% landfill diversion.

% OPERATIONAL WASTE RECYCLED

78%



Why this measure is important

- It measures our success in promoting the circular economy and avoiding landfill.

2019/20 performance

- In 2020 we recycled 78% of waste (2019: 76%). Our FY21 target is 80%.

RISK MANAGEMENT

PROCESSES UNDERPINNED BY CULTURE AND SHARED VALUES

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.

OUR APPROACH

Whilst we have formal processes for identifying, assessing and reviewing risk, as described in the table opposite on page 63, the Board as a whole takes responsibility for the management of risk throughout the business. In addition, 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, including to identify emerging risk.
- 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.
- The systems accord with the guidance to Audit Committees issued by the Financial Reporting Council dated April 2016.

OVERVIEW OF RISK MANAGEMENT RESPONSIBILITIES

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

BOARD
COLLECTIVELY RESPONSIBLE FOR MANAGING RISK

- Conducts formal reviews of principal risks (including emerging risks) twice a year – one of which is in connection with consideration of the viability statement (see page 75).
- Risk topics reviewed in depth through regular timetabled presentations or papers.
- Regular discussions of 'what keeps us awake at night'.
- Monitors KPIs through Board reports.
- Assesses the coverage and adequacy of independent assurance.
- Ensures Executive Directors have line responsibility for managing specific risks.

AUDIT AND RISK COMMITTEE
OVERSEES RISK MANAGEMENT PROCESS

- Receives report on risk management process twice annually.
- Conducts formal reviews of the risk management process twice a year – one of which is in connection with consideration of the viability statement (see page 75).
- Holds the relationship with the independent Internal Auditor, approves the rolling internal audit programme, and receives internal audit reviews of selected risks.
- Selects and proposes topics for 'key risk' reviews by the Board.

EXECUTIVE BOARD
REVIEWS PRINCIPAL RISKS
MEMBERS RESPONSIBLE FOR MANAGING RISK WITHIN THEIR AREAS OF ACCOUNTABILITY

- Conducts formal reviews of principal risks (including emerging risks) twice a year.
- 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.

COMPANY SECRETARY
ENSURES THAT RISK MANAGEMENT PROCESSES ARE ADHERED TO

- Conducts individual risk reviews with Executives.
- Maintains the risk registers.
- 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.

RISK MANAGEMENT
CONTINUED

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
• 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.	• Oversees effectiveness of internal control process. • Receives reports from external auditor. • Approves independent internal audit programme. • Receives reports generated through the internal audit programme.
Executive Board	**Internal Auditor**
• Responsible for operating within the control framework. • Reviews and monitors compliance with policies and procedures. • Recommends changes to controls/policies where needed. • Monitors performance.	• Provides assurance to the Audit and Risk Committee through independent reviews of agreed risk areas.

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 on page 112.

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.

GOVERNANCE P79

AUDIT AND RISK COMMITTEE REPORT P112

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 financial reporting and, where appropriate, reflects developments in the consolidated financial statements. The external auditor also keeps the Audit and Risk Committee appraised 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, and provides robust and independent challenge to management where appropriate.
- 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

ADDRESSING THE IMPACT OF THE COVID-19 CRISIS

The Covid-19 crisis has impacted all aspects of our governance in the year, and we have addressed it through our strategy and risk management processes. At our strategy days in May 2020, the Board reviewed our shared learnings from Covid-19, both at Dunelm and from our roles outside Dunelm. These learnings were fed into our *Customer 1st* strategy, and are reflected throughout this report. They include the importance of values-led decisions, agility and pragmatism, engagement with all stakeholders, and strong foundations (including, a capable and aligned leadership team with the right values, financial strength and close stakeholder relationships). We also discussed our learnings in our external Board review, and these are reflected in the report and its recommendations, which are described on page 109 in the Corporate Governance Report.

PRINCIPAL RISKS AND UNCERTAINTIES ASSESSMENT

The Board confirms that it has carried out a robust assessment of the principal risks facing the Group, including emerging risks, and 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 on pages 66 to 74.

CHANGES TO PRINCIPAL RISKS IN THE YEAR

In June 2020, the Audit and Risk Committee and the Board carried out an in-depth review of the principal risks, and this was discussed again at the September 2020 meeting. The Committee and the Board discussed how the Covid-19 crisis, an example of a low probability or emerging high impact risk, could best be reflected in the register; as well as the impact of one or more risks impacting the Group simultaneously. The conclusion was that this should be addressed by considering the ability of the Group to withstand a major impact to its business, whether that be a pandemic, a significant consumer downturn, or any other event. This was generically referred to as 'resilience', and so the following changes were made to the register of principal risks:

- 'Resilience – failure to withstand the impact of an event or combination of events that significantly disrupts all or a significant part of the Group's sales or operations, and to put in place an effective recovery plan' was added as a principal risk.
- A number of changes to the descriptions of risks and mitigations in the other principal risks, to reflect the impact that Covid-19 has had on these specific risks.

AT A GLANCE PRINCIPAL RISKS AND UNCERTAINTIES 2019/20

Risk	Impact compared to 2018/19
Competition, market and customers	↔
Resilience	N
Brand damage	↔
Climate change and environment	↑
People and culture	↔
Regulatory and compliance	↔
Brexit	↔
IT systems, data and cyber security	↔
Supply chain disruption	↔
Business efficiency	↔
Finance and treasury (increased during Covid-19 crisis)	↑

↑ Increasing
↔ No change
↓ Decreasing
N New

PRINCIPAL RISKS AND UNCERTAINTIES

CONTINUED

RISK	DESCRIPTION	HOW WE MITIGATE	PROGRESS IN 2019/20
COMPETITION, MARKET AND CUSTOMERS **Link to *Customer 1st* strategy:** Our customer proposition All focus areas **Performance indicator:** Market share **Executive responsibility:** Chief Executive Officer **Reports to:** N/A **Impact compared to 2018/19:** ↔	Failure to respond to changing consumer needs e.g. the shift towards online sales, personalisation, rental versus ownership, sustainability and customer experience, and to maintain a competitive offer (range, quality, value and ease of shopping) could impact profitability and limit opportunities for growth. A downturn in consumer spending could impact sales and profit.	• *Customer 1st* strategy in place, to continue to drive our multichannel proposition, refined post Covid-19 to accelerate growth levers. • Focus on new product development, particularly own brand, in both existing and new categories, to strengthen our offer. Continue to make our products and their packaging more sustainable. • Investment in brand marketing, digital engineering, data insight capability and service to raise awareness of Dunelm and meet customer needs. • Investment in supply chain capacity and capability, and delivery of productivity improvements to enable us to compete effectively and allocate resource to growth driving activity. • Monthly customer insight report tracks performance against the market, competitors and other key indicators. **Board oversight:** • Reviewed annually in depth by the Board at its Strategy Day and individual topics considered throughout the year.	• Dunelm continues to lead the UK homewares market with an increased estimated share of 7.6% in 2020 (2019: 7.2%) (Source: GlobalData). • Development of our *Customer 1st* strategy, to include a significant increase in our sustainability programme, and focus on customer experience. • Successful replatform of our dunelm.com website and introduction of a Click & Collect offer with minimal disruption, enabling us to accelerate our digital proposition. Enabled us to serve customers when stores were closed due to Covid-19. • Increased brand awareness through continued investment in brand marketing, including sponsorship of *Back To Mine, This Morning* and *First Dates.* • Local Facebook groups created, based around our stores, during the Covid-19 crisis, to provide relevant and meaningful engagement with our customers – to continue post-crisis. • Continued product innovation in existing categories and strengthened seasonal campaigns and promo buys to increase 'newness' and promote our value credentials.

AMBITIONS, PURPOSE AND STRATEGY P14

Increasing | Decreasing | No change | New

RISK	DESCRIPTION	HOW WE MITIGATE	PROGRESS IN 2019/20
RESILIENCE (New/emerging risk) **Link to *Customer 1st* strategy:** All focus areas **Performance indicator:** GROUP KPI Sales and profit Market share **Executive responsibility:** Chief Executive Officer **Reports to:** N/A **Impact compared to 2018/19:** N	Failure to withstand the impact of an event or combination of events that significantly disrupts all or a substantial part of the Group's sales or operations (e.g. pandemic).	• Internal control and risk management process in place to identify and manage risks (including emerging risks) that may impact the business. • Conservative financial approach – strong balance sheet, relatively low levels of external debt, low risk property portfolio, 'value for money' mentality. • Strong and united Board and Management team in place, strong managers in key roles and committed colleagues. • Strong values – emphasising 'long-term thinking' and 'acting like owners' – which Board and senior management are required to role model, embedded in the business through recruitment and appraisal, and colleague communications. • Strong relationships maintained with key stakeholders (shareholders, colleagues, customers, suppliers, community). • Investment in Dunelm brand and diversity of routes to market provide flexibility if one channel cannot operate. • Business continuity plans in place and kept up-to-date for sites, operations and technology. • Insurance cover in place to cover key risks. • Expert third-party advisers in place (e.g. PR, corporate, banking, legal, tech) to assist.	• Action taken to mitigate impact of Covid-19 crisis including: – Securing financial position of the Group by ceasing all non-essential expenditure, drawing down on committed bank facilities, and securing funding under the UK Government's COVID Corporate Finance Facility (CCFF) (not used). – Increasing the frequency of Board and Executive Board meetings. – Ensuring that we had plans in place for colleagues to work remotely where possible and contingency plans to close/ re-open stores and facilities safely in accordance with legal requirements. – Prioritising safety of colleagues and customers. – Working closely with suppliers to implement alternative fulfilment routes. – Increasing engagement with colleagues, customers and suppliers. • *Customer 1st* strategy in place, based around agreed purpose and ambitions (profitable growth, brand, being a good company) with six focus areas, underpinned by our shared values. See page 14. • Actions taken to improve productivity and efficiency, and reallocate resource to priority activities, including reduction in support centre headcount. • Focus on value and affordability to respond to likely recession. • Plans in place to prepare for a 'second wave' of Covid-19 or local lockdowns in FY21.

PRINCIPAL RISKS AND UNCERTAINTIES

CONTINUED

RISK	DESCRIPTION	HOW WE MITIGATE	PROGRESS IN 2019/20
BRAND DAMAGE **Link to *Customer 1st* strategy:** Customer Sustainability Committed suppliers **Performance indicator:** Product recalls Percentage of audits completed within policy **Executive responsibility:** Commercial Director **Reports to:** Chief Executive Officer **Impact compared to 2018/19:**	Our customers expect us to deliver products that are safe, compliant with legal and regulatory requirements, and fit for purpose. Increasingly, customers also want to know that products have been responsibly sourced and that their environmental impact is minimised. We must also ensure that our suppliers share and uphold our approach to business ethics, human rights (including safety and modern slavery) and the environment. Failure to do so could result in harm to individuals with the potential for customers, colleagues and other stakeholders to lose confidence in the Dunelm brand.	• We have a range of policies specifying the quality of own brand products and production processes which suppliers must adhere to. • Factories complete a profile questionnaire to obtain a more holistic assessment. • 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 and allergen awareness in our Pausa cafes is maintained through the adoption of clear operating guidelines and compulsory colleague training. Compliance audits are performed regularly. Monthly food safety committee meeting in place. • 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 covers modern slavery. • Periodic audits on all suppliers of own brand products. Specialist partner appointed reviews and grades audits and follows up on corrective actions. **Board oversight:** • Ethical trading/modern slavery/ responsible sourcing reviewed at least annually in depth by the Board.	• Independent third-party due diligence testing introduced for high-risk products during the product lifecycle (in addition to tests completed when first sourced). • Updated our Code of Conduct and set out standards for working conditions which all factories supplying Dunelm branded products must adhere to (the 'Dunelm way'). • UK premises of all stock suppliers completed a modern slavery assessment with follow up action where needed. • Developed online quality and ethical assessment for secondary branded products. • Launched supplier portal so own brand suppliers can access latest product specifications and testing requirements. • Implemented a new food standards and sourcing manual for suppliers. • Simplified and updated allergen information introduced, now available electronically to enable real time updates to be made. For further information please see the Sustainability Review on pages 32 to 61.

Increasing Decreasing No change New

RISK	DESCRIPTION	HOW WE MITIGATE	PROGRESS IN 2019/20
CLIMATE CHANGE AND ENVIRONMENT **Link to *Customer 1st* strategy:** Sustainability **Performance indicator:** Prosecution and other regulatory action **Executive responsibility:** Company Secretary **Reports to:** Chief Executive Officer **Impact compared to 2018/19:** Increasing	Failure to anticipate and address the strategic, regulatory and reputational impact of climate change.	• Sustainability – 'Make sustainability accessible to all' is one of our six focus areas from FY21. • Sustainability Committee, chaired by the Company Secretary, oversees our approach to sustainability issues, including climate change. • Targets in place to reduce emissions, energy usage and waste to landfill, and increase recycling in our own operations. See page 56. • Sustainability is part of the Product strategy and product selection process. Policies in place for high-risk product types and routes (timber, animal welfare, cotton, feathers and down). **Board oversight:** • Presentation at least once a year, also now forms part of *Customer 1st* strategy. • Topic at the Board's strategy days.	• Sustainability – 'Make sustainability accessible for all' adopted as one of our six focus areas. • Work started on developing climate change strategy, carbon footprint measurement, climate change risk assessment and long-term targets, with the help of Carbon Trust. • Committed to report in accordance with the Task Force on Climate-related Financial Disclosures by 2022. • New factory environmental assessment in place for water, energy, waste and emissions reduction for all own brand Tier 1 suppliers. • Appointed Track Record to develop our Responsibly Sourced Cotton policy and supply chain assessment programme. • Completed annual timber supply chain assessments of own brand suppliers in line with the EU Timber Regulation (furniture). • Reduced our plastic packaging by over 50 tonnes and on track to eliminate all single-use plastic (that cannot be recycled) within our high volume categories in FY21. To support this we have introduced On-Pack Recycling Labelling (OPRL) on our packaging. • More sustainable and recycled materials introduced into our product ranges.

PRINCIPAL RISKS AND UNCERTAINTIES

CONTINUED

RISK	DESCRIPTION	HOW WE MITIGATE	PROGRESS IN 2019/20
PEOPLE AND CULTURE **Link to *Customer 1st* strategy:** Committed colleagues Customer Shared values **Performance indicator:** GROUP KPI Colleague engagement **Executive responsibility:** People and Stores Director **Reports to:** Chief Executive Officer **Impact compared to 2018/19:** ↔	The success of the business could be impacted if it fails to attract, retain and motivate high-calibre colleagues. Maintaining and evolving the culture of our business (embodied in our shared values) is essential to delivering our strategy and ensuring the long-term sustainability of our business.	• 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 appraisals are in place across the Group. • High calibre individuals are retained and developed through sponsored talent management and development. • Shared values describe and embed our culture. • The Group's remuneration policy detailed in this report is designed to ensure that high-calibre executives are attracted and retained. Lock-in of senior management is supported by awards under the Long-Term Incentive Plan. **Board oversight:** • People plan, talent and succession and culture reviewed at least annually by the Board. • Monthly CEO report covers People. • Colleague dashboard regularly reviewed by the Board. • Nominations Committee and Remuneration Committee oversight of People policies and practice. • Group Board engagement with colleagues through site visits, senior executive mentoring, NED attendance at annual seminar, at National Colleague Voice in November 2019 and June 2020, and Board presentation in November 2019.	• The safety and wellbeing of our colleagues was central to our response to the Covid-19 crisis. • Business principles refreshed as shared values to better align them to our purpose and ambitions. Guided the Board and Executive Board's response to the Covid-19 crisis. • Plan to increase our focus on diversity and inclusion, starting by building awareness across our senior management. • Capability increased through creation of a dedicated Data Insight team and development of the Senior Leadership team. • Increased Group Board focus on Board and Executive team succession and talent management. • Established Store Colleague Safety Group to oversee colleague personal safety in stores. • Mental health awareness continued – all line managers now trained, and trained mental health first aiders available throughout the business. • Successful colleague engagement methods used in the Covid-19 crisis will be the model for future communication.

Increasing | Decreasing | No change | New

RISK	DESCRIPTION	HOW WE MITIGATE	PROGRESS IN 2019/20
REGULATORY AND COMPLIANCE **Link to *Customer 1st* strategy:** Customer Sustainability **Performance indicator:** Prosecutions and other regulatory action **Executive responsibility:** Company Secretary **Reports to:** Chief Financial Officer **Impact compared to 2018/19:** No change	Fines, damages claims and reputational damage could be incurred 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.	• 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 and 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. • Whistleblowing procedure and independently administered helpline which enables colleagues to raise concerns in confidence. **Board oversight:** • Monthly Board report on health and safety, GDPR compliance and whistleblowing. • Health and safety reviewed in depth by the Board at least annually. • GDPR and Bribery Act are standing Audit and Risk Committee agenda items. • Non-compliances reported by the Company Secretary by exception.	• Health and safety team have been integral to our response to the Covid-19 crisis and this has been the main area of focus between March and June (and beyond) as we developed and implemented safe physical measures and processes at our stores, warehouses, vehicles, manufacturing site and offices. • Reviewed and updated policies in place in respect of age-restricted sales, with the support of Trading Standards. Continued programme of test audits with pass rates above industry average. • Refreshed health and safety compliance processes, moving to mainly digital rather than paper-based processes – saves time and enables real-time compliance checks to be made centrally. • Accelerated programme to reduce risk to colleagues by removing fork lift trucks from stores –144 of our stores now operate without them. • Continued to strengthen governance of food safety in Pausa cafes including refreshed hygiene and allergen training, and introduction of a simplified allergen guide available electronically. • Policy on use of independent contractors in place in advance to ensure that appropriate tax and NI is paid by all workers.

PRINCIPAL RISKS AND UNCERTAINTIES

CONTINUED

RISK	DESCRIPTION	HOW WE MITIGATE	PROGRESS IN 2019/20
BREXIT **Link to *Customer 1st* strategy:** Customer Delivery **Performance indicator:** GROUP KPI Sales and profit **Executive responsibility:** Chief Financial Officer **Reports to:** Chief Executive Officer **Impact compared to 2018/19:** ⇔	A disorderly Brexit could impact sales and margin due to a downturn in consumer demand, increase costs due to the fall in the value of sterling against the US dollar, or cause supply chain issues, supplier failure or labour shortages.	• Brexit risk assessment in place and regularly reviewed, and mitigations in place. • Steering group meets regularly to review developments, updates issued to the Executive Board and Board. • Very few products are sourced from the EU and we have no sales into the EU. Impact of tariffs in a no-deal scenario anticipated to be immaterial. • Hedging position regularly reviewed. • Plans in place to adjust to new legislation from January 2021. **Board oversight:** • Twice-yearly review of principal risks. • Updates through CFO report.	• Assessed number of colleagues who are EU nationals and assisting to obtain 'settled status'. Ensured logistics partners take similar mitigating action. • Continuing to work with logistics partners and suppliers to minimise risk of supply chain disruption and ensure that processes are in place for new customs regimes. • Plans in place to manage potential port congestion in January 2021. • Prepared operational plan to manage fall in value of sterling. • Focus on affordability to respond to any consumer downturn.
IT SYSTEMS, DATA AND CYBER SECURITY **Link to *Customer 1st* strategy:** Customer Digital Operations **Performance indicator:** Number of major incidents **Executive responsibility:** Chief Information Officer **Reports to:** Chief Executive Officer **Impact compared to 2018/19:** ⇔	Operations impacted by failure to develop technology to support the strategy, lack of availability due to cyber attack or other failure, and reputational damage/fines due to loss of personal data.	• Information Security Steering Group (ISSG) in place to oversee the Group's approach to IT security and data protection. • IT security function in place, reporting to the ISSG. • Formal IT governance processes in place to cover all aspects of IT management. • Changes to IT services are managed through a combination of formal programmes for large and complex programmes, or bespoke iterative development methodologies for smaller-scale changes. • A detailed IT development and security roadmap is in place, aligned to strategy. • Comprehensive third-party support in place for relevant technologies. • Business continuity in place for all major systems and applications. • Business process, authorisation controls and access to sensitive transactions are kept under review. • Cyber insurance cover in place. **Board oversight:** • Cyber security is a standard agenda item for the Audit and Risk Committee. • Major security incidents reported by the Company Secretary.	• Relaunch of dunelm.com platform achieved with minimal disruption. We now have greater control over our intellectual capital, and the capability to make more rapid and agile development of systems. • Restructured our IT security governance and increased capability and resource. • Significant improvement in vulnerability management delivered. • Continued to implement the GDPR risk treatment plan. • Network re-architecture project implemented to allow better control, visibility and security. • Continued to implement security improvements. Working towards a third-party Cyber Essentials certification to provide independent assurance.

Increasing | Decreasing | No change | New

RISK	DESCRIPTION	HOW WE MITIGATE	PROGRESS IN 2019/20
SUPPLY CHAIN DISRUPTION **Link to *Customer 1st* strategy:** Customer Delivery **Performance indicator:** Service levels **Executive responsibility:** Chief Executive Officer **Reports to:** N/A **Impact compared to 2018/19:** No change	Sales/profitability and customer satisfaction could be impacted by supply chain disruption or loss of access to key support locations.	• Supply chain strategy in place to ensure capacity is in line with long-term financial plan. • Detailed budgeting and forecasting in place to match capacity to demand. • Business continuity plans in place for Dunelm non-store facilities. • Contracts in place with third-party logistics partners. • We seek to limit dependency on individual suppliers by actively managing key supplier relationships. **Board oversight:** • Business continuity is a standard Audit and Risk Committee agenda item.	• Covid-safe processes implemented in our distribution centres and Home Delivery Network to enable operations to continue throughout and post the Covid-19 crisis. This included a significant increase in 'Direct to Customer' deliveries from our suppliers. • 'Fit for Future' logistics capacity plan developed. Will need to evolve as we increase capacity to meet increased demand for home delivery. • Renewed long-term contract for store deliveries. • Upgraded home delivery vehicle fleet. • Business continuity plans for all sites reviewed. • Continue to strengthen relationships with key suppliers.
BUSINESS EFFICIENCY **Link to *Customer 1st* strategy:** Customer Operations **Performance indicator:** Operating cost % **Executive responsibility:** Chief Financial Officer **Reports to:** Chief Executive Officer **Impact compared to 2018/19:** No change	Profitability could be impacted by failure to operate the business efficiently or to manage cost-price volatility.	• Costs are managed by the Board and Executive Board through the budget and forecasting process and monthly management accounts reviews. • 'Evolve smarter stock flows and operations' is one of our six focus areas. • Dunelm's scale, growth and increased buying power allows it to secure supply of key services and raw materials at competitive prices. Commodity price tracking covers all key materials. • Major non-stock purchase contracts regularly tendered. **Board oversight:** • Board receives monthly management accounts and regular updates on strategic focus areas. • Long-term plans and budget reviewed by the Board at least annually.	• Continued focus on cost discipline through monthly Executive Board performance review and robust investment approval process. • Working groups in place to manage product lifecycle, sourcing, stock and returns. Significant improvement in stock loss delivered in the year. • Productivity group focusing on delivering productivity in stores, more efficient stock processes, and supply chain. • Support centre headcount reduced and resource realigned to strategic focus areas.

PRINCIPAL RISKS AND UNCERTAINTIES

CONTINUED

RISK	DESCRIPTION	HOW WE MITIGATE	PROGRESS IN 2019/20
FINANCE AND TREASURY **Link to *Customer 1st* strategy:** Operations **Performance indicator:** Operating cash conversion Banking covenant compliance **Executive responsibility:** Chief Financial Officer **Reports to:** Chief Executive Officer **Impact compared to 2018/19:** Increased during Covid-19 crisis.	Growth constrained by lack of access to capital/ financial resource.	• Dunelm works with a syndicate of long-term, committed partner banks. 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. • A Group treasury policy is in place to govern levels of debt, cash management strategies and to control foreign exchange exposures. • Hedging is in place for foreign exchange, and freight and energy prices are agreed in advance, to help mitigate volatility and aid margin management. **Board oversight:** • Board receives monthly treasury report.	• Actions continue to improve controls around stock and cash management, including controls around stock purchasing and forecasting. • COVID Corporate Finance Facility funding approved to support future liquidity if required by a second national lockdown due to the Covid-19 pandemic. • New model created to provide dynamic forward-looking cash flows by week.

GOING CONCERN, VIABILITY AND S172(1) STATEMENTS

GOING CONCERN AND VIABILITY STATEMENT

At the time of approving the financial statements, the Board of Directors is required to formally assess that the business has adequate resources to continue in operational existence for the foreseeable future and as such can continue to adopt the 'Going Concern' basis of accounting. The Board is also required to state that it 'has a reasonable expectation that the Group will continue in operation and meet its longer-term liabilities as they fall due' (the 'Viability Statement'). To support this statement, the Board is required to consider the Group's current financial position, its strategy, the market outlook and its principal risks. The Group has chosen to review viability over a three-year period due to the current uncertainty of the economic outlook due to the Covid-19 pandemic and Brexit, which is aligned to the 'central case' three-year forecast approved by the Directors in June 2020, with a 'severe but plausible downside' scenario modelled as described below.

Following this review, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and they continue to adopt the going concern basis of accounting in preparing the annual financial statements. The Directors have reached this conclusion based on the following considerations.

KEY JUDGEMENTS

The key judgement that the Directors have considered in forming their conclusion is the potential impact of Covid-19 on future revenue, profits and cash flow. In relation to forecast revenue the primary consideration is the likelihood and future impact of a recurrence of Covid-19, including a second peak in the winter of 2020/21, which could result in the closure of stores. The Directors have also considered the longer-term economic outlook for the UK, using external forecasts and current performance trends. In forming their conclusion, the Directors have reviewed the trading performance during the first lockdown period, the trading performance since restrictions have been lifted and the potential impact of a significant recession in the UK, considering the uncertain economic environment.

In forming their conclusions, the Directors have considered the potential mitigating actions that the Group could take to preserve liquidity and ensure compliance with the Group's financial covenants. In doing so, judgement has been applied in determining whether such actions would be reasonably possible to execute as well as the financial impact of taking such actions.

OUR RESPONSE DURING THE COVID-19 PANDEMIC

We closed our stores and online business on 24 March, and then gradually re-opened all our operations in a phased and controlled manner, as our stores moved from 'non-essential' to 'permitted' status. While our first priority has been the health, safety and wellbeing of our customers and colleagues, we restarted and gradually scaled up our online operations from the end of March. While our stores were closed, we introduced a dark store Click & Collect customer proposition.

During this period, we benefited from the investment we made in our new digital platform. We have been operating our digital fulfilment channels at record levels and our supplier partners have increased their 'direct to customer' fulfilment capacities.

MITIGATIONS IMPLEMENTED

At the start of the crisis, we took quick and decisive action to manage our cash position and reduce our costs. We paused our overseas stock orders and asked our UK suppliers to stop replenishing our stores. In responding to the impact of the pandemic, the Group has initiated a number of additional mitigations that are relevant for assessing cash flows during the going concern period:

- We furloughed over 8,000 store, supply chain and support colleagues, who were temporarily not working due to Covid-19. All furloughed colleagues were paid at 100% of their salary in March and April, and 80% of their salary from May onwards, with the Group making up any difference beyond the Government subsidy limits. We received approximately £14.5m in relation to claims under the Job Retention Scheme. We also benefited from the rates holiday for the retail, hospitality and leisure sector of £7m in the financial year, which will further benefit FY21 by approximately £21m.
- All Executives took a temporary 20% pay reduction for the three months from April to June, with the CEO taking a 90% pay reduction and the Board waiving their fees entirely for that period. All non-essential expenditure was stopped.
- Although paid in full, we moved the majority of our rents to monthly rather than quarterly payments and, where offered, have accepted extended payment terms from some of our larger suppliers. We have continued to pay all suppliers to their agreed payment terms.
- UK VAT payments due between March and July 2020 have been deferred until March 2021.
- We cancelled the interim dividend of 8.0 pence per share (£16m total) that had previously been announced at our Interim results announcement in February, which was due to be paid in April. The Board is not recommending a final dividend for FY20, to retain maximum liquidity ahead of winter peak trading. In the longer term, our capital and dividend policy is unchanged, and we remain committed to returning surplus cash to our shareholders.
- The Group secured eligibility from the Bank of England for funding under the COVID Corporate Financing Facility (CCFF). However, we do not anticipate that we will need to draw down on the CCFF facility.

These actions enabled us to partially offset the financial impact of the store closure period and to maintain a strong balance sheet.

GOING CONCERN, VIABILITY AND S172(1) STATEMENTS

CONTINUED

MODELLING AND POTENTIAL FUTURE IMPACT OF COVID-19

In their consideration of going concern and the future viability of the Group, the Directors have reviewed future cash forecasts and profit projections, which are based on market data and recent experience. Given the economic uncertainty resulting from the Covid-19 pandemic, it is difficult to estimate with precision the impact on the Group's prospective financial performance. We have, therefore, modelled a range of Covid-19 scenarios in our considerations, including a central case, a downside scenario, a severe but plausible downside and a reverse stress test, all over the three-year horizon.

The 'severe but plausible downside' scenario is very conservative in assuming a further national lockdown for ten weeks where our stores are no longer in the 'permitted' status and where we are unable to offer our Click & Collect service. We have also assumed that this national lockdown occurs in our peak Christmas and Winter Sale trading period, with all of the Group's stores being required to shut for ten weeks in the event of a second Covid-19 outbreak, on top of the downturn in the economy that is already included in the central case, including potential Brexit-related disruption. Throughout this second closure, we have assumed no government support (other than the current committed rates holiday) and no further reduction in costs beyond the variable cost reduction from stores being closed. During this period, online sales are assumed to continue to operate at a level similar to that seen during the first period of lockdown. In this scenario, once the stores re-open, a period of reduced sales is expected, with full year sales not returning to pre Covid-19 levels until FY23. Throughout this 'severe but plausible downside' scenario, the Group would not breach any of their financial covenants and would not require any additional sources of financing (including any drawdown on the CCFF).

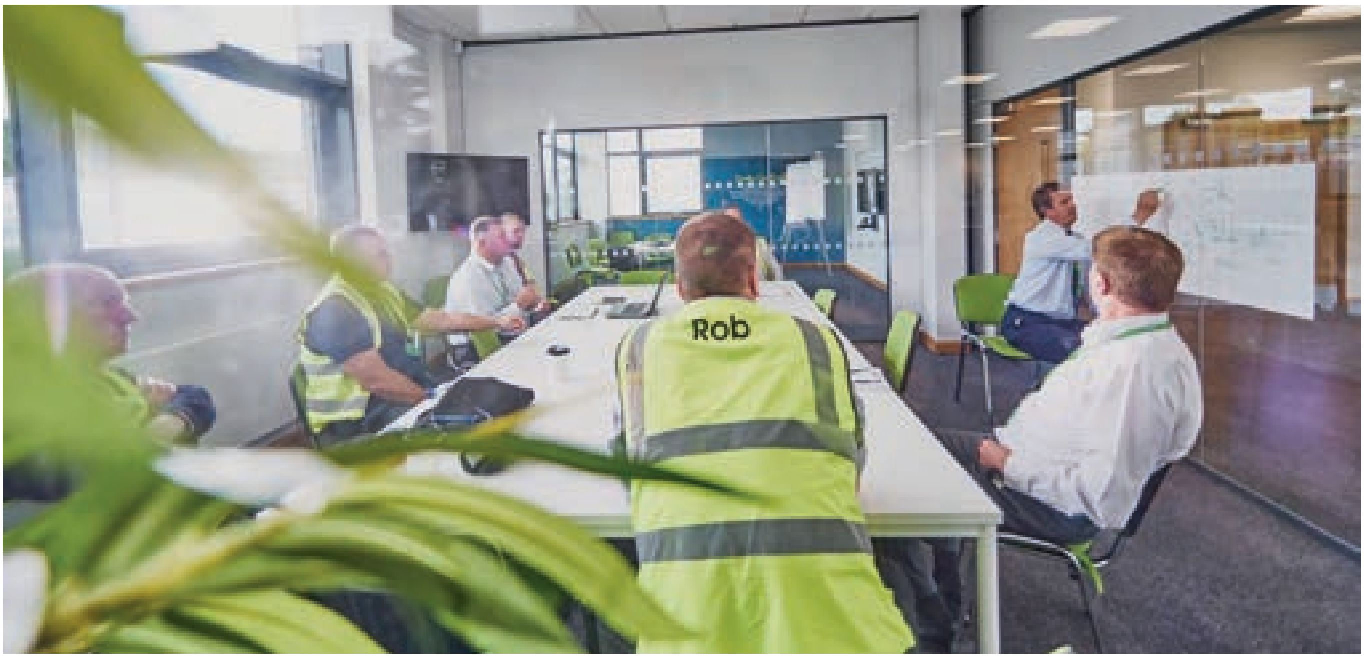
As a result of the uncertainties surrounding the forecasts due to the Covid-19 pandemic, the Group has also modelled a reverse stress test scenario. The reverse stress test models the decline in sales that the Group would be able to absorb before breaching any financial covenants. Such a scenario, and the sequence of events that could lead to it, is considered to be remote, as it requires an annual sales reduction of c.35% in FY21 in order to breach financial covenants in the three-year period under review, and is calculated assuming no further government support and no significant changes to the cost base.

FINANCING

The Group's banking agreements and associated covenants are set out in the Financial Review on page 30 and include a £165m Revolving Credit Facility (RCF) (maturing in March 2023), accordion option with a maximum facility of £75m, £10m uncommitted overdraft as well as eligibility for funding under the COVID Corporate Financing Facility (CCFF).

The Group ended the financial year with £90m cash at bank, including net cash of £45m and a drawn balance of £45m from the RCF.

The financial covenants are tested semi-annually in line with our December Interim reporting and June year-end reporting. These covenants are normally met with significant headroom. Even under the 'severe but plausible downside' Covid-19 scenario as explained above, factoring in the variable cost savings only and no further mitigations within the Group's control, the Group continues to forecast compliance with all financial covenants throughout the going concern period.



GOING CONCERN AND VIABILITY CONCLUSION

Even in the most severe but plausible scenario, Dunelm has sufficient liquidity to continue trading and comfortably meets its financial covenants. The reverse stress test modelling has shown that a scenario of a c.35% reduction in sales in FY21 lead to a breach of covenants in the three-year period under review However, in this scenario, management would also be able to take some mitigating actions as demonstrated between March and May this year. These actions include, but are not limited to the following:

- Reducing discretionary spend (e.g. marketing and maintenance).
- A reduction in capital investment (e.g. new stores and refits).
- Manage stock levels closely to demand.
- Suspension of ordinary dividends, and no special dividends.
- Benefit from any government actions to address specific closure periods (JRS; delay in VAT payments).
- Reduce operating model costs e.g. reduced store opening hours, lower technology spend with third-party developers.
- Delay in payments, including landlords and other suppliers.
- Further reduction in support centre headcount.

As a result, the Board believes that the Group is well placed to manage its financing and other significant risks satisfactorily and that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason, the Board considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements. The long-term impact of Covid-19 is uncertain and should the impacts of the pandemic on trading conditions be more prolonged or severe than what the Directors consider to be reasonably possible, the Group would need to implement additional operational or financial measures.

S172(1) COMPANIES ACT 2006

The Board of Directors confirms that during the year under review, it has acted to promote the long-term success of the Company for the benefit of shareholders, whilst having due regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006. Full details are set out in the Corporate Governance report on pages 88 to 91, which are incorporated into this Strategic Report by reference.

STRATEGIC REPORT

This report was reviewed and signed by order of the Board on 10 September 2020.

Nick Wilkinson
Chief Executive Officer

10 September 2020

GOVERNANCE & REGULATORY INFORMATION

CONTENTS

CHAIRMAN'S LETTER

"Our shared values encompass our commitment to long-term thinking and to treating all customers, colleagues, suppliers, environment and communities with respect."

Andy Harrison
Chairman

DEAR SHAREHOLDER

PURPOSE, CULTURE AND VALUES

The past few months have demonstrated more than ever the value of good leadership, a strong shared purpose, and a culture of 'doing things properly'. There are many examples of this throughout this report. I am grateful to my Board colleagues for their calm and considered judgement throughout the year, and especially during the Covid-19 crisis, balancing the best interests of all stakeholders. I would also like to note the leadership shown by the Non-Executives, who waived their fees from April to June, and by the Executive Directors and members of the Executive Board, who all waived at least 20% of their salary. Our Chief Executive, Nick Wilkinson, led by example and voluntarily waived 90% of his salary. While Will Adderley continues to receive a salary of £1 per annum, as has been the case over a number of years, his contribution during the Covid-19 crisis was significant, and the Board would like to record its thanks for his support.

