DUNELM GROUP PLC
ANNUAL REPORT AND ACCOUNTS 2022

Dunelm
The **Home** of Homes

Growing with purpose

Growing with purpose

Dunelm is the UK's market leader in homewares, offering a distinctive and specialist product portfolio, and friendly, convenient service, through a retail system that combines physical stores and digital channels.

Our purpose

To help create the joy of truly feeling at home, now and for generations to come.

"In last year's annual report, I talked about our renewed purpose and its relevance to the broader role we play in the lives of our stakeholders. Our purpose influences our Board and our colleagues in our decision-making. It prompts us to question why we do what we do, and it improves our recognition of how we **help create the joy of truly feeling at home** for our stakeholders – our customers, colleagues, store communities, suppliers, shareholders and all other people we deal with.

As we continue to grow it is even more important that we use our purpose to guide us to do the right thing. Our plan is to become our customers' 1st Choice for Home, across all products, services and experiences that we offer. Increasingly, we can demonstrate that we are achieving this in a sustainable and responsible way, **now and for generations to come**.

In this report we share examples of how our purpose has been used to guide our strategic thinking and actions. By growing with purpose, we believe we can better counter the significant macroeconomic uncertainties ahead and keep our stakeholders engaged and committed as we head into our next phase of growth."

Nick

Nick Wilkinson
Chief Executive Officer

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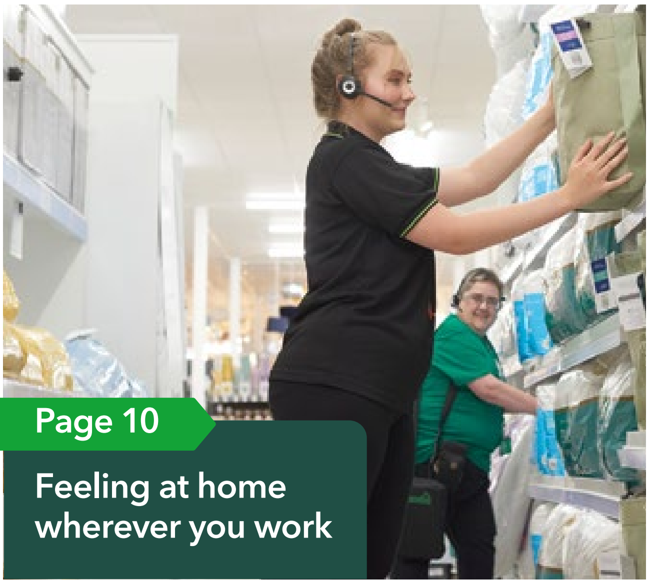
Growing our product offer

Page 8
Digitising our business



Page 10
Feeling at home wherever you work

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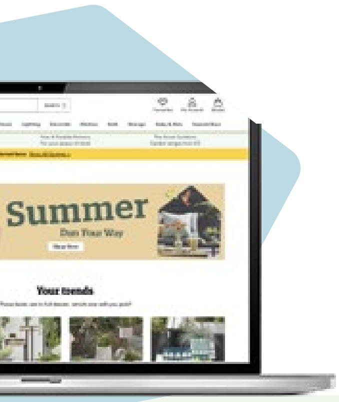
Building sustainability into all that we do

Go online
corporate.dunelm.com



Leading in a fast-changing market

We are the UK's #1 homewares retailer, with a growing presence in the furniture market.

No.1
Market leader in UK homewares market

85%
of growth in last five years from market share gains

177
stores, of which 153 with in-store Pausa cafes

11,000+
colleagues working in stores, operations, logistics, manufacturing and support centres

HOUSEHOLD BRANDS

Over 50,000 products mainly sold under the Dunelm brand or exclusive brands, allowing us to develop a wide range offering great choice and value, with style, quality and, increasingly, sustainability credentials.

Dunelm

DORMA
ESTABLISHED 1921

fogarty

FY22 performance summary

TOTAL SALES	PROFIT BEFORE TAX	FREE CASH FLOW
£1,581.4m	**£212.8m**	**£153.0m**
FY21 £1,336.2m	FY21 £157.8m	FY21 £108.5m
SALES GROWTH	**PROFIT BEFORE TAX GROWTH**	**GROSS MARGIN**
+18.4%	**+34.9%**	**51.2%**
FY21 +26.3%	FY21 +44.6%	FY21 51.6%

What's new in FY22?

3 new stores in Beverley, Leeds and Basildon

9 major store refits

4 Pausa cafes updated with our new 'kitchen cafe' styling

new furniture hub opened and network delivery hub relocated

new dedicated ecommerce facility fully operational

expanded home decorating range and launched new gifting and stationery products

ADVERTISING CAMPAIGN

'Dun Your Way' is about giving our customers the confidence to create their homes, their way. Our FY22 advertising campaign shows how our breadth and depth of range makes Dunelm the perfect place to shop and to bring joy to your home, whatever your style, taste, colour scheme or budget.

ORDINARY DIVIDENDS

40.0p

FY21 35.0p

ACTIVE CUSTOMER GROWTH

+8.5%

FY21 +12.2%

DILUTED EARNINGS PER SHARE

83.6p

FY21 62.9p

HOMEWARES MARKET SHARE GROWTH

+140bps

FY21 +130bps

FY22: 53 VERSUS 52 WEEKS

All financial and non-financial information in this report relates to our 53-week financial period ended 2 July 2022, unless stated otherwise.

In the CFO's review on pages 27 to 31 we share 52-week financial information to facilitate comparison with our prior financial period, 52 weeks ended 26 June 2021.

Please note that whilst the 53 week numbers have been audited, the 52 week numbers are unaudited.

Creating value for all

Our 'plan on a page' focuses our business on delivering long-term growth and creating value for our stakeholders.

Our plan is to become our customers' 1st Choice for Home

Our purpose

Our purpose guides all our business activities and decisions – and helps us to understand why people want to shop with us, work for us, supply us and stay invested in us.

To help create the joy of truly feeling at home, now and for generations to come.

Our ambitions

We have three long-term ambitions, linked to specific KPIs, to ensure that we stay focused and measure our progress.

AMBITIOUS ABOUT OUR BRAND

AMBITIOUS ABOUT BEING A GOOD COMPANY

AMBITIOUS ABOUT PROFITABLE GROWTH

Our shared values

Our shared values have evolved from our fundamental business principles developed more than a decade ago, and reflect our attitudes and behaviours throughout Dunelm, and how these impact our ethics and culture.

ACT LIKE OWNERS

KEEP LISTENING & LEARNING

LONG-TERM THINKING

STRONGER TOGETHER

Strengthening our customer proposition for savvy home lovers

To become our customers' 1st Choice for Home we are focused on delivering our proposition…

CHOICE & VALUE
Great value and quality for every style, space and budget

GOOD & CIRCULAR
Positive choices for people and the environment

FRIENDLY & EXPERT
Service that is knowledgeable, non-judgmental and warm

EASY & CONVENIENT
Easy to find, buy and fit everything you need for your home

…and our focus areas

Building capabilities & digitising in six focus areas

0 Sustainability
Our pathway to zero, building sustainability into all that we do and making it easy for our customers.

1 Product development
Develop our market leading product offer, supported by brilliant commercial processes.

2 Customer understanding
Deeply understand attitudes and behaviours to optimise our acquisition and retention.

3 Shopping experience
Offer the best, seamless online and in-store digital customer experience in the market.

4 Data and insight
Build foundational capabilities in data and accelerate customer insight.

5 Post sales experience
Provide personal, high quality and efficient delivery, service and support.

For more information see pages 22 to 23.

Investment proposition

We are well positioned in our market, with a clear vision for purposeful and sustainable growth.

Brand purpose
A brand appealing to a wide range of customers; market leader in a large fragmented market, with a challenger brand mentality.

Product proposition
A distinctive and specialist product portfolio – offering quality, value and style – largely own brand and sourced from long-term committed suppliers.

Total retail system
A total retail system that combines the advantages of digital and local shopping experiences to better serve UK homewares shoppers, and benefits from our convenient, low-cost store portfolio.

Financial position
A highly cash-generative business model with agility to invest.

Shared values
Shared values, strong relationships and a commitment to doing the right thing for the long term, for all our stakeholders.

Future growth
A clear runway for attracting more customers and increasing their frequency.

Stakeholder value creation

As we grow with purpose, we seek to create long-term economic and social value for our stakeholders and reduce our impact on the environment.

CUSTOMERS
Improved in-store and digital customer services and experience.

+8.5%
YoY increase in active customers

STORE COMMUNITIES
Deepened local engagement in our store communities.

£632k
raised by colleagues and the Group for UK charities and Ukraine support

COLLEAGUES
Ongoing investment in social and financial wellbeing, communication and career development.

>800
new colleague roles created

SUPPLIERS
Continued to work closely with suppliers and improve ethical and environmental auditing standards.

>99%
of supplier invoices paid within agreed terms

SHAREHOLDERS
Paid interim dividend of 14 pence, special dividend of 37 pence and recommended FY22 final dividend of 26 pence.

£282.1m
total dividends paid in the year

ENVIRONMENT
Further target setting and actions taken to reduce carbon intensity across our operations and supply chain.

19.6%
reduction in Scope 1 tCO_2e/£1m Group revenue compared to FY19 baseline

Growing with purpose

Growing our **product offer**

We design products to help create the joy of truly feeling at home. For customers of all ages, lifestyles and budgets.

NATURAL HISTORY MUSEUM x Dunelm

Introducing our exciting product range with the Natural History Museum to promote wetlands, woodlands... and dinosaurs.

For more information see page 42.

Growing...

This year we continued to grow our product offer – we launched over 450 new furniture lines, extended our Fogarty beds and mattresses range, announced our exciting collaboration with the Natural History Museum, and strengthened our value proposition for customers, by including more entry-price products and increasing special buys. In FY22 we expanded our decorating and gifting ranges and are improving capability in window treatments through the acquisition of Sunflex, a leading supplier of tracks, poles and blinds.

For more information see pages 16 to 21.

...with purpose

We are developing new products more sustainably – introducing recycled content, inspiring customers to 'care, repair, renew and refresh' and designing products to last longer. We only work with product suppliers who meet our high ethical standards. Take-back options are now available for all our major product categories, and, through better communication, our customers are finding it easier to make more sustainable choices… now and for generations to come.

For more information see pages 42 to 48.

Good & Circular

We are making it easier for customers to make more thoughtful choices. Our 'washed bedding' range is made from 100% recycled cotton under socially responsible working conditions that are independently verified.

Choice & Value

Every customer has a different perception of what value means to them, and we know our products must be practical, attractive and affordable. Our 'good-better-best' ranges (and ongoing special buys) cater for all budgets so we can help everyone to have a home full of joy.

Colourful & Coordinated

Whether a day-to-day essential or a planned one-off purchase, we aim to provide a wide choice that is matched by quality. Our new stationery range includes faux leather, soft- and spiral-bound notebooks in a range of colours and designs with matching pencil cases, lever arch files and sticky notes.

Stylish & Practical

We aim to marry on-trend styling with value, practicality and longevity. Our new wallpaper ranges are designed to make a statement in any room at an affordable price. They are also easy to hang and keep clean.

Creating value for...

...OUR CUSTOMERS

Products that delight our home-loving customers, with ranges that offer attractive styling, great quality, good value for money and an increasing choice of sustainable options.

...OUR SUPPLIERS

Increased collaboration and engagement with our committed suppliers to create and secure long-term business and exciting growth opportunities.

Digitising our business

Our investment in digital capabilities is helping to delight our customers, improve colleague satisfaction and streamline operations.

Growing…

We have transformed our business, moving from a largely stores-based operation to giving our customers a choice of 'easy & convenient', digital-led shopping channels, alongside the 'friendly & expert' experience of shopping in our brilliant stores. Investment in digital capabilities continues to drive incremental growth both online and in store, with our multi-channel customers shopping more frequently and spending more on average. By making it easier and more convenient for customers to access our products and services we are confident of driving future growth.

For more information see page 21.

…with purpose

Ongoing investment in our digital infrastructure supports our long-term business growth. This year we opened a dedicated ecommerce fulfilment facility, a new furniture warehouse, and relocated a home delivery network hub in Daventry and have recruited colleagues with digital expertise to bolster our teams. We are digitising processes across the business and increasingly linking up our business systems to improve customer satisfaction, colleague engagement and operational efficiencies.

For more information see pages 16 to 21.

How?