In last year's report, we reaffirmed our purpose, 'helping everyone create a home they love'. As our multi-channel business becomes more complex, and our strategy evolves in an increasingly dynamic world, having this clear purpose helps to unite our colleagues, Board and senior management behind an engaging objective.

This purpose is supported by our Dunelm shared values, which have evolved from the business principles originally formulated by Will Adderley, our Deputy Chairman, over a decade ago. These encompass our commitment to long-term thinking and to treating all customers, colleagues, suppliers, the environment and communities with respect as the key stakeholders and partners in our business. Our Board and the leaders in our business are accountable for role modelling our values, and we take care to ensure that we recruit and appraise individuals against them in order to protect and enhance our culture. The Board oversees and monitors the culture of the business in a number of ways as summarised on page 87.

BOARD MEMBER UPDATE

As reported last year, Liz Doherty retired from the Board at the AGM in November 2019 and Ian Bull succeeded her as Chair of the Audit and Risk Committee. We also welcomed Paula Vennells at the start of the financial year. Both new Non-Executive Directors (NEDs) have completed their first year with us and have already made valuable contributions to our Board. The appointment of our new NEDs balanced our Board and also gave us the opportunity to refresh our NED responsibilities. After Liz's retirement we decided to delay appointing a new Senior Independent Director (SID) until our new NEDs became established, and I am delighted to confirm that William Reeve has now taken on that additional responsibility. William has been a Board member since July 2015, and has provided wise counsel during his tenure, as well as successfully chairing the Remuneration Committee since November 2017.

Since the Nominations Committee review of the balance of skill and experience last August and particularly following the launch of our new digital platform in October, we have been looking to strengthen our digital skills at Board level by recruiting an additional NED. Our process was delayed by Covid-19, and we are continuing our search for the right person.

BOARD EFFECTIVENESS

During the year, we carried out an external review of the Board. I am pleased to report that, overall, our Board functions well and that the Board dynamics are excellent. We have a unified and aligned Board with all members working together with each playing their roles appropriately to advance the Dunelm agenda. Following the review, it was agreed that the Board would be strengthened, amongst other things, by increasing our focus on succession for the Board and senior management, by developing our long-term sustainability priorities, by widening our expertise and concluding the appointment of a NED with digital expertise. Plans are in place to progress these areas. More details on the review process and outcome are presented on page 108. I thank all my Board colleagues for living up to our shared values and taking long-term decisions during the year. Their continued support and commitment is invaluable.

REMUNERATION POLICY

We have reviewed our Remuneration policy, and we are seeking approval for a new policy and some temporary arrangements for this year – details are set out in the Remuneration Report on pages 120 to 155.

GOVERNANCE AND REPORTING DEVELOPMENTS

It was a busy year in terms of governance reform and the introduction of new reporting requirements. We formally adopted the 2018 UK Corporate Governance Code and this year's report on pages 86 to 155 follows the Code's new headings. We also formally demonstrated compliance with section 172 of the Companies Act, which demands more insight into how our stakeholder engagement influences the Board's decision-making, and we report on this on page 89. In both instances we laid the groundwork for these changes in the previous year and benefitted from our pragmatic approach and planning. We aim to adopt the same approach for the forthcoming Audit reforms, new pay disclosures and climate change reporting and you will notice these are already being considered by our Board and committees.

AGM

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.

Yours sincerely,

Andy Harrison
Chairman

10 September 2020

CODE COMPLIANCE

This Corporate Governance Report explains how we have applied the Code's Principles – supported by reporting on its Provisions – as set out in the Corporate Governance Code published in July 2018 (the 'Corporate Governance Code'), which is available from the website of the Financial Reporting Council, www.frc.org.uk. These principles are applied to the Company's sole trading subsidiary through the Group's governance, risk management and internal control structure.

The Board considers that it has fully complied with the Corporate Governance Code during the financial year covered by this Annual Report, except that during the period from 19 November 2019 to the date of this report we did not have a Senior Independent Director (SID) in place, following the retirement of Liz Doherty. In the absence of a SID, Will Adderley, Deputy Chairman, has been available to carry out this role as required, and the Chairman's annual appraisal was completed as part of the third party Board review. We have announced the appointment of William Reeve to assume this additional responsibility with immediate effect.

A down to earth approach to governance

We share the UK 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. We also support the changes made in the updated Corporate Governance Code, which encourage boards to focus on their purpose and culture, and to demonstrably respond to society's demand that they consider the needs and expectations of their stakeholders. Although this is the first year of reporting against the new Corporate Governance Code, we incorporated many of its new requirements into our business activities in the previous year and we are already realising the benefits of early implementation – for example through the articulation and communication of our purpose, and the opportunity to reinforce the importance of our culture across our stakeholder base.

Our governance approach, which has not changed since the flotation of the Company in 2006, is summarised below:

- We believe that good governance – in our words 'doing things properly' – leads to stronger value creation and lowers risks for shareholders and stakeholders.
- 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 always intend to comply with the prevailing principles of good governance and code of best practice honestly, simply, transparently and with integrity.
- We are pragmatic in our approach and apply corporate governance guidelines in a way that is beneficial to our business, helpful to our customers, consistent with our culture and true to our shared values.
- If we decide that the interests of the Company can be better served by doing things in a different way, we will take a pragmatic approach and explain the reasons why.
- Our Board members believe it is more important to focus on what is right for Dunelm than be in the spotlight; we are prepared to live with our decisions for the long term and we care about and listen to our stakeholders.

This year's Governance Report

This year our governance reporting follows the order as set out in the Corporate Governance Code:

1. BOARD LEADERSHIP AND COMPANY PURPOSE
2. DIVISION OF RESPONSIBILITIES
3. COMPOSITION, SUCCESSION AND EVALUATION
4. AUDIT, RISK AND INTERNAL CONTROL
5. REMUNERATION

FURTHER INFORMATION

Our corporate website contains useful further information, including copies of presentations and policies in relation to governance, shareholders and sustainability, corporate.dunelm.com

DIRECTORS AND OFFICERS

A breadth and depth of complementary skills and experience around the Board table

Andy Harrison
Chairman

N R

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. Regularly visits the Dunelm website, stores and non-store sites 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 (2010 to 2015). Chief Executive of easyJet plc (2005 to 2010). Chief Executive of RAC plc (1996 and 2005). Non-Executive Director and Chair of Audit Committee at EMAP plc (2000 to 2008

Other commitments

None.

Will Adderley
Deputy Chairman

N

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. Resumed his role as Deputy Chairman in January 2016. Retains an executive role to support the business in matters agreed with the CEO, as required. Current focus is on buying, merchandising and mentoring colleagues internally.

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.

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 multichannel 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 to 2016). Chief Executive of Maxeda DIY (2007 to 2010). Group Buying Director and MD of Currys at Dixons Retail Group (1999 to 2006). Early career at Unilever and McKinsey & Co.

Other commitments

None.

COMMITTEE MEMBERSHIPS

- A Audit and Risk Committee member
- N Nominations Committee member
- R Remuneration Committee member
- Chair
- I Independent Non-Executive Director, as per UK Corporate Governance Code interpretation
- E Designated Non-Executive Director for colleague matters

Laura Carr

Chief Financial Officer

Key strengths

Has held CFO and senior finance roles in a number of multichannel retail and consumer facing organisations, operating in the UK and internationally. Understanding of investor community. Strategic and financial perspective across a number of Group functions.

Dunelm role

Laura leads the Finance department, as well as taking responsibility for a number of strategic and cross-functional initiatives. Member of the Executive Board. Participates in Audit and Risk Committee meetings by invitation.

Joined Dunelm Board

November 2018.

Previous experience

Group Financial Controller of Compass Group plc (2017 to 2018). Chief Financial Officer of Indigo Books & Music Inc (Canada) (2014 to 2017). Various finance roles at Japan Tobacco International (2004 to 2013). Qualified as a Chartered Accountant with PricewaterhouseCoopers.

Other commitments

None.

Ian Bull

Independent Non-Executive Director

A N R I

Key strengths

An experienced finance and strategy specialist. Fellow of the Chartered Institute of Management Accountants with over 20 years' business and financial experience with leading consumer facing businesses. 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 the Dunelm website, stores and non-store sites to meet colleagues and members of the senior management team. Attends investor presentations and shareholder meetings. Chair of the Audit and Risk Committee.

Joined Dunelm Board

July 2019.

Previous experience

Chief Financial Officer of Parkdean Resorts Group (2016 to 2018). Chief Financial Officer of Ladbrokes plc (2011 to 2016). Group Finance Director of Greene King plc (2006 to 2011). Early finance career at Whitbread plc, Walt Disney Company and BT Group.

Other commitments

Senior Independent Director and Chair of the Audit Committee of St. Modwen Properties plc, and Senior Independent Director and Chair of the Audit Committee at Domino's Pizza Group plc. Former Non-Executive Director of Paypoint Limited.

William Reeve

Independent Non-Executive Director

A N R I

Key strengths

An entrepreneur and technology investor with deep digital experience.

Dunelm role

As a Non-Executive Director, provides strategic advice, monitors management performance and oversees risk management. Regularly visits the Dunelm website, stores and non-store sites to meet colleagues and members of the senior management team. Attends investor presentations and shareholder meetings. Senior Independent Director and 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 (Chair), Paddy Power plc and Zoopla.

Other commitments

Chief Executive of Oh Goodlord Limited, Non-Executive Chair of Nutmeg Saving and Investment Limited.

DIRECTORS AND OFFICERS
CONTINUED

Peter Ruis
Independent Non-Executive Director

A N R I

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 the Dunelm website, stores and non-store sites 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 to 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-independent Non-Executive Director

N E

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 the Dunelm website, stores and non-store sites 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 the Remuneration Committee from 2006 to 2015 and Chair of the Nominations Committee until 2016.

Previous experience

Robert Fleming, JP Morgan Investment Banking.

Other commitments

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

Paula Vennells, CBE
Independent Non-Executive Director

A N R I

Key strengths

A former CEO, with experience of leading retail and consumer businesses, with strengths in business transformation, brands, supply chain 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 the Dunelm website, stores and non-store sites to meet store colleagues and members of the senior management team. Attends investor presentations and shareholder meetings.

Joined Dunelm Board

September 2019.

Previous experience

CEO of the Post Office (2012 to 2019) (Sales & Network Director 2007 to 2010, COO then MD from 2010 to 2012). Commercial Director of Whitbread plc (2004 to 2006) (Strategy and Marketing Director, Restaurants 2001 to 2004). Marketing & eCommerce Director of Argos (1998 to 2001). Early career roles at Unilever, L'Oreal, Dixons and Sears.

Other commitments

Chair of the Imperial College Healthcare NHS Trust, Non-Executive Director of Wm Morrison Supermarkets plc.

COMMITTEE MEMBERSHIPS

- A Audit and Risk Committee member
- N Nominations Committee member
- R Remuneration Committee member
- Chair
- I Independent Non-Executive Director, as per UK Corporate Governance Code interpretation
- E Designated Non-Executive Director for colleague matters

Dawn Durrant
Company Secretary

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 and sustainability. Member of the Executive Board.

Joined Dunelm Board

November 2011.

Previous experience

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

Other commitments

None.

Bill Adderley
Founder and Life President

Bill, together with his wife Jean, founded the business in 1979. Although no longer on the Board or actively involved in management, Jean remains a major shareholder, and both Bill and Jean frequently visit stores and shop online at dunelm.com.

Notes:

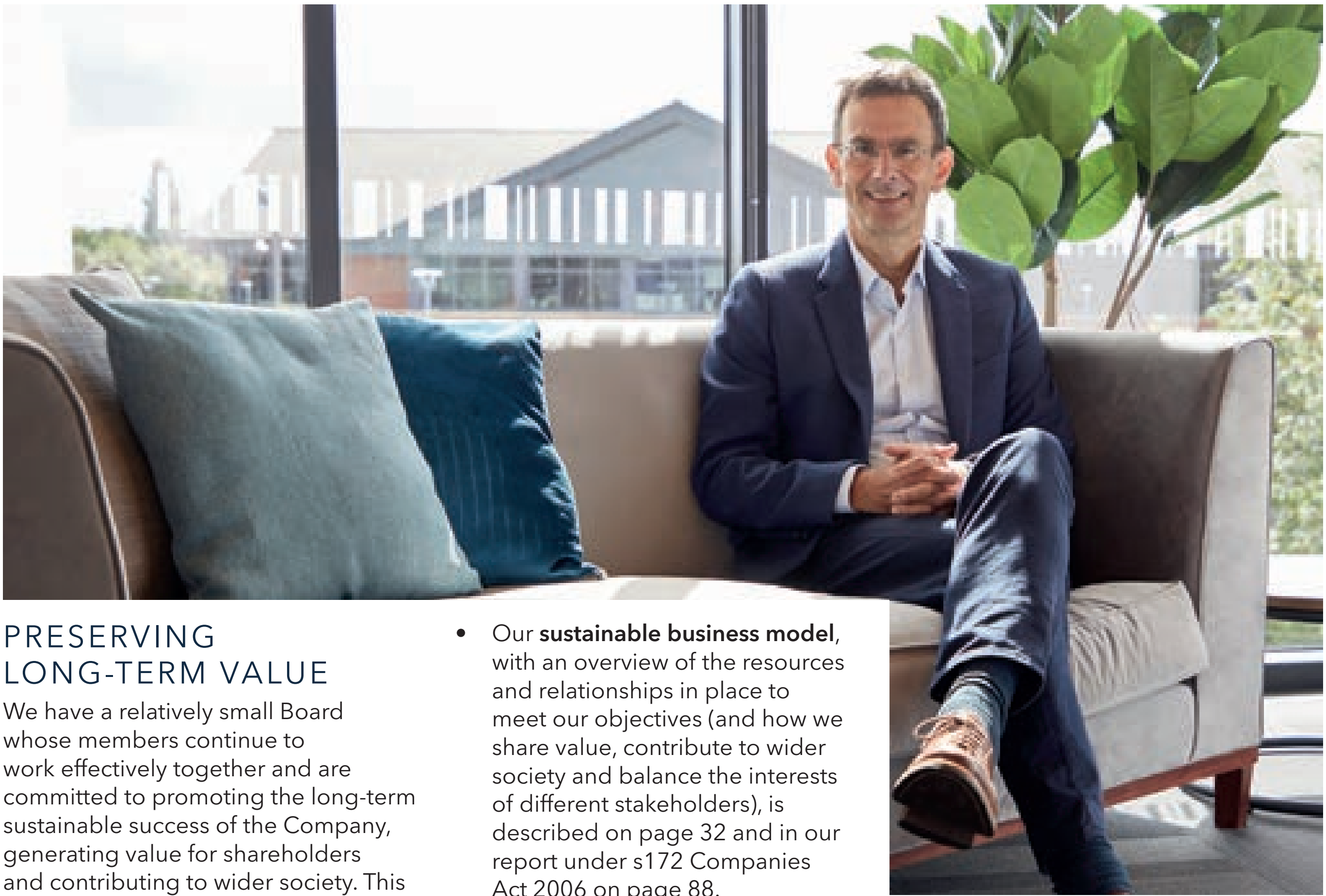
Denotes Board members as at 2019/20 year end.

Ian Bull and Paula Vennells were appointed to the Board during the financial year – on 10 July and 4 September 2019 respectively.

On 19 November 2019, Ian Bull was appointed as Chair of the Audit and Risk Committee, following the retirement of Liz Doherty (not pictured) on the same day.

William Reeve was appointed as Senior Independent Director to the Board on 10 September 2020.

BOARD LEADERSHIP AND COMPANY PURPOSE



PRESERVING LONG-TERM VALUE

We have a relatively small Board whose members continue to work effectively together and are committed to promoting the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society. This is evidenced in our Strategic Report and this Governance Report, and key elements are listed below for ease of reference and to avoid repetition:

- **Opportunities and risks** to the future success of the business have been considered and addressed and are set out on page 62 and details of the Group's risk management framework, systems and controls and internal control framework are also set out in the same section.
- We talk about the importance of our **purpose** extensively throughout this year's Annual Report and Accounts, with our first reference on the opening page of our Strategic Report.
- Our **shared values** are detailed on pages 14 and 15 as is our commentary on how they align with our purpose, ambition and strategy and in the Business Review on page 21 our CEO, Nick Wilkinson, explains our **strategy**, focus areas and objectives.
- Our **sustainable business model**, with an overview of the resources and relationships in place to meet our objectives (and how we share value, contribute to wider society and balance the interests of different stakeholders), is described on page 32 and in our report under s172 Companies Act 2006 on page 88.
- Key performance indicators, which are used to measure **performance** against objectives, can be found on page 18.
- On page 81 in this report, we reiterate how our practical approach to governance supports our strategy and long-term business model.

OUR PURPOSE, STRATEGY, CULTURE AND SHARED VALUES

Our purpose – 'helping everyone create a home they love' – is articulated more simply to our customers as '*Home of Homes*'. This purpose drives our *Customer 1st* growth strategy, which is described elsewhere in our report.

Our purpose and strategy is underpinned by our shared values, which have evolved from the business principles formulated by Will Adderley, our Deputy Chairman over a decade ago, and which encapsulate the values of the Company's founders, the Adderley family. These set out how all colleagues in the Company are expected to act and influence our culture.

Key themes running through our values are 'long-term thinking' and to treat our customers, colleagues, suppliers, the community, the environment, investors, and regulators with respect. Our approach is also reflected in our Code of Business Conduct, our anti-bribery policy, our Ethical Code of Conduct and our Tax Strategy. All colleagues learn about our purpose and shared values on induction, they form part of our communications, and colleagues are appraised against them. Our shared values were a focus topic for colleague engagement during the year, and our Board and senior leadership team are expected to role model our shared values.

HOW THE BOARD OVERSEES OUR CULTURE

Overview – Dunelm has an open and straightforward culture, with a focus on doing things properly and taking decisions for the long term. This reflects the values instilled by the Adderley family, who founded our business over 40 years ago and are still our major shareholders. The Board has always been careful to ensure that we protect and retain this culture as the business grows and becomes more complex.

Purpose and shared values – The Board has defined the Group's 'purpose', namely 'helping everyone create a home they love'. This is underpinned by our shared values, which define how we will act towards others. Members of the Board and the leadership team are expected to act as role models for our shared values, and all colleagues are appraised against them. Further details of this are set out in the Strategic Report.

Colleagues – We aim to inspire, engage and develop all of our colleagues to reach their full potential, without any form of discrimination. The Board engages directly with our colleagues in a number of ways as set out below. By hearing, respecting and responding to our colleagues, we inspire them to deliver the best experience to our customers and deliver our strategy.

Code of Business Conduct – Alongside our shared values we have a Code of Business Conduct, available on our website corporate.dunelm.com, which sets out the specific standards of conduct that our Board and colleagues are expected to meet. We have a separate anti-bribery and anti-corruption policy, and senior colleagues and colleagues who have the ability to influence purchasing decisions receive training on induction and annual refresher training.

Suppliers – We also expect our suppliers to adhere to our standards of conduct; all suppliers are required to sign our anti-bribery and anti-corruption policy (or commit to an equivalent policy), and to sign our Code of Conduct which commits them to appropriate ethical and human rights standards (including anti-slavery).

'People and culture' is one of our 'principal risks', which are considered formally by the Executive Board and the Board twice a year.

HOW THE BOARD MONITORS OUR CULTURE

The Board regularly monitors the culture of the business in a number of ways:

- Through interaction with Executives, members of the leadership team, and other colleagues in Board meetings and on visits to stores and other Company locations.
- Through regular Board agenda items and supporting papers, covering 'culture indicators' such as risk management, internal audit reports and follow-up actions, customer engagement, health and safety, colleague engagement and retention, Glassdoor scores, whistleblowing and regulatory breaches.
- We review a colleague scorecard at least twice a year, looking at a range of colleague indicators, including engagement, retention, absence, gender pay, diversity, workforce composition and demographics.
- We engage formally with the colleague representative body, the National Colleague Voice, as well as informally through site visits. Marion Sears, as designated NED for colleague matters, provides a direct, regular and formal route of contact with colleagues.
- We engage with other stakeholders, as described in the Corporate Governance Report.
- We review a set of 'culture KPIs' once a year alongside our risk register.

During the year, the Board was satisfied that the policy, practices and behaviour of the Board and Dunelm colleagues aligned with the Company's purpose, values and strategy and that no correction was required by management.

BOARD LEADERSHIP AND COMPANY PURPOSE

CONTINUED

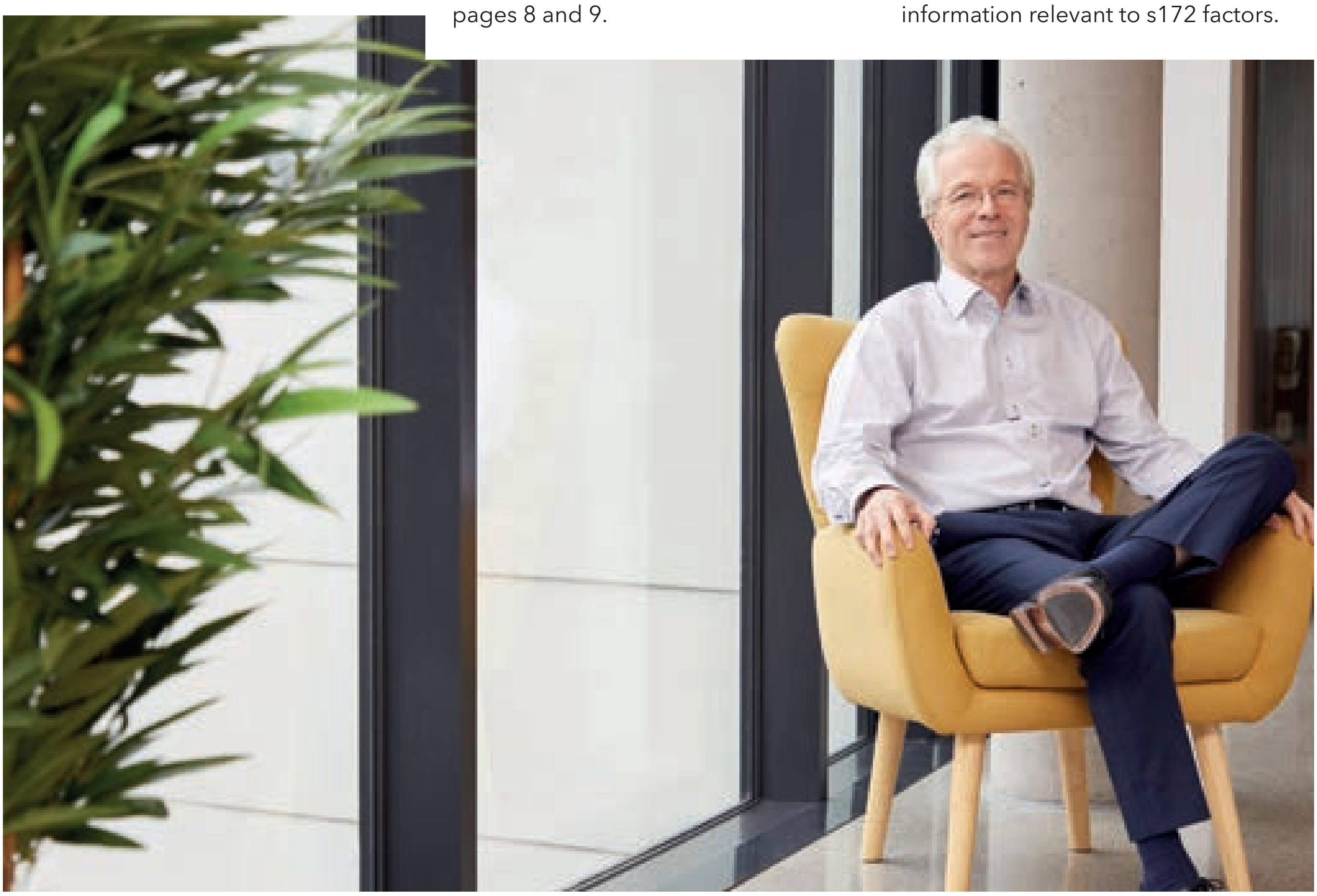
SECTION 172 COMPANIES ACT REPORT

The Board of Directors confirms that during the year under review, it has acted to promote the long-term success of the Company for the benefit of shareholders, whilst having due regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006, being:

- **The likely consequences of any decision in the long term.**
- **The interests of the Company's employees.**
- **The need to foster the Company's business relationships with suppliers, customers and others.**
- **The impact of the Company's operations on the community and the environment.**
- **The desirability of the Company maintaining a reputation for high standards of business conduct.**
- **The need to act fairly as between members of the Company.**

Each of the Directors is mindful of their duties under section 172 (s172) to run the Company for the benefit of its shareholders, and in doing so, to take into account the long-term impact of any decisions on stakeholder relationships and the impact of its activities on its reputation for high standards of business conduct. We can only grow and prosper sustainably if we conduct ourselves in a responsible manner and have positive relationships with all of our stakeholders. This has been more evident than ever through the Covid-19 crisis, as we balanced both short and long-term considerations, the need to preserve our financial stability, to protect our most vulnerable stakeholders, and to contribute to the national effort to combat the virus. Throughout the crisis we listened carefully to our customers, colleagues, suppliers and shareholders, and drew on their support and commitment as we protected and started to rebuild our business. More details are set out in the case study on pages 90 to 91 and in the Strategic Report, particularly on pages 8 and 9.

Although we have taken the matters set out in section 172 into consideration for many years, the Code now requires us to provide more specific information about how the Group and the Directors have considered them. The areas which are encompassed in s172 touch on everything we do, and our Strategic Report contains many examples of how this operates in practice. Most of the day-to-day decision making and stakeholder engagement is carried out by Executive Directors and members of our Executive Board and senior leadership team at the business level, but more material matters require the attention of the Board, and we describe below how they are considered through formal Board processes, and how the Board engages with stakeholders and oversees how the business does so. There are also cross references to other sections of this report where more information and examples can be found. The Non-Financial Information Statement on pages 158 to 159, should also be used to identify information relevant to s172 factors.



KEEPING SECTION 172 HIGH ON THE AGENDA

We ensure that the requirements of s172(1) Companies Act 2006 are met and the interests of our stakeholder groups are considered through a combination of the following:

- The Board sets the Company's purpose and strategy and carries out an annual strategy review which assesses the long-term sustainable success of the Group and our impact on key stakeholders. Agenda items for the following year are set based on the decisions and next steps agreed at these meetings.
- The Board's risk management procedures identify the principal risks facing the Group, and the mitigations in place to manage the impact of these risks. Many of these relate specifically to our stakeholder groups.
- The Company Secretary sets out the text of section 172(1) Companies Act 2006 on every Board agenda by way of a reminder, and notes the relevant factors to be considered against each agenda item.
- Standing agenda points and papers are presented at each Board meeting: for example, the Chief Executive Officer presents a Customer report, a Health and Safety report and an update on People matters at each meeting.
- There are regularly scheduled in-depth Board presentations and reports: for example, investor feedback twice a year from our brokers and corporate PR advisors; an update on People matters and a 'Colleague Dashboard' twice a year; an annual presentation on health and safety; annual updates on ethical trading, modern slavery and climate change/sustainability.
- There is a formal review of many of these topics through standard Audit and Risk Committee and Remuneration Committee agenda items, as described later in this report.
- Formal consideration of any of these factors which are relevant to any major decisions are set out in the supporting papers that are submitted to the Board.
- There is ongoing engagement with our stakeholders, as described in the summary below.
- When making judgement decisions which require balance across different stakeholder interests, the Board is careful to consider each stakeholder group separately and in the context of its long-term consequences. Example decisions include:
  - Colleague, executive and Board pay.
  - Closure and restart of operations during the Covid-19 pandemic.
  - Use of government financial assistance during the Covid-19 pandemic.
  - Store rent and supplier payments due during business closure.
  - Shareholder dividends.
  - Investment levels in our sustainability strategy.

EFFECTIVE ENGAGEMENT WITH OUR STAKEHOLDERS

As a Board, we must always seek and be open to feedback from anyone affected by our activities. This enables the Board to understand the impact of its decisions on key stakeholders, but also ensures that we are aware of any significant changes in the market or the external environment, including the identification of emerging risks, which can be fed into our strategy discussions and our risk management process.

In last year's Annual Report and Accounts, we summarised how and why the Board engages with our shareholders and what each stakeholder group expects from us. This year, on pages 90 to 98 we have included information about the effect that our stakeholder engagement has on principal decisions taken during this last reporting year. Further information about how we manage and measure our stakeholder relationships can be found in our Sustainability Review from page 32.

SECTION 172 COMPANIES ACT **CASE STUDY**

Our response to the Covid-19 crisis is a practical example of how the Board and the Executive team exercised their duties under s172 Companies Act 2006 during the height of the crisis (March to June 2020).

LONG TERM/HIGHEST STANDARDS OF CONDUCT

From the start, we wanted to be able to look back and feel proud that we made the right decisions for our customers, colleagues, suppliers and communities, and of course our shareholders. In the first few weeks, many of the decisions taken were to address short-term or immediate risks, but throughout the crisis we always considered the long-term consequences of our actions.

COLLEAGUES

Colleague safety and wellbeing has always been a priority, and from the start we put the safety of people (colleagues and customers) first. We had already decided to close our stores on 23 March before the government mandated closure, and we decided to close all of our operations (including warehouses, vehicles and manufacturing centre) on that date until we were able to ensure that they were safe to re-open (our offices had already been closed).

Throughout the crisis we have listened to our colleagues and taken particular care to protect the most vulnerable and lower paid workers. At all stages we set government safety guidelines as our minimum standard. We made arrangements for as many colleagues as possible to work from home, including those in our Customer Care Centre. We closed our warehouses, manufacturing centre and home delivery operations until we had put in place physical and procedural social distancing measures, with the advice of an NHS safety consultant. Similarly, we redesigned our stores, and installed protective measures for our colleagues (and customers) before we were happy to re-open them. Prior to re-opening any facility, we carefully considered the following: is this legally permitted; have all safety guidelines been met or exceeded; can we successfully operate within these constraints; will this course of action be acceptable to our colleagues, customers and the wider community? All of our colleagues were fully trained in new safety procedures before coming back to work, and we held regular listening groups so that any concerns could be addressed.

We also re-opened our facilities in stages, ensuring that we addressed any colleague or customer concerns and applied learnings before rolling out further.

Unfortunately with our stores closed by government order, we had to put the majority of our colleagues on furlough during the last week of March, and in April and May. To protect their financial wellbeing, we agreed to pay these colleagues in full during March and April, before moving to 80% of pay from May. A fund was established to help those in extreme hardship. We continued to pay all highly vulnerable and vulnerable colleagues, and those with highly vulnerable dependents, in full, and did not ask them to return to work. In July we also agreed to make a 'thank you' payment of £250 to every colleague employed in the business from March, to thank them for their effort during the crisis, which contributed to our strong recovery.

With so many colleagues working from home or on furlough, we increased our colleague communications. Our CEO, Nick Wilkinson, broadcast a company-wide video message once a week, which included a Q&A session and also sent a weekly note. A blog was set up on our internal colleague site 'Home Comforts' allowing colleagues across the company to raise questions and concerns, and we set up a dedicated team to respond to these. Colleagues working from home or on furlough received a call from their managers at least once a week. We organised community-based charitable activities and fun activities such as company-wide competitions and bake offs.

CUSTOMERS

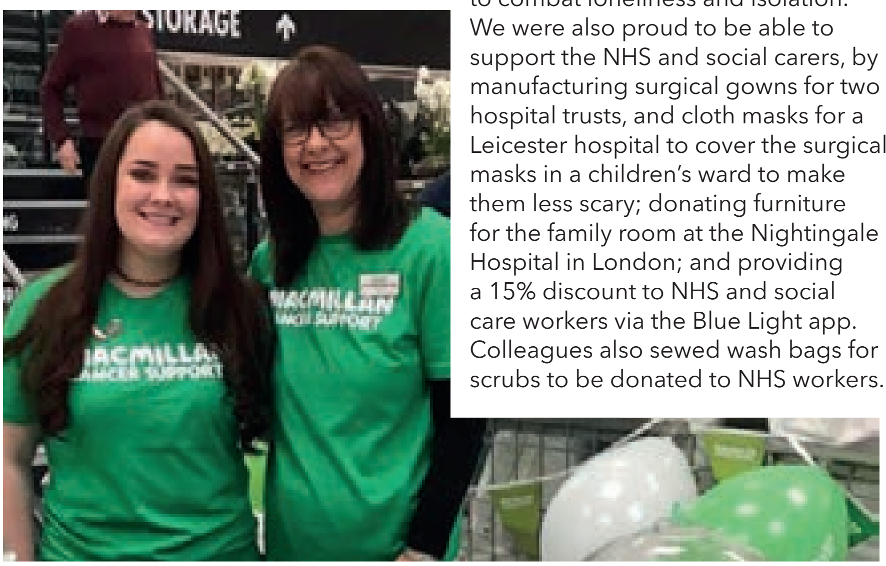
We listened to our customers throughout the crisis, through direct contact and social media. We also monitored consumer sentiment closely. This was factored into our decisions to close and re-open our customer-facing operations. While our stores were closed, we reduced the minimum charge for standard home delivery. We introduced a contactless delivery service, and prioritised improvements to our website that would enhance our customer browsing and purchase experience. We also introduced a convenient and free 'deliver to car' Click & Collect collection service from our stores, video-based consultations for our Made to Measure curtains and blinds service so that customers could order from their own homes, and a 'virtual shopping' experience, offering a video-based personal shopping appointment with a store colleague helping select products on the customer's behalf.

SUPPLIERS

We have worked with a number of our suppliers for many years, and any loss of our sales impacts their business. We decided early on that we would continue to pay suppliers in full, to agreed terms. We communicated regularly with our suppliers, and a number of them supported ourselves and our customers throughout the period of our store closure by increasing the number of home deliveries direct to our customers.

SHAREHOLDERS

Until the end of March 2020, sales in our stores represented over 80% of our turnover, which have a high level of fixed costs. As soon as our stores closed, we took immediate steps to preserve the cash resources of the business. We reduced capital expenditure and non-essential operating costs. In addition, the Chairman and the Non-Executive Directors agreed to waive their fees for three months, and the Executive Directors, the Company Secretary and all members of the Executive Board voluntarily accepted a salary reduction of at least 20% for the same period (the CEO took a 90% salary reduction). The Board also decided to revoke the interim dividend payment that had been declared in February. In doing so we carefully considered the interests of our shareholders, many of whom include pensioners and pension funds, and colleagues. The decision was fully supported by our majority shareholders, the Adderley family.



COMMUNITY AND CHARITY

Our dedicated charity, Macmillan Cancer Support, suffered a financial shortfall as a result of the crisis. The money that we would normally have collected on their behalf from donations in store, plastic bag sales and from colleague activities also diminished. We have decided to make an additional corporate donation of £105,000 to Macmillan Cancer Support to make up the shortfall to our target of increasing funds raised for charity by 10% in the year. This is in addition to goods with a retail value of £74,000 donated through the Covid-19 crisis, as described below. Colleagues on furlough also volunteered to help self-isolating Macmillan Cancer Support patients.

In addition to our support for Macmillan Cancer Support, we set up local Facebook groups around our stores, to co-ordinate assistance, distribute our hampers and care packs, and provide a social network to combat loneliness and isolation. We were also proud to be able to support the NHS and social carers, by manufacturing surgical gowns for two hospital trusts, and cloth masks for a Leicester hospital to cover the surgical masks in a children's ward to make them less scary; donating furniture for the family room at the Nightingale Hospital in London; and providing a 15% discount to NHS and social care workers via the Blue Light app. Colleagues also sewed wash bags for scrubs to be donated to NHS workers.