A digital ecosystem designed to:

- Provide inspiration
- Enhance customer experience
- Ensure efficient fulfilment

Online

Digital sales up x5 in five years

In-store

Digital investment driving in-store sales

Operations

Improving operational efficiency and fulfilment capacity

33%
customers shopping either online or multi-channel in FY22

35%
of total sales are through digital channels

2.5x
increase in digital sales in FY22 compared to pre-pandemic levels

BETTER USER EXPERIENCE
Ongoing investment in our customer website increases browsing speeds and check-out functionality, improving overall user experience.

ONLINE TOOLS
Our handy tools help our customers size up sofas and furniture online from the comfort of their homes or on the move.

FRIENDLY & EXPERT
Additional 'live' information on iPads helps our store hosts serve customers even better, by providing expert advice and accessing our extended product range.

QR CODES
QR codes for each product can be scanned by customers in store for extra information, including stock availability and additional online exclusives.

CENTRAL WAREHOUSES AND ECOMMERCE FULFILMENT CENTRE
Added capacity to our warehouses by opening a dedicated furniture warehouse to enhance our offering. Our new ecommerce facility speeds up fulfilment of online orders and shortens delivery times.

BUILDING MANAGEMENT SYSTEMS
Centrally controlled heating, cooling and lighting functions lower our environmental impact and operating costs.

Why?

Creating value for:

OUR SHAREHOLDERS
Higher customer satisfaction and increasing operational efficiencies achieved through our digital investment gives our shareholders confidence in our ambitious growth plans.

OUR CUSTOMERS
Easy and convenient digital services which complement our brilliant stores, with seamless cross-channel experiences, improved product availability and more delivery options.

Feeling at home wherever you work

We can only be our customers' 1st Choice for Home if our colleagues are happy. No matter who they are or where they work, we commit to making our colleagues feel welcome, engaged, safe and fairly rewarded.

4

colleague network groups (LGBTQ+, Disability & Neurodiversity, Ethnicity & Race, and Gender Equality)

>900

colleagues trained (so far) in inclusion and diversity

92%

of colleagues recommend Dunelm as a place to work

Growing…

The adaptability and loyalty of our colleagues, who live our shared values day in day out, helped us to grow at record pace in some of the most challenging times for our business. As we head into our next growth phase – aiming to be a bigger, better business with more capability, resilience and ambition – we will continue to make Dunelm a great place to work, listening to our colleagues and giving them opportunities to grow with us.

For more information see page 57.

…with purpose

To help create joy for our colleagues we need to know them better and adapt to their ideas and needs, making them feel engaged and valued. To support future growth, we are investing in creating the best environment for them to thrive – developing our leaders to be more inclusive and supportive, rethinking how we manage talent and investing in colleague training, financial health and wellbeing and consistent and trustworthy pay.

For more information see pages 52 to 58.

Shared values

To underpin future growth, we ran a Group-wide project to bring our shared values to life and to reinforce them through a new behavioural framework.

Mental & financial health

Looking after the mental and financial health of our colleagues has been a priority for many years. We have taken action to further support colleagues and their families who we know will be most affected by the increased cost of living.

For more information see page 56.

Dunelm for all

Colleague feedback shapes how we think about making Dunelm more inclusive and diverse. We continue to roll out our tailored training programme and have changed our recruitment process to reduce unconscious bias

For more information see page 58.

Keep listening and learning

Our leaders promote a culture of continual feedback and colleague ideas have led to change, including new policies, more inclusive uniforms and increased communications.

For more information see page 54.

Creating value for...

...OUR COLLEAGUES
In our bi-annual colleague engagement survey, we received the best response yet to the question 'Would you recommend Dunelm as a place to work?'

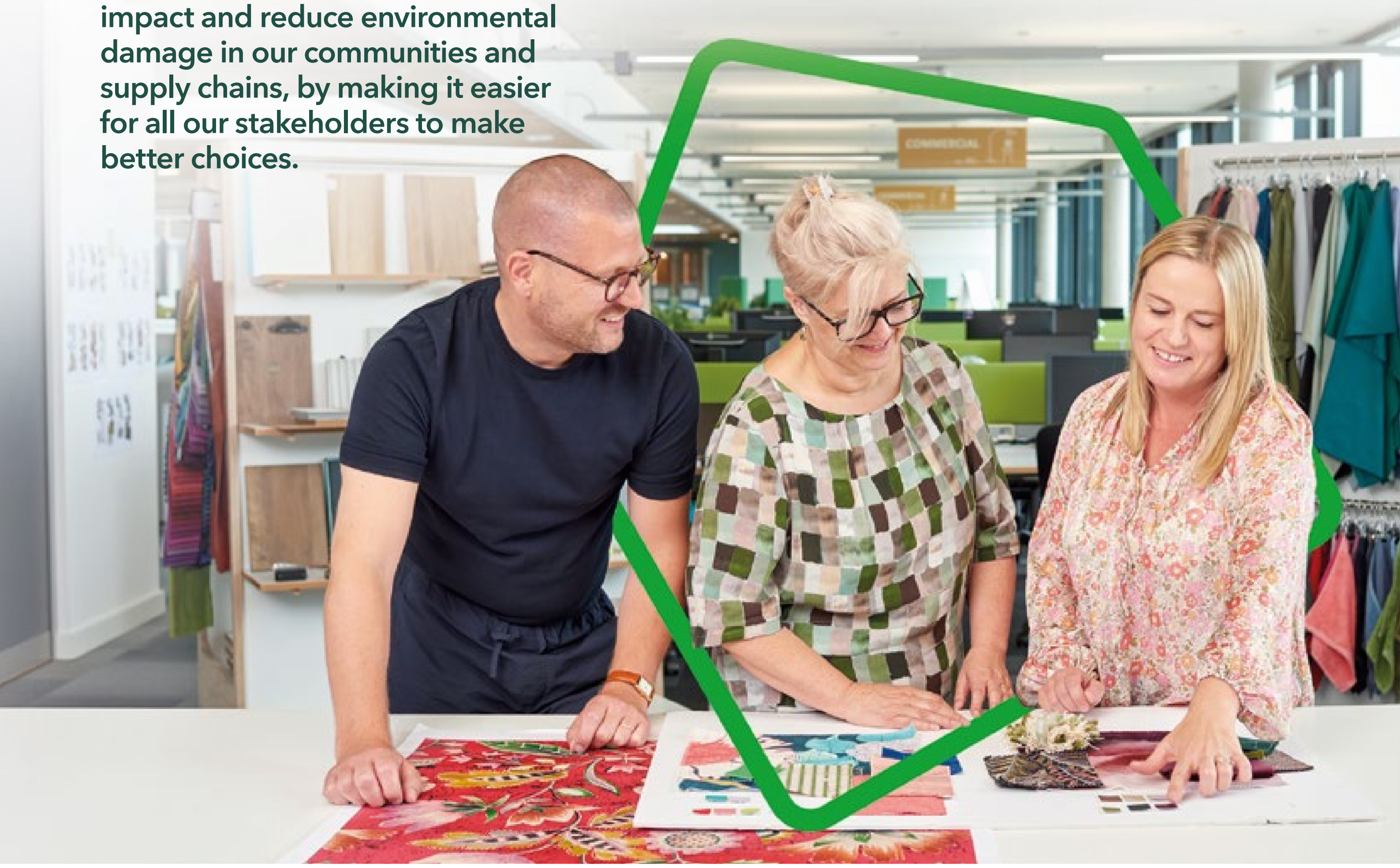
...OUR CUSTOMERS
We track how friendly our customers rate their shopping experience with us and provide ongoing 'friendly and helpful' training for our colleagues.

...OUR STORE COMMUNITIES
We empower our colleagues to engage proactively in their communities, supporting local initiatives and creating stronger connections.

Growing with purpose

Building **sustainability** into all that we do

We want to make a positive social impact and reduce environmental damage in our communities and supply chains, by making it easier for all our stakeholders to make better choices.



Growing…

We are increasing our focus on being sustainable in everything we do, recognising the importance of this approach to reaching our long-term ambitions and realising the opportunity to be a leader in this space. We have made significant progress but have more to learn and do. To support future growth we have increased our in-house expertise in climate change, environmental science and ethical sourcing and continue to support colleague initiatives, such as diversity and inclusion, mental health and financial wellbeing support, training and career opportunities.

For more information see pages 32 to 60.

…with purpose

We are engaging more widely and more passionately across our business, making it easier for our customers, colleagues, suppliers, communities and shareholders to understand what we mean by sustainability and to make better sustainable choices. To demonstrate our responsibility now and for generations to come we have made public commitments and backed these up with metrics and actions. These include, for example, four ESG key performance indicators (KPIs) linked to our Revolving Credit Facility and these and other non-financial KPIs linked to Director remuneration.

For more information see pages 24 to 25.

Creating value for...

Ongoing focus to reduce greenhouse gas emissions (all Scopes) and waste and to improve energy efficiencies and operational recycling.

Ongoing engagement with colleagues to focus on fair pay, diversity and inclusion, mental and financial wellbeing, expected behaviours and what we mean by sustainability.

Increased ESG disclosure and investor engagement, backed by transparent sustainability metrics linked to remuneration and loan facilities.

Increased engagement with our suppliers on ethical sourcing standards and use of environmental materials, including a strong focus on product circularity.

Greater focus on building thriving communities by supporting local businesses, groups and individuals and connecting them more meaningfully to our stores and colleagues.

Launch of **'Conscious Choice'**, a guide to help customers navigate our product range from an ethical and environmental perspective.

Expanded range of options to promote responsible recycling, with **take-back** services in 165 stores for over half of our own brand ranges.

50%
target reduction of absolute carbon emissions across all Scopes by 2030

AA Rating
achieved in MSCI ESG ratings assessment[1]

4
ESG metrics linked to our loan facility and Long-Term Incentive Plan (LTIP)

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Continuing to deliver for all our stakeholders

We remain confident that we can continue to deliver for all our stakeholders and be the 1st Choice for Home.

I am very pleased to report an excellent financial performance, with total sales growth of 16.2%, delivering record pre-tax profits of £209.0m, an increase of 32.4% on the prior year[1]. More importantly, these results demonstrate the strength of our business model and the broad appeal of our customer proposition. These fundamental strengths will hold us in good stead as we trade into a much tougher consumer environment. Historically, 85% of our sales growth has come from market share gains and we remain confident that we can continue to win share. At the heart of our success is the skill and dedication of our over 11,000 colleagues. We are proud and grateful for their work.

For the first time in two years, our stores were open for the entirety of the year, enabling customers to fully benefit from our total retail system. We have continued to invest in digitising our business and improving our operational capability, with the opening of a dedicated ecommerce distribution fulfilment facility and a new furniture warehouse; all designed to improve our customer service. We have increased our customer numbers once again and continued to win market share.

We have emerged from the Covid crisis as a bigger and stronger business, well positioned to face into the pressures of the current inflationary environment and cost of living challenges. Our commitment to offering our customers outstanding value remains as strong as ever and we shall continue to cater for all customers, no matter how they adapt to this environment, by providing options for every style, space and budget.

1. 52-week basis. On a 53-week basis, total sales were £1,581.4m (+18.4%), gross margin was 51.2% (-40bps) and PBT was £212.8m (+34.9%). 52-week results are unaudited.

In accordance with our long-held values, the Board is deeply mindful that our decisions must always balance the needs of our customers, colleagues, communities, suppliers and shareholders, as well as the environment which we all share. I am pleased that we have continued to make progress in delivering for all these stakeholders. In addition to our very strong financial performance, we have created more than 800 new roles and raised more than £450k for our new charity partner, Mind.

Sustainability remains a key focus for the business and we have continued to make good progress during the year. We introduced a take-back scheme for textiles during the year, which is live in more than 90% of our stores, with take-back now covering more than 50% of own-brand products. We have a number of partnerships in place to support our Net Zero Pathway, having joined the Aldersgate Group during the year and continued our collaborations with Textiles 2030 and the British Retail Consortium. We also recently launched 'Conscious Choice', a fantastic collection of products which helps our customers make more thoughtful decisions through products that last longer and are made from more sustainable materials.

DIVIDENDS

The Board has proposed a final ordinary dividend of 26 pence per share, recognising our very strong performance in the year and our continued confidence in the business. This takes the full-year ordinary dividend to 40 pence per share, ahead of the 35 pence per share paid in FY21, with dividend cover of 2.1x, within the range of our stated policy.

During the year our strong cash flow allowed us to pay two special dividends: 65 pence per share in October 2021 and 37 pence per share in March 2022. Our net debt ended the year at 0.1xFY22 EBITDA, slightly below our long-term targeted range of between 0.2x and 0.6x.