BOARD LEADERSHIP AND COMPANY PURPOSE

CONTINUED

SUMMARY OF HOW THE BOARD ENGAGES WITH OUR STAKEHOLDERS HOW THIS AFFECTS KEY DECISION-MAKING

Stakeholder group	How we engage	Why we engage
CUSTOMERS	• Customer insight report in Management and Board packs, which includes customer satisfaction scores. • Customer KPIs reported in Management and Board packs. • CEO/Deputy Chairman reply personally to a number of high-level customer contacts. • Management and Directors visit stores regularly: – Listening to customers through focus groups. – Via Facebook groups local to our stores.	Our purpose is to help our customers 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.
COLLEAGUES	• Designated Non-Executive Director has Board responsibility for championing the interests of colleagues. • Regional and National Colleague Voice in place, feedback goes to the Executive Board and is acted upon. • NED attends two National Colleague Voice meetings a year and feeds back to the Board. • Annual Board discussion with National Colleague Voice representatives. • Full engagement survey twice a year. • Colleague KPIs in management and Board packs, and colleague dashboard reviewed twice a year. • Annual conference for store managers and senior support colleagues, attended by Chairman, Chief Executive Officer, Chief Financial Officer and Company Secretary. • Executive Board and Directors visit stores and other sites regularly. • Weekly and monthly 'huddles' held. • Independent whistleblowing helpline.	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.
SUPPLIERS	• Annual supplier conference held, attended by the Chairman and Executive management. • Deputy Chairman champions supplier interests at the Board. • Key suppliers attend the annual colleague conference. • Chief Executive Officer and Deputy Chairman meet regularly with key suppliers. • Annual Board presentation on ethical trading/modern slavery. • Supplier payment terms reported to the Board and published.	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. Suppliers must demonstrate that they operate in accordance with recognised standards that uphold human rights and safety, prohibit modern slavery and promote sustainable sourcing.

What matters to this group	What we did as a result of our engagement
• Product range, price and quality. • Convenience and accessibility. • Health and safety. • Customer service. • Fair marketing. • Product safety. • Responsible use of personal data. • Environment. • Ethics and sustainability.	Prioritised customer safety and sentiment in restarting all of our operations through the Covid-19 crisis. Reviewed our product ranges to better communicate how they represent 'value for money'. Provided information on pack recycling and started to replace our plastic packaging with recyclable alternatives. Improving post sale customer experience is a priority focus area for FY21.
• Fair employment. • Fair pay and benefits. • Gender pay. • Diversity and inclusion. • Training, development and career opportunities. • Health and safety. • Responsible use of personal data. • Environment. • Ethics and sustainability.	Ensured that colleague safety and wellbeing was at the forefront of all of our decisions taken in relation to the Covid-19 crisis, including our decisions to close and subsequently re-open all of our operations. Put in place more stringent measures to protect colleague personal safety, including keeping the exterior lights on outside our stores later, providing training on how to deal with conflict situations, providing personal safety alarms and improved CCTV. Provided more information on career development paths, particularly across different parts of the business. Continued to enhance the range of benefits available.
• Fair trading and payment terms. • Anti-bribery. • Ethics and slavery. • Environment and sustainable sourcing. • Operational improvement.	Paid all of our stock suppliers, many of whom have been with us for many years, in accordance with agreed terms throughout the Covid-19 crisis, adhered to stock commitments, and provided advice and support to key suppliers. Reviewed our 'committed supplier' base, to include suppliers based overseas. Continued to audit our suppliers against our human rights standards, and to work with them to improve any shortfalls identified.

BOARD LEADERSHIP AND COMPANY PURPOSE

CONTINUED

Stakeholder group	How we engage	Why we engage
ENVIRONMENT	• Company Secretary chairs the Sustainability Focus Group, which co-ordinates our sustainability activities. • Energy, waste and emissions KPIs reviewed by the Board regularly. • Annual sustainability presentation to the Board.	We are committed to minimising the impact of our business operations on the environment. This is also important to our colleagues, customers and shareholders.
COMMUNITY	• Facebook groups local to our stores engage with our communities. • Charity appointed every two years to receive the focus of our company-wide activities. A representative of the company-sponsored charity attends the annual Company conference. • Charitable and community activity reported in colleague communications.	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.
SHAREHOLDERS AND POTENTIAL SHAREHOLDERS	• Annual Report and Accounts. • Corporate website. • AGM. • Results announcements and presentation. • Shareholder and analyst meetings with management, followed up by feedback from brokers and financial PR consultants. • Capital Markets presentation every 2-3 years. • Corporate Governance presentation every 2 years – last held January 2020. • Engagement via the Company Secretary.	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.

What matters to this group	What we did as a result of our engagement
• Energy usage. • Recycling. • Waste management. • Minimising waste, packaging materials and single-use plastics. • Sustainable sourcing (e.g. cotton, timber). • Emissions from company vehicles.	Set targets to reduce our energy consumption and waste, and monitored compliance. Agreed a plan to work with the Carbon Trust in FY21 to measure our carbon footprint, set a long-term carbon reduction target and supporting plan; and to conduct a climate change risk assessment. Refreshed our colleague engagement activity and set up working groups across the business to develop sustainability action plans. Started to collate information on the environmental standards of our stock supplier base.
• Charitable donations. • Employment opportunities. • Volunteering. • Environmental impact. • Fair tax policy.	Supported local communities through the Covid-19 crisis by providing care packs to vulnerable and self-isolating individuals. Supported the NHS through Covid-19 by manufacturing gowns, and colleagues volunteered to sew wash bags for NHS workers and social carers.
• Long-term value creation. • Growth opportunity. • Financial stability. • Culture. • Transparency. • Ethics and sustainability.	Committed to reducing pension entitlement of newly appointed Executive Directors to the workforce average, and to reducing the entitlement of incumbents to this by FY23. Hosted a showcase of our digital development capabilities and invited analysts and shareholders to our product press launch, to help them gain practical insight into our business. Committed to reporting against the Task Force on Climate-related Financial Disclosures by 2022.

BOARD LEADERSHIP AND COMPANY PURPOSE

CONTINUED

SHAREHOLDER ENGAGEMENT IN MORE DETAIL

The Board, as a whole, is able to attain a clear understanding of the views of Dunelm shareholders through various means of engagement and feedback channels:

- 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 presentations.
- Our Chair and Committee Chairs are available to shareholders and respond on matters relating to their responsibilities where requested. During the year we conducted a consultation exercise in relation to our revised Remuneration policy, and views and concerns were very useful in helping to endorse and refine our thinking.
- Corporate Governance meetings with our major institutional shareholders, attended by the Deputy Chairman, Will Adderley, the Non-Executive Directors and Company Secretary. Details of this year's meeting are in the box adjacent.
- All Directors will be available at the Annual General Meeting to meet with shareholders and answer their questions.

2020 CORPORATE GOVERNANCE MEETING

In January 2020, we held our regular Corporate Governance meeting, which gives the corporate governance representatives of our shareholders an opportunity to discuss with us a range of governance topics. Matters discussed included: overview of our purpose, strategy, shared values and culture; our corporate governance approach; how we are engaging with stakeholders; Board composition and succession planning; the work of the Audit and Risk Committee, Remuneration Committee, Nominations Committee; and an overview of our sustainability focus areas and progress. This year's meeting was particularly constructive given the increasing external focus on governance reporting and engagement. Attendees fed back that they found it a useful way to exchange views on these topics, and we agreed that the ideal frequency for these meetings is once every two years. The presentation is made available on our corporate website and we are planning to hold another meeting in January 2022.

Copies of our annual governance presentations are available in the 'Reports and Presentations' section of our website, corporate.dunelm.com

MARION SEARS

ENGAGING WITH OUR COLLEAGUES

"I have been the 'Designated Non-Executive Director' since 2018, responsible for engaging with our colleagues and specifically promoting their interests at the Board."

I attended the National Colleague Voice meetings in November and June, and two Area Voice meetings in October. In each case I fed back to the Board afterwards. During the Covid-19 crisis I followed the weekly colleague Q&A conducted on the Dunelm intranet portal to understand colleague views, anxieties and suggestions.

As in 2018, in November 2019, National Colleague Voice members were invited to the AGM, and met with the Board afterwards. Colleagues told us that store and Customer Care Centre colleagues are dealing with increasingly aggressive behaviour by customers, and store colleagues sometimes feel unsafe leaving stores after their shifts late at night. This was already being addressed by management, but a number of additional measures were agreed, including the establishment of the 'Colleague Personal Safety Working Group' to focus on this issue. We also heard that colleagues are finding it difficult to identify career development opportunities, particularly in other parts of the business. The People Director agreed to review how we can provide better visibility of opportunities. The Board asked for feedback on the improvements made to brand marketing and our website, and also on colleague pension entitlement. We plan to hold another meeting with the Group Board in November 2020.

Going forward we agreed that other Non-Executives will occasionally attend Colleague Voice meetings, to build up a relationship with a wider group of Board members, and in June, William Reeve also attended. At that meeting William updated on remuneration, we discussed our shared learnings from the Covid-19 crisis and were delighted to hear that our colleagues shared our own views that our success was built on the strength of relationships and mutual trust. We agreed to continue the more regular and informal engagement mechanisms that we adopted during the crisis, and to increase the frequency of the National Colleague Voice meetings during FY21 as we go through the business change associated with our refocus on our digital activities. We intend to plan specific topics to be debated at each meeting including sustainability, diversity and inclusion. We also asked the National Colleague Voice to highlight the shared values that they felt were most relevant and fed this into the review that we conducted in August.

We have an open culture and Non-Executive Directors are free to make direct contact with senior management and store teams. Our Executive Directors are also very visible in the business. Throughout the year my Non-Executive colleagues have visited stores and other Company locations, both informally and together with members of the senior management team. Also, Andy Harrison and some of the other Non-Executives attend the annual seminar for store managers and key support colleagues.

BOARD LEADERSHIP AND COMPANY PURPOSE

CONTINUED

COLLEAGUE FEEDBACK CHANNELS

We 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. Improvement in colleague engagement is a Group KPI (see page 19). We also have a 'colleague scorecard' bringing together key colleague measures, including engagement, retention and gender pay. This is reviewed by the Board at least twice a year. Through the Covid-19 crisis we realised that we needed to have a more immediate way of engaging with colleagues, many of whom were on furlough, and so we set up a colleague 'blog' and dedicated resource to answering questions. We also held a weekly CEO video-conference where colleagues could submit questions and these were answered by the CEO or other senior colleagues who participated in the call, and feedback was monitored afterwards.

Our Audit and Risk 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 corporate.dunelm.com. Management responds to concerns, takes corrective action, if required, and the Board receives monthly reports detailing the contacts made to the helpline.

MANAGING 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 also takes action to ensure that the influence of third parties does not compromise or override independent judgement. Should Directors have any concerns about the operation of the Board or Dunelm management that cannot be resolved, these can be recorded in Board minutes. If upon resignation, any Non-Executive Director had concerns of this nature, they may provide a written statement to the Chair for circulation.

The Board considers that its procedures to approve conflicts of interest, potential conflicts of interest and to provide a communications channel for any non-resolved concerns are in place and operating effectively.

FOR DETAILS ON THE GROUP'S SIGNIFICANT SHAREHOLDERS AND VOTING RIGHTS, SEE PAGES 156 TO 158 IN THE DIRECTORS' REPORT.

DIVISION OF RESPONSIBILITIES

ABOUT OUR BOARD

BOARD STRUCTURE

We operate a 'Chair + 4 +4' Board structure, with at least one half of the Board made up of Non-Executive Directors whom the Board considers to be independent. We consider this structure appropriate and one that allows for effective decision-making. We maintain a clear division of responsibilities between the leadership of the Board and the executive leadership of the business.

INDEPENDENT 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 2020 and we confirmed that Andy Harrison was independent on appointment to the Board and subsequently as Chairman, and that Ian Bull, William Reeve, Peter Ruis, and Paula Vennells are independent.

NON-INDEPENDENT DIRECTOR

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 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 in the section headed 'Managing 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.

BOARD TENURE AND DIVERSITY

Board refreshment is a continued area of focus. Both tenure and diversity are considered in our succession planning and covered in more detail in the report of the Nominations Committee on page 104.

CURRENT BOARD COMPOSITION AND INDEPENDENCE

Member	Position	Status
Andy Harrison	Chair	Independent
Will Adderley	Deputy Chair	Executive Director
Nick Wilkinson	CEO	Executive Director
Laura Carr	CFO	Executive Director
Ian Bull	Non-Executive Director	Independent
William Reeve	Non-Executive Director	Independent
Peter Ruis	Non-Executive Director	Independent
Marion Sears	Non-Executive Director	Non-independent
Paula Vennells	Non-Executive Director	Independent

BOARD COMMITTEES

The Board has three committees: a Nominations Committee, an Audit and Risk 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 on pages 104, 112 and 120.

BOARD RESPONSIBILITIES

BOARD AS A WHOLE IS RESPONSIBLE FOR:

STRATEGY

- Setting 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.
- Ensuring that resources are in place to deliver the strategy.

GOVERNANCE

- Instilling and maintaining a culture of openness, integrity and transparency.
- Ensuring that financial and other controls and processes for risk management are in place and working effectively.
- Setting an effective remuneration policy.
- Maintaining good relationships with shareholders and all of our stakeholders.

PERFORMANCE

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

DIVISION OF RESPONSIBILITIES

CONTINUED

CLEAR AND FORMAL BOARD RESPONSIBILITIES

The Board has adopted written statements setting out the respective responsibilities of the Chairman, the Deputy Chairman, the Chief Executive Officer, the Senior Independent Director of the Board, Board Committee members and the Company Secretary; these are available on the Group's website or from the Company Secretary. A summary of the names and responsibilities of the Directors, where applicable, is set out below. An overview of responsibilities for individual Board Committees and their chairs are set out in the relevant Committee reports.

CHAIRMAN

Andy Harrison is responsible for:

- 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.
- Ensuring that the Directors receive accurate, timely and clear information.
- Chairing the Nominations Committee.
- Promoting a culture of openness and debate.
- Facilitating constructive Board relations.

DEPUTY CHAIRMAN

Will Adderley is responsible for:

- 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 shared values.
- 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

William Reeve is responsible for:

- 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.
- Making oneself available to shareholders, particularly if they have concerns that the normal channels have failed to resolve, or for which such contact would be inappropriate.
- Leading the Chair succession process.

CHIEF EXECUTIVE OFFICER

Nick Wilkinson is responsible for:

- 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.
- 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.

CHIEF FINANCIAL OFFICER

Laura Carr is responsible for:

- 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.
- Ensuring proper financial controls and risk management of the Group and compliance with associated regulation.
- Investor relations activities, and communications with investors.

NON-EXECUTIVE DIRECTORS

William Reeve, Peter Ruis, Ian Bull, Paula Vennells and Marion Sears are responsible for:

- 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.
- Oversight of financial and other controls and processes for risk management.
- William Reeve chairs the Remuneration Committee and is the Senior Independent Director; Ian Bull chairs the Audit and Risk Committee.
- With the exception of Andy Harrison and Marion Sears, all Non-Executive Directors chair or sit on all Board Committees.

COMPANY SECRETARY

Dawn Durrant is responsible for:

- Supporting the Chairman and the Non-Executive Directors with their responsibilities.
- Advising on regulatory compliance and corporate governance.
- 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.

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 Accounts, 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 2019/20 are set out on the next page.

NON-EXECUTIVE DIRECTOR MEETINGS

There is a scheduled 'Non-Executive Only' meeting 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 ATTENDANCE

The Board held 18 meetings in the course of the year, one of which was dedicated to a formal review of strategy. The normal Board calendar includes 10 meetings per annum, however during the Covid-19 crisis there were a number of additional short meetings, to enable the Board to monitor financial and operational performance, including matters relating to colleagues, customers, safety and suppliers; to ensure that key risks were being addressed and controls maintained; and to take decisions where required. Attendance at meetings was as follows:

Director	Meetings attended
Andy Harrison (Chairman)	18/18
Will Adderley (Deputy Chairman)	17/18
Laura Carr (Chief Financial Officer)	18/18
Ian Bull	16/18
Liz Doherty*	3/3
William Reeve	18/18
Peter Ruis	18/18
Marion Sears	17/18
Paula Vennells	15/17
Nick Wilkinson (CEO)	18/18

* Liz Doherty retired at the AGM on 19 November 2019, and attended all meetings prior to that. Ian Bull joined the Board on 10 July 2019 and Paula Vennells joined the Board on 4 September 2019, each of them was unable to attend two meetings due to pre-existing commitments. Marion Sears and Will Adderley were each unable to attend one meeting. When unable to attend a meeting, all Directors received papers and fed back comments in advance to Andy Harrison, the Board Chair.

HOW THE BOARD SPENT ITS TIME

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.

DIVISION OF RESPONSIBILITIES

CONTINUED

AREAS OF BOARD FOCUS

STRATEGY	• Group strategy, including our purpose, outcomes and strategy. • Covid-19 strategic response. • Budget and future financial plan. • Competitor reviews.	• Product strategy. • Data strategy. • Logistics strategy. • Capital and dividend policy. • Tax strategy.
GOVERNANCE AND RISK	• Board succession. • Board independence, composition and diversity. • Investor feedback via advisers. • AGM voting and feedback. • Corporate governance reform. • Stakeholder engagement. • National Colleague Voice presentation.	• Covid-19 crisis response plan. • Climate change and sustainability. • Gender pay statement. • Culture. • Health and safety. • Ethical sourcing and modern slavery. • Cyber security and data protection.
OPERATIONAL	• Customer insight. • Replatform and business change. • Post replatform IT development plan.	• People strategy, colleague engagement and succession planning. • Customer proposition development. • Impact of Brexit.

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.

However, the Board has decided to adopt the requirement of the Corporate Governance Code, that all Directors are subject to annual re-election and therefore should stand down and offer themselves for re-election at each Annual General Meeting. For each Director, reasons are provided in the Notice of Annual General Meeting stating why their contribution is, and continues to be, important to Dunelm's long-term success. 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.

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 declared 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.

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, the Deputy Chairman and the Chief Executive Officer respectively.

SHARE BUYBACK AND RULE 9 WAIVER

Since the time of flotation of the Company, the members of the Adderley family, including Bill Adderley and Will Adderley, have been considered to be acting in concert ('a Concert Party') for the purposes of Rule 9 of the City Code on Takeovers and Mergers (the 'City Code'). In December 2018, Bill Adderley transferred the majority of his shareholding to Will Adderley, and the remainder to his wife, Jean Adderley. Following this transfer, Will Adderley controls 46% of the issued share capital of the Company, and the Concert Party controls 51% (the Concert Party holding did not change as a result of the above-referenced transfer). The Takeover Panel consented to the above-referenced transfers and confirmed that (i) there was no obligation on Will Adderley to make a general offer to all shareholders of the Company to acquire their Ordinary Shares in the Company pursuant to Rule 9 of the City Code; and (ii) for so long as the members of the Concert Party continue to be treated as acting in concert, the Company may exercise any authority to make market purchases of its own shares which has been approved by shareholders, without seeking a separate shareholder waiver of any resulting obligation to make a general offer under Rule 9 of the City Code and no obligation to make a general offer under Rule 9 of the City Code will result.

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.

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.

INDUCTION AND TRAINING

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.

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 82 to 85 for details of the specific skills and experience of each Director.

INSIGHT INTO NON-EXECUTIVE DIRECTORS' INDUCTION

Ian Bull and Paula Vennells joined the Board as Independent Non-Executive Directors in July and September 2019 respectively.

Prior to this they both 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.
- Had access to past Board papers and other relevant documentation.
- Spoke to company advisors.

On joining the Group, they were each offered a comprehensive induction programme, visiting stores, non-store sites, and meeting all of the Executive team, and other members of senior management. As he was appointed earlier in the year, Ian was also able to attend the full year results presentation and the annual company seminar, where he met many of the senior and store management, and selected suppliers who also attend the seminar. As incoming Chair of the Audit and Risk Committee, he also met with the external auditor, and had oversight of the process of appointment of KPMG to carry out the internal audit function.

COMPOSITION, SUCCESSION AND EVALUATION

NOMINATIONS COMMITTEE REPORT 2020
LETTER FROM ANDY HARRISON

"We are a small and cohesive Board, and take care to ensure that all new members of our Board are aligned to our culture and share our values."

Andy Harrison
Chair of Nominations Committee

DEAR SHAREHOLDER

BOARD SUCCESSION

We actively manage our Board succession plan, to ensure that our Board has an appropriate and diverse range of skills to enable us to deliver our strategy for the benefit of all of our stakeholders. In my letter to you last year, I welcomed to the Board two new Non-Executive Directors (NEDs), Ian Bull and Paula Vennells. Ian succeeded Liz Doherty as Chair of the Audit and Risk Committee when Liz retired from the Board, as planned, in November 2019. I am pleased that our refreshed Board is working well together, and our new members are already making a strong contribution to our discussions.

We decided to allow our new Board to work together for a while before deciding who to appoint as our Senior Independent Director in place of Liz Doherty. I am delighted to confirm today that William Reeve will take on that additional responsibility with immediate effect. William has been a Board member since July 2015, and has provided wise counsel during his tenure, as well as successfully chairing the Remuneration Committee since November 2017.

We are a small and cohesive Board, and take care to ensure that all new members of our Board are aligned to our culture and share our values, whatever their skills and background. Our Board induction process, undertaken by all new members upon appointment is an important way to get our new Board members up to speed and valued by our new Non-Executive Directors. An insight into this is provided on page 103.

CULTURE AND SHARED VALUES

Preservation of our deep-rooted culture has always been a priority, which stems from the values instilled by the Adderley family who founded the business. Our culture is brought to life through our shared values, which are featured elsewhere in this report on page 14. These have evolved from the business principles which were first written over a decade ago by Will Adderley, who was then our CEO, and have recently been refreshed. The Board actively monitors the culture of the business through Board reports and agenda items, engagement with colleagues, and visits to stores and other sites. More information about the importance of our culture, how we oversee and monitor it can be found in the Corporate Governance Report on page 86.

DIVERSITY AND INCLUSION

We fully support diversity as an important contribution to good quality decision-making and innovative thinking. Diversity has many dimensions and we particularly value diversity of thought, which in turn is assisted by diversity of background and experience, as well as of gender and ethnicity. Our Board has always been of mixed gender; currently three members of our Board are female, and a majority of our Executive Board members are women. We continue to review how we can further broaden our approach, encouraging diversity and inclusion throughout the business. Further details are in this report on page 110.

BOARD EFFECTIVENESS

This year we held an external Board review, focused on increasing the Board's effectiveness for the future, as we accelerate our *Customer 1st* growth strategy and develop our stakeholder relationships. The review concluded that we have a unified and aligned Board with independent NEDs, non-independent NEDs and Executives working together with each playing their roles appropriately and all with the Dunelm agenda at front of mind. There is always room for improvement and we agreed a number of actions, details of which are set out on page 108.

Yours faithfully,

Andy Harrison
Chair of the Nominations Committee

10 September 2020

OUR NOMINATIONS COMMITTEE AT A GLANCE

SUMMARY OF PRINCIPAL ACTIVITIES

- Appointment of Ian Bull as an Independent Non-Executive Director – succeeded Liz Doherty as Chair of the Audit and Risk Committee in November 2019.
- Appointment of Paula Vennells as Independent Non-Executive Director.
- Appointment of William Reeve as Senior Independent Director, to succeed Liz Doherty.
- Welcomed our newest Board members into the business through comprehensive induction programmes, co-ordinated by the Company Secretary.
- Consideration of the appointment of a new Digital NED.
- Ongoing review of the Group's approach to diversity and inclusion, to help promote the importance of diversity of gender, ethnicity, background, thought and skills.
- External Board review to ensure that Board is working effectively.
- Ongoing review of Board's composition, to ensure it follows best practice and the needs of the business.

COMPOSITION, SUCCESSION AND EVALUATION CONTINUED

PRINCIPAL DUTIES

The purpose of our Nominations Committee is to assist the Board by keeping the composition of the Board under review; conducting a rigorous and transparent process against objective criteria – with due regard for the benefits of the Board's diversity - when new appointments to the Board are made; overseeing the succession plans for the Board and senior management; and ensuring that there are processes in place to secure a diverse pipeline of potential candidates for succession to key management positions and to the Board.

The full terms of reference for the Committee can be found on the Company's website, corporate.dunelm.com. These terms were last reviewed by the Committee in June 2020.

NOMINATIONS COMMITTEE MEMBERSHIP

The Directors who served on the Committee during the year and their attendance is set out below:

Member	From	To	Meetings attended
Andy Harrison (Chair)	1 September 2014	To date	3/3
Will Adderley	17 February 2011	To date	3/3
Ian Bull[1]	10 July 2019	To date	1/2
William Reeve	1 July 2015	To date	3/3
Peter Ruis	10 September 2015	To date	3/3
Marion Sears	18 January 2005	To date	3/3
Paula Vennells[1]	4 September 2019	To date	1/1
Liz Doherty[2]	1 May 2013	19 November 2019	1/1

1. Ian Bull and Paula Vennells were both appointed to the Board during the financial year, and joined the Nominations Committee on appointment. Ian Bull missed one meeting in the year due to other commitments arranged prior to his appointment. He read the papers in advance of the meeting and fed through comments to the Chair of the meeting.

2. Liz Doherty retired from the Board and the Nominations Committee, as planned, on 19 November 2019.

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.

Ian Bull missed one meeting in the year due to other commitments arranged prior to his appointment. He read the papers in advance of the meeting and fed through comments to the Chair of the meeting.

OUR NOMINATIONS COMMITTEE'S ACTIVITIES IN MORE DETAIL 2019/20

The following pages provide details of the role of the Nominations Committee and the work it has undertaken during the year.

BOARD CHANGES IN 2019/20

Ian Bull joined the Board on 10 July 2019, and succeeded Liz Doherty as Chair of the Audit and Risk Committee when she retired from the Board, as planned in November 2019. Paula Vennells joined the Board as a Non-Executive Director on 4 September 2019. During the year, the Nominations Committee led the search for the appointment of Paula; I described the process in last year's report as she was appointed shortly before it was issued. The search process for Ian's appointment took place in the 2018/19 financial year and I also described the process for this last year.

When Liz Doherty retired in November 2019, we did not immediately appoint a successor to her role as Senior Independent Director. This is because we wished the new members of the Board to become established before making a decision. We also have, in Will Adderley, a Deputy Chairman with whom shareholders can raise concerns as an alternative route than via myself or the Chief Executive. I was delighted to announce today that, on the Committee's recommendation, William Reeve will take on that responsibility. I am confident that he will serve our Board and shareholders well.

We had identified through our Board succession planning the need to enhance the digital skills on the Board, to support the development of our strategy and promote diversity of thought. We identified a number of potential candidates, however an appointment was deferred while we dealt with the Covid-19 crisis. I hope to be able to make a further announcement on this during the course of the year.

BOARD APPOINTMENT PROCESS

Detailed role and person specification drawn up by Nominations Committee.

Independent external search consultant appointed to conduct the process Vacancies also advertised on the Nurole platform, to open the search to a potentially wider and more diverse range of applicants.

Equal number of male and female candidates feature on the 'long list' as standard practice.

Initial candidates meet with Chairman and at least one other Board member; short list candidates meet with other Board members.

Extensive references taken and assessment of candidate's other commitments made to ensure they have sufficient time to dedicate to Board member duties.

Nominations Committee makes final recommendation, subject to unanimous Board support.

BOARD APPOINTMENT PROCESS

Our search process to fill Board vacancies is pragmatic, well-rehearsed, and supports our approach to diversity. The Nominations Committee runs the process and makes the final recommendation but it is important to note that any Board appointment is regarded as a 'whole-Board' matter, and no appointment is made without unanimous Board support. We adopted a similar search process for the recent appointment of both Ian and Paula, and for the Non-Executive Director with digital skills, which is summarised in the graphic above.

OUR CULTURE AND SHARED VALUES

Preservation of our culture and shared values has always been a priority of the Board. No appointment is made to the Board unless we are satisfied that the individual is fully aligned to our values, and will be an appropriate role model for our colleagues and all of our stakeholders. These considerations also form part of all of our succession planning. Further details of our shared values, and how they are aligned to our purpose and embedded throughout our business, and how the Board monitors this, are set out in the Corporate Governance Report.

SUCCESSION PLANNING

We are responsible for Board succession planning and monitoring of Executive Board succession to ensure that the respective composition of these leadership bodies enable us to deliver our ambition of being the leading homewares destination for our customers, and an ever better company growing sustainably. To help maintain a consistent recruitment approach across the business, our Board and Nominations Committee members have oversight of and follow Dunelm's overarching People Strategy.

BOARD SUCCESSION

We have a formal, long-range plan for how Board membership should develop. This aims to balance continuity of service with a regular refreshment of skills and experience needed to deliver our evolving strategy.

We regularly 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 Diversity Policy, we also have regard to the requirement to achieve a diversity of characters, backgrounds and experiences amongst Board members, as well as ethnicity and gender. We also take into account the corporate governance guidance on Chairman and Non-Executive Director tenure; for reference their tenure and re-election cycle is summarised in the table on page 111.

EXECUTIVE BOARD SUCCESSION

For some years, the Board has regularly reviewed the composition and succession plans in place for members of the Executive Board and their direct reports. 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 visits to stores and other Company sites, when Non-Executive Directors meet members of the Executive Board or Leadership team on a less formal basis. Each Non-Executive Director also mentors at least one of the members of the Executive Board. The Board also receives an annual presentation from the People Director which covers succession planning for the Executive Board. Our external Board review revealed an appetite of the Board to have more input in this area, and this is one of our agreed actions for the coming year.

COMPOSITION, SUCCESSION AND EVALUATION CONTINUED

DIRECTOR AND BOARD EVALUATION OVERVIEW

Each Director receives a formal evaluation of their performance during the year, which is conducted by the Chairman. In addition, the CEO discusses with the Non-Executive Directors the performance of individual Executive Board members and any changes that he proposes to make to this team. Whilst this activity does not take place formally within the meetings of the Nominations Committee, it does form part of its work in overseeing Executive team development and succession process, and the pipeline of talent available for succession to the Board.

The performance of our Board and Committees is also formally evaluated as a whole. The outcome of the 2019 evaluation and the actions taken as a result are provided in the table below. In 2020, in line with best practice, we evaluated the whole Board using an external provider, and the results of this are described on the following pages.

5 YEAR BOARD EVALUATION CYCLE SUMMARY

2016	External	First external evaluation by Lorna Parker
2017	External	Follow-up evaluation by Lorna Parker
2018	Internal	Chair-led evaluation with individual members
2019	Internal	Chair-led evaluation with individual members
2020	External	External evaluation led by Lorna Parker

2019 BOARD EVALUATION

The recommendations arising from our 2019 internal Board evaluation, conducted by the Chairman, and the actions implemented in response are set out below:

Recommendations from 2019	Actions implemented
Focus Board strategy discussions more on a smaller number of topics where the NEDs can add the most value, and allow more time for each.	Rolling agenda and Board strategy topics reviewed by the Chairman, CEO and Company Secretary against the strategy and roadmap. Number of topics refined to focus more on strategic matters.
Spend more time on competitor analysis.	Competitor analysis scheduled in to the rolling agenda – four competitors formally reviewed during the year.
Increase the amount of time NEDs spend in the business with below Board Executives.	Mentoring relationship put in place between each NED and a member of the Executive Board. NED attendance at National Colleague Voice meetings and the annual seminar.
One fewer Board meeting.	One scheduled full day meeting per annum cancelled. However, during the Covid-19 crisis the Board held nine additional 'remote' meetings of a short duration, for communication, urgent strategic debates and decisions.
Aim to increase the digital/data-led expertise on the Board and in the business.	Progressed the search for an additional Non-Executive Director with digital experience. Data team established in the business in September 2020.
Evolve our KPIs to focus more on our customer, and to reflect the multichannel nature of our business.	KPIs refreshed in July – the majority operate across the whole business regardless of channel. One third of Group KPIs relate to customers, including a single measure for customer satisfaction across all channels, and customer NPS is a target for the Executive Directors' annual bonus.
Review succession plans for below Board Executives.	Not completed in year – planned for autumn 2020.

2020 BOARD EVALUATION

The Board held an external Board evaluation in May and June 2020, led by Lorna Parker, an independent Board evaluation specialist. Lorna led the last Board external evaluation in 2017 and, although she has a good general knowledge of our business and culture, has no other connection with the Group or any of the Directors. Lorna was reappointed based on her previous successful engagement with our Board and to provide some level of continuity. The process involved each Director and the Company Secretary completing a confidential questionnaire, followed by a meeting between Lorna and each individual, informed by the questionnaire, and focused on a number of specific topics. Lorna also had access to Board papers, and attended a Board meeting as an observer.

All Board members actively engaged in the process and provided open and constructive comments. Lorna then presented the results to the Board, which were discussed, and a number of actions were agreed. In the absence of a Senior Independent Director, following the retirement of Liz Doherty in November 2019, Lorna also collated comments on the Chairman's performance and fed these back to the other Non-Executive Directors.

OVERVIEW OF 2020 BOARD EVALUATION PROCESS AND ENGAGEMENT

CONFIDENTIAL QUESTIONNAIRE

Completed by each Director and Company Secretary

INDIVIDUAL MEETINGS WITH DIRECTORS AND COMPANY SECRETARY

Focus on specific topics, informed by questionnaire results

BOARD MEETING OBSERVATION AND ACCESS TO BOARD PAPERS

PRESENTATION OF RESULTS TO BOARD

Discussion

Agreed actions

The overall conclusion of the review is set out below:

- The Board is functioning well and the Board dynamics are excellent.
- There is a breadth and depth of complementary skills and experience around the Board table.
- There is plenty of respect and trust between the NEDs and the Executive Directors, and independent NEDs, non-independent NEDs and Executives work together with each playing their roles appropriately and all with the Dunelm agenda at front of mind.
- There is a consistent view of Dunelm's special culture and values with acknowledgement that some aspects may need to evolve, especially as the business becomes more digital and more customer focused.
- There is alignment around strategy and the areas that need more focus.

Actions to improve effectiveness were agreed as follows:

- Conclude the appointment of a Non-Executive Director with digital experience.
- Schedule time for more discussion of Board and Executive Board succession.
- Revise Board schedule to include virtual meetings focused on performance and face to face meetings covering strategy and more discursive topics.
- Schedule more discussions of our approach to sustainability, and develop long-term objectives on priority topics.
- Refine a formal 'risk appetite' and conduct a horizon scanning exercise.
- Agree how best for the Board to keep up to date with, and responsive to, competitors.

COMPOSITION, SUCCESSION AND EVALUATION CONTINUED

DIVERSITY AND INCLUSION

Diversity is important in all its forms and the Board's ambition to secure the best talent in Dunelm means that we want to be known for our inclusive and tolerant culture, encapsulated in our 'stronger together' shared value. The Board agrees that diversity of input and thought is a good thing and helps to produce better decision-making, especially in a more diverse UK and increasingly multi-cultural and international business world. Our Board Equality and Diversity Policy, which has been in place for more than a decade, is set out opposite.

Diversity is acknowledged, discussed and included within our colleague workforce communications, and our 'Home Comforts' intranet portal, which has become the main platform for colleague discussion during the Covid-19 pandemic, is used to share messages, support and ideas for local store and community activity. Leadership videos and Q&A have also addressed diversity in general and LGBT+ and Pride in particular.

This year, the 'Black Lives Matter' movement has brought the issue of ethnic diversity to the fore, and it is a topic which we have discussed at the Board on a number of occasions. We already have on our Board and our Executive Board a diversity of gender, skills, experience, personality and cognitive approach. However, our leadership population does not currently reflect the broader ethnic mix of our colleagues and our customers. This suggests that the business may be missing a talent opportunity.

In recent years we have made progress in balancing our gender ratios in the workforce and have seen a shift towards female representation on our senior leadership team: 46% of our senior leadership roles are held by women and 33% of Board members are female (40% including the Company Secretary). Full details of the gender balance on our Board and in our senior management population are set out on page 41 in our Sustainability Report.

Last year, following a review of how we improve diversity at Board level and throughout the business, the Board agreed a number of actions to start to develop greater diversity throughout the Company. Key actions and a brief report on our progress against them are set out below.

As a Board and a business we are keen to develop our awareness and to promote diversity and inclusion in all of its meanings. Gender diversity has been discussed for many years (and female colleagues have typically always been strongly represented in our total workforce due to the part-time nature of much of the work in our stores where most of our colleagues work). However the Board has discussed how to broaden the diversity and inclusion agenda within the business and this will be a matter which we will work on in the future at the Board, through the People team and using all of our colleague engagement channels. Our focus is on three broad activities:

- Refine the way we recruit;
- Identify, support and mentor existing diverse talent in the business; and
- Increase the ethnicity amongst senior appointments as they are made.

The Board will continue to promote action and progress in this area and will be reported back in next year's annual report.

Agreed actions in FY19	Progress
Requesting that candidates from a more diverse range of backgrounds be brought forward for any Board vacancy, and openly advertising vacancies on a specialist Board recruitment website where any approved candidate may apply and present their credentials.	As detailed above, we post Board vacancies on the Nurole website, which widens the recruitment pool.
Starting to measure ethnic diversity throughout the business including on a localised team basis. Considering what steps we might take to encourage colleagues to provide their data, so this can be mapped against UK data at a regional level.	Management have refreshed our Diversity and Equality Policy, which is available at corporate.dunelm.com. We are starting to measure ethnic diversity throughout the business. We have appointed a Diversity Manager to focus on promoting an inclusive environment for our customers, colleagues and visitors. Board discussion about the importance of the 'Black Lives Matter' movement with several agreed actions to educate ourselves during 2020/21.
Engagement with our colleague National Colleague Voice, as described on page 97.	For the second year, the National Colleague Voice joined our Board at the November meeting to share colleague views. Marion Sears and William Reeve attended National Colleague Voice meetings in the year.

OUR BOARD DIVERSITY AND INCLUSION POLICY

Our overriding concern is to ensure the Board and Group comprise outstanding individuals who can lead. 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. Our Company culture must be inclusive and it is our policy 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.
- We shall continue to ensure that specific effort is made to bring forward diverse candidates for senior management and Board appointments.
- We will monitor the Group's approach to people development to ensure that it continues to enable talented individuals, regardless of gender, ethnicity and background, to enjoy career progression within Dunelm.

We will review our policy in FY2020/21 as part of the work that we are doing to evolve our approach.

At the end of June 2020, Dunelm published its third gender pay report and a summary is provided on page 152 of our Remuneration Report.

TENURE AND RE-ELECTION OF DIRECTORS

The Nominations Committee considers the length of service of Board members at least annually. The tenure of the Non-Executive Directors is set out below:

Member	Appointment	Current term (years)	Next renewal	Additional Board role
Andy Harrison	September 2014	6	September 2023	Chairman
Ian Bull	July 2019	1	July 2022	Audit and Risk Chair
William Reeve	July 2015	5	July 2021	Remuneration Chair and Senior Independent Director
Peter Ruis	September 2015	5	September 2021	
Marion Sears	July 2004	16	July 2021	Designated NED for engaging with colleagues
Paula Vennells	September 2019	1	September 2022	

Marion Sears has served 16 years on the Board. Marion is now considered by the Board to be non-independent in view of her tenure. See page 99 for more details.

In accordance with the UK Corporate Governance Code, all Directors will seek re-election at the 2020 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.

Approved by the Board on 10 September 2020.

Andy Harrison
Chair of the Nominations Committee

10 September 2020

AUDIT, RISK AND INTERNAL CONTROL

AUDIT AND RISK COMMITTEE REPORT 2020
LETTER FROM IAN BULL

"I am pleased that the business continuity plans that we had in place and the ability of the Board and management to react to events at pace has stood us in good stead throughout the crisis."

Ian Bull
Chair of Audit and Risk Committee

DEAR SHAREHOLDER

I succeeded Liz Doherty as Chair of the Audit and Risk Committee, as planned, on 19 November 2019 when she retired from the Board. I would like to thank Liz for the guidance that she has provided during the handover process, together with support from Laura Carr, the CFO, and her team, which has enabled a very smooth transition.

As concluded at the Committee's 2019 review of its own effectiveness, and confirmed by the 2020 external Board review, I am satisfied that overall the Committee is achieving, and in some respects exceeding, good practice. To build on this in a more structured way, we have agreed a set of objectives and targets to improve our Company and performance over the next three financial years. More details are set out in this report. Clearly, the Covid-19 crisis has required us to balance the need for ongoing and continuous improvements with recovery and re-planning around the substantial disruption that everyone has felt from the crisis.

Internal audit is one of the areas which the Audit and Risk Committee intends to develop. In September 2019 we took the decision to outsource this function, to provide a step change in capability and expertise. KPMG were appointed in December 2019, following a competitive tender process that included 'Big Four' consulting firms and those from the next tier, but excluded PwC, our external auditor. KPMG's initial work has comprised an induction with key internal stakeholders, attendance at risk review meetings, and a 'health check' of internal controls, including the risk management process. More information can be found on page 119. This has informed the rolling internal audit plan which was agreed by the Audit and Risk Committee in September 2020, and is important to our continued success.

The Committee reviewed the process by which the register of principal risks is compiled, which we expanded last year to include how 'emerging' risks are identified. The Board held a discussion over dinner of 'what keeps us awake at night' and the results were fed into this process. We also had a 'deep dive' review in June 2020.

No review of risk can ignore the Covid-19 crisis, which is discussed elsewhere in this report. We identified this as an emerging risk in early February 2020 at our formal mid-year risk review, at which point it was assessed to be primarily a continuity of supply issue, with the potential to impact consumer demand. Management had already started a crisis team to co-ordinate our response, and as the crisis developed the Executive Board took control of our response. I am pleased that the business continuity plans that we had in place and the ability of the Board and management to react to events at pace has stood us in good stead throughout the crisis. The Board considered our 'key learnings from the crisis' at our Strategy Day in May, and we conducted a forward-looking assessment of how we might respond to a resurgence of this and future pandemics in our year end risk review. We have included 'resilience' as a new and emerging risk on our register of principal risks, defined as the ability to withstand the impact of an event or combination of events that significantly disrupts all or a substantial part of the Group's sales or operations. In addition, KPMG were asked to conduct an internal audit review of key control areas as part of changing working patterns brought about by the Covid-19 crisis.

We are aware of the increased focus from investors on climate change risk. We received a presentation from the Carbon Trust at our Board Strategy Day in May, and we have started the process of setting long-term carbon reduction targets and carrying out a climate change risk assessment. We have also committed to report against the Task Force on Climate-related Financial Disclosures by 2022.

The Committee has continued its oversight of the controls in place to address cyber risks and data security – one of our most important risk areas. The resource and capability of the Information Security function was increased during the year. In addition, the process of obtaining external certification of the Group's position against the Government's 'Ten Steps to Cyber Security' standard has been started. Given the continuing external risks, this area will be the subject of an internal audit review in 2020/21.

The Audit and Risk Committee and the Board are regularly updated by our auditors and the Company Secretary on developments in regulatory and best practice in corporate reporting. This report includes required disclosures against the 2018 Corporate Governance Code, as well as s172 Companies Act, and on executive pay.

Looking forward, there is increasing focus from regulators, shareholders and other stakeholders on the role of the Audit Committee and the quality and integrity of external audits. The Committee is actively monitoring progress and looking closely at the work from the Kingman and Brydon reviews, along with the Business, Energy and Industrial Strategy and Competition and Market Authority proposals. Once clear, we will implement any changes in a pragmatic way which enhances assurance and shareholder value.

Yours faithfully,

Ian Bull
Chair of Audit and Risk Committee

10 September 2020

AUDIT, RISK AND INTERNAL CONTROL

CONTINUED

AUDIT AND RISK COMMITTEE 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, agree the audit fee and oversee the external audit process.
- Establish formal and transparent arrangements for considering how the Company 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, corporate.dunelm.com. These terms were last reviewed by the Committee in June 2020.

AUDIT AND RISK COMMITTEE MEMBERSHIP

The following Directors served on the Committee during the year, and meeting attendance is set out in the table below:

Name	From:	To:	Meetings attended	Skill area
Ian Bull (Chair)[1]	10 July 2019	To date	3/3	Financial
William Reeve	1 July 2015	To date	3/3	Operational
Peter Ruis	10 September 2015	To date	3/3	Operational
Paula Vennells[1]	4 September 2019	To date	2/2	Operational
Liz Doherty[2]	1 May 2013	19 November 2019	1/1	Financial

1. Ian Bull and Paula Vennells were both appointed to the Board during the financial year and joined the Committee on appointment. Ian Bull succeeded Liz Doherty as Chair when she retired from the Board on 19 November 2019.

2. Liz Doherty retired from the Board and the Committee, as planned, on 19 November 2019. Prior to her retirement Liz chaired the Committee.

The Company Secretary, Dawn Durrant, acts as secretary to the Committee.

The Committee also met in September 2020.

The Chief Executive Officer, Chief Financial Officer and the Chairman of the Board usually attend meetings by invitation. In addition, the following attended: Group Finance Director, Chief Information Officer, representatives of PwC (for external audit matters) and representatives of KPMG (for internal audit matters).

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 Parkdean Resorts Group and Ladbrokes 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 82 to 85 for full details.

SUMMARY OF PRINCIPAL ACTIVITIES AND FOCUS 2019/20

ROUTINE ITEMS

- Approval of the FY19 full year results issued in September 2019 and the approval of the FY20 results, half-year issued in February 2020 and full year results issued in September 2020.
- Assessment of the key estimates and adjustments used in respect of the half and full year results.
- Review of the process for identifying and managing risk and a full review of the principal risks and how they are managed in August 2019, a mid-year review in February 2020, and a further 'deep dive' review in June 2020.
- Review of business continuity and crisis management planning.
- Verification of the independence of the external auditor, approval of the scope of the audit plan and the audit fee, and review of the external auditor's audit findings.
- Review of fraud and Bribery Act controls and cyber security, which are standing agenda items for each meeting.
- Review of Prompt Payment Code reporting.
- Receipt of internal audit reports.
- Approval of the annual Audit and Risk Committee Report.
- Review of whether the 2018/19 and 2019/20 Annual Reports are 'fair, balanced and understandable'.
- Annual review of committee terms of reference, Tax Strategy, policy on use of auditors for non-audit services, and auditor rotation policy.
- Formal review of external auditor performance.
- Formal review of committee effectiveness.

Specific topics

- Adoption of formal Audit and Risk Committee objectives.
- Update on the steps being taken to implement the requirements of IFRS 16 'Leases'.
- Appointment of KPMG as internal auditor, and approval of the Internal Audit Charter.
- Formalised policy on employment of former employees of the external auditor.
- Compliance with new narrative reporting requirements.
- Approach to climate change risk assessment and reporting.
- Cyber security 'deep dive'.
- Approach to audit reform.

FOCUS AREAS FOR 2020/21 AND BEYOND

- Specific project areas derived from the risk management process and agreed by the Committee.
- Post Covid-19 Going Concern and Viability Statement.
- Focus on new reporting requirements for 2019/20 and 2020/21, including the Corporate Governance Statement, s172 Companies Act and new executive pay reporting requirements.
- Preparation for reporting under the Task Force for Climate-related Financial Disclosures.
- Understanding and adopting agreed audit reforms, including: Kingman Review, CMA, BEIS and Brydon Review.
- Responding to increasing focus from regulators, shareholders and other stakeholders on the role of the Audit and Risk Committee and the quality and integrity of external audits.
- Maintaining high standards in relation to material estimates, judgements and rationale.
- Continuous focus on risk management, including the completion of a horizon-scanning process to identify emerging risks.
- Development of risk appetites and how these are embedded into core management processes.
- Ensuring risk management is instrumental in driving the internal audit and assurance plan.

AUDIT AND RISK COMMITTEE ACTIVITIES IN MORE DETAIL 2019/20

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 2020 when this Annual Report and financial statements were approved.

COMMITTEE EFFECTIVENESS AND OBJECTIVES

At its meeting in June 2020, the Committee agreed a set of objectives and targets to assess and improve our effectiveness over the next three financial years. These cover the following topics:

- Contemporary judgements and accounting.
- Forward looking and appropriate internal control processes and systems.
- External Audit and Internal Audit are professionally sceptical with appropriate challenge and provide value for money.
- Comprehensive risk assessment, management and dashboards driven from strategy and appetite.
- Well-resourced and fit for purpose Finance team, IT team (core and digital), data controls, security and cyber protection.
- Non-financial KPIs driven from purpose and values with same rigour of measurement and reporting as financials.
- Going concern and viability statements educated by credible risk-based scenarios and KPIs.

For each topic we have agreed a desired score (on a scale of 1 (Fair) to 5 (Best practice)) based on risk and risk appetite in the context of Dunelm's business. We scored current performance and set a date to achieve the desired score if improvement is required.

AUDIT, RISK AND INTERNAL CONTROL

CONTINUED

We will use this as part of our annual review of committee effectiveness going forward, and I will report on progress through this report.

Our external Board assessment in June 2020, concluded that the Committee is functioning well, broadly in accordance with regulatory and 'best practice' requirements, and provides appropriate assurance to the Board.

SIGNIFICANT ISSUES AND JUDGEMENTS RELATING TO THE FINANCIAL STATEMENTS

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 June 2020 and September 2020, 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.

IFRS 16 'LEASES'

The Group adopted IFRS 16 for the FY20 year end and made its first disclosures of the impact of this standard in last year's report. At each meeting during the year, the Committee considered a report by management, summarising the approach being taken, the impact on external and internal reporting, and the implications for bank covenants and measurement of performance under remuneration schemes.

VIABILITY STATEMENT AND RISK MANAGEMENT

In June and September 2020, 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.

DISCUSSING AND ADDRESSING SIGNIFICANT ISSUES

The major accounting issues discussed by the Committee in September 2020 in relation to the 2019/20 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 noted that management have refined the calculation to be more mechanical and less judgemental. The Committee concluded that the values recorded in the financial statements are appropriate.

Lease liabilities

The Committee considered the approach taken by management to the disclosure requirements under IFRS 16, which has been adopted in FY20 for the first time. Particular attention was given to reviewing the discount rates proposed by management in calculating the lease liabilities. The Committee concluded that the disclosures in the financial statements are appropriate.

Covid-19

The impact of Covid-19 has triggered the requirement under IAS 36 for a review of the profitability of each 'cash generating unit', defined by management as each individual store and the online operation. Whilst this test generated significant headroom in total cashflows, there was a specific store impairment required, which was not material. The Committee reviewed the model and assumptions used by management to calculate this figure and concluded that the disclosures in the financial statements are appropriate.

This review took into account the principal risks facing the Group, the impact of Covid-19 and the process by which they are managed by the Board and management. The Going Concern and Viability Statement can be found on page 75.

REVIEW OF NARRATIVE REPORTING

The narrative sections of this Annual Report have been updated to comply with a number of new reporting requirements, including the 2018 Corporate Governance Code, a statement of how the Board has complied with s172 Companies Act, and executive pay. The Committee has also reviewed the environmental, social and governance (ESG) reporting and associated KPIs, which are set out in the Sustainability Review.

CLIMATE CHANGE RISK AND REPORTING

The Board and the Committee are aware of the increased focus from investors on climate change risk, and our approach to sustainability has been discussed at a number of Board meetings during the year. At our Strategy Day in May, we hosted a representative from Carbon Trust, to provide insight on the implications of climate change for our business. As described in the Sustainability Review, the Carbon Trust will be helping us to set climate change targets and carry out a climate change risk assessment in the 2020/21 financial year. The Board and the Committee will subsequently agree on specific responsibilities, including progress and measurement. We have also committed to report against the Task Force on Climate-related Financial Disclosures by 2022.

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?
- Is the language and tone of voice used commensurate with the spirit of 'fair, balanced and understandable'?

Committee members received the draft Annual Report and Accounts 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 2020 Annual Report was 'fair, balanced and understandable' and provided the information necessary for our shareholders to assess the Company's position, performance, business model and strategy.

EXTERNAL AUDIT

EXTERNAL AUDITOR

The report and financial statements were audited by PricewaterhouseCoopers LLP, following the firm's appointment as statutory auditor in January 2014.

As reported last year, our audit partner from the 2018/19 audit onwards is Mark Skedgel.

PricewaterhouseCoopers LLP attended the Committee meetings in August 2019, and February, June and September 2020. The Committee also met privately with the auditors during each meeting and, as Chair of the Committee, I had regular dialogue with the audit partner.

EXTERNAL AUDIT EFFECTIVENESS AND INDEPENDENCE

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

The Chief Financial Officer and her team presented their review of the FY19 audit in February 2020. This covered a number of aspects including:

- The quality of the audit work and the 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, the robustness of challenge to management and findings on areas which required management judgement.
- The findings from the FRC's annual inspection of auditors published in May 2019.

The conclusion was that the audit had been effective and carried out with the necessary objectivity and challenges to demonstrate independence and that no significant issues had been highlighted; this was endorsed by the Committee. We will consider a questionnaire-based approach in 2020/21.

EXTERNAL AUDITOR APPOINTMENT FOR FY20

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 2020, the external auditor presented their strategy for the 2019/20 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 £173,000.

Taking into account the review of the FY19 audit and the proposed plan and fee, the Committee agreed that PricewaterhouseCoopers LLP be reappointed as auditor for the FY20 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, RISK AND INTERNAL CONTROL

CONTINUED

SAFEGUARDING AUDITOR INDEPENDENCE AND OBJECTIVITY

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 and jeopardise the independence of the audit process.

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, corporate.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.

We believe that our policy is still relevant and safeguards auditor independence and objectivity effectively. In June 2020, we adopted a formal policy on recruitment of former employees of the external auditor, which is also available on our website, to further promote this. We are pleased to confirm that we complied with all of these policies during the year.

During the period we paid PricewaterhouseCoopers LLP £29,000 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 £173,000.

AUDITOR ROTATION

Our auditor rotation policy is that we will tender the audit at least once every ten years; we will change auditor at least every 20 years; and we will invite at least one firm outside the 'Big Four' to participate. This is in line with the current EU Audit Directive. The latest date for the next tender will therefore be for the 2023/24 audit, which we are likely to conduct in 2022/23. A competitive tender is in the best interests of shareholders.

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 AND INTERNAL CONTROL

EFFECTIVENESS OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

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 effectiveness of our risk management and internal control systems are reviewed annually and this was carried out in August 2019 and September 2020. The conclusion of this review was that:

- The systems established by management to identify, assess, manage and monitor financial and non-financial risks and identify emerging risks are effective; and
- The assurance on risk management and internal control systems is sufficient to enable the Board to satisfy itself that they are operating effectively.

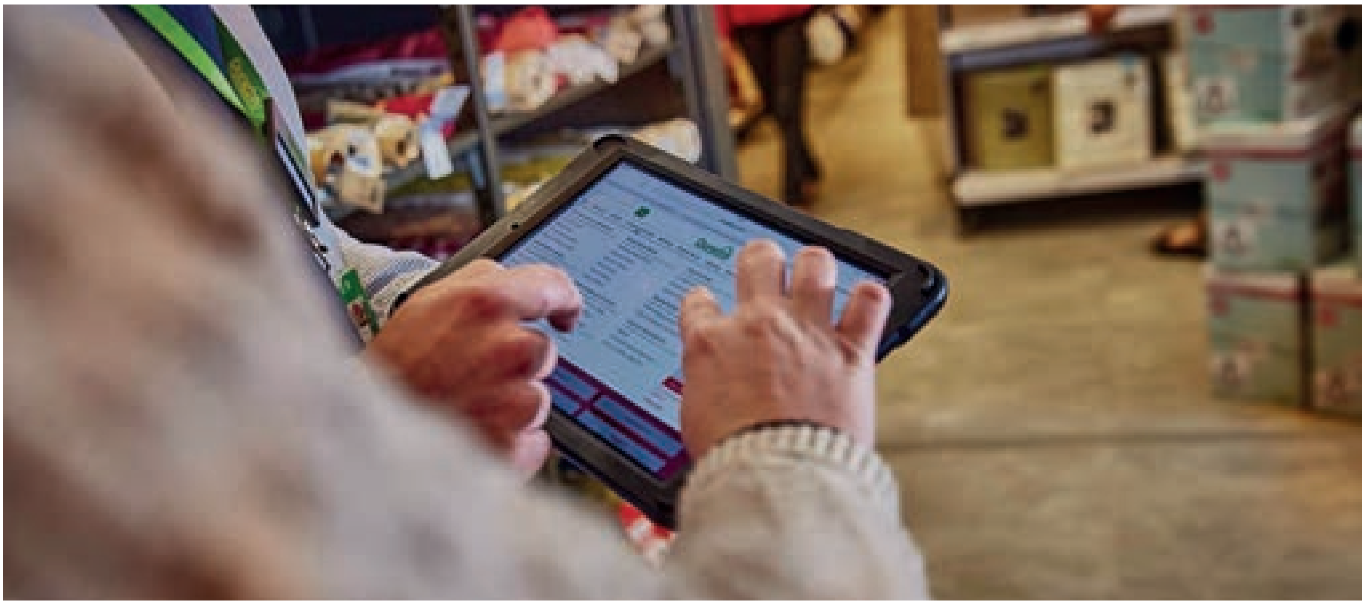
RISK MANAGEMENT

The Committee carried out a formal risk review in August 2019, February and September 2020, as well as a 'deep dive' review of the principal risk register in June 2020. In each case the Committee noted that specific consideration was given through the risk review process with management and by the Executive Board, Audit and Risk Committee and Board discussions to any 'emerging risks' – this included in the year the increasing importance of climate change and the risk from the Covid-19 pandemic. We expanded the latter to a wider discussion of how resilient the Group is to withstand the impact of an event or combination of events that significantly disrupts all or a substantial part of the Group's sales or operations. We also noted that individual principal risk topics are reviewed by the Board through the rolling agenda, and a Board discussion of 'what keeps us awake at night' was held in March 2020, and the outcome fed into the risk process. The latter was considered to be a positive and innovative approach by our external Board review. Going forward, we plan to carry out a 'horizon scanning' exercise with the support of our internal auditor, KPMG, as part of the process by which we identify emerging risks.

During the year, the Committee also reviewed our business continuity planning, including a 'deep dive' on IT continuity, and our insurance programme.

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 all material controls in place are reviewed annually. During the year, the Chief Financial Officer reviewed the control framework and as a result a number of controls were strengthened, including around management of fraud risk, approval of capital and contractual commitments, and compliance with the expenses policy. A controls 'health check' was also conducted by the newly appointed internal auditor (see page 119).



OUR NEW APPROACH TO INTERNAL AUDIT

Prior to this year, an internal audit function was in place, which conducted a programme of audits either using internal audit resource or an external party. In September 2019, the Committee decided to outsource the function to an expert internal audit firm, in order to strengthen the capability and expertise of the function. KPMG was appointed in December 2019, following a competitive tender process that included two of the 'Big Four' consulting firms and those from the next tier, but excluded PwC, the external auditor. A formal 'Internal Audit Charter' was adopted in February 2020.

INTERNAL AUDIT

KPMG's initial work comprised an induction with key internal stakeholders, attendance at risk review meetings, and a 'health check' of internal controls, including the risk management process. A number of recommendations were made from the KPMG work so far, the first phase of which the Committee, Board and Executive Board have supported and agreed to progress, prioritise and build into a detailed and costed programme for FY21 onwards.

Some of the other work planned for March to June 2020 has been deferred into FY21 due to the Covid-19 crisis, and in September the Committee agreed a plan for activities to take place in FY21. KPMG will also produce a risk assurance map and an updated rolling three-year plan during the coming year.

Reviews completed in the year prior to KPMG's appointment are set out below:

	Reviewed by
Stoke warehouse to stores delivery process	Internal audit
Whistleblowing policy awareness	Internal audit
SAP access, customisation and licensing	KPMG
Pensions auto-enrolment	EY
Commitment and procurement of goods for resale	Internal audit

Reports were discussed by the Committee and the Board and a number of recommendations were agreed by management. The Committee monitored progress against actions agreed following these reports, as well as the reports received in the 2018/19 financial year from internal audit/external assurance providers. The majority of these have been completed in the agreed timescale, and the actions have been incorporated into the rolling internal audit plan.

CYBER SECURITY AND DATA PROTECTION/GDPR

Cyber and data 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 on page 72 of this Annual Report.

The resource and capability of the Information Security function was increased during the year, and the programme to improve our controls and practices in this area has continued. This has included improved network segmentation and a thorough review and reinforcement of our IT business continuity plans. In addition, steps have been taken to secure external certification of the Group's position against the Government's 'Ten Steps to Cyber Security'. Given the continuing external risks, this area will be the subject of an internal audit review in 2020/21, and cyber security remains a standing agenda item at all Committee meetings. The Committee was satisfied that there is an acceptable level of risk management in place.

Approved by the Board on 10 September 2020.

Ian Bull
Chair of the Audit and Risk Committee

10 September 2020

REMUNERATION

REMUNERATION COMMITTEE REPORT 2020

LETTER FROM WILLIAM REEVE

"Protecting our colleagues, customers, suppliers and shareholders during this most unprecedented environment has been, and continues to be, our clear priority."

William Reeve
Chair of Remuneration Committee

DEAR SHAREHOLDER

INTRODUCTION

Leading and decision making in these times pose remarkable challenges. We are proud of how our team have responded during the pandemic and of what we have achieved together. Protecting our colleagues, customers, suppliers and shareholders during this most unprecedented environment has been, and continues to be, our clear priority. In spite of the very difficult final four months of the period, the business achieved sales of £1,057.9m in the year, and we returned to profitable trading in June. As stated by Andy Harrison in his statement on page 4, the Board considers that despite the return to profitable trading the continued uncertainty over the Covid-19 pandemic and its impact on our winter 2020/21 trading makes it prudent not to declare a final dividend. Accordingly the Board will update shareholders on planned dividend payments at the interim results announcement in February 2021.

On 24 March we closed all of our retail stores in the UK as required by HM Government. We took quick and decisive action to manage our cash position and reduce our costs. We cancelled the interim dividend and our Board and executive management team took voluntary pay reductions for three months to the end of June. The Executive Management team took a voluntary 20% pay reduction. Nick Wilkinson, our CEO, took a voluntary 90% pay reduction and our Chairman and Non-Executive Directors waived 100% of their fees.

We made significant operational cost savings and effectively put our stores into hibernation, utilising the Government's Job Retention Scheme precisely as it was intended, to preserve jobs which, with the work temporarily gone away, we might otherwise have had to cut. The majority of our colleagues who were furloughed are now back at work and we are no longer making claims under the Job Retention Scheme in the new financial year. These actions enabled us to partially offset the financial impact of the store closure period and to maintain a strong balance sheet.

We entered the crisis as a well-capitalised business that was performing strongly and had paid a special dividend of 32p per share in October 2019. When we announced our interim results in February, the Board expected that Profit Before Tax (PBT) for the year to 27 June 2020 would be slightly ahead of analyst expectations. It looked likely that full year bonus criteria would be substantially met and that the Long-Term Incentive Plan (LTIP) for the three-year period ending on 27 June 2020 would vest in full, and that under our capital and dividend policy we would have been in a position to consider a special dividend before long.

FY20 INCENTIVES

Notwithstanding the strong performance to March 2020 and that we are emerging from this unprecedented period as a stronger business, as a Committee we recognise the need for remuneration to reflect the shareholder experience and, accordingly, no adjustments were made to the applicable performance targets for any of our performance-based awards (annual cash bonus and LTIP awards). Consequently, as a result of the unprecedented impact of Covid-19 there will be no pay-out in respect of the financial element of the annual bonus for the year to June 2020. Some of the LTIP award in respect of the three-year performance period to June 2020 will vest, helped by a better than expected recovery post store shutdown, and Nick Wilkinson will receive 19.8% of maximum.

Taking into account the very strong performance against the personal and strategic objectives for the annual cash bonus for FY20 as detailed on pages 144 to 146, the Committee has determined that this element of the bonus (20% of the total opportunity, worth up to 25% of salary, being £137,853 for Nick Wilkinson and £91,250 for Laura Carr) has been earned. However, this will not be paid in cash. To ensure alignment with shareholders, subject to approval of the new Policy, it is proposed that the bonus earned for FY20 will instead be delivered as a deferred share award vesting 50% in September 2021 and 50% in September 2022.

The Committee believes it is important to ensure a strong talent retention mechanic, and therefore proposes that vesting will be subject to continued employment and the participant not being under notice during the deferral period. A consistent approach is proposed for the Executive Directors, Executive Board and the wider Dunelm Leadership Team. The 'Lifetime Lock-in' arrangement detailed below will also continue to apply for the Executive Directors.

FY21 REMUNERATION

PENSION

We have committed to reduce the pension entitlement of our incumbent executives, Nick Wilkinson (CEO) and Laura Carr (CFO), currently 10% of contractual base salary, to the rate available for the wider workforce, currently 3%, by 1 July 2023. We are proposing to do this in a phased way, starting immediately. From 1 July 2020, both Nick and Laura have agreed to accept an initial reduction in their entitlement to 8% of salary. We will review the position again in June 2021.

SALARY

As stated above, Nick Wilkinson and Laura Carr took a voluntary salary reduction of 90% and 20% respectively from April to June 2020. As anticipated, they returned to full pay from 1 July.

At our annual remuneration review, the Committee decided to award Nick a 2% increase in base salary, and Laura a 5% increase. Nick's increase is within the range of the increase given to the majority of our workforce. Laura's higher increase reflects the fact that she is relatively new in role, in her first public company CFO position, and her contribution to the business has grown significantly since she joined the Board in November 2018. The 5% salary increase for Laura is consistent with the median pay increase for FY21 for all colleagues in the business, and the range of increases given to high performing talent who have demonstrated strong progression in role. Her base pay will still be below the external benchmark median.

REMUNERATION

CONTINUED

In awarding these pay increases, the Committee took into account the FY21 pay awards made to the wider colleague population as follows:

- All colleagues employed in the business from 1 March 2020 have been awarded a one-off 'thank you' bonus of £250 in their August pay, to thank them in recognition of their effort and contribution throughout the Covid-19 crisis.
- All hourly paid colleagues in our stores and distribution centres, and the most junior colleagues in our support centres (91% of our total workforce) have received a pay increase of at least 2%.
- The median pay increase for all colleagues will be 5%.
- Our management colleagues have not received a pay increase in July 2020, but they will be receiving a discretionary share bonus award to the value of 25% of their FY20 bonus opportunity (this having lapsed due to Covid-19). Further details are set out below in relation to our new policy.

The Committee also considered a wider range of stakeholder considerations, including government funding which the Group benefited from to preserve employment during closure of stores due to the Covid-19 crisis, and the fact that the interim dividend to shareholders has been withdrawn. On balance the Committee considered that the pay awards to Nick and Laura were appropriate and in the interests of the Group and all of its stakeholders.

ANNUAL BONUS

We are proposing to pay our FY21 annual bonus by way of a share bonus award rather than in cash. Further details are set out below in relation to our new Policy.

LTIP

We are also proposing some changes to the operation of our LTIP award, again these are set out below. Whilst no change is proposed in relation to the maximum quantum under the scheme, or the quantum of the award to be made to Nick Wilkinson, which is 200% of salary, the Committee has decided to increase the quantum of Laura's LTIP award from 160% to 180% of salary, to take effect from the awards to be granted in November 2020. The increased quantum for the LTIP for Laura is still below the upper quartile that our Remuneration policy suggests. Importantly, this recognises her high performance in role and provides a stronger retention mechanism aligned with the creation of shareholder value.

I am comfortable that both the CEO and CFO total fixed pay and the on-target and maximum annual incentive opportunities continue to be positioned at the lower end of market practice. However, in line with our focus on long-term value creation we continue to believe that the long-term incentive opportunity should be positioned above median as this rewards strong performance and is aligned with the interests of our shareholders.

NEW POLICY

I explained in last year's report that we would be seeking approval for a new Directors' Remuneration policy at the AGM this year. In considering the new Policy we were guided by our remuneration strategy, which has been unchanged since flotation in 2006:

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

This is designed to incentivise the delivery of long-term, sustainable growth in shareholder value, for the benefit of all of our shareholders.

Our current Policy was approved at our 2017 AGM with over 99% of votes cast in favour of it. Shareholders showed a similarly high level of support for our Directors' Remuneration Report at our 2019 AGM. These high levels of support reflect our approach of adopting best practice and acting responsibly as regards executive pay, an approach that we will continue with the new Policy and with our approach to the remuneration impacts of Covid-19.

We consider that the current Policy has worked well to date and we had planned few changes. Having reviewed the alternatives we also believe that an earnings per share (EPS) driven LTIP scheme continues to be the most appropriate for Dunelm, as a growth business, intent on winning market share and reinforcing our position as leader in the UK homewares market.

We adopted our current 'Lifetime Lock-in' arrangement in 2015, reflecting our early adoption of arrangements which provide a high degree of alignment between Executive Directors' and shareholders' interests, including after employment. Under the 'Lifetime Lock-in', Executive Directors are required to: build a shareholding of 100% of salary within three years of appointment and 200% of salary within five years; make a personal investment in shares on appointment; and retain, during employment, two-thirds of the after tax amounts earned under the annual bonus and LTIP, with at least 50% of 'Lifetime Lock-in' shares to be retained for two years after cessation of employment.

Whilst these overriding elements of our Policy and approach to remuneration remain in place, we have made some changes to address the 2018 UK Corporate Governance Code and to include some areas where more flexibility would prove useful to help us align management and shareholders across a wider range of scenarios than the existing policy foresaw. Our new Policy also encompasses specific arrangements in relation to annual bonuses for the year ended June 2020 and the year ending June 2021, and the LTIP to be granted in respect of the 2021–23 performance period.

During the early part of the summer we consulted with shareholders in relation to our proposals and we were pleased with the broad support received. The full Policy is set out on pages 128 to 141, and I have summarised below the principal differences between the Policy approved at the 2017 AGM and the new Policy.

REMUNERATION

CONTINUED

	2017 Policy	New Policy
BASE SALARY	Set in the context of comparable roles and the scale and complexity of the role. Increases typically in line with the wider-workforce review.	No change. On 1 July 2020, Nick Wilkinson received a 2% pay increase; within the range of the increase given to the majority of the workforce. Laura Carr received a 5% pay increase, in line with the median pay increase across the business and the range of increases given to high performing talent in the business. This reflects her development in role and contribution to the Board since she joined in 2018.
PENSION	Defined contribution pension or cash allowance. Maximum: • 20% of base salary for Directors appointed prior to November 2017; • 15% of base salary for Directors appointed from November 2017 – although in practice the pension contribution for the existing Executive Directors is 10% of base salary.	In our 2019 Directors' Remuneration Report we committed to reducing the contribution for new Directors to 5% of base salary, being the entitlement of the vast majority of our management population. Having regard to developing practice in this regard, we have gone further under the new Policy such that pension for newly appointed Directors will be aligned with the wider workforce average (currently 3% of base salary). We have also committed to reduce the entitlement of incumbent Executives (currently 10% of base salary) to the rate available for the wider workforce by 1 July 2023. This will be done on a phased basis, with each of Nick Wilkinson and Laura Carr taking a 2% reduction in their entitlement (to 8% of base salary) from 1 July 2020.
ANNUAL BONUS	Maximum opportunity of 125% of salary. Two-thirds of the after tax bonus must be invested in shares.	No change to opportunity. Specific arrangements for financial year 2019/20, 2020/21 and any other year substantially impacted by the Covid-19 pandemic, as set out below. No change to 'Lifetime Lock-in' requirement during employment. Enhanced malus and clawback provisions and discretion to override formulaic outturns will apply, as set out in the section headed 'Share bonus awards'.

	2017 Policy	New Policy
LTIP	Maximum opportunity of 200% of salary. Vesting by reference to performance over three years. Two-thirds of the after tax shares must be retained. Performance conditions based on EPS and requiring 3% growth in excess of RPI for threshold vesting and 12% growth in excess of RPI for full vesting.	No change to the maximum opportunity, which is 200% of salary. The new Policy includes flexibility to determine performance measures and targets on an annual basis to ensure that they are appropriate, having regard to our own plans, external forecasts and the overall business environment, including the ability to apply strategic measures. Notwithstanding this flexibility, we intend to retain EPS as a performance measure. For the 2020/21 awards, there will be one or more financial performance measures which includes EPS for at least 75% of the opportunity. The performance measures for the remainder of the award will be based on strategic measures. Our current intention is that the awards will be granted shortly after the 2020 AGM, but that the performance measures and targets will be finalised later (and no later than May 2021); we are not proposing to make the targets more or less stretching in the context of market conditions prevailing when the targets are determined, but deferring their determination will mean we have greater clarity on the market outlook. Threshold vesting will remain at 10% of the maximum award and on-target vesting will be up to 50% of the maximum award. Awards will continue to vest after a three-year performance period. However, with effect from the grants for financial year 2020/21 onwards, all of the after tax shares must be retained for two years from the vesting date, with two-thirds of those shares then to be retained as set out below. Enhanced malus and clawback provisions and discretion to override formulaic outturns will apply as set out below.
SHAREHOLDING REQUIREMENTS – THE 'LIFETIME LOCK-IN'	Executive Directors are required to build a shareholding of 100% of salary within three years of appointment and 200% of salary within five years. A personal investment in shares should be made on appointment. Two-thirds of the after tax amounts earned under the annual bonus and LTIP must be retained in shares.	The current provisions have been broadly retained, although in practice the 'Lifetime Lock-in' requirement means that executives' shareholdings will increase and exceed these minimum holding requirements. As noted above, all of the after tax amount earned under the LTIP must be retained for two years from the vesting date, with two thirds of those shares then to be retained throughout employment. Two-thirds of shares acquired pursuant to the vesting of Share Bonus Awards as described below (after sale of shares to cover tax and National Insurance obligations), must be retained during employment. The requirement to hold shares retained under the 'Lifetime Lock-in' applies regardless of whether the 100% or 200% (as applicable) shareholding has been achieved.
POST-EMPLOYMENT SHAREHOLDING REQUIREMENT	At least 50% of the shares held during employment pursuant to the 'Lifetime Lock- in' must be retained for at least two years after employment has ended.	Following termination of their employment for any reason, an Executive Director must retain for two years shares equal to the lower of the shareholding requirement applicable immediately prior to departure (100% of salary if they leave within five years of appointment or 200% of salary if they leave five years or more after appointment) as appropriate, or their actual shareholding on departure.