BOARD UPDATE

In April 2022 we were delighted to announce the appointment of Karen Witts as Chief Financial Officer (CFO). Karen is an accomplished finance leader who brings a wealth of experience from her previous roles with high-profile consumer-facing brands, which will help us to deliver our ambitious growth plans. Karen joined the Board on 9 June 2022 and succeeded Laura Carr, who stepped down from the Board in that month. We also welcomed Vijay Talwar and Kelly Devine to the Board as Non-Executive Directors during the year, who bring a great deal of energy and experience, particularly in digital and data.

Finally, post year-end, we announced the appointment of Alison Brittain to the Board as a NED with effect from 7 September 2022, with the intention that she will succeed me as Chair ahead of the expiry of my nine-year term in September 2023. Alison is a highly experienced leader with a strong track-record across a range of consumer-facing companies, and with values clearly aligned to our own. I am thrilled that Dunelm has been able to attract a Chair Designate of Alison's calibre to lead the Board through our next stage of growth.

1ST CHOICE FOR HOME

Moving forward, we believe that Dunelm's fundamental strengths will once again differentiate us at a time when consumers have to consider their purchase decisions even more carefully. This plays to the strength of our product range, our customer proposition and our proven total retail system, which combines the advantages of both physical and digital retail. In addition, our strong balance sheet and underlying cash generation will allow us to continue to invest in further strengthening our business. We remain confident that we can continue to deliver for all our stakeholders and be the 1st Choice for Home.

Andy Harrison
Chairman

14 September 2022

Key stakeholders

We can only grow with purpose by knowing who our key stakeholders are, building meaningful relationships with them and using information learned through engagement to make decisions for the long-term success of our business.

Further information is on pages 94 to 106 in our Governance report and forms our S172 disclosure in compliance with the Companies Act 2016. Our S172 statement is on page 81.

c.17 million[2] customers, shopping in store and online

177 store communities within the local catchment area of Dunelm stores

11,000+ colleagues working in our stores and operations

200+ stock suppliers including our committed suppliers

1,500+ shareholders, including Adderley family members, financial institutions and private investors (including colleagues)

2. Estimated based on Barclays data.

Confident in a challenging environment

Dunelm, at its heart, offers customers great choice and value. In an extremely challenging environment, we think our unique and market-leading offer is more relevant than ever before.

Nick Wilkinson
CHIEF EXECUTIVE OFFICER

INTRODUCTION

With stores being forced to close during both FY20 and FY21, we were delighted that we were able to keep our doors open to our customers throughout FY22. It is clear that customers are increasingly enjoying the advantages of our total retail system, which allows them to experience the friendly service of our physical stores in combination with the convenience of our digital channels; this has contributed to the delivery of record results this year.

FY22 presented new challenges, most notably the impact of higher cost of goods and inflationary pressures on both businesses and the consumer. Despite these challenges we have been busy developing our proposition and capabilities whilst continuing to drive our sustainability agenda. We remain focused on, and driven by, our shared values, and, against a complex backdrop, our '*keep listening and learning*' value is proving particularly relevant. Once again, our incredible colleagues and committed suppliers stepped up, learning and adapting in order to deliver the best possible outcomes for our customers. I would like to sincerely thank each and every one of them for their continued resilience and contribution to another very successful year.

We expect the current challenges to persist at least throughout the year ahead and are conscious that many of our customers are fearful about the mounting cost of living pressures. Our primary focus at this time is to continue offering outstanding value to our customers, whilst recognising that individuals will adapt to the environment in their own ways. As ever, we continue to apply a relentless focus on basic operational discipline and attention to detail throughout the business to ensure that every pound counts. This has characterised Dunelm in recent years, and is even more important in light of the current challenges we face.

FY22 REVIEW

Another strong performance

FY22 was another strong year for the business. Total sales grew by 16.2%[1], and while the year-on-year growth benefitted from the lockdown related store closures last year, the growth of 41.1% compared to FY19 demonstrates the pace at which the business has developed through the pandemic period. We were pleased with the performance of our stores following two years of disruption and our digital channels also traded well, making up 35% of total sales over the year, up from 20% in FY19. More people shopped with us than ever before; our active customer base grew by 8.5%. Our strong sales performance was supported by further market share gains, with our share in the homewares market growing by 140bps.

We delivered a strong gross margin of 51.2%[1], despite an additional sale event in Q1, as customer participation in event sales was low through most of the year. We saw a higher participation of event sales in Q4, especially during our Summer Sale. Profit before tax grew by 32.4%[1], benefitting from the strong sales growth, higher than expected leverage of fixed store costs in the first half, and ongoing tight operational grip.

We delivered a robust free cash flow of £153.0m, which included the impact of temporarily building our inventory levels. This was a strategic decision we took to maintain availability for customers through ongoing supply chain instability which was seen across the market.

On the back of this strong financial performance, the Board has proposed a final ordinary dividend of 26p, bringing the total ordinary dividend in respect of FY22 to 40p, an increase of 14.3%.

Delivering for all our stakeholders

We recognise that we have a diverse set of stakeholders in our business, and in FY22 we continued to take decisions to balance the needs and expectations of all of them.

Our colleagues are extremely important to us and we were pleased to be able to offer employment to over 800 new colleagues in the year. We understand the impact of the higher cost of living on all of our colleagues, and so we implemented a median pay increase above 7% (greater than the equivalent increase to the National Living Wage), focussing proportionately higher pay increases on our lower paid colleagues. We want Dunelm to be an inclusive workplace, and aspire to achieve a colleague base reflective of society at all levels, providing opportunity for all. During the year we provided training and set up network support groups to increase awareness in inclusion and diversity, particularly in the areas of neurodiversity and ethnicity.

We also made progress on our ambitions to support thriving, purpose-driven communities around every one of our stores. We now have more than one million followers of our store Facebook groups. We delivered 19,000 Christmas gifts to local care homes, schools and women's refuges. We raised over £600k for charities in the year from colleague fundraising activity, including over £450k for the mental health charity, Mind, during the first year of our partnership.

We continue to focus on delivering outstanding value for our customers. We sell great products at great prices and our customers feed back with consistently high reviews on our own-brand products. We believe that our 'fast and friendly' store service is already a differentiator for Dunelm, and in order to improve our home delivery service for customers, we opened a new furniture distribution hub and a new fulfilment operation in the year.

Our shared values in action – developing our colleagues

STRONGER TOGETHER

Building a learning culture through a community of colleagues with a growth mindset, where colleagues not only want to learn and apply what they have learned, but also feel compelled to share their knowledge with others.

KEEP LISTENING AND LEARNING

Being agile and adaptable. This means developing and moving our talent, embracing diversity and thoughtfully investing in new capabilities to take on the challenges and opportunities ahead.

LONG-TERM THINKING

Anticipating the future by assessing and planning for skills gaps, ensuring our business is future ready. Helping colleagues build new versions of themselves so they can continue to thrive in a rapidly changing environment and we can build more of our capability internally.

ACT LIKE OWNERS

Through a clear talent proposition and readily accessible tools, enabling leadership accountability and colleague ownership for their personal growth and development.

1. 52-week basis. On a 53-week basis, total sales were £1,581.4m (+18.4%), gross margin was 51.2% (-40bps) and PBT was £212.8m (+34.9%). 52-week results are unaudited.

Our business success also helps our committed suppliers to grow their businesses. We worked collaboratively with them to minimise the disruption to customers from the supply chain challenges and on initiatives to support the achievement of our sustainability ambitions.

We shared our ambitious long-term targets for sustainability in FY21. In FY22, we achieved our in-year targets for carbon emissions, plastic packaging reduction and take-back – where we introduced a textiles take-back scheme. 30% of our own branded cotton products met our 'more responsibly sourced cotton' standard. This was below the ambitious target that we set, but we are learning and educating ourselves and our suppliers, and we are confident that we will achieve our longer term commitments. We also recently launched a new label, called 'Conscious Choice', which showcases our most sustainable products, allowing customers to make more informed buying decisions.

STRATEGIC UPDATE: BECOMING OUR CUSTOMERS' 1ST CHOICE FOR HOME

Dunelm already enjoys broad-based appeal and greater than 90% brand awareness[2]. We are continuing to grow that appeal, and the number of active customers who shopped with us increased by 8.5% in FY22. We saw growth across all geographic regions in the UK, with customers in London and the South contributing 40% of our total growth in customer numbers in FY22[3]. We have seen growth in customer numbers across all income levels, with a year-on-year increase of more than 10% in both the <£20k per annum and >£100k per annum income groups[3]. We have also increased the appeal across all age ranges, with customers aged between 16 and 24 growing by 8.5% and those aged 65 and over growing by 16.2%[3].

Our plan is to become our customers' 1st Choice for Home. We want to attract more customers to shop at Dunelm for their home, and for all customers to shop more frequently, across more product categories. To achieve this we are working hard to deliver our purpose, 'to help create the joy of truly feeling at home, now and for generations to come.' In the current climate, more than ever, we are ambitious about striving to do this brilliantly, and excited by the opportunity to continue to learn and adapt.

Investing in digitising the business

Digitising the business is a broad concept which refers to the development of digital and data capabilities which allow us to grow our product offer (beyond the physical limits of a store's capacity); to reach more consumers through digital content and channels; and to give to our customers the advantages of physical stores with the ease and convenience of online sales. We now have 177 stores, all offering Click & Collect and tablet-based selling of the broader Dunelm range via colleague hosts. During the year we expanded our digital fulfilment capacity and capabilities, with a new dedicated ecommerce facility and a new furniture warehouse.

The strength of our total retail system has been proven in recent years. Our customers were able to benefit from the convenience of our digital channels during the pandemic and more recently have returned to stores to take advantage of our full physical retail offering. Many of the customers who shopped with us for the first time online during the pandemic are now shopping in store, or across both channels, which contributed to an increase in shopping frequency of 10%[4]. We also know that our multi-channel and multi-category customers shop on average 5x more often and spend 7x[5] more than customers shopping through single channels and categories, further demonstrating the advantages of our model. In addition, the number of 'most valuable' customers, defined as those customers with higher spend across multiple visits, grew by 16%[6].

2. Prompted awareness three month rolling average to June 2022. Source: BrandVue.
3. Analysis of Dunelm customers FY21 to FY22. Source: Barclays.
4. Number of visits per retained customer in FY22. Retained customers defined as those who shopped with Dunelm in FY21 and FY22. Source: Barclays.
5. Internal analysis based on active customers for the 12 months to June 2022.
6. Internal analysis of 'most valuable' customers based on number of visits and total expenditure.

We are continuing to invest in digitising the business in a thoughtful way, to further enhance our product offer, brand reach, and customer experience. To maximise returns, we are being agile in the way we deploy our digital teams, balancing investment in growth areas such as customer acquisition and in foundational capabilities such as master data management.

Strengthening the customer proposition

We are constantly evolving and improving our overall customer proposition by continuing to strengthen our offer across four key areas: ***choice and value, good and circular, friendly and expert,*** and ***easy and convenient.*** Against the current macro-economic backdrop and the resulting pressure on household budgets, this is as important as ever.

In terms of ***choice and value,*** we offer a broad product range of more than 50,000 SKUs across 30 sub-categories, covering a large proportion of the UK homewares markets, at price points to appeal to all customers, whatever their style or budget. We have seen growth across the breadth of our product categories, both in those where we have higher market shares, and newer areas, including furniture and decorating. In all areas we have worked hard to mitigate the impact of cost inflation, re-designing and re-sourcing products in collaboration with our suppliers. We utilise a 'good – better – best' hierarchy of price and quality tiers in our core product ranges, and are totally committed to offering great value at all price points. An example of this is our range of plain dye bedding, where we offer 15 different price/quality levels between the opening price ('good') product and the highest price ('best') product. In the second half of FY22 we re-set our range of plain dye bedding, with a lower price in the 'good' tier, and a small number of limited price increases across the best and better tiers. Most prices remained unchanged, but with new colours and fabrics introduced. Across each of the 'good', 'better' and 'best' tiers we saw strong growth in volume and sales. The scope for continuous improvement and innovation around choice and value is limitless, gives us energy, and leverages the skills, expertise and experience of our colleagues and our supplier partners. The same approach is present in how we develop special buys, impulse items and seasonal ranges, which adapt to changing customer needs and preferences, and is an area of particular focus in the current environment.

For the first time, we have included our ambition to be more environmentally and socially responsible into our customer proposition, calling this ***good and circular.*** We wish to offer our customers the opportunity to make informed choices, and have therefore increased the number of products which meet our 'more responsibly sourced' standards. In addition to The Edited Life, our lifestyle brand, which incorporates a variety of more sustainable materials and encourages reduced consumption, we have also recently launched 'Conscious Choice'. To be included in this selection of sustainably-focused own-brand lines, each product must be made from at least 50% more sustainable materials (by weight) compared to conventional alternatives, and will typically also offer an extended guarantee of between five and 25 years, with the products having been designed with durability in mind. In addition to product development, we also reduced the volume of plastic packaging on our own-brand products, and, in December 2021, expanded an in-store textiles take-back scheme nationwide. We now have customer take-back options for more than half of our own-brand product range, and have seen significant customer uptake.

Focus on 'Choice & Value' – Dun Your Way

Our constant, detailed work to offer outstanding choice and great value to delight our customers can be demonstrated in our recent example below.

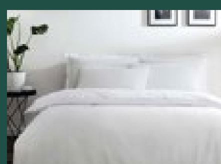
In Spring 2022, we repositioned our fitted sheet range, aiming to minimise price increases for our customers and offer even more choice and value using 15 price points across three quality tiers.

In our 'good' tier, by introducing a new microfibre fitted sheet, we were able to lower our entry price point to £6. In our 'better' tier, we focused on using 100% cotton, expanded our range to include 24 colour options and, through sourcing efficiencies, held existing price points. In our 'best' tier we decided to make a small increase to the price of our Dorma branded fitted sheets – our most expensive products – having first checked that we still offered great value for money for comparable quality products in our marketplace. Our focus on 'choice & value' proved successful with volumes in all three tiers growing strongly in the second half of FY22.

We know that our savvy customers seek value in different ways. By applying our 'operational grip', customer insight and product development expertise we will continue to learn, adapt and strive to understand and reflect these differences brilliantly to become our customers' 1st Choice for Home.

GOOD
New entry price micro-fibre fitted sheet

BETTER
100% cotton fitted sheet, in more than 20 colours



BEST
Highest quality Dorma fitted sheet

As a business with both digital channels and local stores, we have numerous ways to seamlessly offer our customers both ***friendly and expert*** services. We recently re-modelled some of our larger stores to extend the furniture department, showcasing more of our home delivery range for our customers to see and sample and to allow them to ask for advice. We will learn whether customers are willing to travel further to visit these stores, but we have also enabled the colleagues in these stores to talk to customers and showcase the product virtually through video calls. Indeed, in recent years we have worked to connect all of our stores digitally with their local areas. This has exceeded our expectations in many ways, with a total of over one million Facebook followers in the communities we are building around our stores to support local initiatives that help people and the environment. This is becoming a reinforcing model where these communities foster word-of-mouth awareness and advocacy, and underpin our local marketing, lowering the cost of reaching new customers and encouraging more visits.

Easy and convenient is another part of our customer proposition that benefits from the combination of physical and digital channels. Click & Collect is one example of this, as is the ability to research more complex products either online or instore, depending on personal preference. Our Made to Measure curtains and blinds service is benefitting from the work underway to offer the same comprehensive assortment through all channels, and to allow customers to manage their order seamlessly between their online account and an in-store consultation.

As part of our commitment to offer a more comprehensive range in this category, in May 2022 we acquired Sunflex, a leading supplier of blinds, curtains and poles, for a cash consideration of £20.8m. This acquisition enhances our product capability in window treatments and brings design, quality and fulfilment capability across a complex product catalogue.

We have also invested in, and improved, our home delivery capability, with the opening of two new distribution centres. A dedicated ecommerce fulfilment facility in Stoke, in partnership with GXO, to support our digital growth ambitions through better customer service, scale and efficiency, has already enabled us to shorten delivery times and extend order cut off times for express delivery services. In March 2022, we opened a dedicated 200,000 sq. ft. furniture distribution hub in Daventry, to improve the availability and speed of delivery of bulkier items, as well as the productivity of the flows into our home delivery network.

This ongoing work to strengthen our customer proposition is benefitting from the capabilities we continue to build in areas such as product, technology, digital & data engineering and insight & analytics. None of this would be possible without the strong operational focus and desire we have to make every pound count, which enables us to offer outstanding value to our customers, and at the same time invest prudently in digitising the business.

SUMMARY AND OUTLOOK

Trading in the first ten weeks of the financial year has remained robust. The comparative period benefitted from the delayed Summer Sale and reopening of stores and associated pent up consumer demand so, as expected, sales have been below the levels seen last year.

The operating and economic environment is extremely challenging. High inflation is expected to remain a feature throughout the year to come, and potentially beyond, causing the pressures on household budgets to increase. While consumer behaviour is unpredictable, our primary focus is to offer outstanding value. We continue to listen, learn and adapt, which plays to our strengths. We have a resilient, relevant and advantaged business model which is highly cash generative, and we are confident in our ability to continue to deliver for all stakeholders.

As we return to more normal patterns of customer behaviour, we expect a gross margin of c.50%, in line with our historic average. We are managing input cost inflation through our tight operational grip, and despite the macro challenges, we are on track to deliver FY23 results in line with analysts' expectations[7].

Nick Wilkinson
Chief Executive Officer

14 September 2022

7. Company compiled consensus average of analysts' expectations for FY23 PBT of £178m, with a range £130m to £193m.

Our markets and customers

Market share growth with significant further headroom

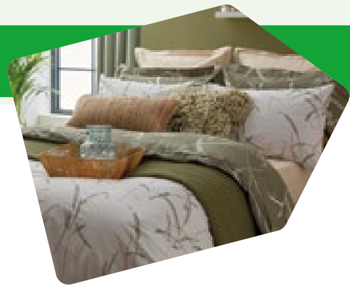
Homewares market share FY22[8]

10.2%

+1.4%pts

No.1

Market leader in UK homewares market



Furniture market share FY22[8]

1.9% +0.2%pts

1st Choice for Home: more customers, shopping more frequently

8.5% more customers shopping in FY22

Regions

All regions contributing[9]
- London/South accounting for 40% of growth

Income levels

All income levels contributing[9]
- Customers earning <£20k pa +10.4%
- Customers earning >£100k pa +11.4%

Age groups

All age groups contributing[9]
- Customers aged 16-24 +8.5%
- Customers aged >65 +16.2%

Our 'most valuable' customers' grew +16% in the year, and are spending +6% more[10]

Our multi-channel, multi-category shoppers shop 5x as often and spend 7x as much as single-channel/single-category customers[11]

We pride ourselves on making **every pound count** and being good housekeepers. We spend wisely where it matters and minimise unnecessary waste. This means we can provide **outstanding value products at every price point**, supported by colleagues who care and technology that makes things seamless and efficient.

8. GlobalData UK homewares and furniture markets, July 2021 to June 2022. Furniture excludes kitchen and bathroom furniture.
9. Analysis of Dunelm customers FY21 to FY22. Source: Barclays.
10. Internal analysis of 'best' customers based on number of visits and total expenditure. Source: Barclays.
11. Internal analysis based on active customers for the 12 months to June 2022. Source: Barclays.

Delivering sustained growth

Our focus areas are agreed by the Board and communicated across the business, so we all know where to apply our skills and energy.

Our ambitions

Ambitious about our brand

Grow as the #1 destination for home, with more savvy home lovers shopping more frequently.

Ambitious about being a good company

A great place to work – making a positive social and environmental impact in all of our communities.

Ambitious about profitable growth

Focusing on quality of growth and long-term value creation by using our resources wisely and efficiently.

For more information see page 4.

Six focus areas

0 Sustainability

Our pathway to net zero, building sustainability into all that we do and making it easy for our customers.

1 Product development

Develop our market-leading product offer, supported by brilliant commercial processes.

2 Customer understanding

Deeply understand attitudes and behaviours to optimise our acquisition and retention.

3 Shopping experience

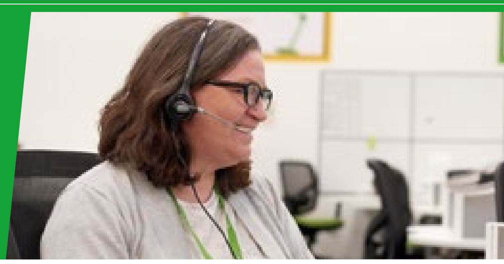
Offer the best, seamless online and in-store digital customer experience in the market.

4 Data and insight

Build foundational capabilities in data and accelerate customer insight.

5 Post sales experience

Provide personal, high quality and efficient delivery, service and support.



For more information see pages 16 to 21.

Progress in FY22

- Take-back scheme rolled out in 167 stores.
- Improvements in sustainability labelling, e.g. 'Conscious Choice' label.
- Removing gas-fired boilers from our store estate.
- Various initiatives to reduce plastic packaging in own brand products.

- Natural History Museum collaboration launched.
- Extended furniture and seasonal ranges.
- Launched and extended home decorating ranges.
- Detailed review of ranges and price architecture in response to input cost pressure.
- Launched our commercial processes and systems overhaul programme.

- Customer insight-led marketing activity, e.g. the 'Dun Your Way' campaign.
- Introduced customer lifetime value bidding model to digital marketing to acquire higher value customers.
- Communications to encourage re-purchase targeted at those customers most likely to lapse.

- Upgraded Dunelm.com payment gateway to Adyen, paving the way for seamless purchasing across channels.
- Continued to expand and invest in our store estate, opening three new stores and major refitting of nine stores.
- Broadened the range of Made to Measure products available to browse and shop online, as well as book appointments for expert help.

- Building the Dunelm data platform, providing foundational data for all focus areas.
- Developing customer data to support better customer understanding.

- Developed our ecommerce fulfilment capability to shorten lead times, improve customer service levels and the efficiency of the operation.
- Increased our capacity to fulfil larger furniture items by investing in our systems and distribution infrastructure, including the opening of our new furniture-specific distribution centre in Daventry.

1st Choice for Home

Strengthening our customer proposition for savvy home lovers

CHOICE & VALUE
Great value and quality for every style, space and budget

GOOD & CIRCULAR
Positive choices for people and the environment

FRIENDLY & EXPERT
Service that is knowledgeable, non-judgemental and warm

EASY & CONVENIENT
Easy to find, buy and fit everything you need for your home

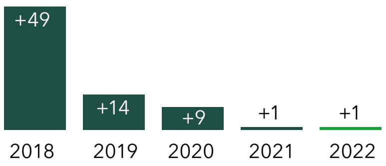
The Board uses a range of financial and non-financial key performance indicators (KPIs) to measure overall Group performance, the success of our strategic direction in relation to our ambitions, and to determine senior management remuneration.

Ambitious about being a good company

Employee net promoter score (eNPS)

Year-on-year improvement %pts

+1.0%pts BONUS



We measure our colleague engagement every six months (usually in November and May) in our colleague survey. Overall, employee NPS has improved in the year, which is pleasing as this is the fifth successive year of improvement.

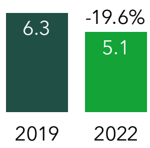
Why this measure is important
This measure rates our colleagues' experience with us and the survey helps us understand where we need to improve. It is also used as a bonus measure for the Executive Board.

Scope
Historically and in FY22, we compared results from the May survey each year. However, owing to lockdowns and the postponement of the May 2020 survey, in FY20 we compared November 2019 to November 2018 surveys and in FY21 May 2021 versus November 2019 surveys.

Reduction in Scope 1 carbon emission intensity against FY19 base

Scope 1 tCO_2e/£1m Group revenue

19.6% reduction LTIP



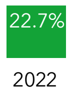
We have achieved a 19.6% reduction in Scope 1 carbon emission intensity compared to our baseline of FY19. This has significantly exceeded our target of 8% in FY22 and puts us in a strong position to achieve our 24% reduction target by FY24 through our store decarbonisation programme. However, emissions from our Home Delivery Network have increased due to increased sale volumes, and we are actively looking at ways to reduce this.

Why this measure is important
This measure helps us to understand how successful we are in reducing our impact on the environment and achieving our long-term carbon reduction targets.

Scope
This metric is for Scope 1 emissions only. Scope 2 emissions for FY22 are negligible due to the purchase of renewable electricity. For further details on all carbon emissions, please see carbon reduction in the sustainability section.

Reduction in virgin plastic packaging of own brand products (by weight per £1 sales) against FY20 base

22.7% reduction LTIP



We have achieved a 22.7% reduction in virgin plastic packaging in FY22 against our FY20 base. This reduction indicates a decrease in the intensity metric, rather than an absolute reduction in total virgin plastic by weight. There are two elements to this: a reduction in the amount of plastic we are using in our packaging and also an increase in recycled content.

Why this measure is important
This measure helps us to understand how successful we are in reducing our impact on the environment by reducing the amount of virgin plastic in our packaging.