We have also included the flexibility to deliver shares instead of cash for any element of fixed compensation. The current Covid-19 crisis has reminded us all of some fundamentals, including the importance of cash, and of tight alignment of management and shareholder interests. To this end we would like the Remuneration Committee to have the ability to use shares, not cash, as compensation when it feels circumstances call for it.

REMUNERATION

CONTINUED

SHAREHOLDER ALIGNMENT

In line with the 2018 Corporate Governance Code, the new Policy gives the Committee discretion to vary formulaic outturns in relation to annual bonus and LTIP vesting, including where the formulaic outturn does not reflect underlying performance or is inappropriate in the context of unexpected or unforeseen circumstances.

We have formalised in the new Policy the expanded malus and clawback provisions to which we referred in the 2018 Directors' Remuneration Report. These provisions can now be applied in the event of: an error in the assumptions on which the award was granted or vests; a material failure of risk management; serious reputational damage; serious misconduct or material error on the part of the participant; a material corporate failure; or any other circumstances which the Committee considers to be similar in their nature or effect.

SHARE BONUS AWARDS

The new Policy includes specific annual bonus arrangements for financial years 2019/20, 2020/21 and any later financial year to which the new Policy applies if the Committee considers that year is substantially impacted by the Covid-19 pandemic. These arrangements enable us to deliver these bonuses fully in shares, which recognises the importance of cash and provides a strong alignment of management and shareholder interests. The structure of the award for each year is the same, the difference being that the quantum of the award in respect of 2019/20 reflects bonus earned in that financial year and so no further performance conditions apply; whereas the 2020/21 award is subject to performance in the 2020/21 financial year. A summary is set out in the table below:

	2019/20	2020/21
FORM OF AWARD	Conditional share award	Conditional share award vesting by reference to performance in the 2020/21 financial year.
PERFORMANCE MEASURES	Quantum reflects bonus earned by reference to performance in 2019/20 as set out on page 136. No further performance conditions will apply.	• Financial performance and delivery of the Board's Recovery Plan FY21 (50% of the award). • Strategic process including environmental, social and governance measures (25% of the award). • Personal goals set in the context of our operating plan (25% of the award). These measures and weightings reflect our critical financial and strategic priorities over 2020/21. Delivery of tangible results against these metrics will enable us to rebuild the business and to respond quickly and effectively to the challenges in the new business environment for the benefit of all our stakeholders. The Committee would have liked to have set quantified targets, however it does not believe that lasting, robust and meaningful targets can be set in these fluid and unpredictable circumstances. In line with our Policy, the intention is that up to 40% of the deferred share award granted would vest for an 'on-target' performance and 100% for an 'excellent' performance. At the year end, when we determine the performance outcome for the year, we will be thoughtful in our assessment of results, balanced with the shareholder experience (including the extent to which the Company has resumed, or is in a position to resume, dividend payments) and the wider workforce experience. Consideration will also be given to the extent of any 'windfall' benefit that is considered to have been delivered. Full disclosure of the Committee's assessment of the performance delivered and strategic progress made will be given on a retrospective basis in the Directors' Remuneration Report for the 2020/21 year.

	2019/20	2020/21
QUANTUM	• Nick Wilkinson earned an annual bonus of £137,853 resulting in an award of 11,594 shares. • Laura Carr earned an annual bonus of £91,250 resulting in an award of 7,675 shares.	• Nick Wilkinson: up to £703,050 (125% of salary) - an award of 59,130 shares. • Laura Carr: up to £479,063 (125% of salary) - an award of 40,291 shares.
	For each year, the number of shares has been determined by reference to a price of 1189p, being the average share price over June and July 2020, and includes the period post our year-end Trading Update on 15 July 2020. The total annual bonus opportunity has not changed, but delivery in shares based on our share price at the beginning of FY21 (which reflects the market's assessment of performance in the FY20 financial year) means that Executives' interests are further aligned with those of shareholders, in terms of both risk and opportunity, depending upon Dunelm's progress during the FY21 financial year as reflected in share price movements.	
VESTING	The awards will vest in September 2021 as regards half of the shares and September 2022 as regards the balance, in the case of the 2020/21 award, subject to satisfaction of the performance targets. Two-thirds of shares acquired pursuant to the vesting of Share Bonus Awards as described above (after sale of shares to cover tax and National Insurance obligations), must be retained during employment.	

The Share Bonus Awards will be granted as soon as practicable after the AGM, subject to shareholder approval of the new Policy and the 2020 Share Plan.

If annual bonuses for any future year are delivered in the form of Share Bonus Awards, similar arrangements will apply to those summarised above.

NEW SHARE PLAN

At the 2020 AGM, we are also seeking approval for a new share plan, the Dunelm 2020 Share Plan, the principal terms of which are summarised in Appendix 1 to the Notice of AGM. The Share Bonus Awards outlined above cannot be delivered under our existing LTIP, and the principal reason for adopting the new plan is to give us flexibility to satisfy these awards with newly issued or treasury shares. However, we have also taken the opportunity to include flexibility to make other awards in future to employees below our main Board. While we do not currently envisage utilising the new plan to make these other awards, this inclusion will give us the ability to increase share ownership for below Board level colleagues by awarding bonus wholly or partly in shares.

I hope that you will support the resolutions in relation to the new Policy, the 2020 Share Plan and the Annual Report on Remuneration.

Yours faithfully,

William Reeve
Chair of the Remuneration Committee

10 September 2020

REMUNERATION

CONTINUED

DIRECTORS' REMUNERATION POLICY 2020

THE POLICY REPORT

FUTURE POLICY TABLE

The following table sets out the structure of remuneration for Directors of the Company under the proposed new Policy which will be presented to shareholders at the forthcoming AGM for approval by way of a binding vote. Shareholders will note that there are specific arrangements proposed for performance remuneration relating to FY20 and FY21 due to the Covid-19 pandemic, and that we expect to revert to our past Policy structure (albeit updated) thereafter, i.e. for FY22 onwards.

EXECUTIVE DIRECTORS

Base salary	
PURPOSE AND LINK TO STRATEGIC OBJECTIVES	• 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	• Normally paid monthly. • Base level set in the context of: – 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	• Reviewed annually, with percentage increases in line with the company-wide review unless other circumstances apply, such as: – 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	• None, although performance of the individual is considered at the annual salary review. • No recovery provisions apply to base salary.

Retirement benefits	
PURPOSE AND LINK TO STRATEGIC OBJECTIVES	• To provide a competitive post-retirement benefit. • To attract and retain the high calibre talent necessary to develop and deliver the business strategy.
OPERATION	• Contribution equivalent to a percentage of base salary made to a defined contribution plan or paid as a cash allowance. • No element other than base salary is pensionable.
MAXIMUM OPPORTUNITY	• For any Executive Director appointed before 1 July 2020, 8% of salary. • For any Executive Director appointed on or after 1 July 2020, an amount as a percentage of base salary not exceeding the average paid in respect of the wider workforce (currently 3%).
PERFORMANCE METRICS	• None. • No recovery provisions apply to retirement benefits.

Benefits	
PURPOSE AND LINK TO STRATEGIC OBJECTIVES	• To provide a competitive benefits package. • To attract and retain the high calibre talent necessary to develop and deliver the business strategy.
OPERATION	• 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 or an appropriate travel allowance; 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	• Current benefits provided are described in the Implementation Report from page 142. • 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	• None. • No recovery provisions apply to benefits.

REMUNERATION

CONTINUED

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	• Rewards and incentivises delivery of annual financial, strategic and personal targets.
OPERATION **Annual bonus specifically for financial year 2019/20 to address Covid-19 situation**	• Delivered as soon as reasonably practicable after the approval of this Policy as a conditional award of: – 11,594 shares in Dunelm in the case of Nick Wilkinson; and – 7,675 shares in Dunelm in the case of Laura Carr. • Each award will vest, subject to closed periods: – As regards 50% of the shares subject to it, rounded down to the nearest whole share where necessary, on the first dealing day after the announcement of Dunelm's results for financial year 2020/21; and – As regards the balance of the shares subject to it on the first dealing day after the announcement of Dunelm's results for financial year 2021/22. • At least two-thirds of the shares acquired (after sale of shares to cover tax and National Insurance obligations) must be retained for the duration of employment and are then subject to post-departure holding requirements as set out in the 'Shareholding requirements' section below.
OPERATION **Annual bonus specifically for financial year 2020/21 to address Covid-19 situation**	• Granted as soon as reasonably practicable after the approval of this Policy as a conditional award of: – 59,130 shares in Dunelm in the case of Nick Wilkinson; and – 40,291 shares in Dunelm in the case of Laura Carr. • Subject to the satisfaction of the performance targets and closed periods, each award will vest: – As regards 50% of the shares subject to it rounded down to the nearest whole share where necessary on the first dealing day after the announcement of Dunelm's results for financial year 2020/21; and – As regards the balance of the shares subject to it on the first dealing day after the announcement of Dunelm's results for financial year 2021/22. • The Committee has discretion to adjust the number of shares in respect of which an award vests, either upwards or downwards, if it considers that the formulaic output does not reflect its assessment of overall financial or non-financial performance of the participant or the group, or is inappropriate in the context of circumstances that were unexpected or unforeseen at the start of the relevant year, or is inappropriate for any other reason. • At least two-thirds of the shares acquired (after sale of shares to cover tax and National Insurance obligations) must be retained for the duration of employment and are then subject to post-departure holding requirements as set out in the 'Shareholding requirements' section below.

<table>
<tr><th colspan="2">Annual bonus – awards to be made to Executive Directors other than Will Adderley, who has requested that he not be considered for annual bonus (continued)</th></tr>
<tr><td>OPERATION
Annual bonus for financial year 2021/22 and subsequent years to which this Policy applies</td><td>• Ordinarily paid in cash, after the results for the financial year have been audited, subject to performance targets having been met, with two-thirds of the bonus earned required to be invested in Dunelm shares, which must be retained for the duration of employment and are then subject to post-departure holding requirements as set out in the 'Shareholding requirements' section below.
• Alternatively, if the Committee considers that financial year 2021/22 or any later year to which this Policy applies is substantially impacted by the Covid-19 pandemic, the award may be delivered as a conditional award of Dunelm shares granted shortly after the start of the year over shares with a market value equal to the maximum bonus opportunity and with vesting subject to satisfaction of performance targets, as with the bonuses for financial year 2020/21. For these purposes the market value of a share will be the average share price over June and July of that year (consistent with the approach for the bonuses in respect of financial year 2020/21 and 2021/22), unless the Remuneration Committee determines otherwise. Subject to the satisfaction of the performance targets, each award will vest:
– As regards 50% of the shares subject to it on the first dealing day after the announcement of Dunelm's results for the financial year in respect of which the bonus is earned; and
– As regards the balance of the shares subject to it on the first dealing day after the announcement of Dunelm's results for the following financial year.
• At least two-thirds of the shares acquired (after sale of shares to cover tax and National Insurance obligations) must be retained for the duration of employment and are then subject to post-departure shareholding requirements as set out in the 'Shareholding requirements' section below.
• The Committee has discretion to adjust the bonus payout upwards or downwards if it considers that the formulaic outturn does not reflect its assessment of overall financial or non-financial performance of the participant or the Group, or is inappropriate in the context of circumstances that were unexpected or unforeseen at the start of the relevant year, or is inappropriate for any other reason.</td></tr>
<tr><td>MAXIMUM OPPORTUNITY
Annual bonus specifically for financial year 2019/20 due to Covid-19 situation</td><td>• In the case of Nick Wilkinson, a conditional award of 11,594 shares in Dunelm.
• In the case of Laura Carr, a conditional award of 7,675 shares in Dunelm.
• Dividend accruals may be made in respect of special dividends paid during the vesting period applicable to an award.
• Subject to the Committee's discretion to override formulaic outturns, these awards will not be subject to further performance targets as they reflect the outcome of the performance targets for financial year 2019/20, as set out on pages 144 to 146.</td></tr>
<tr><td>MAXIMUM OPPORTUNITY
Annual bonus specifically for financial year 2020/21 due to Covid-19 situation</td><td>• In the case of Nick Wilkinson, a conditional award of 59,130 shares in Dunelm.
• In the case of Laura Carr, a conditional award of 40,291 shares in Dunelm.
• Dividend accruals may be made in respect of special dividends paid during the vesting period applicable to an award. Payment would only be made in respect of shares vesting after applying performance criteria.
• Subject to the Committee's discretion to override formulaic outturns, for financial measures threshold performance 5% of the shares will vest and for on-target performance 40% of the maximum opportunity will be earned. Bonuses will typically be earned between threshold and on-target and between on-target and maximum on a straight line basis.
• For strategic measures and personal goals, vesting of the bonus will be determined by the Committee between 0% and 100% based on its assessment of the extent to which the relevant metrics or objectives have been met.</td></tr>
</table>

REMUNERATION

CONTINUED

Annual bonus – awards to be made to Executive Directors other than Will Adderley, who has requested that he not be considered for annual bonus (continued)	
MAXIMUM OPPORTUNITY **Annual bonus for financial year 2021/22 and subsequent years to which this Policy applies**	• Maximum opportunity – 125% of base salary per annum. • Where bonus awards are granted as share awards, dividend accruals may be made in respect of special dividends paid during the vesting period applicable to an award. Payment would only be made in respect of shares vesting after applying performance criteria. • Subject to the Committee's discretion to override formulaic outturns, for threshold performance, for financial measures 5% of the maximum opportunity will be earned and for on-target performance 40% of the maximum opportunity will be earned. Bonuses will typically be earned between threshold and on-target and between on-target and maximum on a straight line basis. • For strategic measures and personal goals, vesting of the bonus will be determined by the Committee between 0% and 100% based on its assessment of the extent to which the relevant metrics or objectives have been met.
PERFORMANCE METRICS	• No further performance targets will apply to the share awards granted in respect of the bonuses for financial year 2019/20 as those awards reflect the outcome of the performance targets for that year, as set out on pages 144 to 146. • Stretching performance targets are set each year. Performance targets for the Executive Directors may be based on financial objectives and/or strategic objectives and/or personal goals set by the Remuneration Committee annually. • Financial objectives may 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. • Ordinarily, at least 50% of the annual bonus for Executives will be subject to financial objectives. • For the avoidance of doubt, share awards in respect of the bonuses for financial year 2019/20 will not be subject to further performance targets as they reflect the outcome of the performance targets for that year, as set out on pages 144 to 146. • Awards are subject to recovery provisions (malus and clawback) as set out on page 134.

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	• Supports delivery of strategy by requiring the achievement of financial targets which include EPS, which the Committee believes to be the most appropriate measure for medium-term performance, aligned with our growth ambitions and continuing to win market share. EPS growth is also a prime driver of shareholder value creation. Flexibility will be retained to base part of the award on other financial or strategic measures in order that targets can be tailored to the circumstances of each grant. • 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	• 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. • A majority of shares must be retained as set out in the 'Shareholding requirements' section below. • The Committee has discretion to adjust the LTIP vesting outturn upwards or downwards if it considers that the formulaic output does not reflect its assessment of overall financial or non-financial performance of the participant or the Group, or is inappropriate in the context of circumstances that were unexpected or unforeseen at grant, or is inappropriate for any other reason.
MAXIMUM OPPORTUNITY	• The maximum annual award for Executive Directors is 200% of salary. • 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.
PERFORMANCE METRICS	• For at least 75% of an award, one or more financial measures, which will include a measure based on EPS, assessed over the three-year performance period. The balance of the award will be based on one or more other financial, strategic, environmental, social and governance measures. • The Remuneration Committee considers the targets annually taking into account a range of factors which will include the Company's plans, external forecasts and the overall business environment. • Subject to the Committee's discretion to override formulaic outturns, for financial measures 10% of an award will vest for threshold performance (the lowest level of performance at which awards will vest), rising to up to 50% for achieving a stretching level of 'on target' performance and to 100% for achieving or exceeding a stretch level of performance. Vesting between threshold and on-target and between on-target and maximum will typically be on a straight line basis. • For strategic, environmental, social or governance measures, vesting will be determined by the Committee between 0% and 100% based on its assessment of the extent to which the relevant measures have been met. • Awards are subject to recovery provisions (malus and clawback) as set out on page 134.

REMUNERATION

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All employee share plan (Sharesave)	
PURPOSE AND LINK TO STRATEGIC OBJECTIVES	• Promotes share ownership by all eligible colleagues (including Executive Directors).
OPERATION	• 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	• Maximum participation limits are set by the UK tax authorities. Currently the maximum limit is savings of £500 per month.
PERFORMANCE METRICS	• None.

SHAREHOLDING REQUIREMENTS

To align the interests of Executive Directors with those of shareholders and to promote long-term thinking, the Committee has adopted shareholding requirements which apply both during employment and for a period following employment, as set out below (although the Remuneration Committee retains the right to waive this requirement in exceptional circumstances, such as death, divorce, ill health or severe financial hardship).

SHAREHOLDING REQUIREMENTS DURING EMPLOYMENT

- Executive Directors are expected to make a personal investment in Dunelm shares on appointment as an Executive Director (subject to closed periods).
- 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.
- At least two-thirds of shares acquired pursuant to the vesting of share awards in respect of financial year 2019/20, financial year 2020/21 and any other year in respect of which the bonus is satisfied by a share award as referred to on pages 130 to 132 (after sale of shares to cover tax and National Insurance obligations) must be retained during employment.
- Two-thirds of any cash bonus earned (after tax and National Insurance obligations have been met) must be invested in Dunelm shares, which must then be retained during employment.
- All of the shares acquired pursuant to the vesting of any LTIP award granted after 1 July 2020 (after sale of shares to cover tax and National Insurance obligations) must be retained for two years, and two-thirds of those shares must then be retained during employment.
- The relevant shares must be retained regardless of whether the Executive Director has achieved the required 100% or 200% of salary shareholding, therefore building to a higher personal shareholding level over time.

SHAREHOLDING REQUIREMENTS FOLLOWING TERMINATION OF EMPLOYMENT

Following termination of their employment for any reason, an Executive Director must retain for two years shares equal to the lower of the shareholding requirement applicable immediately prior to departure (100% of salary if they leave within five years of appointment or 200% of salary if they leave five years or more after appointment) as appropriate or their actual shareholding on departure.

RECOVERY PROVISIONS (MALUS AND CLAWBACK)

The annual bonus (including any granted as a share award) and LTIP are subject to recovery provisions as set out below.

Malus provisions apply which enable the Committee to determine before the payment of an annual bonus or the vesting of an LTIP award, that the bonus opportunity or LTIP award may be cancelled or reduced.

Clawback provisions apply which enable the Committee to determine for up to three years following the payment of a cash bonus or the vesting of an LTIP award or for three years after the end of the performance period for a share award granted in respect of a bonus, that the amount of the bonus paid may be recovered and the LTIP or share bonus award may be cancelled or reduced (if it has not been exercised) or recovery may be applied to it (if it has been exercised).

The malus and clawback provisions may be applied in the event of:

- 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;
- Fraud; 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.

NON-EXECUTIVE DIRECTORS

Fees	
PURPOSE AND LINK TO STRATEGIC OBJECTIVES	• To attract and retain a high calibre Chairman and Non-Executive Directors by offering competitive fee levels.
OPERATION	• 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	• 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	• None.

The Company may deliver any element of fixed remuneration for an Executive Director in shares rather than in cash or any other form in which it is usually provided. The number of shares would be such number as have a value at the relevant time equal to the value of the fixed remuneration being delivered in shares.

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.

REMUNERATION

CONTINUED

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

Specifically for the financial year 2020/21 due to the Covid-19 situation:

- 50% of the annual bonus will be based on financial performance and delivery of the Board's Recovery Plan for FY21.
- 25% of the annual bonus will be based on strategic progress, including environmental, social and governance measures.
- 25% of the annual bonus will be based on personal goals set for the Executive Director in the context of our operating plan.

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 2021/22 and subsequent years (if applicable), 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. Financial measures will ordinarily represent a majority.

LTIP

For the LTIP, at least 75% of the award will be based on one or more financial measures, which will include EPS. The Remuneration Committee considers EPS to be the most appropriate measure for medium-term performance, aligned with our growth ambitions and continuing to win market share. EPS growth is also a prime driver of shareholder value creation. The use of EPS for Dunelm's LTIP is also considered appropriate because of the low level of leverage in the business and is the main driver of cash generation. Capital expenditure controls exercised by the Board are sufficiently rigorous to avoid EPS accretion by means of ineffective investment of capital.

Any part of the award not based on financial measures will be based on strategic measures, which may include environmental, social and governance measures.

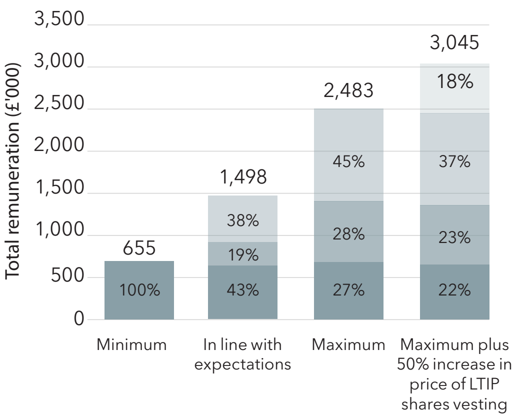
The number of shares comprised in an award or the performance target which applies may be adjusted by the Remuneration Committee in accordance with the plan rules if justified by the circumstances, for example, if there were a major capital transaction. Any amendment and the reason for it would be fully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

ILLUSTRATIVE PERFORMANCE SCENARIOS

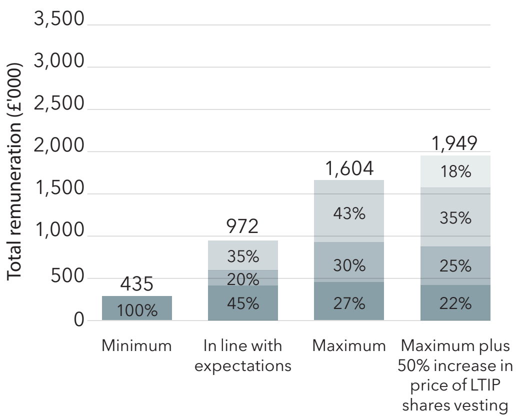
At his request, Will Adderley does not receive any remuneration apart from an annual salary, car allowance and healthcare benefits. Therefore his remuneration has not been included in the scenarios below.

The following graphs set out what Nick Wilkinson and Laura Carr, the other Executive Directors in office at the date of this report, could earn in the financial year 2020/21 under the following scenarios:

NICK WILKINSON



LAURA CARR



Fixed pay   Bonus   LTIP   LTIP appreciation

The following assumptions have been made in respect of the scenarios on the opposite page:

Fixed pay comprises base salary, benefits and pension only (see table below)

	Base (last known salary) £'000	Benefits (as in single figure table) £'000	Pension (8% of salary) £'000
Nick Wilkinson	562	48	45
Laura Carr	383	21	31

Performance level	Fixed pay	Annual Bonus	LTIP
MINIMUM (PERFORMANCE BELOW THRESHOLD)	As above	Nil	Nil
IN LINE WITH EXPECTATIONS	As above	40% of shares under share bonus award vest, with the value calculated by reference to the share price used to determine the grant (being 1189p).	50% of the LTIP award (i.e. 100% of salary for Nick Wilkinson and 90% of salary for Laura Carr), based on face value of the award at the date of grant.
MAXIMUM PERFORMANCE	As above	100% of shares under share bonus award vest, with the value calculated by reference to the share price used to determine the grant (being 1189p).	100% of the LTIP award (i.e. 200% of salary for Nick Wilkinson and 180% of salary for Laura Carr), based on face value of the award at the date of grant.
MAXIMUM PERFORMANCE, PLUS SHARE PRICE INCREASE	As above	100% of shares under share bonus award vest, with the value calculated by reference to the share price used to determine the grant (being 1189p).	100% of the LTIP award (i.e. 200% of salary for Nick Wilkinson and 180% of salary for Laura Carr), plus an increase in the value of the LTIP of 50% across the relevant performance period to reflect possible share price appreciation.

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

- Actual pay will reflect company and personal performance over the relevant performance period.
- We are required to show the value of the annual bonus awards based on an assumed share price, without making any assumptions for changes in the share price.
- We are required to show the value of the LTIP awards that are expected to be made in the year, not those which vest by reference to performance in the year. This valuation is based on the expected face value at the date of grant without making any assumptions for changes in the share price (other than as noted in relation to the final scenario).
- No adjustment is made for payment of special dividend equivalents as the level of these cannot be determined at the date of this report.

REMUNERATION

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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 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 any cash annual bonus, provided that it is pro-rated to service.

Share bonus awards will lapse on termination of employment before vesting other than in the event of death, serious ill health and any other reason at the discretion of the Remuneration Committee. If an award does not lapse, the Remuneration Committee will determine whether it vests on termination or at the ordinary vesting date. If termination is during the performance period, the extent of vesting will be determined by reference to the performance conditions and, unless the Remuneration Committee determines otherwise, a reduction to reflect the proportion of the performance period that had elapsed at cessation.

The limited circumstances in which unexercised LTIP awards might be exercised following termination of an Executive Director's service contract are set out below.

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 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.

Details of the likely duration of the service contracts for Executive Directors and the letters of appointment for the Non-Executive Directors are set out in Table 8 on page 149 of the Implementation Report.

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, 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.
- Any exercise would be subject to assessment of the performance condition (and the exercise of any discretion to vary formulaic outturns in line with the policy table) and, unless the Committee determined otherwise, a reduction to reflect the proportion of the performance period that had elapsed at cessation.
- 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, LTIP awards would be subject to the applicable malus and clawback provisions.

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).

OTHER PAYMENTS

The Committee reserves the right to make any other payments in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement of any claim arising in connection with the cessation of a Director's office or employment or for any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with their cessation of office or employment.

CHANGE OF CONTROL AND OTHER CORPORATE EVENTS

SHARE BONUS AWARDS

Share bonus awards will vest on a change of control or winding up of the Company before the originally anticipated vesting date. If vesting is during the performance period, the extent of vesting will be determined by reference to the performance conditions and, unless the Remuneration Committee determines otherwise, a reduction to reflect the proportion of the performance period that had elapsed at the date of the relevant event.

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 (unless the Remuneration Committee decides not to apply a time based reduction) 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 or any share bonus awards, 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.

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.

OPERATION OF SHARE PLANS

The Committee may amend the terms of awards and options under the Company's share plans in accordance with the plan rules in the event of a variation of Dunelm's share capital or a demerger, special dividend or other similar event or otherwise in accordance with the rules of those plans. Awards may be settled, in whole or in part, in cash, although the Committee would only settle an Executive Directors' award in cash in exceptional circumstances, such as where there is a regulatory restriction on the delivery of shares, or in connection with the settlement of tax liabilities arising in respect of the award.

EXECUTIVE PAY AND THE PAY OF OTHER COLLEAGUES

The principles set out on the remuneration strategy on page 123 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 build and maintain a shareholding in the Company as set out above.

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 line with the 2018 Corporate Governance Code:

- The Committee formally approves the remuneration of the Company Secretary and all members of the Executive Board.
- At least annually, the People Director provides information to the Board about workforce policies and practices.

REMUNERATION

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- The Board receives a 'Colleague Dashboard' twice a year, which contains a number of colleague measures, including gender and age split, gender pay, reward, Sharesave participation, colleague engagement, voluntary turnover and internal promotion.

Details of how we engage with our colleagues on pay are set out in the Implementation Report on page 153.

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 all 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 2020, 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.

We consulted with shareholders in relation to the new Policy including, in particular, our approach to share bonus awards proposed specifically due to the Covid-19 situation for 2019/20 and 2020/21, our approach to LTIP awards for 2020/21, pensions and salary increases. We were pleased with the level of engagement from shareholders and for the support shown for our proposals, which we have finalised having regard to feedback received.

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). 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.
- Pension provision will be in line with the policy.
- 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.

Circumstances in which the Committee might apply this discretion 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.
- 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 from page 128. 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.

LEGACY REMUNERATION ARRANGEMENTS

The Committee reserves the right to make remuneration payments and payments for loss of office (including exercising any discretion available to it in connection with any such payment) notwithstanding that they are not in line with the Policy set out above where the terms of payments were agreed:

- Before the Policy came into effect (provided that, in the case of any payments agreed on or after 11 November 2014 they are in line with any applicable shareholder approved Directors' remuneration policy in force at the time they were agreed or were otherwise approved by shareholders); or
- At a time when the relevant individual was not a Director of the Company (or other person to whom the Policy set out above applies) and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company (or other such person).

For these purposes, 'payments' includes the satisfaction of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' no later than the time the award is granted.

REMUNERATION

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IMPLEMENTATION REPORT

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 2019/20 financial year; and how the revised policy being put forward for approval by shareholders at the AGM on 17 November 2020 will, subject to approval, be applied in the 2020/21 financial year.

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

COMMITTEE MEMBERSHIP AND MEETINGS

The table below sets out the membership and attendance of Directors on the Remuneration Committee during the year:

Table 1 – Committee membership and attendance

Member	Period from	To	Meetings attended
William Reeve (Chair)	1 July 2015	To date	5/5
Ian Bull[1]	10 July 2019	To date	4/4
Andy Harrison	1 September 2014	To date	5/5
Peter Ruis	10 September 2015	To date	5/5
Paula Vennells[1]	4 September 2019	To date	3/4
Liz Doherty[2]	1 May 2013	19 November 2019	2/2

1. Ian Bull and Paula Vennells were both appointed to the Board during the financial year, and joined the Committee on appointment.

2. Liz Doherty retired from the Board and the Committee, as planned, on 19 November 2019.

The Company Secretary acts as secretary to the Committee.

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. 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 £21,650 (FY19: £5,800).

Deloitte did not provide any non-remuneration-related consultancy services in the year (FY19: £117,500).

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 27 June 2020:

Table 2 – Directors' remuneration – single figure table

	Salary/fees[1] £'000		Benefits[2] £'000		Pension[5] £'000		**Total fixed remuneration[6] £'000**		Bonus[3] £'000		LTIP awards[4] £'000		**Total variable remuneration[7] £'000**		**Total £'000**	
Director	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Executive																
Nick Wilkinson	**426**	541	**48**	108	**55**	54	**529**	703	**138**	662	**218**	–	**356**	662	**885**	1,365
Laura Carr[1]	**347**	216	**21**	312	**37**	22	**405**	550	**91**	270	**–**	–	**91**	270	**496**	820
Will Adderley	**–**	–	**21**	21	**–**	–	**21**	21	**–**	–	**–**	–	**–**	–	**21**	21
Non-Executive																
Andy Harrison[1]	**162**	212	**–**	–	**–**	–	**162**	212	**–**	–	**–**	–	**–**	–	**162**	212
Marion Sears[1]	**39**	51	**–**	–	**–**	–	**39**	51	**–**	–	**–**	–	**–**	–	**39**	51
Liz Doherty[1]	**27**	68	**–**	–	**–**	–	**27**	68	**–**	–	**–**	–	**–**	–	**27**	68
William Reeve[1]	**47**	61	**–**	–	**–**	–	**47**	61	**–**	–	**–**	–	**–**	–	**47**	61
Peter Ruis[1]	**39**	51	**–**	–	**–**	–	**39**	51	**–**	–	**–**	–	**–**	–	**39**	51
Rachel Osborne[1]	**–**	8	**–**	–	**–**	–	**–**	8	**–**	–	**–**	–	**–**	–	**–**	8
Ian Bull[1]	**41**	–	**–**	–	**–**	–	**41**	–	**–**	–	**–**	–	**–**	–	**41**	–
Paula Vennells[1]	**30**	–	**–**	–	**–**	–	**30**	–	**–**	–	**–**	–	**–**	–	**30**	–
Total	**1,158**	1,208	**90**	441	**92**	76	**1,340**	1,725	**229**	932	**218**	–	**447**	932	**1,787**	2,657

1. Laura Carr was appointed 29 November 2018. Rachel Osborne joined the Board on 1 April 2018 and stepped down on 29 August 2018. Ian Bull was appointed on 10 July 2019, and succeeded Liz Doherty as Chair of the Audit and Risk Committee on 19 November 2019. Paula Vennells was appointed on 4 September 2019. Liz Doherty retired from the Board on 19 November 2019. Basic salary/fee, SID fees and Committee Chair fees for Ian Bull, Liz Doherty, Rachel Osborne and Paula Vennells, and salary, pension and benefits for Laura Carr are pro-rated over the relevant year. From 1 July 2019, 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%. During the period April to June 2020 inclusive, Nick Wilkinson took a voluntary 90% reduction in base salary, Laura Carr took a voluntary 20% reduction in base salary, and Will Adderley, Andy Harrison and all of the Non-Executive Directors waived their fees in full. The salary/fee figures in the table above reflect these reductions.
2. 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 (1 February 2018-31 January 2019). Laura Carr was entitled to a relocation allowance of £50,000 and also received a payment of £250,000 when she commenced employment, in partial compensation for remuneration foregone when she left her former employer to join Dunelm, the net amount of which, after payment of tax and National Insurance, she was required to invest in Dunelm shares. Further details are set out in last year's annual report.
3. Nick Wilkinson and Laura Carr were each awarded an annual performance-related cash bonus for 2019/20 with a maximum potential payment of 125% of contractual salary. The performance conditions which applied to the bonus were set in August 2019. The performance condition was linked to PBT versus budget (80%), and performance against personal and strategic objectives (20%). The Committee did not apply discretion to adjust the outcome of the performance criteria to reflect share price appreciation or depreciation, or for any other reason. Subject to shareholder approval of the 2020 Remuneration Policy, this will be paid in deferred shares - see pages 126 and 127.
   In 2018/19, Laura Carr's bonus was pro-rated from the date of her appointment of 29 November 2018. Will Adderley has asked that he not be considered for a bonus award.
4. The figure for Nick Wilkinson is the value of the 2018-20 LTIP award whose three-year performance period ends on the last day of the financial period being reported on. The price used to calculate the value of the award, which will vest on 28 February 2021, was the average of Dunelm's closing share price over the last three months of the FY20 financial year, which was 968.1p per share. It also includes a 'special dividend equivalent' of 32p per vested share in respect of the special dividend paid on 11 October 2019. The Remuneration Committee did not apply discretion to adjust the outcome of the performance criteria applicable to this award to reflect share price appreciation or depreciation, or for any other reason. Laura Carr joined the Board on 29 November 2018 and did not receive an award under the 2018-20 LTIP scheme. Will Adderley has asked not to be considered for an LTIP award.
5. Pension for FY19 and FY20 is 10% of contractual salary for Nick Wilkinson and Laura Carr. Will Adderley waived his entitlement to pension from 1 July 2015.
6. Total fixed remuneration includes salary/fees, benefits and pension.
7. Total variable remuneration includes bonus and LTIP awards.

REMUNERATION

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ANNUAL BONUS

Each of Nick Wilkinson and Laura Carr were eligible to earn an annual bonus of up to 125% of base salary in respect of the year, subject to satisfaction of the performance targets set out below. Will Adderley asked not to be considered for annual bonus.

FINANCIAL TARGET – 80% OF BONUS OPPORTUNITY

For the period ended 27 June 2020, budgeted PBT was £132.9m (on a pre-IFRS 16 basis). The financial target set was such that no bonus would be paid until PBT reached £126.3m and maximum bonus would be paid at £142.9m. Between those numbers, bonus would be payable calculated on a straight line basis. Market consensus for 2019/20 PBT at the date the target was set in August 2019 was £132.2m (on a pre-IFRS 16 basis).

The final profit outturn was negatively affected by the unprecedented impact of Covid-19 as a result of which PBT for 2019/20 was £111.4m (on a pre-IFRS 16 basis), such that no bonus was payable in respect of this element.

STRATEGIC AND PERSONAL OBJECTIVES – 20% OF BONUS OPPORTUNITY

Assessment was made by reference to personal performance of both Nick Wilkinson and Laura Carr.

Assessment was also made of progress against the strategic objectives set out below, and a number of specific quantifiable measures. The assessment was made by reference to performance across the objectives as a whole, with no specific weighting. Performance against these objectives was assessed as follows:

Nick Wilkinson

Objective	Performance
Launch single digital platform	Single digital platform was delivered in October 2019, as planned at the start of the financial year. No significant disruption to sales or customer experience was experienced, which is a notable achievement given the extent of the technical and operational changes as a result of the platform change.
Implement Click & Collect	Click & Collect was successfully implemented, as planned, in all UK stores. While stores were closed to customers due to Covid-19 we were able to continue to serve our customers through a contactless Click & Collect service, implementing social distancing measures to ensure the safety of colleagues and customers. This was an important source of sales and cash for the business, and enabled us to keep some colleagues in work rather than on furlough.
Make meaningful improvements to the customer proposition	Significant performance improvement on YouGov brand tracking scores over the 12 months to June 2020 for value and quality; gained market share (FY20 7.6%; FY19 7.2%). Replatform enabled us to improve the functionality of our website significantly and offer more convenient options to our customers, for example 'named day' deliveries. Contact-free home delivery and 'deliver to car' Click & Collect services introduced. Virtual Made to Measure consultations and personal shopper service introduced. Step change implemented in our sustainability ambitions and 'sustainable' product and packaging ranges launched.
Develop skills capability in priority areas	Significant changes made to the Leadership Team to improve capability, particularly in commercial, promoting high potential internal talent as part of this process. New leadership development framework launched. Good progress in building talent and capability in the areas that will drive our future growth - commercial, digital and data and insight.
Improve customer engagement score GROUP KPI	Achieved – increased customer satisfaction across all of our channels, with particular progress on deliveries by our own two-man home delivery fleet. New 'how safe was our service' score introduced during the Covid-19 crisis, with scores consistently above 80%.
Improve colleague engagement score GROUP KPI	Achieved – our colleague NPS improved half year FY20 v half year FY19 by 9%pts. A full year all colleague survey was not completed at the end of the year due to the pandemic. However during the crisis we introduced a weekly 'pulse' survey to measure how safe colleagues who are working feel, and consistently scored above 80%. We have also made good progress on a number of our other internal colleague measures, as well as being recognised by Glassdoor as being number 4 in their ranking of UK retailers.

Note that the figures for colleague and customer engagement, value and quality have been withheld as they are commercially sensitive, and the Committee considers that disclosure would be harmful to the Company.

The Committee carefully considered the above performance. It was noted that some significant strategic milestones have been successfully delivered during the year with no notable disruption. There has been significant over-achievement of the key colleague and customer measures which are important to the delivery of the Company's strategy over the long term, whilst cost and cash control measures have been strictly maintained. The lead indicators for strategic development, being market share and customer engagement, were above expectation. At the same time an improvement in the colleague engagement score was achieved. These results provide a strong basis for sustainable strategic development and shareholder value creation.

All of the above was reflected in the financial performance of the Group pre Covid-19, which was delivering profit and cash generation ahead of expectations.

The Committee considers that the Executive team, led by Nick, has performed strongly during the Covid-19 crisis, moving quickly to secure the financial stability of the business, and maintaining and improving all key stakeholder relationships. This has enabled the Company to emerge from the most difficult part of the crisis in a relatively strong financial and market position. The Committee also noted the leadership shown by Nick in taking a voluntary salary reduction of 90% in April to June 2020 and in the provision of regular, all-colleague Q&A sessions online in order to maintain colleague contact and build confidence through a period of uncertainty. The team has also developed a strong post-crisis recovery plan, designed to gain market share by accelerating our digital growth and developing our customer proposition, whilst maintaining and improving financial and operational performance. Ambitious long- term outcomes have also been developed in the year, to ensure that the business demonstrably delivers value to all of its stakeholders, for the climate, and to society as a whole. Many of the actions taken during the Covid-19 crisis for the benefit of the stakeholders and society have already moved this ambition forward.

Taking all of the above into account, it was determined that Nick's delivery against personal and strategic objectives had greatly exceeded expectations, and that accordingly therefore 100% of this element of the bonus (2019: 90%) had been earned, giving rise to a payment of £137,853 to Nick Wilkinson (2019: £121,635), which will be paid as set out by way of a deferred share bonus mechanism.

Laura Carr

Objective	Performance
Develop skills capability in priority areas	As for Nick Wilkinson – see opposite
Improve customer engagement score GROUP KPI	As for Nick Wilkinson – see opposite
Improve colleague engagement score GROUP KPI	As for Nick Wilkinson – see opposite
Deliver budgeted free cash flow at year end of £88.8m GROUP KPI	FY20 free cash flow of £174.7m was £85.9m favourable to budget. This reflects close cost control and improvements in stock and working capital management. Laura took decisive steps throughout the Covid-19 crisis to secure the cash position of the business, including development of a detailed cash flow model that was updated weekly, securing access to government funding, and implementing procedures to limit and closely control expenditure. This has enabled the business to be cash positive at the financial year end.
Deliver budgeted operating costs of 37.7% as a percentage of sales	At the end of February 2020, operating costs as a percentage of sales were forecast to be on target. These costs included investments in areas such as digital, brand marketing and supply chain capacity. Underlying costs have been well managed throughout the year, with a focus on efficiency and operational productivity.
Deliver budgeted gross margin percentage of 49.7%	At the end of February 2020, gross margin % was forecast to be 50.9%, 1.2%pts ahead of target. Despite disruption caused by Covid-19, the full year gross margin % was 50.3%. This reflects strong controls over purchasing and gross margin maintenance. This rate improvement was driven by negotiation of sourcing benefits and cost price reductions across various categories, plus better year on year stock clearance activity.
Deliver a reduction in stock loss	Target was met at year end. However prior to Covid-19 a significant reduction had been achieved and a material reduction in stock loss at year end was anticipated. Increased focus on better procedures and understanding of where stock loss occurs significantly reduced loss through theft, damage and shrinkage. With stores closed for approximately 2 months and the focus on stock procedures not an operational priority in the initial stages of opening stores safely, we have prudently estimated the amount of stock loss that could have been incurred during the closure period and in the initial opening of stores. This increased provisioning offset the improvements delivered earlier in the year, and meant that the target was not exceeded as we expected in February.
Deliver the budgeted logistics cost as a percentage of sales	At the end of February 2020, logistics cost as a % of sales was on budget. Through the Covid-19 pandemic online sales increased significantly and this has put the logistics operation under significant pressure. Social distancing measures put in place for our colleagues and customers have also increased costs. However, cost control continues to be an area of significant focus. The full year logistic cost as a percentage of sales was 1%pts higher than budget.

Note that the figures for colleague and customer engagement, quality, value and stock loss have been withheld as they are commercially sensitive, and the Committee considers that disclosure would be harmful to the Company.

REMUNERATION

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The Committee considered Laura's performance across these measures as a whole. As noted on the previous pages, there has been significant over-achievement of the key colleague and customer measures which are important to the delivery of the Company's strategy over the long term, whilst cost and cash control measures have been strictly maintained. At the end of February 2020, which is the last month of pre Covid-19 operations during the financial year, all but one of the financial targets had been met or significantly exceeded, reflecting the improvements to financial controls and disciplines that Laura had led during the year. All of the above was reflected in the financial performance of the Group pre Covid-19, which was delivering profit and cash generation ahead of expectations.

As stated above, the Committee considers that the Executive team, of which Laura is a key member has performed strongly during the Covid-19 crisis, moving quickly to secure the financial stability of the business, and maintaining and improving all key stakeholder relationships. This has enabled the Company to emerge from the most difficult part of the crisis in a relatively strong financial and market position. Laura has also played a key part through the crisis in providing assurance to the Board on the financial position of the Company and has successfully led the Finance team through the audit process. She has also improved the assurance provided to the Board in support of the Going Concern and Viability Statement set out in this Annual Report. The Committee also noted the leadership shown by Laura in taking a voluntary salary reduction of 20% in April to June 2020.

Taking all of the above into account, it was determined that Laura's delivery against personal and strategic objectives had greatly exceeded expectations, and that, accordingly,100% of this element of the bonus (FY19: 100%) had been earned, giving rise to a payment of £91,250 to Laura Carr (FY19: £53,920 – pro-rated to service over the year), which will be paid as set out below.

PAYMENT OF BONUSES

The Committee carefully considered the payment of a bonus for achievement of personal and strategic objectives in respect of a year where the PBT target had not been achieved. The Committee considered that given:

- the level of achievement in respect of the personal and strategic measures; and
- that prior to the Covid-19 crisis, which had forced the majority of the business to shut down for between 7 and 14 weeks, performance had also been reflected in the financial performance of the business,

the level of bonus earned by reference to the personal and strategic objectives is appropriate. However, the Committee was mindful of the need to align the outturn with the interests and experience of shareholders. Therefore, as stated above in the Chair's letter, subject to shareholder approval this will be paid by way of an award of 11,594 Dunelm shares (in the case of Nick Wilkinson) and 7,675 Dunelm shares (in the case of Laura Carr), calculated using the average share price between June and July 2020 of 1189p. The total annual bonus opportunity has not changed, but delivery is in shares. This price reflects the market assessment of performance during the FY20 financial year, as it is set at the start of our FY21 financial year and includes the period post our year-end Trading Update on 15 July 2020. To ensure longer term alignment with shareholders, these awards will vest as to 50% of the shares in September 2021 and 50% of the shares in September 2022.

The Committee also noted that a consistent approach and deferred share bonus mechanism is being adopted for payment of the personal elements of the FY20 bonus award for all colleagues in the business who were eligible for bonus in respect of FY20; and that a one-off 'thank you' payment of £250 was awarded to all colleagues in recognition of their effort and contribution throughout the Covid-19 crisis.

Total bonus earned is set out in the table below:

Table 3 – Annual bonus earned in respect of 2019/20 performance

	Bonus awarded £	Percentage of maximum award
Nick Wilkinson	£137,853	20.0%
Laura Carr	£91,250	20.0%
Will Adderley (waived entitlement)	–	N/A

As stated above, this will be paid by way of a deferred share bonus mechanism.

LTIP – AWARDS EARNED IN RESPECT OF PERFORMANCE IN 2018-20

Over the three-year performance period which ended on 27 June 2020, reported diluted EPS grew at a compound annual rate of 6.7%. This is 4.3% above the compound annual growth in RPI over the same period. Accordingly 19.8% of this award has vested to Nick Wilkinson as set out below. This is included in the single number for total remuneration for 2019/20 as set out in Table 2.

Table 4 – LTIP awards earned in respect of performance in 2018-20

	Shares vesting	Percentage of maximum award
Nick Wilkinson	21,780	19.8%

No awards are due to vest to Laura Carr or Will Adderley in respect of this award. Nick Wilkinson will also receive £6,970 by way of 'special dividend equivalent' in respect of the special dividend of 32p per share paid on 11 October 2019. This is included in the single number for total remuneration for 2019/20 as set out in Table 2 on page 143.

LTIP AWARDS MADE TO DIRECTORS DURING 2019/20

LTIP awards were made on 16 October 2019 to Nick Wilkinson and Laura Carr as set out below. The Committee has determined that no change is to be made to the performance condition as a result of the Covid-19 pandemic.

Table 5 – LTIP awards made to Directors during 2019/20 (audited information)

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	134,984	£1,102,824[1]	Growth in diluted EPS over the three-year performance period compared with growth in the index of retail prices (RPI) over the same period. No part of the award will vest until compound annual EPS growth exceeds RPI growth by 3%. 10% of the award vests when compound annual growth in EPS exceeds RPI growth by 3%. 100% of the award vests when compound annual growth in EPS exceeds RPI by 12%. Between those figures the award will vest on a straight line basis. Two thirds of shares vesting (after payment of tax and National Insurance) must be held for the duration of employment.	July 2019 to June 2022	16 October 2022	10%
Laura Carr	Nil cost option under LTIP	71,481	£584,000[1]	As for Nick Wilkinson	July 2019 to June 2022	16 October 2022	10%

1. Based on the closing share price on 15 October 2019 of 817p per share.

PAYMENTS TO PAST DIRECTORS AND FOR LOSS OF OFFICE (AUDITED INFORMATION)

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. As a ‘good leaver’, he was also permitted to exercise ‘in flight’ LTIP awards on the original vesting date, subject to applying the performance criteria and after pro-rating to reflect his service during the performance period. All of these have now either been exercised or lapsed. Full details are in previous annual reports.

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

During the 2017/18 and 2018/19 financial years, at the request of the Board, David Stead provided interim support on a part-time basis pending Laura Carr joining the Company as CFO in November 2018. After Laura joined the Group he continued to provide consultancy services on approximately one day per month. David was not appointed as a Director of Dunelm Group plc or any other Group company. Details of payments made to David can be found in note 25 to the financial statements on page 197.

REMUNERATION

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STATEMENT OF DIRECTORS' SHARE INTERESTS

Executive Directors are subject to a shareholding target which requires them to build a holding of Dunelm shares with a value of 1× salary after three years and 2× 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 closed 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.

All Executive Directors comply with this requirement at financial year end.

Nick Wilkinson was appointed on 1 February 2018 and Laura Carr was appointed on 29 November 2018. At the date of this report, they have beneficial shareholdings equal to 237% and 110% of salary respectively (based on closing share price at the year-end - please see below for detail).

Table 6 and Table 7 show the interests of the Directors in shares of the Company at 27 June 2020.

Table 6 – Shareholdings of Directors and Persons Closely Associated with them (audited information)

	At 27 June 2020 1p Ordinary Shares	At 29 June 2019 1p Ordinary Shares	Percentage of salary (where applicable)*	Shareholding target (where applicable)
Will Adderley	**90,231,779**	90,231,779		
Ian Bull	**4,000**	–		
Laura Carr	**36,000**	25,000	110%	1× salary by Nov 2021 2× salary by Nov 2023
Andy Harrison	**416,480**	416,480		
William Reeve	**18,000**	12,500		
Peter Ruis	**–**	–		
Marion Sears	**105,000**	105,000		
Nick Wilkinson	**113,752**	87,731	237%	1× salary by Feb 2021 2× salary by Feb 2023
Paula Vennells	**–**	–		

* Based on the closing share price of 1170p at 27 June 2020 and base salary at 1 July 2020.

Table 7 – Directors' interests in options at the period end (audited information)

	Date of award	Nature of award	Share options at 27 June 2020	End of performance period	Option price	Market price of shares at date of award
Will Adderley	–	–	**Nil**	–	–	–
Nick Wilkinson	February 2018	2018–20 LTIP	**110,000**	June 2020	Nil	584.0p
	October 2018	2019–21 LTIP	**180,802**	June 2021	Nil	598.0p
	October 2019	2020-22 LTIP	**134,984**	June 2022	Nil	817.0p
	November 2018	Sharesave	**3,757**	December 2021	479.0p	598.0p
Laura Carr	November 2018	2019–21 LTIP	**105,893**	June 2021	Nil	551.5p
	October 2019	2019-22 LTIP	**71,481**	June 2022	Nil	817.0p
	November 2019	Sharesave	**2,752**	December 2022	654.0p	817.0p

The LTIP awards above granted to Nick Wilkinson and Laura Carr are subject to the performance conditions noted in the policy table in the remuneration policy set out in the 2019 Annual Report.

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 period end, over the last 10-year period options have been granted over 2.7% 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 and Laura Carr. 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 8 – 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
Laura Carr	29 November 2018	N/A	6 months
Marion Sears	22 July 2004	10 months	1 month
Andy Harrison	1 September 2014	36 months	3 months
William Reeve	1 July 2015	9 months	1 month
Peter Ruis	10 September 2015	12 months	1 month
Ian Bull	10 July 2019	23 months	1 month
Paula Vennells	4 September 2019	24 months	1 month

Since Marion Sears has now served more than nine years on the Board her contract is renewed for one-year terms (rather than three), with the notice period referred to above.

RELATIVE TOTAL SHAREHOLDER RETURN (TSR) PERFORMANCE

The graph below shows the Group's performance over ten years, measured by total shareholder return, compared with the FTSE 350 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 9 – Total shareholder return performance graph (rebased to 2 July 2010 = 100)

The shares traded in the range of 659.5p to 1,389.0p during the year and stood at 1,170.0p at 27 June 2020.

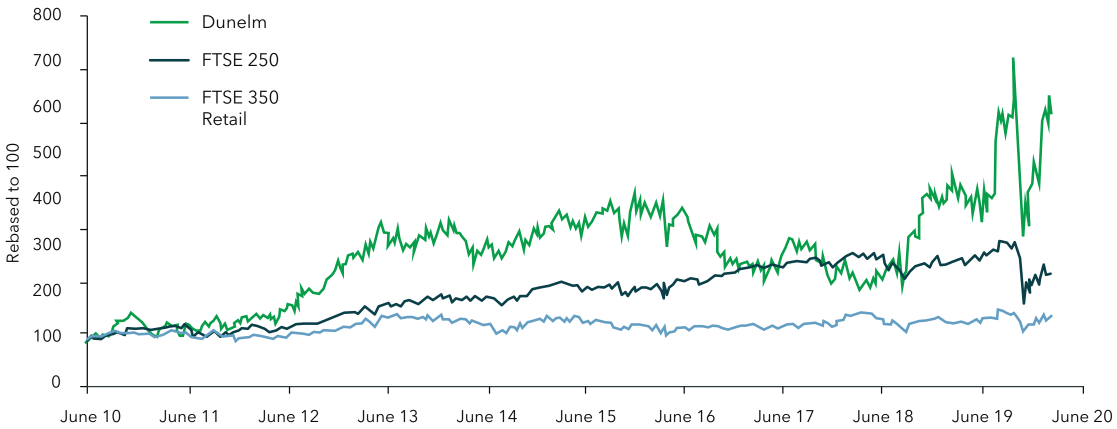

Table 10 – Historic Chief Executive Officer pay

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 ten financial years:

		CEO single figure of total remuneration £'000	Annual bonus payment against maximum opportunity %	Long term incentive vesting rates against maximum opportunity %
FY19/20	Nick Wilkinson[6]	885	20.0%	19.8%
FY18/19	Nick Wilkinson	1,365	97.9%	N/A
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%

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 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.
6. During the period April to June 2020 inclusive, Nick Wilkinson took a voluntary 90% reduction in base salary.

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

Table 11 – Change in Directors' pay compared with annual change in average employee's pay

	Percentage increase in remuneration between FY19 and FY20		
	Salary and fees[2]	Benefits[1]	Short-term incentives[3]
Nick Wilkinson	2.0%	(55.6%)	(79.2%)
Laura Carr	0.0%	(93.3%)	(66.3%)
Will Adderley	0.0%	0.0%	n/a
Andy Harrison	2.0%	n/a	n/a
Marion Sears	2.0%	n/a	n/a
Liz Doherty	2.0%	n/a	n/a
William Reeve	2.2%	n/a	n/a
Peter Ruis	2.0%	n/a	n/a
Ian Bull	n/a	n/a	n/a
Paula Vennells	n/a	n/a	n/a
All colleagues[4]	3.5%	0%	(42.7%)

Notes:

1. In 2019 Nick Wilkinson was 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 (1 February 2018 - 31 January 2019). In 2019 Laura Carr was entitled to a relocation allowance of £50,000 and also received a payment of £250,000 when she commenced employment, in partial compensation for remuneration foregone when she left her former employer to join Dunelm, the net amount of which, after payment of tax and National Insurance, she was required to invest in Dunelm shares.
2. Directors' remuneration above is based on contractual salary or fees as appropriate, and does not take account of the voluntary salary reductions of 90% and 20% respectively of Nick Wilkinson and Laura Carr during April to June 2020 inclusive, or the waiver by all other Directors of 100% of their fees for this period.
3. Short-term incentive percentage has been calculated in relation to only those colleagues eligible to receive a bonus in the period as this is considered a more appropriate comparator group. All colleagues short-term incentives include a one-off £250 'thank you' payment to all colleagues.
4. All colleagues salary increase is calculated only for colleagues employed for the whole of FY19 and FY20.

Table 12 – CEO pay ratio

The table below shows the ratio of actual pay of Nick Wilkinson, CEO, to other colleagues:

Financial Year	Method	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2019/20	Option A	54:1	47:1	38:1

Full year pay data for FY20 has been used to calculate these ratios and the elements included are based on the CEO single figure remuneration in Table 2. Please note therefore that Nick Wilkinson's salary reflects the voluntary 90% reduction during the period April to June 2020 inclusive. The table below is based on Nick Wilkinson`s contractual salary:

Financial Year	Method	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2019/20	Option A	62:1	53:1	43:1

The colleague data used at each percentile is as follows:

	25th percentile	50th percentile	75th percentile
Total Pay and Benefits	£16,409	£18,918	£23,498

The following assumptions were made to calculate these figures:

- We have used the assumption of a 40-hour week in order to consistently calculate the annual salary for everyone.
- As the hours our colleagues work vary week to week, we have converted their hourly-rate of pay into the equivalent 40-hour week, to ensure this is directly comparable.
- We used option A to calculate the ratios.
- 9,574 colleagues were included in this data set.

REMUNERATION

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Table 13 – 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 FY20 and FY19:

	2019/20 £'m	2018/19 £'m	% increase
Total spend on pay	**155.2**	143.1	8.5%
Ordinary dividend to shareholders	**41.4**	54.6	(24.2)%
Special distributions to shareholders	**64.6**	–	N/A
Total distributions to shareholders	**106.0**	54.6	94.2%

This information is based on the following:

- Total spend on pay – total employee costs excluding car allowances and bonuses from note 4 on page 182. This excludes £14.5m received from the Government's Job Retention Scheme in respect of colleagues who were on furlough during the period.
- Dividends taken from note 7 on page 183.

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.

Nick Wilkinson and Laura Carr do not hold any external appointments. Will Adderley is a Director of WA Capital Limited.

SENIOR EXECUTIVE REMUNERATION

The Remuneration Committee approved 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, in order to improve their alignment with shareholders, 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

In June 2020, Dunelm published its third gender pay report. We are committed to paying men and women equally for roles of the same size and scale. We are proud that 68% 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 gap in the pay between genders (our mean gap is 18.0% (2018: 19.2%) and our median gap is 7.6% (2018: 7.9%)), very much in line with our peers in the UK retail sector.

As we have said in previous reports, our plans are focused on taking long-term sustainable actions to address the gender pay gap. We are pleased our gender pay gap has improved this year, but recognise there is still a gap. This is a different measure to equal pay, and the gap is driven by the fact that 80% of our colleagues are hourly paid in our store of which 74% are female.

Dunelm's brand purpose is to help everyone create a home they love. We want everyone to feel that Dunelm is a place for them, and this applies equally for our colleagues and customers. Diversity, inclusion, and more generally the wellbeing of our colleagues, are high on our agenda.

We want all colleagues to feel they can grow with Dunelm and that they are welcome. Improving our gender balance is part of this and remains a commitment of ours.

We have good male/female representation in our senior leadership. As at 27 June 2020, our Executive Board had 55% female representation. When combined with the Group Board, our senior leadership team is 45% female.

ENGAGING WITH OUR COLLEAGUES ON PAY

In a process introduced in the 2018/19 financial year, Marion Sears, as Non-Executive Director designated to consider colleague views, attended two National Colleague Voice meetings, and pay was discussed with colleagues for the first time. In June 2020 William Reeve, Chair of the Remuneration Committee, attended the National Colleague Voice meeting to provide an update on remuneration and answer questions. No concerns were expressed about Group or executive remuneration and the discussion focused on colleague pay arrangements during the Covid-19 pandemic. This followed the previous year's presentation, which has explained our approach to remuneration throughout the Group, and the key elements of our remuneration policy specifically for Executive Directors. Colleagues were also reminded that they may raise any questions or make comments about executive pay via the People Director, directly with Marion or William, or anonymously through our engagement survey.

STATEMENT OF IMPLEMENTATION OF POLICY IN THE 2020/21 FINANCIAL YEAR

Base salary and benefits for each of the Executive Directors for 2020/21 are set out in the table below:

Table 14 – Base salary, benefits and pension for 2020/21

Name	Base salary	Increase to base salary year-on-year	Benefits	Increase to benefits year-on-year	Pension (audited)	Increase to pension year-on-year
Nick Wilkinson	£562,440	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.	N/A	£44,995	(2%)
Laura Carr	£383,250	5%	Car allowance; private health insurance for the individual and their family; permanent health cover; life assurance; mobile phone; colleague discount.	N/A	£30,660	(2%)
Will Adderley	£1	Nil	As for Laura Carr above.	Nil	Nil	N/A

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

BASE SALARY

From 1 July 2020, the Committee has decided to award Nick a 2% increase in base salary, and Laura a 5% increase. Nick's base salary increase is within the range of the increase given to the majority of our colleagues across the Group. Laura's higher increase reflects the fact that she is relatively new in role, in her first public company CFO position, and her contribution to the business has grown significantly since she joined the Board in November 2018. The 5% salary increase for Laura is in line with the median pay increase across the business and is consistent with the range of increases given to high performing talent in the business who have demonstrated strong progression in role. Her base pay will still be below the external benchmark median.

PENSION

The Remuneration Committee has committed to reduce the pension entitlement of Nick Wilkinson (CEO) and Laura Carr (CFO), from 10% of base salary, to the rate available for the wider workforce, currently 3%, by 1 July 2023. From 1 July 2020, both Nick and Laura have agreed to accept an initial reduction in their entitlement to 8% of salary. This will be reviewed again in June 2021.

ANNUAL BONUS – DEFERRED SHARE AWARD

As outlined in the statement from the Chair of the Remuneration Committee on page 120, it is proposed that the annual bonus opportunity for the 2020/21 financial year be delivered fully in shares. This will help the business to preserve cash and ensure that the Executive Directors' annual variable pay award is linked to the share price, which is a measure of Dunelm's progress, and which aligns their interests with those of shareholders in circumstances where motivation and retention are important, but setting meaningful annual bonus targets is exceptionally difficult. Subject to shareholder approval it is intended that share awards will be made to Nick Wilkinson and Laura Carr as soon as possible after the AGM in November 2020 on the following terms:

REMUNERATION

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- Face value of 100% of the bonus opportunity (i.e. 125% of salary). These awards will be over:
  - Nick Wilkinson: 59,130 shares.
  - Laura Carr: 40,291 shares.
- The number of shares has been determined by reference to the average share price over June and July 2020 of 1189p per share. The total annual bonus opportunity has not changed, but delivery is in shares. This price reflects the market assessment of performance during the FY20 financial year, as it is set at the start of our FY21 financial year and includes the period post our year-end Trading Update on 15 July. This means that Executives' interests are further aligned with those of shareholders, and there is more risk or opportunity depending upon Dunelm's progress during the FY21 financial year as reflected in share price movements.
- Covid-19 has left us operating in an unprecedented business environment with an exceptionally unpredictable range of future outcomes, especially over the next 12 – 24 months. The primary goals of the business over the next 12 months are to rebuild from the Covid-19 outbreak. In these circumstances, we consider it appropriate to determine vesting of the annual bonus share awards by reference to a robust qualitative assessment of performance in relation to the following three areas over the financial year to June 2021:
  - Financial performance and delivery of a Recovery Plan FY20/21 (weighting 50%).
  - Strategic progress, including environmental, social and governance performance (weighting 25%).
  - Personal goals (weighting 25%).
- The proposed measures and weightings reflect our critical financial and strategic priorities over the next 12 months. For each criterion the Committee will use its discretion to determine the extent of performance and the appropriate level of vesting. In line with the Remuneration policy and the usual cash annual bonus, the intention is that up to 40% of the awards would vest for 'on-target' performance. When the Committee determines the performance outcome for the year, it will be thoughtful in its assessment of results, balanced with the shareholder experience (including the extent to which the Company has resumed, or is in a position to resume, dividend payments) and the wider workforce experience.
- In determining vesting, consideration will also be given to the extent of any 'windfall' benefit that is considered to have been delivered, although the Committee notes that the share price used to calculate the number of shares in the award (1189p) is close to the pre Covid-19 price and therefore any share price increase over the year is likely to reflect management action rather than market recovery.
- 50% of the vested shares will be released in September 2021 and release of the remaining 50% will be deferred to September 2022. In both cases release will be subject to continued employment and the participant not being under notice.

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

LTIP

In line with our 2020 Remuneration policy, an award is expected to be made to Nick Wilkinson and Laura Carr in November 2020 under the Long-Term Incentive Plan over shares to the value of 200% and 180% of salary respectively. The quantum of Nick's award is unchanged, but Laura's has increased from 160%. Our Policy for LTIP awards is to pay at upper quartile. The quantum of Laura's entitlement in previous years is 40% below this. The increase in quantum for the LTIP is still below the upper quartile that our remuneration policy suggests. Importantly, these changes recognise her high performance in role and provide a strong retention mechanism aligned with the creation of shareholder value.

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. All of the vested shares (after sale to cover tax and National Insurance liability on exercise) must be retained for two years after vesting, after which one third of these may be sold and the remainder must be retained for the duration of employment.

For the reasons set out above, the Committee considers that setting long-term targets is particularly challenging in the current environment. In a departure from its normal practice therefore, in line with the Investment Association guidance released in May 2020, the Committee's current intention is to grant the LTIP awards in accordance with the normal timeline and to commit to setting performance conditions within the next six months (i.e. no later than May 2021). This will allow the Committee to set meaningful and stretching but achievable targets when there should be greater clarity on the market outlook. The Committee is not proposing to make the targets more or less stretching.

It is currently intended that financial targets will be set for 2021-23 which include a target for growth in EPS on an absolute (pence) basis for at least 75% of the maximum award. The Committee is also considering including a strategic measure, which may include an environmental, social or governance measure, for up to 25% of the maximum award. The Committee will retain a modest threshold vesting level of 10% of the maximum award.

If the 2020 Remuneration policy is not approved by shareholders, the target will be that set out in the 2017 Remuneration policy.

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

SHARESAVE

An invitation will be issued in October 2020 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 2020/21

Fees to be paid to Non-Executive Directors are unchanged from the 2019/20 fee level (pre-waiver) in 2019/20, as set out in the table below:

Table 15 – Non-Executive Director Fees

	Position	Base fee	Committee/SID fee	Increase in base fee year-on-year	Increase in Committee/ SID fee year- on-year	Comment
Andy Harrison	Chairman	£216,487	Nil	Nil	N/A	N/A
Ian Bull	Audit and Risk Committee Chair	£51,957	£10,404	Nil	N/A	Appointed Audit and Risk Committee Chair on 19 November 2019
William Reeve	Remuneration Committee Chair	£51,957	£10,404	Nil	Nil	
	Senior Independent Director (SID)		£6,496	N/A	Nil	Appointed SID on 10 September 2020
Peter Ruis	Non-Executive Director	£51,957	Nil	Nil	N/A	
Marion Sears	Non-Executive Director	£51,957	Nil	Nil	N/A	
Paula Vennells	Non-Executive Director	£51,957	Nil	Nil	N/A	N/A

Fees above are for the full year and reflect Board responsibilities at the date of this report.

STATEMENT OF SHAREHOLDER VOTING

At the Annual General Meeting on 19 November 2019, the total number of shares in issue with voting rights (excluding treasury shares) was 201,979,572. Details of voting on remuneration-related resolutions are set out below:

Table 16 – Voting on remuneration-related resolutions at the 2019 AGM

Resolution	Votes for	% of votes cast	Votes against	% of votes cast	Votes withheld	% withheld
Approve Annual Remuneration Report	177,842,208	99.49%	917,114	0.51%	842,751	0.42%

Approved by the Board on 10 September 2020.

William Reeve
Chair of the Remuneration Committee

10 September 2020

DIRECTORS' REPORT

The Directors present their report together with the audited financial statements for the period ended 27 June 2020.

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 1 to 78. This contains an indication of likely future developments in the business of the Company and the Group.

RESULTS AND DIVIDENDS

The consolidated profit of the Group for the year after taxation was £87.7m (2019: £101.3m). The results are discussed in greater detail in the Financial Review on pages 28 to 31.

The Directors do not propose to recommend payment of a final ordinary dividend (2019: 20.5p). No interim dividend was paid (2019: 7.5p). A special dividend of 32p per ordinary share (2019: nil) was paid on 11 October 2019.

STAKEHOLDER ENGAGEMENT

Details of how the Directors have engaged with employees and other stakeholders, and had regard to the interests of colleagues and the need to foster the Company's business relationships with suppliers, customers and others and the effect of that regard, including on the principal decisions taken by the company during the financial year, are set out in the statement under s172(1) Companies Act 2006 on page 88 and in the Corporate Governance Report on pages 92 to 98.

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, Will 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 section of Directors' report 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 27 June 2020, the Company held 573,590 Ordinary Shares in treasury (2019: 867,642).

During the period the Company did not purchase any Ordinary Shares into treasury. 294,052 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, 32,226 Ordinary Shares have been moved out of treasury to employees who exercised options under a share incentive scheme.

SUBSTANTIAL SHAREHOLDERS

At 27 June 2020 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	90,231,779	44.68
Jean Adderley	12,000,000	5.94
J P Morgan Asset Management	11,320,031	5.60
Standard Life Aberdeen plc	10,274,359	5.09
Royal London Asset Management Limited	9,907,809	4.91

DIRECTORS' REPORT

CONTINUED

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.

There have been no other changes notified to the Company in the holdings of substantial shareholders between the period end date and 10 September 2020.

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 82 to 85. Details of changes to the Board during the period are set out on page 106. Details of the interests of the Directors in shares of the Company are in the Implementation Report section of the Remuneration Report on page 142.

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 103.

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 Review on pages 36 to 49.

Share incentive schemes in which employees participate are described in the Remuneration Report on pages 130 to 139.

DONATIONS

The Group does not make any political donations.

GREENHOUSE GAS EMISSIONS

The Sustainability Review on pages 58 and 59 sets out the greenhouse gas emissions disclosures required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

NON-FINANCIAL INFORMATION STATEMENT 2020

The following sets out how we have complied with the Non-Financial Reporting Requirements set out in sections 414CA and 414CB of the Companies Act 2006. Where these provisions do not form part of the Strategic Report, they are deemed to be incorporated into it by cross reference for the purposes of compliance with these sections.

Reporting requirement	Some of our relevant policies (see corporate.dunelm.com)	Where to read about our impact, including the principal risks relating to these matters in this report and KPIs
ENVIRONMENTAL MATTERS	Animal welfare Policy Timber Policy Responsible Cotton Policy	'Product' section of Sustainability Review 'Climate change and environment' Principal Risk in the Principal Risks and Uncertainties s172 Companies Act statement – Environment
EMPLOYEES	Equality and Diversity Policy Health and Safety Policy Colleague Privacy Policy	Chairman's Letter Business Review 'People' section of Sustainability Review 'People and culture' Principal Risk in the Principal Risks and Uncertainties Corporate Governance Report s172 Companies Act statement – colleagues Remuneration Report Nominations Committee Report

Reporting requirement	Some of our relevant policies (see corporate.dunelm.com)	Where to read about our impact, including the principal risks relating to these matters in this report and KPIs
HUMAN RIGHTS	Ethical Code of Conduct Modern Slavery Statement	'Product' section of Sustainability Review 'Brand damage' Principal Risk in the Risks and Uncertainties s172 Companies Act statement – Suppliers
SOCIAL MATTERS	Our Purpose Ethical Code of Conduct Modern Slavery Statement Tax Strategy	'Our Purpose and Strategy' section of Strategic Report Chairman's Letter Business Review 'People' section of Sustainability Review 'People and Culture' Principal Risk in the Risks and Uncertainties Corporate Governance Report s172 Companies Act statement – Customers and Suppliers
ANTI-BRIBERY AND CORRUPTION	Ethical Code of Conduct Anti-Corruption and Anti-Bribery Policy Whistleblowing Policy	'People' section of Sustainability Review 'Brand damage' Principal Risk in the Risks and Uncertainties
BUSINESS MODEL		'Our Business Model' section of Strategic Report

TREASURY AND RISK MANAGEMENT

The Group's approach to treasury and financial risk management, including its use of hedging instruments, is explained in the Risks and Uncertainties section on page 74 and note 17 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 11:30am on Tuesday 17 November 2020 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. It is currently expected that there will be a physical meeting at the venue specified above, but this may be subject to change in the light of Covid-19. Shareholders should regularly check the Company's website for updates.

This report was reviewed and signed by order of the Board on 10 September 2020.

Dawn Durrant
Company Secretary

10 September 2020

STATEMENT OF **DIRECTORS' RESPONSIBILITIES**

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 year. 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 IFRS 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 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 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 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 the 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.