Scope
This metric includes all plastic product packaging for own brand products (primary packaging) plus sales packaging (in store carrier bags and web delivery packaging). Plastic that has a recycled content greater than 30% is classed as a removal of plastic. All plastic packaging weights for the FY20 baseline and for Q1 – Q3 for FY22 were assumed to be virgin plastic. Recycled % was incorporated into the calculation from Q4 FY22 following improved availability of data.

Percentage of own brand products for which we offer an easy-to-use take-back service

61.3% LTIP

We have seen a very positive response in our store communities to our take-back scheme, which was further expanded by adding textiles take-back in December 2021. We have exceeded our target for the year.

Why this measure is important
This measure is important to us at it supports our commitment to move towards a circular economy and to reduce our impact on the environment, supply chain and local communities.

Scope
This metric covers own brand products sold in our stores.

Percentage of own brand cotton products which meet our 'More Responsibly Sourced Cotton' standard

30.0% LTIP

In FY22, 30.0% of our own brand cotton products met our 'More Responsibly Sourced Cotton' standard. Whilst this is below our FY22 target of 40%, it was the first year for many of our suppliers to source more responsibly sourced cotton for Dunelm, which meant that they had to change sources or have their sources audited for the first time.

Why this measure is important
This measure is important to us as there are both ethical and environmental considerations with cotton production, which our 'More Responsibly Sourced Cotton' standard addresses.

Scope
This metric relates to own brand cotton products.

REMUNERATION MEASURES

Details of metrics used for FY22 bonus and LTIP outcomes can be found on pages 148 to 152 in the Remuneration Report.

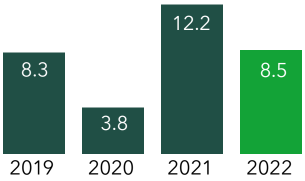
Further information on the performance criteria that apply to the FY23-25 LTIP award can be found on page 161.

LTIP BONUS

Ambitious about our brand

Unique active customer growth
% growth

+8.5%



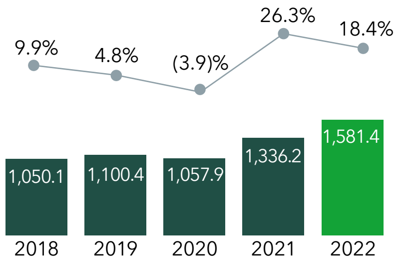
We saw an 8.5% increase in our number of active customers as they returned to enjoying our full retail offer, with broad growth seen across all geographical regions, income levels and age ranges.

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.

Scope
Unique active customers who have shopped in the last 12 months, based on management estimates using Barclays data. The definition for this metric has been updated in FY22 and the prior years restated on a consistent basis, as we believe that this is a more accurate estimate.

Total revenue
£m and growth %

£1,581.4m BONUS



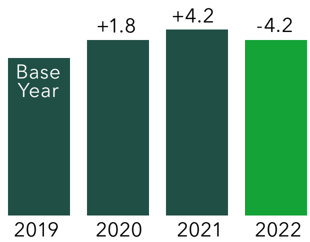
The growth in revenue reflects a strong year of trading, the additional Summer Sale event in Q1, and the weaker comparative period in FY21 when stores were only able to offer Click & Collect services for around one third of the year.

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

Scope
FY22 reflects 53 weeks of trading whereas all other years are 52 weeks.

Net promoter score (NPS)
Year-on-year improvement %pts

-4.2%pts BONUS



In FY22, our overall score decreased by 4.2%pts and was heavily influenced by external factors including supply chain disruption, labour shortages and ongoing Covid-related issues at the beginning of the year. We have made good progress on a number of propositional improvements and are focusing on activities to drive customer satisfaction in FY23.

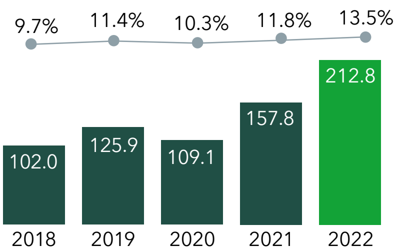
Why this measure is important
The NPS metric is a common business tool that measures how likely people would (or would not) be to recommend a product, service or company. At Dunelm we use this to measure how our customers rate their full experience with us.

Scope
We measure customer NPS across the different channels that our customers shop with us and the metric above is a weighted average.

Ambitious about profitable growth

Profit before tax
£m and % sales

£212.8m BONUS



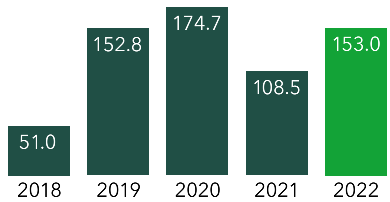
Profit before tax (PBT) in the period was £212.8m (FY21: £157.8m), an increase of £55.0m year on year, benefitting from a full year of trading with all channels open. Operating leverage improved in the year, with operating costs as a % sales reducing from 39% in FY21 to 37% in FY22.

Why this measure is important
PBT measures overall financial performance of the business, reflecting sales, gross margin and cost control. It is also used as a key bonus measure.

Scope
FY22 reflects 53 weeks of trading whereas all other years are 52 weeks. Profit before tax for FY18 is presented before exceptional costs.

Free cash flow
£m

£153.0m



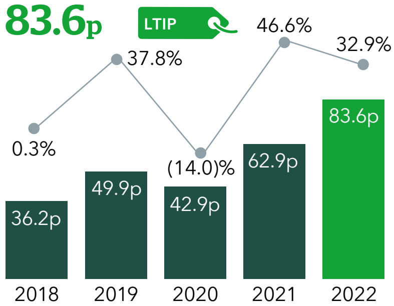
We generated strong free cash flow in the year of £153.0m despite a build in inventory and capital investment in two new warehouses and the acquisition of the Sunflex business.

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

Scope
Free cash flow is defined as net cash generated from operating activities less capex (net of disposals) and business combinations, net interest paid (including leases) and loan transaction costs, and repayment of lease liabilities. FY22 reflects 53 weeks of trading whereas all other years are 52 weeks.

Diluted earnings per share
pence and growth %

83.6p LTIP



Diluted earnings per share increased to 83.6p reflecting the significantly higher sales and profit in the year.

Why this measure is important
Earnings per share is a key measure for shareholders and one of the performance criteria for senior management remuneration including LTIPs.

Scope
FY22 reflects 53 weeks of trading whereas all other years are 52 weeks.

Introduction to Karen Witts, our new CFO

Karen joined the Group Board as CFO in June 2022. She is a Chartered Accountant and has gained global retail and consumer-facing business experience during her 30+ year career. Karen talks below about her impressions of Dunelm.

"Although I only joined Dunelm a few months ago, I am learning what it means to be part of the Dunelm family. I wanted to join a company with a meaningful purpose, a strong people culture, and an energetic and passionate Executive Board. I feel fortunate to have found in Dunelm a business that meets all these criteria – and is also a well-known, well-loved brand that has great opportunities to grow.

Since June, I have been getting to know my colleagues at the Syston Support Centre. I have visited stores both formally (with the Board) and informally, and have done a good job of rallying friends and family to buy our fantastic products. I have also visited our distribution centres in Stoke to understand better how we organise getting products to stores and to customers' homes. I have been 'listening and learning' at every opportunity and I am impressed by the knowledge, expertise and enthusiasm shown by Dunelm colleagues.

Our Board and management teams are absolutely committed to developing Dunelm's long-term future and growth opportunities. And we are also acutely aware of the financial worries felt by our customers and colleagues right now. Having worked extensively in large consumer-facing brands in the retail, hospitality and support services sectors, I can draw on experiences gained through different economic cycles. When faced with externally driven pressures, businesses must focus on what they can control. Dunelm is agile and responsive to change. We are focusing on our 'operational grip' so that our products and services stay relevant and affordable. We must continue to offer value and choice, which means that we are always working on efficiency and effectiveness, so we can make every pound count for our savvy customers, and our business.

Following this, you can read a review of our FY22 financial performance. Whilst I can take no credit for the strong set of results, I am nevertheless proud to be associated with them. As we progress through FY23 I will work with my colleagues to continue to drive long-term shareholder value from our business model. We have agreed a set of financial and operational KPIs for the year that is balanced and holistic. I will be focused on ensuring that we deliver across these, which includes maintaining our strong track record of cash conversion, as this allow us to invest in developing existing and new capabilities, and to deliver sustainable, attractive shareholder returns.

In FY23, we will also continue to strengthen important areas that are not easily externally visible, like internal controls, including cyber security, and colleague development. I am pleased that Dunelm is investing considerable time and effort in ESG topics, and I look forward to working on further developing our future plans in these areas. This year may be one of continued macro and geopolitical uncertainty, but I am confident that, at Dunelm, we have the skills and tools to emerge strongly from it."

Karen Witts
CHIEF FINANCIAL OFFICER

We delivered a very strong set of results in FY22: growth in sales, market share and customer numbers; significant free cash flow and the return of £282m to shareholders in dividends.

REVENUE

Total sales for the comparable 52-week period increased by 16.2% to £1,553.1m[1] (FY21: £1,336.2m). For the 53 weeks to 2 July 2022, total sales increased by 18.4%. These growth rates reflect a strong year of trading, the additional Summer Sale event in Q1, and a weaker comparative period in FY21 when stores were only able to offer Click and Collect services for around one third of the year. Digital sales made up 35% of total sales, lower than FY21 (46%) due to the store closure periods in the previous year.

Compared to FY19 (the last comparable period with all stores open all year), and on a consistent 52-week basis, total sales grew by 41.1% (FY19: £1,100.4m). Digital sales have grown by 2.5x since FY19, when they made up 20% of total sales. The growth rates we have delivered reflect the significant improvements we have made to our product offer, the broadening appeal of our brand, and the strength of our total retail system, which offers customers a friendly and convenient shopping experience across all channels.

We continue to see broad-based growth across our categories. Our furniture categories have performed particularly well, benefitting from improved availability and new additions to our ranges, such as home office (where we have increased the number of options by 60%). Our seasonal ranges also performed strongly, with customers responding well to our winter warm and garden furniture lines in particular. We are also pleased with the performance of our decorating ranges, and the new products we launched in collaboration with the Natural History Museum.

Encouragingly, we have further increased our market share[2]. In homewares, our market share increased by 140bps, and we also gained share in the furniture market, from a small base. Consistent with recent years, over 85% of our total growth in the year was from market share gains. We remain confident that the improvements we are making to our customer proposition in the four key focus areas described in the CEO review will continue to deliver market share gains going forward.

GROSS MARGIN

We continued to work closely with our committed suppliers to mitigate cost price pressures and minimise retail price increases, whilst maintaining our commitment to offering customers great value for money at all price points.

Gross margin of 51.2% (on both 52 and 53-week bases) was strong, reflecting a continued lower participation of event sales in the first half of the year. Gross margin was 40bps lower than the prior year primarily reflecting a return to historic levels of participation in event lines during our Summer Sale in Q4.

Looking ahead, we expect the participation in event lines to be higher than the last two financial years and expect FY23 gross margin to be closer to our long-term average of around 50%.

Financial summary

	FY22 (52 weeks)	FY21 (52 weeks)	YoY (52w vs 52w)	FY22 (53 weeks)	YoY (53w vs 52w)
Sales	**£1,553.1m**	**£1,336.2m**	**+16.2%**	**£1,581.4m**	**+18.4%**
Gross margin	**51.2%**	51.6%	(40) bps	**51.2%**	(40) bps
Operating cost % sales	**37.5%**	39.1%	(160) bps	**37.4%**	(170) bps
Profit before tax	**£209.0m**	**£157.8m**	**+32.4%**	**£212.8m**	**+34.9%**

	FY22 (53 weeks)	FY21 (52 weeks)	YoY
Free cash flow[3]	**£153.0m**	£108.5m	+£44.5m
Net cash[4]	**(£23.8m)**	£128.6m	(£152.4m)
Diluted earnings per share	**84.5p**	63.7p	+32.7%
Ordinary dividend[5]	**40.0p**	35.0p	14.3%
Special dividend[6]	**37.0p**	65.0p	(43.1%)

1. FY22 was a 53-week year. Unless otherwise stated, commentary relates to the comparable 52-week period. The 52-week results for FY22 are unaudited.
2. GlobalData UK homewares and furniture markets. Furniture excludes kitchen and bathroom furniture. Our homewares market share for FY21 has been restated by GlobalDataUK to 8.8% (previously reported 9.1%).
3. Free cash flow is defined as net cash generated from operating activities less capex (net of disposals), net interest paid and loan transaction costs, interest on lease liabilities and repayment of lease liabilities.
4. Excluding lease liabilities.
5. Ordinary dividends declared relating to the financial year.
6. FY21 special dividend of 65p declared with the FY21 financial results and paid in FY22. FY22 special dividend of 37p declared with the FY22 interim results and paid in FY22.

OPERATING COSTS

Total operating costs were £581.8m[1] (FY21: £522.5m), representing an operating cost ratio of 37.5% (FY21: 39.1%). On a 53-week basis, total operating costs were £591.7m, with an operating cost ratio of 37.4%. The operating cost ratio benefitted from the leverage effect of a full year with all stores open, with this impact being particularly strong in H1.

The growth in sales increased operating costs by £12m, including £7m from the decision to increase our stockholding to protect availability. We expect these temporary costs to continue through H1 FY23, and then to reduce as stock levels return to more typical levels in H2. The impact of the reintroduction of business rates and the repayment of the JRS monies in FY21 led to a net increase in operating costs of £10m in the year. Inflationary pressures, mainly on wages, increased operating costs by £17m. We invested £20m in building capabilities and capacity (particularly in technology, data, digital and fulfilment). Our investment in new ecommerce and furniture supply chain sites will improve customer service. The 53rd week added a further £10m of costs compared to FY21.

We will continue to invest in a thoughtful way for the long-term, ensuring that our resources are deployed to maximise returns. In recent years we have invested in capability in areas such as digital, data and customer insight, as well as supply chain capacity to support medium term growth. We will leverage the benefit from these investments as they mature and become more efficient, helping to offset inflationary pressures. Our approach to operational grip has never been more important, and we will continue to relentlessly focus on making every pound count.

PROFIT AND EARNINGS PER SHARE

Operating profit of £213.9m[1] (53-week basis: £217.7m) was 28.5% higher than FY21 (FY21: £166.4m). This reflects a full year of open stores, strong gross margin, and a tight operational grip on costs. The acquisition and consolidation of the Sunflex business towards the end of FY22 did not have a material impact on earnings in the period.

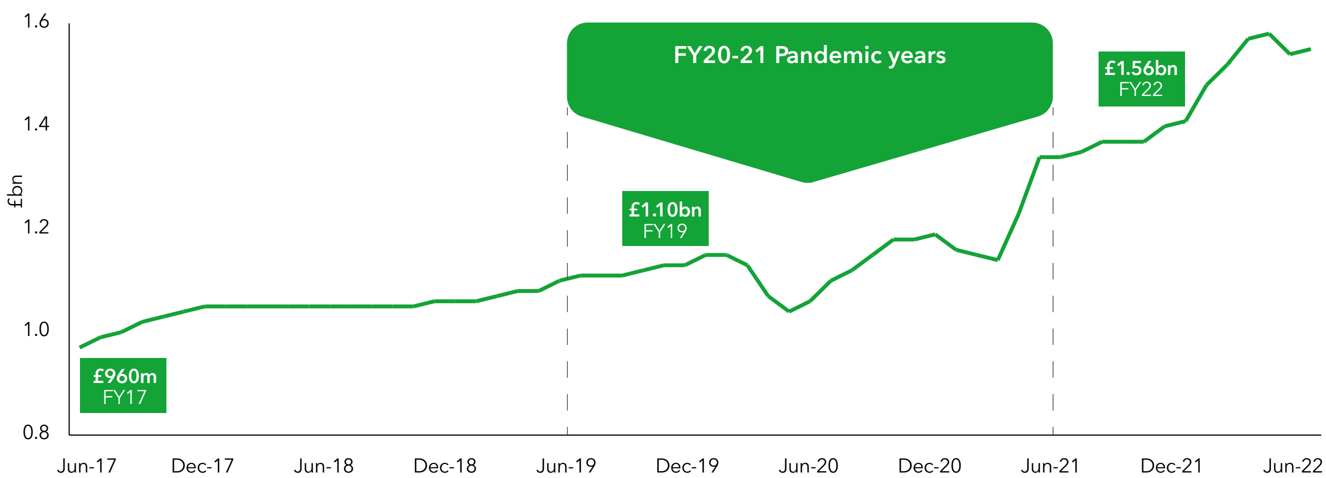
Net finance costs of £4.8m[1] (FY21: £8.6m) included interest on IFRS 16 lease liabilities of £4.8m (FY21: £5.3m). On a 53-week basis, net finance costs were £4.9m.

Profit before tax in the period was £209.0m[1] (FY21: £157.8m), an increase of £51.2m year on year. On a 53-week basis, profit before tax was £212.8m.

Profit after tax of £168.2m[1] (FY21: £128.9m) reflected an effective tax rate of 19.5% (FY21: 18.3%). On a 53-week basis, profit after tax was £171.2m. The effective tax rate was 50bps higher than the UK headline rate, within our historic range, but higher than FY21 which benefitted from the timing of R&D claims. We expect the effective tax rate to continue to trend c.50-80bps above the headline rate.

Basic earnings per share (EPS) for the period were 83.0 pence[1] (FY21: 63.7 pence). Diluted earnings per share were 82.1 pence[1] (FY21: 62.9 pence). On a 53-week basis, basic earnings per share were 84.5 pence, with diluted earnings per share at 83.6 pence.

12 month rolling sales



+8.5% active customers, +16.2% sales[1] in last 12 months

1. FY22 was a 53-week year. Unless otherwise stated, commentary relates to the comparable 52-week period. The 52-week results for FY22 are unaudited.

CASH GENERATION AND NET CASH

In the period, the Group generated £153.0m of free cash flow (FY21: £108.5m).

	FY22 (53 weeks)	FY21 (52 weeks)
Operating profit	**£217.7m**	£166.4m
Depreciation & amortisation[7]	**£79.3m**	£80.8m
Working capital outflow	**(£14.8m)**	(£35.0m)
Share-based payments expense	**£4.8m**	£7.5m
Tax paid	**(£35.2m)**	(£35.5m)
Net cash generated from operating activities	**£251.8m**	**£184.2m**
Capex and business combination[8]	**(£41.7m)**	(£15.7m)
Net interest and loan transaction costs	**(£2.1m)**	(£0.7m)
Interest on lease liabilities	**(£4.8m)**	(£5.3m)
Repayment of lease liabilities	**(£50.2m)**	(£54.0m)
Free cash flow	**£153.0m**	**£108.5m**
Net (debt)/cash	**(£23.8m)**	**£128.6m**
Memo: dividends paid	**(£282.1m)**	(£24.3m)

There was a working capital outflow of £14.8m in the period (FY21: £35.0m) as we consciously built our inventory levels to ensure we maintained good availability for customers, given the risk of ongoing supply chain disruption which has been seen across the market. Inventories at the end of the period were £223.0m (FY21: £172.4m). Whilst we are comfortable with this level of inventory for now, we do expect stock holding to reduce during FY23.

Total capital investment was £41.7m (FY21: £15.7m). This included £9.3m relating to the set-up of our new ecommerce and furniture supply chain operations, and £11.5m spent on the three new stores opened in the period, as well as refits of nine existing stores and decarbonisation initiatives. On 3 May 2022 we acquired the trade and assets of Sunflex, a division of Hunter Douglas (UK) Limited, for a cash consideration of £20.8m, of which £17.7m had been paid at 2 July 2022. We expect capital expenditure in FY23 to be c.£20-£30m.

Cash tax paid of £35.2m (FY21: £35.5m) included receipts in relation to research and development claims made at the end of FY21.

Repayments of lease liabilities of £50.2m (FY21: £54.0m) were lower than the prior year as the comparative was impacted by the agreed deferral of the June 2020 rent payments into H1 FY21.

In the period, the Group spent £28.3m (FY21: nil) purchasing shares to be held in treasury to satisfy future obligations under its employee share schemes.

After total dividend payments in the period of £282.1m (FY21: £24.3m), including special dividends of £207.0m, the Group ended the year with a net debt position of £23.8m (FY21: net cash £128.6m).

BANKING AGREEMENTS

In December 2021 the Group agreed a new £185m sustainability-linked unsecured revolving credit facility ('RCF'). The facility has an initial term of four years, which may be extended by a maximum of a further two years at Dunelm's request, subject to lender consent. The RCF incorporates four sustainability-linked performance targets which align with our ambitious sustainability plans, including our commitment to pursue a Net Zero Pathway. In FY22, we achieved our targets for plastic packaging, take-back and carbon reduction. Despite an improvement in the sourcing of cotton, our FY22 target was not achieved. We continue to learn and educate ourselves and our suppliers, and remain confident that we will achieve our long-term targets. The terms of the RCF include covenants in respect of leverage (net debt to be no greater than 2.5×EBITDA[9]) and fixed charge cover (EBITDA[9] to be no less than 1.75×fixed charges[10]), both of which were met comfortably as at 2 July 2022.

In addition, the Group maintains £10m of uncommitted overdraft facilities and has an accordion option within the RCF for a maximum facility of £75m.

7. Including impairment and loss on disposal.
8. Excluding interest on lease liabilities.
9. EBITDA excludes right of use asset depreciation.
10. Fixed charges are defined as interest costs plus right of use asset depreciation.

CAPITAL AND DIVIDEND POLICIES

- Target average net debt between 0.2× and 0.6× the last 12 months' EBITDA (post IFRS 16 basis)
- Ordinary dividend cover of between 1.75× and 2.25× earnings per share during the financial year to which the dividend relates
- Return surplus cash if net debt consistently falls below the minimum target of 0.2×EBITDA

CAPITAL AND DIVIDEND POLICIES

The Board policy on capital structure targets an average net debt level (excluding lease obligations and short-term fluctuations in working capital) of between 0.2× and 0.6× of the last 12 months' EBITDA (on a post IFRS 16 basis). The Group's dividend policy targets ordinary dividend cover of between 1.75× and 2.25× 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, excluding lease liabilities, over a period consistently falls below the minimum target of 0.2×EBITDA, subject to known and anticipated investment plans at the time.

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

DIVIDENDS

The Board has proposed a final ordinary dividend of 26 pence per share, recognising our very strong performance in the year and our confidence in the business. This takes the full year ordinary dividend to 40 pence per share, ahead of the 35 pence per share paid in FY21, with dividend cover of 2.1× on both a 52 and 53 week basis, within the range of our stated policy. The final dividend will be paid on 5 December 2022 to shareholders on the register on 11 November 2022, subject to it being approved by shareholders at the AGM. We paid total dividends of £282m in the year, including special dividends of £207m.

Karen Witts
Chief Financial Officer

14 September 2022

Our tax strategy

	FY22 £m	FY21 £m
Net VAT collected	**163.3**	83.3
Payroll taxes including National Insurance[1]	**47.5**	39.0
Corporation tax	**35.2**	35.5
Total tax contributions	**246.0**	**157.8**

Dunelm has registered for the UK's new Plastic Packaging Tax and has paid the tax and submitted its first return for the period 1 April 2022 to 30 June 2022.

Dunelm is committed to full compliance with all statutory obligations and full disclosure to tax authorities.

The Group's tax affairs are managed in a way that is consistent with the Group's commitment to high standards of governance. The Board has established a set of principles that form the basis of the management philosophy and the tax policy of the Group. These principles can be found in full in our Group Tax Strategy which is published on our corporate website and reviewed each year. Our Group Tax Strategy sets out one shared vision within the Group of tax compliance and one view of performance.

TAX STRATEGY AVAILABLE ON CORPORATE.DUNELM.COM

1. All Dunelm colleagues are based in the United Kingdom, except for 42 colleagues who work in our store in Jersey.

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 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.
Digital sales	Digital sales include home delivery, Click & Collect (or Reserve & Collect before October 2019) and tablet-based sales in store.
Digital % total sales	Digital sales (as defined above) 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 selling & distribution costs and administrative expenses.
Operating costs to sales ratio	Operating costs/revenue. To measure the growth of costs relative to sales growth.
EBITDA	Earnings before interest, tax, depreciation, amortisation and impairment. Excludes right of use asset depreciation. To measure compliance with bank covenants.
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 capex (net of disposals) and business combinations, net interest paid (including leases) and loan transaction costs 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 as shown in note 18 on page 200. Excludes IFRS 16 lease liabilities.

Building sustainability into all that we do

I am pleased to share some excellent progress that we have made in FY22 – from lifecycle material analysis underpinning carbon data and our new textiles take-back services to sector-leading colleague policies and increasing community, supplier and shareholder engagement on sustainability.

OUR PATHWAY TO ZERO EMISSIONS APPROACH

In last year's Annual Report, I updated you on the launch of our Pathway to Zero strategy – a new way of organising our activities across three areas (carbon reduction, circular economy and community). This strategy is designed to accelerate progress by allocating responsibility to Executive Board members who are best placed to drive the actions which will most effectively reduce our carbon emissions and other environmental impacts.