Nick Wilkinson
Chief Executive Officer

10 September 2020

FINANCIAL STATEMENTS & COMPANY INFORMATION

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INDEPENDENT AUDITORS' 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 27 June 2020 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 statement of financial position and the parent company statement of financial position as at 27 June 2020; the consolidated income statement and consolidated statement of comprehensive income, the consolidated statement of cash flows, the parent company statement of cash flows, the consolidated statement of changes in equity and the parent company statement of changes in equity for the 52 week period then ended; the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit and Risk 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 30 June 2019 to 27 June 2020.

OUR AUDIT APPROACH

Overview

- Overall group materiality: £5.5 million (2019: £6.3 million), based on 5% of profit before tax.
- Overall parent company materiality: £5.0 million (2019: £3.7 million), based on 1% of total assets.

- The group is structured with one segment which comprises a consolidation of six legal entities.
- We conducted an audit of the complete financial information of these six legal entities, together with additional procedures performed, including over the group consolidation.

- Inventory NRV provision.
- Transition to IFRS 16.
- Covid-19 pandemic impact.

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.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of environmental regulations and unethical and prohibited business practices, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and the Listing Rules and UK Tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates. The Group Engagement team audits the whole group, therefore this risk assessment and procedures performed was consistent throughout the whole group. Audit procedures performed by the Group Engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Challenging assumptions and judgements made by management in their significant accounting estimates and judgements, in particular in relation to the inventory NRV provision (see related key audit matter below);
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations.

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. Also, 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.

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 NRV provision **Group** Refer to page 116 (Audit and Risk Committee Report), page 174 (Use of estimates and judgements) and page 188 (notes). 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 Group's accounting policy is to determine a provision based upon the historic negative margin of the type of inventory, by ageing category, which is calculated by analysing the historic sales price compared to the cost of inventory, and applying a percentage provision to each line of inventory. The Group has also applied an additional specific inventory provision for lines which are deemed 'at risk' due to the Covid-19 pandemic.	We tested the inputs to the provision calculation, including the classification of inventory and sales data for each of the ageing categories from the Buying department, which is segregated from the Finance department, and found them to be consistent. We tested the average cost of inventory by agreeing the inputs to source documentation and testing freight and duty costs. We examined inventory write-offs in the financial period to ensure they are not inconsistent with the key assumptions used in the inventory provision model at the year end. We tested the integrity of the provision model to ensure that it was using the underlying data correctly and calculating provision amounts accurately. We found that the provision rates in the base provision were consistent with the evidence obtained, based on past activity, and appropriately applied. We challenged management's assumptions on what they deemed the 'at risk' inventory lines were, and corroborated that these lines were at risk with the Merchandising team. We also independently challenged the completeness of the 'at risk' lines based on our understanding of the nature of the group's inventory lines. We found that the additional specific provision for 'at risk' inventory lines was consistent with the evidenced obtained.
Transition to IFRS 16 **Group** Refer to page 116 (Audit and Risk Committee Report), page 174 (Use of estimates and judgements) and page 185 (notes). The Group applied IFRS 16 from 30 June 2019 utilising the modified retrospective approach. The year ended 27 June 2020 are the first financial statements presented under IFRS 16 and prior years presented have not been restated.	We obtained and inspected a sample of inputs into management's model and agreed these data points back to the underlying lease agreements. We have recalculated the accounting entries for a sample of leases and confirmed management's model is performing this calculation accurately. We have tested the completeness of management's model by comparing the leases included to the lease commitments schedule used for the transition noted in the prior year as well as our knowledge of contracts containing lease agreements within the Group. We assessed management's methodology applied to calculate the discount rate using an incremental borrowing rate specific to the Group in line with IFRS 16.

Key audit matter	How our audit addressed the key audit matter
Transition to IFRS 16 The Group has used a spreadsheet model to calculate the impact of IFRS 16. The impact on transition at 30 June 2019 is £294.3m of right-of-use assets and £325.0m of lease liabilities. The Group has disclosed the impact of the transition in the accounting policies and note 11. The net book value of right-of-use assets at the balance sheet date is £283.3m and the value of the current lease liabilities is £48.0m and non-current lease liabilities is £266.4m. Management have made certain estimates and judgements in their adoption of IFRS 16 including the assessment of lease term and discount rate applied to the leases.	We have performed sensitivity analysis over the discount rate used and assessed the impact of these sensitivities on the transition values recognised. We have considered the discount rate and other assumptions used by management to be appropriate, including ensuring the leases meet the definition of a lease under IFRS 16 and that the lease term is accurate. We found that the accounting for, and disclosure of, IFRS 16 transition in the financial statements is consistent with the evidence obtained.
Covid-19 pandemic impact **Group and Company** Refer to page 116 (Audit and Risk Committee Report). During the financial year, the Covid-19 pandemic has had a significant impact on the Group. Lockdown measures resulted in a large number of retail stores and warehouses closing for a period of time between March and June which had a significant impact on the revenue and profit results of the Group for the period. As at the year end date and the date of signing the financial statements, there continues to be significant uncertainty over the future impact of Covid-19. Management have considered implications for the Group's and Company's going concern assessment, potential impairment of certain assets and associated disclosure in the financial statements, by developing downside scenarios to model potential impacts. The results of these scenarios did not indicate a material uncertainty over going concern, however, the impact of the pandemic is a trigger for impairment assessment. Management have provided disclosure in the financial statements relating to the risks and impact associated with Covid-19.	In respect of going concern: • evaluated management's base case, severe but plausible and reverse stress test scenarios, challenging key assumptions including the forecast cash flows. We further sensitised management's forecasts to understand the impact of more prudent growth in revenue and whether this would impact the conclusion drawn by management. • checked the integrity of management's model, as well as agreeing underlying data to source documents. • assessed whether management's mitigating actions are reasonably achievable based on our understanding of the business, including the nature of its cost base. • obtained evidence to support disclosures within the financial statements and checked that the disclosures within the Annual Report are consistent with the financial statements and knowledge gained on the audit. Our conclusion in respect of going concern is included in the "Conclusions relating to going concern" section below. In respect of impairment, our audit procedures were focused on the following areas: • confirmed the cash generating units ("CGUs") identified in management's model are appropriate, and that assets have been appropriately allocated to these CGUs. Furthermore, we have ensured that all assets within the Group have been allocated. • checked the integrity of management's model, as well as agreeing underlying data to source documents. • assessed key assumptions, in particular the growth in forecast revenue and cost base. We further sensitised management's model to understand the impact of lower growth in revenue and whether this would impact the conclusion drawn by management. • challenged management on the discount rate and further sensitised management's model to reasonably possible movements in the discount rate. • agreed the impairment calculated by the model has been appropriately apportioned between assets within the affected CGUs. • assessed the accuracy and adequacy of disclosures within the accounts. We found that the accounting for, and disclosure of, impairment is consistent with the evidence obtained.

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 six 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 the fivenon-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	£5.5 million (2019: £6.3 million).	£5.0 million (2019: £3.7 million).
How we determined it	5% of profit before tax.	1% 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 £5.1 million and £0.05 million.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £0.25 million (Group audit) (2019: £0.25 million) and £0.25 million (Parent company audit) (2019: £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 Statement, 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 27 June 2020 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 86 to 155) 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 86 to 155) 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 statement has not been prepared by the parent company. (CA06)

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 65 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 75 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 161, 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 115 describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk 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 and Risk 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 7 years, covering the years ended 28 June 2014 to 27 June 2020.

Mark Skedgel (Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

10 September 2020

CONSOLIDATED INCOME STATEMENT

FOR THE 52 WEEKS ENDED 27 JUNE 2020

	Note	2020 52 weeks £'m	2019 52 weeks £'m
Revenue	1	**1,057.9**	1,100.4
Cost of sales		**(525.5)**	(554.8)
Gross profit		**532.4**	545.6
Operating costs	2	**(416.4)**	(418.7)
Operating profit	3	**116.0**	126.9
Financial income	5	**0.4**	0.9
Financial expenses	5	**(7.3)**	(1.9)
Profit before taxation		**109.1**	125.9
Taxation	6	**(21.4)**	(24.6)
Profit for the period		**87.7**	101.3
Earnings per Ordinary Share - basic	8	**43.4p**	50.2p
Earnings per Ordinary Share - diluted	8	**42.9p**	49.9p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE 52 WEEKS ENDED 27 JUNE 2020

	Note	2020 52 weeks £'m	2019 52 weeks £'m
Profit for the period (reported)		**87.7**	101.3
Other comprehensive income/(expense):			
Items that may be subsequently reclassified to profit or loss:			
Movement in fair value of cash flow hedges	17	**6.8**	6.6
Gain on cash flow hedges transferred to inventory		**-**	(3.9)
Deferred tax on hedging movements	12	**(0.1)**	(0.5)
Other comprehensive income for the period, net of tax		**6.7**	2.2
Total comprehensive income for the period		**94.4**	103.5

From this financial period and going forward, cash flow hedges transferred to inventory are included directly in equity, as this is not a reclassification adjustment as defined in IAS 1.

CONSOLIDATED STATEMENT OF **FINANCIAL POSITION**

AS AT 27 JUNE 2020

	Note	27 June 2020 £'m	29 June 2019 £'m
Non-current assets			
Intangible assets	9	**22.7**	27.3
Property, plant and equipment	10	**175.4**	180.6
Right-of-use assets	11	**283.3**	–
Deferred tax assets	12	**4.2**	0.8
Derivative financial instruments	17	**1.6**	1.0
Total non-current assets		**487.2**	209.7
Current assets			
Inventories	13	**118.2**	157.7
Trade and other receivables	14	**15.6**	25.6
Derivative financial instruments	17	**5.0**	5.1
Cash and cash equivalents	15	**90.0**	19.0
Total current assets		**228.8**	207.4
Total assets		**716.0**	417.1
Current liabilities			
Trade and other payables	16	**(177.2)**	(136.3)
Lease liabilities	11	**(48.0)**	–
Liability for current tax		**(2.6)**	(13.5)
Total current liabilities		**(227.8)**	(149.8)
Non-current liabilities			
Bank loans	18	**(44.6)**	(44.3)
Lease liabilities	11	**(266.4)**	–
Trade and other payables	16	**–**	(35.5)
Provisions	19	**(3.8)**	(1.7)
Total non-current liabilities		**(314.8)**	(81.5)
Total liabilities		**(542.6)**	(231.3)
Net assets		**173.4**	185.8
Equity			
Issued share capital	20	**2.0**	2.0
Share premium account		**1.6**	1.6
Capital redemption reserve		**43.2**	43.2
Hedging reserve		**5.3**	5.0
Retained earnings		**121.3**	134.0
Total equity attributable to equity holders of the Parent		**173.4**	185.8

The financial statements on pages 170 to 197 were approved by the Board of Directors on 10 September 2020 and were signed on its behalf by:

Laura Carr
Chief Financial Officer

10 September 2020

CONSOLIDATED STATEMENT OF **CASH FLOWS**

FOR THE 52 WEEKS ENDED 27 JUNE 2020

	Note	**2020 52 weeks £'m**	2019 52 weeks £'m
Cash flows from operating activities			
Profit before taxation		**109.1**	125.9
Net financial expense	5	**6.9**	1.0
Operating profit		**116.0**	126.9
Depreciation and amortisation of property, plant and equipment and intangible assets	3	**33.2**	32.7
Depreciation of right-of-use assets	3	**45.1**	–
Loss on disposal and impairment of property, plant and equipment and intangible assets	3	**1.5**	6.7
Impairment of right-of-use assets	3	**0.4**	–
Operating cash flows before movements in working capital		**196.2**	166.3
Decrease/(increase) in inventories		**39.5**	(3.0)
Increase in trade and other receivables		**(1.2)**	(1.7)
Increase in payables		**41.8**	31.2
Net movement in working capital		**80.1**	26.5
Share based payments expense	4	**2.1**	1.4
Interest received		**–**	0.3
Tax paid		**(34.3)**	(20.5)
Net cash generated from operating activities		**244.1**	174.0
Cash flows from investing activities			
Acquisition of intangible assets		**(4.4)**	(13.0)
Proceeds on disposal of property, plant and equipment and intangibles		**–**	5.4
Acquisition of property, plant and equipment		**(20.5)**	(12.0)
Interest received		**0.1**	-
Net cash used in investing activities		**(24.8)**	(19.6)
Cash flows from financing activities			
Proceeds from issue of treasury shares	21	**2.0**	0.2
Drawdowns on Revolving Credit Facility		**165.0**	25.0
Repayments of Revolving Credit Facility		**(165.0)**	(120.0)
Interest paid		**(1.4)**	(1.6)
Interest on lease liabilities	5	**(5.5)**	–
Repayment of lease liabilities		**(37.7)**	–
Ordinary dividends paid	7	**(106.0)**	(54.6)
Net cash used in financing activities		**(148.6)**	(151.0)
Net increase in cash and cash equivalents		**70.7**	3.4
Foreign exchange revaluations	5	**0.3**	0.6
Cash and cash equivalents at the beginning of the period	15	**19.0**	15.0
Cash and cash equivalents at the end of the period	15	**90.0**	19.0

From this financial period and going forward interest received is included in cash flows from investing activities.

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

FOR THE 52 WEEKS ENDED 27 JUNE 2020

	Note	Issued share capital £'m	Share premium account £'m	Capital redemption reserve £'m	Hedging reserve £'m	Retained earnings £'m	Total equity attributable to equity holders of the Parent £'m
As at 1 July 2018		**2.0**	**1.6**	**43.2**	**2.8**	**85.1**	**134.7**
Profit for the period		–	–	–	–	101.3	101.3
Movement in fair value of cash flow hedges	17	–	–	–	6.6	–	6.6
Gain on cash flow hedges transferred to inventory	17	–	–	–	(3.9)	–	(3.9)
Deferred tax on hedging movements	12	–	–	–	(0.5)	–	(0.5)
Total comprehensive income for the period		–	–	–	2.2	101.3	103.5
Proceeds from issue of treasury shares	21	–	–	–	–	0.2	0.2
Share based payments	22	–	–	–	–	1.4	1.4
Deferred tax on share based payments	12	–	–	–	–	0.7	0.7
Current tax on share options exercised		–	–	–	–	(0.1)	(0.1)
Ordinary dividends paid	7	–	–	–	–	(54.6)	(54.6)
Total transactions with owners, recorded directly in equity		–	–	–	–	(52.4)	(52.4)
As at 29 June 2019		**2.0**	**1.6**	**43.2**	**5.0**	**134.0**	**185.8**
Profit for the period		–	–	–	–	87.7	87.7
Movement in fair value of cash flow hedges	17	–	–	–	6.8	–	6.8
Deferred tax on hedging movements	12	–	–	–	(0.1)	–	(0.1)
Total comprehensive income for the period		–	–	–	6.7	87.7	94.4
Proceeds from issue of treasury shares	21	–	–	–	–	2.0	2.0
Share based payments	22	–	–	–	–	2.1	2.1
Deferred tax on share based payments	12	–	–	–	–	1.3	1.3
Current tax on share options exercised		–	–	–	–	0.2	0.2
Gain on cash flow hedges transferred to inventory	17	–	–	–	(6.4)	–	(6.4)
Ordinary dividends paid	7	–	–	–	–	(106.0)	(106.0)
Total transactions with owners, recorded directly in equity		–	–	–	(6.4)	(100.4)	(106.8)
As at 27 June 2020		**2.0**	**1.6**	**43.2**	**5.3**	**121.3**	**173.4**

From this financial period and going forward cash flow hedges transferred to inventory are included directly in equity, as this is not a reclassification adjustment as defined in IAS 1.

ACCOUNTING POLICIES

FOR THE 52 WEEKS ENDED 27 JUNE 2020

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 198 to 205 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 in stores and online.

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 170 to 197.

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 0.1 million.

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. Given the economic uncertainty resulting from the Covid-19 pandemic, it is difficult to estimate with precision the impact on the Group's prospective financial performance and therefore a range of Covid-19 scenarios have been modelled for the Directors considerations. In the 'severe but plausible downside' scenario, which assumes a further national lockdown for ten weeks in our peak winter trading period and no government support, the Group would not breach any of their financial covenants and would not require any additional sources of financing (including any drawdown on the Government Covid Corporate Financing Facility).

Further modelling has shown that it would require the Company to incur a sales reduction of c. 35% in FY21 in order to breach financial covenants in the three-year period under review. If this were to occur management would follow the course of action undertaken between March and May 2020.

In addition, management could implement further mitigating actions including:

- Reducing discretionary spend (for example marketing and maintenance);
- Reduction in capital investment (for example new stores and refits);
- Manage stock levels closely to demand;
- Suspension of ordinary dividends, and no special dividends;
- Benefit from any government actions to address specific closure periods (e.g. Job Retention Scheme, delay in VAT payments);
- Reduce operating model costs (e.g. reduced store opening hours, lower technology spends on third-party developers);
- Delay in payments, including landlords and other suppliers;
- Further reduction in support centre headcount; and
- Negotiate financial covenants or loan waiver with lenders.

As a result, the Board believes that the Group is well placed to manage its financing and other significant risks satisfactorily and that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason, the Board considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

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 1 to 27. The financial position of the Group, its cashflows, liquidity position and borrowing facilities are described in the Financial Review on pages 28 to 31. In addition, note 17 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 based on estimated selling price with future price reductions assumed to be in line with historic margin analysis on a line-by-line basis, which are applied to the inventory population as deemed appropriate given the expected sell through period and discontinuation status. A 1% change in historic margins of each stock discontinuation category would lead to a change in the provision of £1.2m (9.7%). Consideration is also given over whether any stock categories require additional provision due to specific circumstances in place at the period end date.

ESTIMATE AND JUDGEMENT: LEASE LIABILITIES

On transition to IFRS 16 from 30 June 2019, the Group recognised a lease liability and right-of-use asset (see note 11), calculated by discounting the future lease payments. Lease payments are discounted using the incremental borrowing rate (IBR), calculated based on the Revolving Credit Facility rate adjusted for a factor based on the lease term. Please see below the estimate and judgements the Group has considered on transition to IFRS 16.

ESTIMATE: DISCOUNT RATES

A lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, which is the case for the Group's leases, the incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. At 27 June 2020, a 0.1% decrease in the discount rate used would have increased lease liabilities by £1.3m and right-of-use assets by £1.4m.

JUDGEMENT: DETERMINING THE LEASE TERM

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that includes renewal options and break clauses. At the commencement date of a property lease the Group normally determines the lease term to be the full term of the lease, assuming that any option to break or extend the lease is unlikely to be exercised and it is not reasonably certain that the Group will continue in occupation for any period beyond the lease term. Leases are regularly reviewed and will be revalued if it becomes likely that a break clause or option to extend the lease is exercised.

JUDGEMENT: EXPIRED LEASES

Judgement has all been applied in respect of those property leases where the current lease term has expired, but the Group remains in negotiation with the landlord for potential renewal. Where the Group believes renewal to be highly probable and the lease is protected by the LTA (Landlord and Tenants Act) it will be treated as having been renewed at the date of termination of the previous lease term and on the same terms as the previous lease. On completion, the lease will be revalued to take account of the new terms. Where renewal is not considered to be reasonably certain leases are moved into holdover status, and lease payments recognised as an expense on a straight-line basis.

Properties in this situation at transition were treated as being in holdover, and lease payments have been recognised as an expense on a straight-line basis until a new lease is completed.

Lease liabilities and right-of-use assets were £13m higher at the period end date, due to the inclusion of property leases where the current lease term has expired since transition but the lease has been treated as having been renewed.

BASIS OF CONSOLIDATION

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 website, excluding sales between Group companies and is after deducting returns, any discounts given and VAT. Revenue is recognised when the Group has satisfied its performance obligations to its customers and the customer has obtained control of the goods and services being transferred. These conditions are met mainly at the point of sale.

The exceptions to this are for: custom-made products and Click & Collect sales, where revenue is recognised at the point that the goods are collected; gift vouchers, where revenue is recognised when the vouchers are redeemed aside from the element management do not expect to be redeemed based on historical data which is recognised at the point of sale; and online sales, where revenue is recognised at the point of delivery. Revenue is settled in cash at the point of sale for all revenue channels.

The Group has two types of products which are stocked and non-stocked products. Management has established that the Group acts as a principal for both types of products and thus should recognise revenue as the gross amount of consideration to which it expects to be entitled.

The Group holds a sales return provision in the Consolidated Statement of Financial Position to provide for expected levels of returns on sales made before the period end but returned after the period end. The Group recognises the expected value of revenue relating to returns within sales provisions and the expected value of cost of sales relating to the returned items is included within inventories.

For the purposes of the financial statements management has concluded that since customers access the Group's products across multiple channels and often their journey involves more than one channel, disaggregation of revenue would not be appropriate.

EXPENSES

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 related 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 are 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 Consolidated Statement of Financial Position date. Resulting exchange gains or losses are recognised in the Consolidated Income Statement for the period in financial income and expenses, except when deferred as qualifying cash flow hedges.

TAXATION

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the Consolidated 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 Consolidated Statement of Financial Position date, together with any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the Statement of Financial Position 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 Consolidated Statement of Financial Position 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.

INTANGIBLE ASSETS

Intangible assets that comprise of software development, licences, rights to brands and customer lists, are stated at cost less accumulated amortisation and impairment. 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 the estimated useful life.

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 Consolidated Income Statement on a straight-line basis over the estimated useful life of the asset. These are as follows:

Software development and licences	3 to 5 years
Rights to brands and customer lists	5 to 15 years

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 purchase 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 Consolidated 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.

FINANCIAL INSTRUMENTS

RECOGNITION AND MEASUREMENT

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the Consolidated Income Statement.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the Consolidated Income Statement and presented in other gains/(losses) together with foreign exchange gains and losses.
- FVPL: All other financial assets that do not meet the criteria for amortised cost are measured at FVPL, unless the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in Consolidated Income Statement in the period in which it arises.

IMPAIRMENT

The Group uses a forward-looking approach to assess the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

DERIVATIVES

Derivative financial instruments used are forward foreign exchange contracts. 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 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 attributable to a particular risk associated with a highly probable forecasted transaction.

Any gains or losses arising from changes in fair value derivative financial instruments not designated as hedges are recognised in the Consolidated Income Statement.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the Consolidated Income Statement, within operating costs.

When option contracts are used to hedge forecast transactions, the Group designates only the intrinsic value of the options as the hedging instrument.

Gains or losses relating to the effective portion of the change in intrinsic value of the options and time value of options are recognised in the cash flow hedge reserve within equity.

When forward contracts are used to hedge forecast transactions, the Group designates the full change in fair value of the forward contract (including forward points) as the hedging instrument. The gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss. Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred time value of the option contracts or deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognised in the Consolidated Income Statement as the hedged item affects profit or loss (for example, through cost of sales).

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain/loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory.

When the forecast transaction is no longer expected to occur, the cumulative gain/loss and deferred costs of hedging that were reported in equity are immediately reclassified to the Consolidated Income Statement.

OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position 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 Group 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.

GOVERNMENT GRANTS

The Group applies IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance' when accounting for government grants. A government grant is not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to it, and that the grant will be received. Government grants are recognised in the Consolidated Income Statement on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. The Group has chosen to present government grants netted off against the related expense.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances including credit card receipts and deposits. All cash equivalents have an original maturity of three months or less.

TRADE AND OTHER PAYABLES

Trade and other 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 Consolidated Statement of Financial Position date.

IMPAIRMENT

The carrying amounts of the Group's assets are reviewed annually at each Consolidated Statement of Financial Position 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. A cash-generating unit has been defined as an individual store or the online business. If an impairment loss is identified for a cash-generating unit, the loss shall be allocated to reduce the carrying amount of the assets of the unit pro-rated on the basis of the carrying amount of each asset in the unit for both property, plant and equipment and right-of-use assets. Impairment losses are recognised in the Consolidated Income Statement.

SHARE CAPITAL

Where the Group purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Group'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 Consolidated Statement of Financial Position 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 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.

OPERATING LEASES

Until 29 June 2019 rentals payable under operating leases were charged to the Consolidated Income Statement on a straight-line basis over the period of the lease.

From 30 June 2019, leases are recognised as a right-of-use asset with a corresponding liability at the date at which the leased asset is available for use by the Group under IFRS 16. Any leases outside the scope of IFRS 16 will be classified as short-term or low-value leases. Further details of IFRS 16 'Leases', including the impact of adoption are included in note 11.

NEW STANDARDS AND INTERPRETATIONS

IFRS 16 'LEASES'

The Group has adopted IFRS 16 'Leases' for the first time in the current financial period. It has had a material impact on the financial statements of the Group due to the large number of property leases held as well as leases relating to vehicles and equipment.

The Group has applied IFRS 16 using the modified transition approach (IFRS 16, c8(a), c8(b)(ii)), whereby the initial right-of-use asset values were equal to the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate at 30 June 2019. Accordingly, the comparative information presented for 2019 has not been restated – i.e. it is presented as previously reported under IAS 17 and related interpretations.

IFRS 16 requires the creation of a right-of-use asset and a lease liability in the Consolidated Statement of Financial Position. The right-of-use asset is subject to depreciation on a straight-line basis over the term of the lease. An interest charge is recognised on the lease liability, which will be higher in the earlier years of the lease term. The total expense recognised in the Consolidated 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 previously have been accounted for as operating leases.

The implementation of IFRS 16 has no impact on cash flows generated and will not impact management's decisions. It does, however, have an impact on the assets, liabilities and income statements of the Group. The presentation of the Consolidated Cash Flow Statement will also change, with an increase in net cash flows generated from operating activities being offset by an increase in net cash flows used in financing activities.

The Group has applied IFRS 16 with effect from 30 June 2019 (the opening Consolidated Statement of Financial Position date). The Group's leases comprise property, vehicles and equipment. As a lessee, the Group has recognised a right-of-use asset representing the Group's right to use the identified assets as well as lease liabilities representing the obligation to make lease payments. The Group's activities as a lessor are not significant therefore the Group has not made any changes to lessor accounting as a result of the application of IFRS 16.

Further details of IFRS 16 'Leases', including the impact of adoption are included in note 11.

Transition

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured in accordance with the accounting policies set out below, using the Group's incremental borrowing rates as at 30 June 2019, which ranged from 1.6% to 2.4%, depending on the length of the lease.

Previously, the Group determined at the inception of a contract whether an arrangement was or contained a lease under IFRIC 4 'Determining Whether an Arrangement Contains a Lease'. The Group now assesses whether a contact is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

Lease recognition

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, adjusted for any lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are depreciated over the shorter of the asset's useful life or the lease term on a straight-line basis. Right-of-use assets are subject to, and reviewed regularly for, impairment. Depreciation of right-of-use assets is included in operating costs in the Consolidated Income Statement.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of the lease payments to be made over the lease term. Lease payments include fixed payments less any lease incentives receivable and variable lease payments that depend on an index or rate. Any variable lease payments that do not depend on an index or rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the fixed lease payments. Interest charges are included in finance costs in the Consolidated Income Statement.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery and equipment that have a lease term of less than 12 months and leases of low-value assets (defined as assets with a value, when new, of £5,000 or less). Lease payments relating to short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Subsequent measurement

The lease liability and right-of-use asset is subsequently remeasured to reflect changes in:

- the lease term (using a revised discount rate);
- the assessment of a purchase option (using a revised discount rate); and
- future lease payments resulting from a change in an index or a rate used to determine those payments (using an unchanged discount rate).

Lease modifications may also prompt remeasurement of the lease liability unless they are determined to be separate leases.

The payments related to leases are presented under cash flow from financing activities in the Consolidated Cash Flow Statement.

NOTES TO THE **CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE 52 WEEKS ENDED 27 JUNE 2020

1 REVENUE

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. The list of our financial and non-financial KPIs can be found on page 18.

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

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

2 OPERATING COSTS

	2020 52 weeks £'m	2019 52 weeks £'m
Selling and distribution costs	**330.6**	350.2
Administrative expenses	**85.8**	68.5
	416.4	418.7

The classification of operating costs between selling and distribution costs and administrative expenses between FY19 and FY20 has been impacted by the first-time adoption of IFRS 16.

3 OPERATING PROFIT

Operating profit is stated after charging the following items:

	2020 52 weeks £'m	2019 52 weeks £'m
Cost of inventories included in cost of sales	**519.3**	548.3
Amortisation of intangible assets	**7.3**	6.7
Depreciation of owned property, plant and equipment	**25.9**	26.0
Depreciation of right-of-use assets	**45.1**	–
Loss on disposal and impairment of property, plant and equipment and intangible assets	**1.5**	6.7
Impairment of right-of-use assets	**0.4**	–
Operating lease rentals*	**2.3**	51.6

*Following the implementation of IFRS 16 'Leases' this charge relates to short-term leases.

The cost of inventories included in cost of sales includes the adverse impact of a net increase in the provision for obsolete inventory of £0.5m (2019: £1.4m decrease).

NOTES TO THE **CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE 52 WEEKS ENDED 27 JUNE 2020 – CONTINUED

3 OPERATING PROFIT – CONTINUED

The analysis of the auditor's remuneration is as follows:

	2020 52 weeks £'000	2019 52 weeks £'000
Fees payable to the Company's auditors for the audit of the Parent and consolidated annual financial statements	**28**	18
Fees payable to the Company's auditors and their associates for other services to the Group		
– audit of the Company's subsidiaries pursuant to legislation	**145**	142
– other services (See Audit and Risk Committee Report on page 117 for further information)	**29**	20

4 EMPLOYEE NUMBERS AND COSTS

The average monthly number of people employed by the Group (including Directors) was:

	2020 52 weeks Number of heads	**2020 52 weeks Full time equivalents**	2019 52 weeks Number of heads	2019 52 weeks Full time equivalents
Selling	**8,359**	**5,050**	8,262	5,106
Distribution	**794**	**778**	736	719
Administration	**702**	**691**	655	645
	9,855	**6,519**	9,653	6,470

The aggregate remuneration of all employees including Directors comprises:

	2020 52 weeks £'m	2019 52 weeks £'m
Wages and salaries (including termination benefits)	**148.7**	156.7
Social security costs	**10.5**	10.3
Share based payment expense (note 22)	**2.1**	1.4
Pension costs - defined contribution plans	**4.0**	3.2
	165.3	171.6

Payroll costs have been presented net of £14.5m claimed from the UK Government's Coronavirus Job Retention Scheme.

Details of Directors' remuneration, share options, long term incentive schemes and pension entitlements are disclosed in the Remuneration Report on pages 120 to 155.

5 FINANCIAL INCOME AND EXPENSES

	2020 52 weeks £'m	2019 52 weeks £'m
Financial income		
Interest on bank deposits	**0.1**	0.3
Net foreign exchange gains	**0.3**	0.6
	0.4	0.9
Financial expenses		
Interest on bank borrowings	**(1.5)**	(1.6)
Amortisation of issue costs of bank loans	**(0.3)**	(0.3)
Interest on lease liabilities	**(5.5)**	–
	(7.3)	(1.9)
Net financial expense	**(6.9)**	(1.0)

6 TAXATION

	2020 52 weeks £'m	2019 52 weeks £'m
Current taxation		
UK corporation tax charge for the period	**24.7**	26.6
Adjustments in respect of prior periods	**(1.1)**	(0.4)
	23.6	26.2
Deferred taxation		
Origination of temporary differences	**(2.0)**	(1.1)
Adjustments in respect of prior periods	**–**	(0.5)
Impact of change in tax rate	**(0.2)**	–
	(2.2)	(1.6)
Total tax expense	**21.4**	24.6

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

	2020 52 weeks £'m	2019 52 weeks £'m
Profit before taxation	**109.1**	125.9
UK corporation tax at standard rate of 19.0% (2019: 19.0%)	**20.7**	23.9
Factors affecting the charge in the period:		
Non-deductible expenses	**2.0**	1.8
Profit on disposal of non-qualifying assets	**–**	(0.2)
Adjustments in respect of prior periods	**(1.1)**	(0.9)
Impact of change in tax rate	**(0.2)**	–
Tax charge	**21.4**	24.6

The taxation charge for the period as a percentage of profit before tax is 19.6% (2019: 19.5%).
In March 2020, the UK Government substantively enacted a corporation tax rate of 19.0% from 1 April 2020 rather than the previously enacted reduction to 17.0%. The deferred tax asset is therefore measured at 19.0%.

7 DIVIDENDS

The dividends set out in the table below relate to the 1 pence Ordinary Shares:

		2020 52 weeks £'m	2019 52 weeks £'m
Final for the period ended 30 June 2018	– paid 19.5 pence	**–**	39.4
Interim for the period ended 29 June 2019	– paid 7.5 pence	**–**	15.2
Special dividend for the period ended 29 June 2019	– paid 32.0 pence	**64.6**	–
Final for the period ended 29 June 2019	– paid 20.5 pence	**41.4**	–
		106.0	54.6

Due to the ongoing uncertainty in the wider environment, the Directors have not proposed a final dividend for the period ended 27 June 2020.

8 EARNINGS PER ORDINARY 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 21).

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:

	2020 52 weeks '000	2019 52 weeks '000
Weighted average number of shares in issue during the period	**202,106**	201,936
Impact of share options	**2,113**	1,040
Number of shares for diluted earnings per share	**204,219**	202,976

	2020 52 weeks £'m	2019 52 weeks £'m
Profit for the period	**87.7**	101.3
Earnings per Ordinary Share - basic	**43.4p**	50.2p
Earnings per Ordinary Share - diluted	**42.9p**	49.9p

9 INTANGIBLE ASSETS

	Software development and licences £'m	Rights to brands and customer lists £'m	Total £'m
Cost			
At 1 July 2018	44.1	11.0	55.1
Additions	12.5	–	12.5
Disposals	(6.8)	–	(6.8)
At 29 June 2019	49.8	11.0	60.8
Additions	3.0	–	3.0
Disposals	(1.1)	–	(1.1)
At 27 June 2020	**51.7**	**11.0**	**62.7**
Accumulated amortisation			
At 1 July 2018	19.6	6.9	26.5
Charge for the financial period	6.4	0.3	6.7
Disposals	(3.5)	–	(3.5)
Impairment	–	3.8	3.8
At 29 June 2019	22.5	11.0	33.5
Charge for the financial period	7.3	–	7.3
Disposals	(0.8)	–	(0.8)
At 27 June 2020	**29.0**	**11.0**	**40.0**
Net book value			
At 1 July 2018	24.5	4.1	28.6
At 29 June 2019	27.3	–	27.3
At 27 June 2020	**22.7**	**–**	**22.7**

All amortisation is included within operating costs in the Consolidated Income Statement.

Within software development and licences, £0.8m (2019: £2.3m) of additions relates to internally generated assets.

The impairment in 2019 within rights to brands and customer lists of £3.8m relates to the Fogarty brand.

10 PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £'m	Leasehold improvements £'m	Plant and machinery £'m	Refit improvements £'m	Fixtures and fittings £'m	Total £'m
Cost						
At 1 July 2018	98.4	153.7	5.2	6.8	107.0	371.1
Additions	–	5.9	0.6	0.6	5.9	13.0
Disposals	(6.3)	(0.7)	–	–	(0.9)	(7.9)
At 29 June 2019	92.1	158.9	5.8	7.4	112.0	376.2
Additions	5.6	7.3	0.2	1.6	7.2	21.9
Disposals	–	(14.6)	(0.2)	–	(5.1)	(19.9)
At 27 June 2020	**97.7**	**151.6**	**5.8**	**9.0**	**114.1**	**378.2**
Accumulated depreciation						
At 1 July 2018	14.5	72.4	4.3	1.1	80.2	172.5
Charge for the financial period	1.7	11.4	0.4	1.0	11.5	26.0
Disposals	(2.0)	(0.4)	–	–	(0.5)	(2.9)
At 29 June 2019	14.2	83.4	4.7	2.1	91.2	195.6
Charge for the financial period	1.6	12.2	0.4	1.1	10.6	25.9
Disposals	–	(14.4)	(0.2)	–	(5.1)	(19.7)
Impairment	0.6	0.4	–	–	–	1.0
At 27 June 2020	**16.4**	**81.6**	**4.9**	**3.2**	**96.7**	**202.8**
Net book value						
At 1 July 2018	83.9	81.3	0.9	5.7	26.8	198.6
At 29 June 2019	77.9	75.5	1.1	5.3	20.8	180.6
At 27 June 2020	**81.3**	**70.0**	**0.9**	**5.8**	**17.4**	**175.4**

All depreciation and impairment charges have been included within operating costs in the Consolidated Income Statement.

Within land and buildings and leasehold improvements the impairment of £1.0m (2019: nil) relates to the Group's head office and a store impairment as a result of the impact of Covid-19 on the business. The recoverable amount has been determined as the value in use applying a discount rate of 10.0%.

In the opinion of the Directors, the market value of the freehold land and buildings of the Group exceeds the book value of these assets at 27 June 2020 by £21,257,300 (2019: £18,989,394).