This activity sits alongside well-established processes, which ensure that our social and governance responsibilities for colleagues, health and safety, community, compliance and reputational matters are embedded into our day-to-day activities.

LONG-TERM THINKING

Sustainability can mean different things to different people and we continue to work hard to explain to our key stakeholders – customers, suppliers, colleagues, communities and shareholders – how we think about sustainability at Dunelm. I always use our purpose as a starting point. We need to think about the long term – how we grow and develop our business in a sustainable way 'now and for generations to come'. Operating in a sustainable way also links to our ambition to 'be a good company' and this covers, for example, the way we treat and reward our colleagues and how we aim to make a positive social and environmental impact in our communities. Acting responsibly and sustainably is also a competitive advantage – it underpins our brand and customer proposition, allows us to attract and retain customers and colleagues, strengthens our supplier partnerships and helps us to secure long-term investment and funding.

INCREASED COMMITMENT AND RESOURCE

In the past year, we have invested in new colleagues, bringing sustainability expertise into the business in areas such as carbon reduction, ethical supply chain and sustainable materials. We have also ensured that colleagues on our Pathway to Zero working groups are given both time and resource to debate and implement their ideas. I hope I have also played my part in raising the profile of sustainability across the business by heading up the Pathway to Zero Steering Group and sharing my passion on this topic. We have also signalled our commitment to our financial community – linking sustainability metrics to long-term Director remuneration and to our Revolving Credit Facility.

IMPROVE-INNOVATE-ADVOCATE

We are absolutely committed to improving and innovating in our own operations and along our supply chains. However, it has become increasingly apparent that to meet our own net zero goals – and those of the UK Government – we must work with industry partners, suppliers and others to speed up the process. Our collaboration with Textiles 2030 this year has considerably improved our understanding of environmental impacts in our textile raw material sourcing, for example, and we also joined the Aldersgate Group, working with them to advocate for a greener grid. We have continued to work with the British Retail Consortium, fully supporting their Climate Action Roadmap.

LOOKING AFTER OUR COLLEAGUES

We are committed to making our colleagues feel welcome, engaged, safe and fairly rewarded, wherever they work in our business. The past year has seen an increase in the level of violence and abuse directed at shop workers and contact centre teams by members of the public. Senior management receives a weekly report and we have been shocked and concerned by the number and severity of incidents.

We have invested in training and protective measures to support our colleagues, such as increased security guarding and radio messaging systems, and have supported the British Retail Consortium's campaign for tougher policing and sanctions.

Looking after the mental and financial health and wellbeing of our colleagues has always been a top priority, as is evidenced by examples shared in this report. This year we know that the cost of living squeeze will affect many colleagues and their families. We have purposely given our hourly-paid colleagues a higher pay increase than other colleagues this year, and have increased the level of support for their financial wellbeing, including a one-on-one conversation with each of our hourly-paid colleagues and easier and wider access to education, third-party support and our Colleague Support Fund.

Alongside this, we continued to roll out our diversity and inclusion training, and our colleague network groups made their mark in their first full year, helping to shape new policies and raise awareness by sharing 'lived experiences'.

We also reinforced the importance of our shared values by embedding them into a new behavioural framework and we continued our drive to 'grow our own' by better identifying and developing colleague talent.

LISTENING AND LEARNING

I would like to thank all Dunelm colleagues and partners for their fantastic efforts in moving us forward this year. We still have a long way to go – we need to listen and learn, take advice, revisit assumptions and invest more; but most of all we have to keep up the energy, enthusiasm and genuine excitement that our colleagues have for creating an increasingly circular business that has a positive impact on society.

Nick

Nick Wilkinson
Chief Executive Officer

How we organise ourselves on sustainability

Our overall approach to sustainability is **championed by our CEO**, who **delegates responsibility** to **Executive Board members, supported** by our **Head of Climate Change** on **our Pathway to Zero strategy**

Our approach to managing sustainability is collaborative and iterative, recognising the different levels of maturity of our existing structures and the overlapping nature of the topics.

Pathway to Zero strategy
Specific strategy and governance created to drive our approach to climate change, with a focus on reducing carbon emissions and developing a circular economy mindset

Colleague and Legal
Ongoing focus to care for our colleagues and to keep our business and relationships safe, implemented through established structures and policies

Carbon reduction	Circular economy	Community	Colleagues	Doing the right thing

Executive Board responsibilities for key stakeholder and sustainability focus areas, supported by other members of Executive Board

CFO	**Commercial Director**	**Customer Director**	**Stores and People Director**	**Company Secretary**
• Carbon reduction • Operational waste • CFO is also responsible for tax and supplier payments	• Suppliers • Responsible sourcing • Circular economy	• Customers • Community • Take-back, repair and re-use	• Colleagues	• Anti-Bribery • Colleague/Supplier Codes of Conduct • Health and safety • Privacy

Guided by our purpose and shared values

Sustainability metrics, targets and progress

The sustainability metrics and targets that we focus on most across the business.

See also Group KPIs page 24, TCFD Report from page 61 and Remuneration Committee Report from page 130.

All policies are available on corporate.dunelm.com.

Key

BONUS Remuneration metric used for bonus

LTIP Remuneration metric used for long-term incentive plan

RCF Revolving Credit Facility target

IN FY22 WE ENGAGED WITH THE FOLLOWING ORGANISATIONS:

MSCI

SUSTAINALYTICS

FTSE4Good

Carbon reduction

	Base year	Target	FY22 performance	Page
PATHWAY TO ZERO SCOPE 1				
Scope 1 CO_2e	FY19	50% reduction by 2030	13.4% increase	38
Scope 1 CO_2e/£m sales LTIP RCF	FY19	24% reduction by FY24	19.6% reduction	38
PATHWAY TO ZERO SCOPE 2				
Continue to purchase renewable electricity	Annual	100% electricity from renewable sources	99.7%	38
PATHWAY TO ZERO SCOPE 3				
Scope 3 CO_2e	FY19	50% reduction by 2030	Ongoing	39
OPERATIONAL WASTE				
% of operational waste recycled	Annual	80% in FY22	79.8%	41
% of waste diverted from landfill	Annual	98% in FY22	96.2%	41

Related commitments: British Retail Consortium's Climate Action Roadmap to achieve net zero by 2040; commitment to work towards Textiles 2030's targets as a Textiles 2030 signatory.

Related policies:

POLICY

- Plastics and packaging policy
- Environmental policy

INDEPENDENT ASSURANCE

We engaged Ernst & Young LLP to provide limited assurance for FY22 over the key performance metrics which are linked to our Revolving Credit Facility (RCF). These are marked with green RCF flags on pages 34 and 35. The full assurance statement and the Basis of Reporting documents that were applied in preparing these metrics can be found online on our corporate website: corporate.dunelm.com.

Circular economy

	Base year	Target	FY22 performance	Page
TAKE-BACK				
% of own brand products for which we offer an easy-to-use take-back service LTIP RCF	N/A	50% by FY24	61.3%	48
PLASTIC AND PACKAGING				
Volume of own brand plastic packaging used/£m sales LTIP RCF	FY20	Reduce by 7.5% by FY22 and by 20% by FY24	22.7% reduction	45
% of recycled content used in own brand plastic packaging	–	30% by FY22 and by 50% by FY25	15.0%	45
% of own brand cardboard packaging from sustainable sources	–	100% by FY25	Ongoing	–
RESPONSIBLE SOURCING				
% of 'More Responsibly Sourced Cotton' in own brand range LTIP RCF	–	80% by FY24 and 100% by FY25	30.0%	43
% of 'More Responsibly Sourced Timber' in own brand range	–	50% by FY25	7.1%	43, 44
% of palm oil used in Dunelm/Pausa products that is sustainably sourced (RSPO)	Annual	100%	90.1%	44
% of Tier 1 factory base for own brand products with audits not more than two years old	–	100%	97.9%	46
% of low- or medium-risk audits	–	90%	73.9%	46

Related policies:

POLICY

- Plastics and packaging policy
- Responsible cotton policy
- Responsible timber policy
- Responsible palm oil sourcing policy
- Responsible animal welfare policy
- Ethical Code of Conduct for suppliers and partners
- Slavery and Human Trafficking Statement and modern slavery policy
- Whistleblowing policy
- Code of Business Conduct

Community

	Base year	Target	FY22 performance	Page
COMMUNITY				
Charitable funds raised	Annual	Year-on-year increase	£52k increase	51
COLLEAGUES				
Colleague net promoter score (eNPS) BONUS	Annual	Year-on-year improvement	1% improvement	24
Reportable accidents under RIDDOR[1]	Annual	Year-on-year reduction	Reduction of 9	60
Number of targeted colleagues completing training in anti-bribery, anti-fraud and tax evasion	Annual	At least 90% of targeted colleagues	82.3%	60
CUSTOMERS				
Net promoter score (NPS) BONUS	Annual	Year-on-year improvement	4.2% reduction	25
Unique active customer growth	Annual	Year-on-year improvement	8.5% improvement	25

Related policies:

POLICY

- Health & Safety Policy Statement
- Dunelm Colleague Code of Conduct
- Whistleblowing policy
- Anti-corruption and anti-bribery policy
- Tax Strategy
- Code of Business Conduct

1. Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013.

Carbon reduction

Aligning our strategy to science-based best practice.

OUR APPROACH

IMPROVE Understanding and focusing on activities in our control

INNOVATE Finding solutions by doing things differently

ADVOCATE Asking for help and working collaboratively

For more information see pages 37 to 40.

Pathway to Zero indicative roadmap

SCOPE 1
Target: 50% reduction by 2030

Company car fleet

Home Delivery Network fleet

Natural gas, oil and refrigerants

- 10-year gas-fired heating replacement programme
- Driver training/monitoring
- Hybrid/electric company cars by 2025
- Transition to low-carbon fuel in HGVs by 2025
- Collaboration with Sustainable Logistics Forum to move to low-emission fleet by 2030

1% of total emissions

SCOPE 2
Target: Already at net zero

Renewable electricity

Photovoltaic opportunities

- Reviewing greener RE credentials
- Colleague engagement to accelerate energy-saving
- Installing PV panels
- Collaboration with organisations such as Aldersgate Group to advocate for a greener grid

1% of total emissions

SCOPE 3
Target: 50% reduction by 2030

The majority of our Scope 3 emissions come from the products we sell. For more detailed analysis see page 39.

Textiles (raw materials and fibre production)

Hardlines (raw materials and production)

Production

Food and drink

Product transport

Commuting and business travel

Product use at home

Goods not for resale

Customer travel and home parcel deliveries

Product end of life

- Improve data gathering and reporting to understand gaps and opportunities.
- Scope 3 Roadmap to be further refined in FY23.
- Expand range of lower-carbon products and engage customers.
- Work with suppliers to move to renewable energy and use innovative low-impact materials.
- Transition to low-carbon fuels in third-party logistics.
- Collaborate with industry and experts, such as British Retail Consortium, Sustainable Logistics Forum, Textiles 2030 and Aldersgate Group to advocate for circularity and decarbonisation across industry.

98% of total emissions

2019 2020 2022 2025 2030 2035 2040

FY19 baseline

All Scopes 50% reduction from FY19 baseline

Graphic is illustrative of current and anticipated activities and timeline and represents future direction of travel only. Please refer to table on page 37 for carbon reduction figures to date.

OUR COMMITMENTS AND METHODOLOGY

Our commitments

Our goal is to reduce absolute greenhouse gas (GHG) emissions by 50% by 2030 against a FY19 base. Our application for formal recognition of our targets by SBTi will be submitted in the new financial year. We support British Retail Consortium's Climate Action Roadmap to achieve net zero by 2040. Additionally, as a signatory to Textiles 2030, we have pledged to work towards Textiles 2030's measurable targets, which include reducing the aggregate greenhouse gas footprint of new textile products by 50%, sufficient to limit global warming to 1.5°C in line with the Paris Agreement on climate change, and achieving net zero by 2050 at the latest.

See page 44 for our commitment to other Textiles 2030 targets.

Our initial work with Carbon Trust in FY20 and FY21 enabled us to develop baseline data for Scope 1, 2 and 3 emissions. We have updated and refined this data but, as this work is iterative, information provided in this report may change as we refine our data further and make it more accurate.

We have already developed a Group-wide roadmap to deliver our Scope 1 and Scope 2 targets. We know the areas we need to focus on to reduce our Scope 3 emissions and, as our data improves, we will build out our Scope 3 roadmap in FY23. We are already taking action to reduce emissions across all three Scopes, as reported below, and have adopted an 'improve, innovate and advocate' approach as illustrated in the graphic on page 36, recognising that in some areas we are reliant on industry collaboration and innovation to achieve our goals.