11 LEASES

Right-of-use assets included in the Consolidated Statement of Financial Position at 27 June 2020 were as follows:

	Land and buildings £'m	Motor vehicles, plant and equipment £'m	Total £'m
At transition: 30 June 2019	288.3	6.0	294.3
Additions	30.5	4.4	34.9
Disposals	(0.2)	(0.2)	(0.4)
Impairment	(0.4)	–	(0.4)
Depreciation	(42.6)	(2.5)	(45.1)
At 27 June 2020	**275.6**	**7.7**	**283.3**

11 LEASES – CONTINUED

Lease liabilities included in the Consolidated Statement of Financial Position at 27 June 2020 were as follows:

	Land and buildings £'m	Motor vehicles, plant and equipment £'m	Total £'m
At transition: 30 June 2019	(319.0)	(6.0)	(325.0)
Additions	(32.1)	(4.3)	(36.4)
Disposals	0.2	0.2	0.4
Interest	(5.4)	(0.1)	(5.5)
Repayment of lease liabilities	49.6	2.5	52.1
At 27 June 2020	**(306.7)**	**(7.7)**	**(314.4)**

The maturity analysis of the lease liabilities is as follows:

	2020 £'m	2019 £'m
Current	**(48.0)**	–
Non-current	**(266.4)**	–
	(314.4)	–

The remaining contractual maturities of the lease liabilities, which are gross and undiscounted, are as follows:

	2020 £'m	2019 £'m
Less than one year	**(51.6)**	–
One to five years	**(174.2)**	–
More than five years	**(118.6)**	–
Total undiscounted lease liability	**(344.4)**	–

The following amounts have been recognised in the Consolidated Income Statement:

	2020 52 weeks Land and buildings £'m	2020 52 weeks Motor vehicles, plant and equipment £'m	2020 52 weeks Total £'m
Depreciation of right-of-use assets	**42.6**	**2.5**	**45.1**
Impairment of right-of-use assets	**0.4**	**–**	**0.4**
Interest expenses (included in financial expenses)	**5.4**	**0.1**	**5.5**
Expense relating to short-term leases	**2.2**	**0.1**	**2.3**

The impairment of £0.4m (2019: nil) relates to a store impairment as a result of the impact of Covid-19 on the business. The recoverable amount has been determined as the value in use applying a discount rate of 10.0%.

The total cash outflow for leases during the financial period was £43.2m.

11 LEASES – CONTINUED

IMPACT

The impact on the Consolidated Statement of Financial Position on transition (30 June 2019) is summarised below:

	Land and buildings £'m	Motor vehicles, plant and equipment £'m	Total £'m
Right-of-use assets	288.3	6.0	294.3
Lease liabilities	(319.0)	(6.0)	(325.0)
Rent prepayments (included in right-of-use assets)	(11.2)	–	(11.2)
Lease incentives (included in right-of-use assets)	41.9	–	41.9
	–	–	–

The table below shows a reconciliation from the total operating lease commitment as disclosed at 29 June 2019 to the total lease liabilities recognised in the accounts immediately after transition:

	Land and buildings £'m	Motor vehicles, plant and equipment £'m	Total £'m
Operating lease commitment at 29 June 2019 (see note 23)	360.3	8.9	369.2
Prepayments included within operating lease commitments	(11.3)	–	(11.3)
Leases with rental subsidies excluded from operating lease commitments	(3.2)	–	(3.2)
Leases outside the scope of IFRS 16	(1.5)	(2.7)	(4.2)
Discounted using the incremental borrowing rates at 30 June 2019	(25.3)	(0.2)	(25.5)
Total lease liabilities recognised on 30 June 2019	319.0	6.0	325.0

The impact on the Consolidated Income Statement for the period is summarised below:

	2020 52 weeks £'m Pre IFRS 16	2020 52 weeks £'m IFRS 16 impact	2020 52 weeks £'m Reported	2019 52 weeks £'m
Revenue	1,057.9	–	1,057.9	1,100.4
Cost of sales	(525.5)	–	(525.5)	(554.8)
Gross profit	532.4	–	532.4	545.6
Operating costs	(419.6)	3.2	(416.4)	(418.7)
Operating profit	112.8	3.2	116.0	126.9
Financial income	0.4	-	0.4	0.9
Financial expenses	(1.8)	(5.5)	(7.3)	(1.9)
Profit before taxation	111.4	(2.3)	109.1	125.9
Taxation	(21.9)	0.5	(21.4)	(24.6)
Profit for the period	89.5	(1.8)	87.7	101.3

NOTES TO THE **CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE 52 WEEKS ENDED 27 JUNE 2020 – CONTINUED

12 DEFERRED TAX ASSETS/(LIABILITIES)

Deferred tax is provided in full on temporary differences under the liability method using a taxation rate of 19.0% (2019: 17.0%).

Deferred taxation assets are attributable to the following:

	Assets		Liabilities		Net assets/(liabilities)	
	2020 £'m	2019 £'m	**2020 £'m**	2019 £'m	**2020 £'m**	2019 £'m
Property, plant and equipment	**2.5**	1.6	**–**	–	**2.5**	1.6
Share based payments	**2.2**	0.3	**–**	–	**2.2**	0.3
Hedging	**–**	–	**(1.2)**	(1.1)	**(1.2)**	(1.1)
Other temporary differences	**0.7**	–	**–**	–	**0.7**	–
	5.4	1.9	**(1.2)**	(1.1)	**4.2**	0.8

	Assets		Liabilities		Net assets/(liabilities)	
	2020 £'m	2019 £'m	**2020 £'m**	2019 £'m	**2020 £'m**	2019 £'m
Deferred tax recoverable/(payable) after more than 12 months	**2.6**	1.1	**–**	–	**2.6**	1.1
Deferred tax recoverable/(payable) within 12 months	**2.8**	0.8	**(1.2)**	(1.1)	**1.6**	(0.3)
	5.4	1.9	**(1.2)**	(1.1)	**4.2**	0.8

The movement in the net deferred tax balance is as follows:

	Balance at 1 July 2018 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 29 June 2019 £'m
Property, plant and equipment	0.2	1.4	–	1.6
Share based payments	(0.6)	0.2	0.7	0.3
Hedging	(0.6)	–	(0.5)	(1.1)
	(1.0)	1.6	0.2	0.8

	Balance at 30 June 2019 £'m	Recognised in income £'m	Recognised in equity £'m	**Balance at 27 June 2020 £'m**
Property, plant and equipment	1.6	0.9	–	**2.5**
Share based payments	0.3	0.6	1.3	**2.2**
Hedging	(1.1)	–	(0.1)	**(1.2)**
Other temporary differences	–	0.7	–	**0.7**
	0.8	2.2	1.2	**4.2**

13 INVENTORIES

	2020 £'m	2019 £'m
Goods for resale	**118.2**	157.7

Goods for resale includes a net realisable value provision of £11.9m (2019: £11.4m). Write-downs of inventories to net realisable value amounted to £14.3m (2019: £18.2m). These were recognised as an expense during the period and were included in cost of sales in the Consolidated Income Statement.

14 TRADE AND OTHER RECEIVABLES

	2020 £'m	2019 £'m
Trade receivables	**1.3**	1.3
Other receivables	**8.5**	5.6
Prepayments and accrued income	**5.8**	18.7
	15.6	25.6

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

No impairment was incurred on trade and other receivables during the period and the expected credit loss provision held at period end is nil (2019: nil). Materially, no amounts are overdue (2019: nil).

A total of £1.0m of prepayments and accrued income are property-related (2019: £14.6m).

Other receivables include £4.8m receivable from the UK Government's Coronavirus Job Retention Scheme.

15 CASH AND CASH EQUIVALENTS

	2020 £'m	2019 £'m
Cash at bank and in hand	**90.0**	19.0

The Group deposits funds only with institutions that have a credit rating of 'A' and above and the term is less than three months.

16 TRADE AND OTHER PAYABLES

	2020 £'m	2019 £'m
Current		
Trade payables	**71.7**	62.6
Accruals and deferred income	**65.8**	56.0
Taxation and social security	**39.3**	17.3
Other payables	**0.4**	0.4
Total current trade and other payables	**177.2**	136.3
Non-current		
Accruals and deferred income	**-**	35.5
Total non-current trade and other payables	**-**	35.5
Total trade and other payables	**177.2**	171.8

Taxation and social security includes VAT payable of £34.1m (2019: £13.3m) with the year-on-year increase mainly due to the UK Government's deferred VAT scheme, with deferred amounts due for payment in March 2021.

Current accruals and deferred income include lease incentives of nil due to the implementation of IFRS 16 'Leases' (2019: £6.5m), capital accruals of £3.3m (2019: £3.2m) and a returns provision of £7.2m (2019: £2.2m). Contract liabilities of £1.6m (2019: £2.2m) for gift cards and credit notes is included within accruals and deferred income.

The maturity analysis of non-current accruals and deferred income, all of which related to lease incentives in the prior year, is as follows:

	2020 £'m	2019 £'m
One to two years	**-**	6.1
Two to five years	**-**	15.4
After five years	**-**	14.0
	-	35.5

17 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.

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, therefore 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 were increased in March 2020 to enable the full drawdown of the Revolving Credit Facility (RCF). The credit limit for the Agent bank was increased to £75m and £50m for the other banks in the syndicate. All other parties are limited to £25m.

The Group's maximum exposure to credit risk is represented by the carrying amount of financial assets. No collateral is held (2019: nil). At the period end the maximum exposure is detailed in the table below:

Current	**2020 £'m**	2019 £'m
Cash and cash equivalents	**90.0**	19.0
Trade and other receivables	**9.8**	6.9
Accrued income	**0.1**	0.3
Derivative financial instruments	**5.0**	5.1
Total current financial assets	**104.9**	31.3
Non-current		
Derivative financial instruments	**1.6**	1.0
Total financial assets	**106.5**	32.3

Trade and other receivables include rebates due from suppliers recognised as a reduction to cost of sales in the period to which they relate. The rebates are recovered through deductions from future payments to suppliers and therefore management is confident of the recoverability of these balances.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses (ECL), which uses a lifetime expected loss allowance for all trade and other receivables and accrued income. To measure the expected credit losses, trade and other receivables and accrued income have been grouped based on shared credit risk characteristics and the days past due. There is limited exposure to ECLs due to the way the Group operates.

The Group will write off, either partially or in full, the gross carrying amount of a financial asset when there is no realistic prospect of recovery. This is usually the case when it is determined that the debtor does not have the assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, the Group may still choose to pursue enforcement in order to recover the amounts due.

On that basis, the loss allowance as at 29 June 2019 and 27 June 2020 was determined to not be significant for trade and other receivables, accrued income and cash and cash equivalents.

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 18.

All cash flows on financial liabilities for 2020 and 2019 are contractually due within one year with the exception of lease liabilities, the details of which are shown in note 11.

Total borrowings of £45.0m (2019: £45.0m) reflect the level of facility drawdown at the period end on the Group's Revolving Credit Facilities.

Due to the significant uncertainty around the impact of the Covid-19 pandemic on the business, the Group applied for the UK Government COVID Corporate Financing Facility (CCFF) at the end of March 2020, and received confirmation from the Bank of England that it has been allocated an issuer limit of £300m under the programme, which remains undrawn.

17 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.

During the period, if Libor interest rates had been 10 basis points higher with all other variables held constant, post-tax profit would have been £0.7m lower (2019: £0.2m lower) as a result of higher interest expense on floating rate borrowings.

FOREIGN CURRENCY RISK

All of the Group's revenues are in sterling. The majority of purchases are also in pounds sterling (GBP), but some goods purchased direct from overseas suppliers are paid for in US dollars, accounting for just over 20% of stock purchases in the period ended 27 June 2020.

The Group uses various means to cover its exposure to US dollars (USD) including holding US dollar cash balances and taking out forward foreign exchange contracts for the purchase of USD. All the Group's foreign exchange transactions are designed to satisfy USD 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 50% on a 13 to 18 month horizon. There is a low level of coverage beyond the 18 month horizon.

Cash flow hedges are in place to manage foreign exchange rate risk arising from forecast purchases denominated in USD. At the Consolidated Statement of Financial Position date, the fair value of USD foreign exchange forward contracts held in cash flow hedges was £6.6m asset (2019: £6.1m) which relates to a commitment to purchase $159.0m (2019: $190.5m) for a fixed sterling amount. A fair value gain of £6.8m (2019: £6.6m) was recognised in other comprehensive income and no loss (2019: nil) was noted on cash flow hedges during the period. In the period, a gain of £6.4m (2019: £3.9m) 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 Consolidated Income Statement to offset future purchases occurring after the Consolidated Statement of Financial Position date, the majority of which expire in the next 12 months. From this financial period and going forward cash flow hedges transferred to inventory are included directly in equity.

The outstanding USD liabilities at the period end were $0.1m (2019: $1.1m).

In the event of a significant adverse movement in the USD 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 £1.9m higher (2019: £0.1m higher) as a result of foreign exchange gains on translation of USD denominated trade payables and cash and cash equivalents. Other components of equity would have been £11.7m lower (2019: £13.6m 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 period would have been £2.4m lower (2019: £0.3m lower) and other components of equity would have been £14.3m higher (2019: £16.7m higher).

The USD period end exchange rate applied in the above analysis is 1.2332 (2019: 1.2690).

CAPITAL MANAGEMENT

The Group considers equity plus debt as capital. There are no externally imposed capital requirements on the Group.

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. These 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.

The Group has a syndicated Revolving Credit Facility (RCF) of £165m which is in place until 2023. There is also an optional accordion facility of £75m. The terms of the RCF are consistent with normal practice and include covenants in respect of leverage (net debt to be no greater than 2.5× EBITDA before exceptional items and IFRS 16 impact) and fixed charge cover (EBITDA before exceptional items and IFRS 16 impact to be no less than 1.75× fixed charges), both of which were met comfortably as at 27 June 2020 as shown on page 192. In addition, the Group maintains £10m of uncommitted overdraft facilities with one syndicate partner bank.

17 FINANCIAL RISK MANAGEMENT – CONTINUED

The gearing ratio and banking covenants, on a pre-IFRS 16 basis, were as follows:

	2020 £'m	2019 £'m
Total borrowings (note 18)	**45.0**	45.0
Less: unamortised debt issue costs (note 18)	**(0.4)**	(0.7)
Less: cash and cash equivalents (note 15)	**(90.0)**	(19.0)
Net (cash)/debt	**(45.4)**	25.3
Total equity	**173.4**	185.8
Total capital	**128.0**	211.1
Gearing ratio	**(35.5%)**	12.0%
Operating profit excluding IFRS 16 impact (note 11)	**112.8**	126.9
Add: depreciation and amortisation of property, plant and equipment and intangible assets (note 3)	**33.2**	32.7
Add: loss on disposal and impairment of property, plant and equipment and intangible assets (note 3)	**1.5**	6.7
EBITDA excluding IFRS 16 impact	**147.5**	166.3
Leverage ratio	**(0.31)**	0.15
EBITDA excluding IFRS 16 impact	**147.5**	166.3
Rent	**47.5**	48.0
EBITDAR excluding IFRS 16 impact	**195.0**	214.3
Net interest excluding lease liabilities (note 5)	**1.4**	1.0
Rent	**47.5**	48.0
Fixed charges	**48.9**	49.0
Fixed charge cover	**4.0**	4.4

The gearing and net debt ratios are negative due to the Group being in a net cash position at the period end date.

DERIVATIVES: HEDGE INEFFECTIVENESS

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

For hedges of foreign currency purchases, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group therefore performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

In hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty.

MARKET RISK

The Group uses a combination of foreign currency options and foreign currency forwards to hedge its exposure to foreign currency risk. Under the Group's policy the critical terms of the forwards and options must align with the hedged items.

The Group only designates the spot component of foreign currency forwards in hedge relationships. The spot component is determined with reference to relevant spot market exchange rates. The differential between the contracted forward rate and the spot market exchange rate is defined as the forward points. It is discounted, where material.

The intrinsic value of foreign currency options is determined with reference to the relevant spot market exchange rate. The differential between the contracted strike rate and the discounted spot market exchange rate is defined as the time value. It is discounted, where material.

The changes in the forward element of the foreign currency forwards and the time value of the options that relate to hedged items are deferred in the hedging reserve.

17 FINANCIAL RISK MANAGEMENT – CONTINUED

EFFECTS OF HEDGE ACCOUNTING ON THE FINANCIAL POSITION AND PERFORMANCE

	2020 £'m	2019 £'m
Foreign currency forwards		
Carrying amount of asset	**6.6**	6.1
Notional amount	**122.2**	142.3
Maturity date	**July 2020 – May 2022**	July 2019 – June 2021
Hedge ratio	**1:1**	1:1
Change in value of hedged item used to determine hedge effectiveness	**£(6.8)m**	£(6.6)m
Change in the value of hedging instruments	**£6.8m**	£6.6m
Weighted average hedged rate for the year (including forward points)	**US$ 0.7684:£1**	US$ 0.7459:£1

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.

FINANCIAL ASSETS/(LIABILITIES)

The carrying value of all financial assets and financial liabilities was materially equal to their fair value.

At 29 June 2019	Financial assets at amortised cost £'m	Financial liabilities at amortised cost £'m	Derivatives used for hedging £'m	Total £'m
Cash and cash equivalents	19.0	–	–	19.0
Trade and other receivables	6.9	–	–	6.9
Accrued income	0.3	–	–	0.3
Derivative financial instruments	–	–	6.1	6.1
Total financial assets	26.2	–	6.1	32.3
Trade and other payables	–	(63.0)	–	(63.0)
Accruals	–	(42.3)	–	(42.3)
Bank borrowings	–	(44.3)	–	(44.3)
Total financial liabilities	–	(149.6)	–	(149.6)
Net financial assets/(liabilities)	26.2	(149.6)	6.1	(117.3)

NOTES TO THE **CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE 52 WEEKS ENDED 27 JUNE 2020 – CONTINUED

17 FINANCIAL RISK MANAGEMENT – CONTINUED

At 27 June 2020	Financial assets at amortised cost £'m	Financial liabilities at amortised cost £'m	Derivatives used for hedging £'m	Total £'m
Cash and cash equivalents	90.0	–	–	90.0
Trade and other receivables	9.8	–	–	9.8
Accrued income	0.1	–	–	0.1
Derivative financial instruments	–	–	6.6	6.6
Total financial assets	99.9	–	6.6	106.5
Trade and other payables	–	(72.1)	–	(72.1)
Accruals	–	(50.3)	–	(50.3)
Bank borrowings	–	(44.6)	–	(44.6)
Total financial liabilities	–	(167.0)	–	(167.0)
Net financial assets/(liabilities)	99.9	(167.0)	6.6	(60.5)

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

	2020 £'m	2019 £'m
Sterling	71.8	14.1
US dollar	18.1	4.5
Euro	0.1	0.4
	90.0	19.0

18 BANK LOANS

	2020 £'m	2019 £'m
Total borrowings	45.0	45.0
Less: unamortised debt issue costs	(0.4)	(0.7)
	44.6	44.3

Borrowings relate to the Group's syndicated Revolving Credit Facility (RCF), as described in note 17. 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 £10m.

The below analysis shows the reconciliation of net debt:

	2020 £'m	2019 £'m
Net debt at 30 June 2019 and 1 July 2018	(25.3)	(124.0)
Net increase in cash and cash equivalents (excluding foreign exchange revaluations)	70.7	3.4
Effect of foreign exchange	0.3	0.6
Repayments of Revolving Credit Facility	165.0	120.0
Drawdowns of Revolving Credit Facility	(165.0)	(25.0)
Change in net debt resulting from cash flows	71.0	99.0
Amortisation of debt issue costs (note 5)	(0.3)	(0.3)
Movement in net debt	70.7	98.7
Net cash/(debt) represented by:		
Cash and cash equivalents (note 15)	90.0	19.0
Non-current borrowings (note 18)	(45.0)	(45.0)
Net cash/(debt) including unamortised debt issue costs	45.0	(26.0)
Unamortised debt issue costs	0.4	0.7
Net cash/(debt) at 27 June 2020 and 29 June 2019	45.4	(25.3)

19 PROVISIONS

	Balance at 29 June 2019 £'m	Utilised in the period £'m	Created in the period £'m	Released in the period £'m	**Balance at 27 June 2020 £'m**
Property related	(1.7)	0.3	(3.0)	0.6	**(3.8)**

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.

20 ISSUED SHARE CAPITAL

	2020 Number of Ordinary Shares of 1p each	2019 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

	2020 Number of shares	**2020 £'m**	2019 Number of shares	2019 £'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 (2019: £nil).

21 TREASURY SHARES

	2020 Number of shares	**2020 £'m**	2019 Number of shares	2019 £'m
Outstanding at the beginning of the period	**867,642**	**7.8**	914,635	8.2
Reissued during the period in respect of share option schemes	**(294,052)**	**(2.7)**	(46,993)	(0.4)
Outstanding at the end of the period	**573,590**	**5.1**	867,642	7.8

The Group acquired no shares through purchases on the London Stock Exchange during the period (2019: nil).

The Group reissued 294,052 (2019: 46,993) treasury shares during the period for a total value of £2.7m (2019: £0.4m).

Proceeds from the issue of treasury shares included in the Consolidated Statement of Cash Flows and Consolidated Statement of Changes in Equity of £2.0m (2019: £0.2m) is the amount employees contributed.

The Group has the right to reissue the remaining treasury shares at a later date.

22 SHARE BASED PAYMENTS

The total expense recognised in the Consolidated Income Statement and Consolidated Statement of Changes in Equity arising from share based payments is as follows:

	2020 52 weeks £'m	2019 52 weeks £'m
Sharesave	0.8	0.3
LTIP	1.3	1.1
	2.1	1.4

The charge for the Dunelm Group Share Option Plan (GSOP) and Restricted Stock Award schemes are below the rounding ceiling.

As at 27 June 2020, the Group operated four share award plans:

A. DUNELM GROUP SHARE OPTION PLAN (GSOP)

These options are granted to particular individuals and are dependent on the level of growth in the Group's EPS relative to RPI as well as continuing employment with the Group.

B. DUNELM GROUP SAVINGS RELATED SHARE OPTION PLAN (SHARESAVE)

These options are 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.

C. LONG TERM INCENTIVE PLAN (LTIP)

These options are granted to particular individuals and are dependent on the level of growth in the Group's EPS relative to RPI, as well as continuing employment.

D. RESTRICTED STOCK AWARD

These options are granted to particular individuals and are dependent on continuing employment.

As the numbers of share options granted or outstanding and the related charge to the Consolidated Income Statement are not significant, no further disclosures are included in these financial statements.

23 COMMITMENTS

As at 27 June 2020, the Group had entered into capital contracts for new stores and refits amounting to £3.1m (2019: £5.5m) and £nil for intangible assets (2019: £2.3m).

On adoption of IFRS 16 'Leases', the Group recognised liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 'Leases'.

The reconciliation of differences between the operating lease commitments disclosed under the prior standard and the additional lease liabilities recognised in the Consolidated Statement of Financial Position at 29 June 2019 are in note 11.

The future minimum lease payments under non-cancellable operating leases were as follows:

	2020 Motor vehicles £'m	2020 Land and buildings £'m	2020 Plant and machinery £'m	2020 Total £'m	2019 Motor vehicles £'m	2019 Land and buildings £'m	2019 Plant and machinery £'m	2019 Total £'m
Within one year	–	–	–	–	1.1	52.0	2.4	55.5
In the second to fifth year inclusive	–	–	–	–	1.7	173.9	2.7	178.3
After five years	–	–	–	–	–	134.4	1.0	135.4
	–	–	–	–	2.8	360.3	6.1	369.2

As at 29 June 2019, and under IAS 17 accounting, the Group had 167 operating leases in respect of properties. Those leases ran for periods of up to 20 years with payment terms being reviewed typically every five years. There were also a number of vehicle and computer hardware leases which varied in length.

24 CONTINGENT LIABILITIES

The Group had no contingent liabilities at the period end date (2019: none).

25 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 until 28 November 2018.

Directors of the Company and their close relatives control 51.5% (2019: 51.5%) of the voting shares of the Company.

Disclosures relating to remuneration of Directors are set out in the Remuneration Report on pages 120 to 155. The remuneration of the key management personnel, excluding David Stead, is set out below:

	2020 52 weeks £'m	2019 52 weeks £'m
Wages and salaries	**2.7**	2.5
Other benefits	**1.1**	1.6
Post-employment benefits	**0.2**	0.2
Share based payments	**1.3**	0.9
	5.3	5.2

For this financial period and going forward, the pay of Non-Executive Directors has been included in the table above. Prior year has not been restated. Non-Executive pay for prior year totalled £0.5m, therefore, the total remuneration of key management personnel for prior year would have been £5.7m.

David Stead's remuneration is set out below:

	2020 52 weeks £'000	2019 52 weeks £'000
Short-term employee benefits	**-**	49.5
Post-employment benefits	**-**	5.8
	-	55.3

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.

26 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.

27 SUBSEQUENT EVENTS

There are no reportable subsequent events for Dunelm Group plc.

PARENT COMPANY STATEMENT OF **FINANCIAL POSITION**

AS AT 27 JUNE 2020

	Note	27 June 2020 £'m	29 June 2019 £'m
Non-current assets			
Investments in subsidiary undertakings	4	**55.2**	53.6
Deferred tax assets	5	**0.6**	0.2
Total non-current assets		**55.8**	53.8
Current assets			
Trade and other receivables	6	**445.6**	317.9
Total current assets		**445.6**	317.9
Total assets		**501.4**	371.7
Current liabilities			
Trade and other payables	7	**(196.9)**	(87.9)
Total current liabilities		**(196.9)**	(87.9)
Total liabilities		**(196.9)**	(87.9)
Net assets		**304.5**	283.8
Equity			
Issued share capital	11	**2.0**	2.0
Share premium account		**1.6**	1.6
Non-distributable reserves		**10.0**	8.4
Capital redemption reserve		**43.2**	43.2
Retained earnings		**247.7**	228.6
Total equity attributable to equity holders of the Parent		**304.5**	283.8

The Company made a profit after tax of £122.3m (2019: £102.6m).

The financial statements on pages 198 to 205 were approved by the Board of Directors on 10 September 2020 and were signed on its behalf by:

Laura Carr
Director

Company number 04708277

10 September 2020

PARENT COMPANY STATEMENT OF **CASH FLOWS**

FOR THE 52 WEEKS ENDED 27 JUNE 2020

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 27 JUNE 2020

	Note	Issued share capital £'m	Share premium account £'m	Non-distributable reserves £'m	Capital redemption reserve £'m	Retained earnings £'m	Total equity attributable to equity holders of the Parent £'m
As at 1 July 2018		2.0	1.6	7.3	43.2	180.1	234.2
Profit for the period		–	–	–	–	102.6	102.6
Proceeds from issue of treasury shares	12	–	–	–	–	0.2	0.2
Share based payments	13	–	–	1.1	–	0.3	1.4
Dividends	3	–	–	–	–	(54.6)	(54.6)
Total transactions with owners, recorded directly in equity		–	–	1.1	–	(54.1)	(53.0)
As at 29 June 2019		2.0	1.6	8.4	43.2	228.6	283.8
Profit for the period		–	–	–	–	122.3	122.3
Total comprehensive income for the period		–	–	–	–	122.3	122.3
Proceeds from issue of treasury shares	12	–	–	–	–	2.0	2.0
Share based payments	13	–	–	1.6	–	0.5	2.1
Deferred tax on share based payments	5	–	-	-	-	0.3	0.3
Dividends	3	–	–	–	–	(106.0)	(106.0)
Total transactions with owners, recorded directly in equity		–	–	1.6	–	(103.2)	(101.6)
As at 27 June 2020		**2.0**	**1.6**	**10.0**	**43.2**	**247.7**	**304.5**

The non-distributable reserves' purpose is to reflect movements in share based payments in respect of awards given by the Parent Company to employees of its subsidiaries.

PARENT COMPANY **ACCOUNTING POLICIES**

FOR THE 52 WEEKS ENDED 27 JUNE 2020

GENERAL INFORMATION

Dunelm Group plc (the 'Company') 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 (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The annual financial statements are prepared under the historical cost convention. The financial statements are prepared in pounds sterling, rounded to the nearest million.

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.

Additional considerations relating to the impact of Covid-19 on the going concern assumption are set out in the Group's financial statements on page 174.

SHARE BASED PAYMENTS

Employees of the Company have been granted options for two equity-settled, share based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- Including any market performance conditions (for example, an entity's share price);
- Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- Including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the Income Statement, with a corresponding adjustment to equity.

When the options are exercised, the Company either issues new shares, or uses treasury shares purchased for this purpose. For issued new 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 Statement of Financial Position date, together with any adjustment to tax payable in respect of previous periods.

Deferred tax provides 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 Statement of Financial Position 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.

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 financial period beginning on or after 30 June 2019 have had a material impact on the Company.

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.

No estimates or judgements have had a material impact on the Company.

NOTES TO THE PARENT COMPANY **FINANCIAL STATEMENTS**

FOR THE 52 WEEKS ENDED 27 JUNE 2020

1 INCOME STATEMENT

The Company made a profit after tax of £122.3m (2019: £102.6m). 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.

Disclosures relating to the fees paid to the Company's auditors are set out in note 3 in the Group's financial statements on page 182.

2 EMPLOYEE COSTS

The Company has no employees other than the three Executive Directors and the Non-Executive Directors. Full details of the Directors' remuneration and interests are set out in the Remuneration Report on pages 120 to 155. Share based payments details are given in note 13 on page 205.

3 DIVIDENDS AND SPECIAL DISTRIBUTIONS TO SHAREHOLDERS

Disclosures relating to dividends and special distributions to shareholders are set out in note 7 in the Group's financial statements on page 183.

4 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Shares in subsidiary undertakings:

	£'m
As at 1 July 2018	52.5
Share based payments	1.1
As at 29 June 2019	53.6
Share based payments	1.6
As at 27 June 2020	**55.2**

The share based payment adjustment to investments reflects share option awards given by the Parent Company to employees of its subsidiaries.

The following were subsidiaries as at 27 June 2020 and 29 June 2019:

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%	Non-trading company
Zoncolan Limited*	100%	Non-trading 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 2020 £'m	Assets 2019 £'m
Employee benefits	**0.6**	0.2

The movement in deferred tax assets is as follows:

	Balance at 1 July 2018 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 29 June 2019 £'m
Employee benefits	0.1	0.1	–	0.2

	Balance at 30 June 2019 £'m	Recognised in income £'m	Recognised in equity £'m	**Balance at 27 June 2020 £'m**
Employee benefits	0.2	0.1	0.3	**0.6**

6 TRADE AND OTHER RECEIVABLES

	2020 £'m	2019 £'m
Amounts owed by Group undertakings	**445.6**	317.9
	445.6	317.9

Amounts owed by subsidiary undertakings are repayable on demand. Interest is charged monthly on all intercompany balances at an annual rate of 2.0%.

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

	2020 £'m	2019 £'m
Amounts owed to Group undertakings	**(196.5)**	(87.7)
Other taxation and social security	**(0.4)**	(0.2)
	(196.9)	(87.9)

Amounts owed to subsidiary undertakings are repayable on demand. Interest is charged monthly on all intercompany balances at an annual rate of 2.0%.

NOTES TO THE PARENT COMPANY **FINANCIAL STATEMENTS**

FOR THE 52 WEEKS ENDED 27 JUNE 2020 – CONTINUED

8 TAXATION

	2020 52 weeks £'m	2019 52 weeks £'m
Current taxation		
UK corporation tax charge for the period	**–**	–
	–	–
Deferred taxation		
Origination of temporary differences	**(0.1)**	(0.1)
Total tax expense	**(0.1)**	(0.1)

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

	2020 52 weeks £'m	2019 52 weeks £'m
Profit before taxation	**122.3**	102.6
UK corporation tax at standard rate of 19.0% (2019: 19.0%)	**23.2**	19.5
Factors affecting the charge in the period:		
Income not subject to tax	**(23.0)**	(19.5)
Group relief	**(0.3)**	(0.1)
Tax charge	**(0.1)**	(0.1)

In March 2020, the UK Government substantively enacted a corporation tax rate of 19.0% from 1 April 2020 rather than the previously enacted reduction to 17.0%. The deferred tax asset is therefore measured at 19.0%.

9 INTEREST BEARING LOANS AND BORROWINGS

Disclosures relating to interest bearing loans and borrowings are set out in note 18 in the Group's financial statements on page 194.

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

Disclosures relating to issued share capital are set out in note 20 in the Group's financial statements on page 195.

12 TREASURY SHARES

Disclosures relating to treasury shares are set out in note 21 in the Group's financial statements on page 195.

13 SHARE BASED PAYMENTS

The total expense recognised in the Income Statement arising from share based payments is as follows:

	2020 £'m	2019 £'m
LTIP	**0.5**	0.3

The charge for the Dunelm Group Savings Related Share Option Plan (Sharesave) is below the rounding ceiling.

As at 27 June 2020, employees of the Company have been granted options for two share award plans:

A. DUNELM GROUP SAVINGS RELATED SHARE OPTION PLAN (SHARESAVE)

These options are 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.

B. LONG TERM INCENTIVE PLAN (LTIP)

These options are granted to particular individuals and are dependent on the level of growth in Group EPS relative to RPI, as well as continuing employment.

As the numbers of share options granted or outstanding and the related charge to the Company Income Statement are not significant, no further disclosures are included in these financial statements.

14 CONTINGENT LIABILITIES

The Company had no contingent liabilities at the period end date (2019: nil).

15 RELATED PARTIES

Transactions between the Company and its subsidiaries were as follows:

	2020 52 weeks £'m	2019 52 weeks £'m
Dividends received	**121.2**	102.5
Net interest receivable	**4.0**	4.1
	125.2	106.6

	2020 £'m	2019 £'m
Amounts owed by Group undertakings	**445.6**	317.9
Amounts due to Group undertakings	**(196.5)**	(87.7)
	249.1	230.2

KEY MANAGEMENT PERSONNEL

All employees of the Company are key management personnel including David Stead, the Group's interim Chief Financial Officer until 28 November 2018.

Directors of the Company and their close relatives control 51.5% (2019: 51.5%) of the voting shares of the Company.

Disclosures relating to the remuneration of Directors are set out in the Remuneration Report on pages 128 to 155. Disclosures relating to the remuneration of David Stead are set out in note 25 in the Group's financial statements.

16 SUBSEQUENT EVENTS

There are no reportable subsequent events for Dunelm Group plc.

ALTERNATIVE PERFORMANCE MEASURES

ALTERNATIVE PERFORMANCE MEASURES (APMS)

APM	Definition, purpose and reconciliation to statutory measure
Unique active customers growth	12-month rolling growth in unique active customers who have shopped in the last 12 months, based on Barclays transactional data. Note that Barclays data represents approximately 20% of total Dunelm transactions. To measure whether we are continuing to grow our active customer base – from both new customers and retention of existing customers.
Total sales	Equivalent to revenue (from all channels). This is net of customer returns.
LFL stores sales	Sales from stores trading for at least one full financial year prior to 29 June 2019 without any significant change of space. LFL store sales include Click & Collect/ Reserve & Collect sales and home delivery sales in respect of orders placed via in-store tablets. Measures the sales growth in stores excluding the impacts of any significant space changes.
Online (home delivery) sales	Sales transacted online through dunelm.com and delivered to the customer's home. Excludes Click & Collect and orders placed via in-store tablets.
Total LFL sales	LFL stores and online (home delivery). Group revenue less sales from non-LFL stores. Measures total sales growth excluding the impacts of any significant space changes.
Digital % total sales	Digital sales include home delivery, Click & Collect (or Reserve & Collect before October 2019) and tablet-based sales in store. This is expressed as a percentage of revenue. This is not a measure that we seek to maximise in itself, but we measure it to track our adaptability to changing customer behaviours.
Gross margin %	Gross profit/revenue. Measures the profitability made on product sales prior to sales and distribution costs and administrative expenses.
Operating costs to sales ratio	Operating costs/revenue. To measure the growth of costs relative to sales growth.
Effective tax rate	Taxation/Profit before taxation. To measure how close we are to the UK corporation tax rate and understand the reasons for any differences.
Capex (net of disposals)	Acquisition of intangible assets and acquisition of property, plant and equipment less proceeds on disposal of property, plant and equipment and intangibles.
Free cash flow	Net cash generated from operating activities less net cash used in investing activities less interest paid, interest on lease liabilities and repayment of lease liabilities. Measures the cash generated that is available for disbursement to shareholders.
Net cash/(debt)	Cash and cash equivalents less total borrowings. Excludes IFRS 16 lease liabilities.

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