Methodology and reporting

Our calculation methodology for Scopes 1 and 2 has followed the GHG protocol corporate standard and we are improving our Scope 3 data quality continually. More information on our methodology for calculating emissions is on our website: https://corporate.dunelm.com/about-us/policies-and-statements/.

Absolute GHG emissions

CO_2e tonnes

	FY19	FY20	FY21		FY22	
	Location-based	Location-based	Location-based	Market-based	Location-based	Market-based
Scope 1 (Direct emissions)	6,967	7,108	8,633	8,633	7,902	7,902
Scope 2 (Indirect emissions)	10,861	8,757	7,854	268	8,015	21
Scope 3	1,430,410	N/A	N/A	N/A	1,799,231	1,799,231
Turnover £m	1,110.4	1,057.9	1,366.2	1,366.2	1,553.1	1,553.1
Scope 1 GHG intensity per £1m turnover	6.3	6.7	6.5	6.5	5.1	5.1

Note: Scope 1 and Scope 2 emissions are calculated following the GHG protocol corporate standard. Market-based Scope 2 emissions reflect the purchase of REGO-qualifying electricity. Under Scope 3 emissions we use best available data to report material GHG contributors to our footprint, including: raw materials; product manufacturing; third-party logistics; product use at home; and product end-of-life emissions. Our FY19 model indicates that these contributing areas represent c.95% of our total Scope 3 emissions. Details of the methodology used to calculate our emissions are available on corporate.dunelm.com at https://corporate.dunelm.com/about-us/policies-and-statements/. Our SECR disclosure can be found on page 168. Turnover is on a 52-week basis.

First trial of LPG vehicles in August 2022

Carbon reduction continued

Scope 1 emissions

Company car fleet

Home delivery network fleet

Natural gas, oil and refrigerants

UNDERSTANDING OUR SCOPE 1 EMISSIONS

Across all Scope 1 contributing business areas, we have set decarbonisation plans and annualised internal targets to help us achieve our 2030 carbon reduction target.

Our model shows that emissions from **natural gas, oil** and **refrigerant gases** used in our stores and warehouses accounted for over a third of our Scope 1 (direct) emissions in FY19. We have continued to replace gas-fired heating with electric heating run on purchased renewable energy. No gas installations are fitted in new stores and existing installations are removed during store refurbishments and refits. In addition, we are working with stores to use existing gas-fired heating more efficiently, prior to replacement. This means that we were able to reduce natural gas emissions this year by 29.8% against the FY19 baseline. We are reducing emissions from refrigeration gases by replacing them with lower emission gases.

Our model shows that the remainder and largest part of our Scope 1 emissions comes from the **vehicle fleets** that we run – our Home Delivery Network (HDN), our company car fleet and the van fleet used for our made-to-measure service. In FY22, we continued to train our HDN drivers in best practice behaviours and used data from telematics to promote driving efficiency. We also focus on optimising delivery routes and vehicle fill efficiency. This helped us to reduce our HDN CO_2e emissions per delivery in FY22 by 3% versus FY21. In FY22, we set a logistics decarbonisation strategy with the aim of moving away from diesel HGVs to a lower-emission fleet within five years, subject to available technology, and we continue to test and trial low-emissions fuel. In early 2022, we joined the Sustainable Logistics Forum, a group of logistics and retail companies who share best practice, respond to government consultations and work collaboratively on projects to advance sustainable logistics. Our participation supports our collaboration and advocacy strategy.

Since July 2021 our **company car** fleet options have been electric or hybrid only and we plan to phase out all other cars by 2025. We have installed 16 electric vehicle chargers at our support centre and our new furniture hub at Daventry.

FY22 performance

- Overall, our Scope 1 CO_2e emissions increased by 13.4% against the FY19 baseline, as a result of our growth in sales and home delivery; this equates to a reduction of 19.6% per £1m turnover.

FY23 focus

- Continue replacement of gas-fuelled heating and invest in low-emission vehicles in our HGV fleet.
- Ongoing industry advocacy to accelerate low-emissions solutions and speed to market.

Scope 2 emissions

Renewable electricity

Photovoltaic opportunities

UNDERSTANDING OUR SCOPE 2 EMISSIONS

Our **Scope 2** (indirect) emissions are negligible under a market-based approach, since we transitioned to Renewable Energy Guarantees of Origin (REGO) qualifying electricity sources for the majority of sites in April 2019. We will collaborate with Aldersgate Group and other organisations to advocate to improve the availability of renewable energy.

Through our Building Management System we can better manage and monitor our use of energy for lighting, heating and cooling. We continue to engage colleagues across our business to accelerate energy saving. Colleagues from our Store Development team review energy usage data twice a week and visit stores regularly, targeting those where usage appears higher than it should be.

We have installed photovoltaic (PV) panels at five of our freehold stores to reduce our electricity usage and at year end FY22, PV panels generated around 250 MWh, equating to around 1% of our annual on-site renewable energy consumption. PV panels for another four stores are already ordered and we will review further opportunities for FY23.

FY22 performance

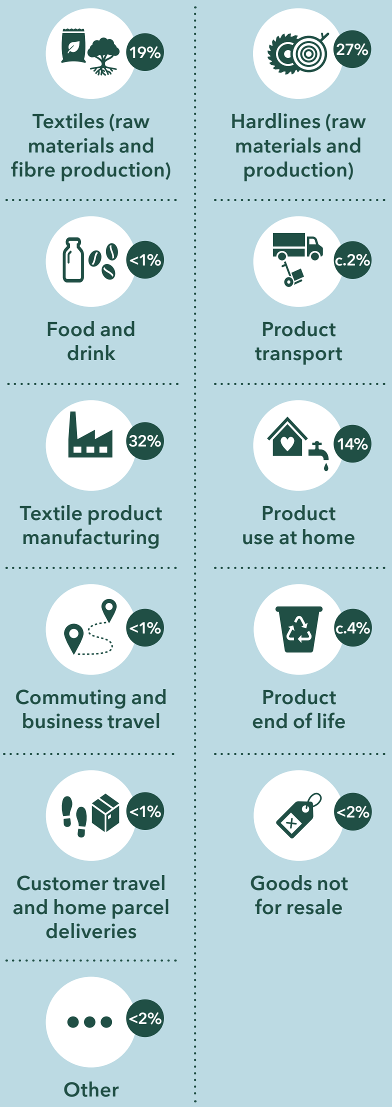
- Continued to purchase renewable energy and expanded use of photovoltaic panels.

FY23 focus

- Increase use of photovoltaic panels.
- Sign off roadmap for more credible sourcing of renewable energy strategy.

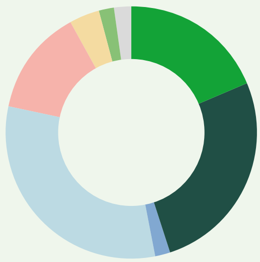
Scope 3 emissions

Scope 3 emissions FY19
% lifecycle stage



Source: Dunelm FY19 figures from Carbon Trust and Textile 2030 data.

FY19 Scope 3 carbon emission hotspot analysis
%



Textile raw material and fibre production	19
Hardlines raw material and production	27
Product transport	c.2
Textile product manufacturing	32
Product use at home	14
Product end of life	c.4
Goods not for resale	c.2
Other	c.2

Numbers do not add up 100% due to rounding.
Source: Dunelm

UNDERSTANDING OUR SCOPE 3 EMISSIONS

Our analysis of data collected in FY19 showed that over 95% of our total CO_2e emissions were attributed to Scope 3 and, of these, the majority are generated from the materials and processing associated with **our products**. Our original carbon footprint for Scope 3 was built by Carbon Trust, based largely on invoice purchase data. Since then we have improved the robustness of our data collection for textile products through our work with Textiles 2030 and have updated our 2019 footprint in the pie chart above, as well as FY22 data, which is a mix of the original model and more accurate data normalised using business growth.

OUR APPROACH TO REDUCING SCOPE 3 EMISSIONS

Materials

Textiles (our model indicates that these account for approximately 19% of our carbon footprint)

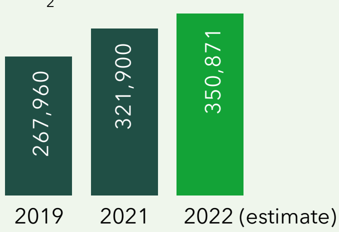
Of our own brand products, approximately 50% by sales volumes are textiles, and this is where we continue to focus our greatest efforts.

In April 2021, we became the first homewares retailer to join the industry group Textiles 2030 and to commit to their targets (see page 44). Members of Textiles 2030 have made a voluntary agreement to limit the impact that textiles (particularly in the fashion industry) have on climate change and the environment. Through our joint work, we have a better understanding of the importance of using recycled textiles to lower our carbon footprint and our water usage, in particular for polyester. We have set an internal target to accelerate our migration from conventional to recycled polyester fibre; see case study on page 44.

Non-textile products (our model indicates that these account for approximately 27% of our carbon footprint)

For our non-textile homewares and furniture ranges we have started to use life-cycle assessment (LCA) and primary sourcing data to establish a more accurate environmental footprint baseline; see Responsible sourcing (environmental), page 43. Preliminary results will be available in FY23 and will help inform our carbon reduction strategy for non-textile materials (such as timber, metal and glass) that are used in our core non-textile product ranges.

Textiles raw material
tCO_2e



Data sourced from Textiles 2030 carbon footprint tool for FY19 and FY21. FY22 is calculated using FY21 data plus textiles sales increase between FY21 and FY22. This is due to not having FY22 data available until March FY23.

Carbon reduction continued

Scope 3 emissions continued

Food and drink

Although sales from Pausa represent less than 2% of our total revenue, our Pausa cafes are an important part of our business: they enhance our customer and colleague experience and are increasingly used to help stores engage with their local communities; see Communities page 51.

In FY22, we worked with Carbon Trust to model the carbon footprint of products that we sell in our Pausa cafes and learnt that most emissions are generated from our milk and coffee products. This information has helped to prioritise workstreams and next year we intend to refine sourcing standards and work with our suppliers to reduce carbon emissions from their products.

Production/manufacturing

We understand from our collaboration with Textiles 2030 and our FY19 hotspot analysis with Carbon Trust that a significant proportion (at least 30%) of Scope 3 emissions are generated in the product manufacturing/processing stage. We are currently collecting the data and developing our supplier engagement programme and will report progress on this in FY23.

Product transport

We continue to collaborate with our third-party logistics partners and industry groups to support the development of low-carbon infrastructure and vehicles for our **outsourced transportation and distribution**. We worked closely with our largest logistics suppliers in FY22 to gather carbon emission data relating to the movement of our products to inform a decarbonisation plan. Actions to date include reviewing the use of low-carbon fuel and agreeing to trial LPG trailers, rationalising the number of store deliveries and training staff on efficient driving.

Commuting and business travel

Our model shows that commuting and business travel is a relatively small contributor to our Scope 3 footprint (less than 1%). We will consider developing a decarbonisation plan in FY23.

Customer travel and home parcel deliveries

Our model shows that emissions from customer travel and home parcel deliveries also account for a relatively small part of our Scope 3 footprint (less than 1%). We will be working with our third-party parcel delivery partners to develop a decarbonisation plan in FY23.

Product use at home

Through our work with Textiles 2030 we understand that product use at home is a large contributor to our Scope 3 footprint (around 14%). For our **customers and colleagues**, our approach includes offering products with greater longevity and giving more information about how to care for and repair products to prolong their life.

Product end of life

We trialled a textiles take-back scheme in December 2021 and expanded this to 167 stores. We now have customer take-back options for 61.3% of our own brand product range (see Circular economy, page 48). During the first six months, we took back an average of around 10 tonnes of textiles each week, avoiding at least 25 tonnes of CO_2e (assuming that all products would otherwise have gone to landfill); see calculation methodology on our corporate website https://corporate.dunelm.com/media/3148/scope-3-reporting-methodology.pdf.

Other

For our 'non-stock' (non-product) purchases we work on a priority and risk basis. In FY23, we will request carbon data and reduction plans from our largest suppliers, and continue to track progress. We have added sustainability questions to our tender documentation and these form part of the contract award process. We have also added a clause to our terms and conditions which requires suppliers to work with us to meet our sustainability targets, as well as considering the impacts of all large investments on our carbon reduction plans.

FY22 performance

- Developed a better understanding of areas of Scope 3 to prioritise and target our reduction efforts, such as products.

FY23 focus

- Further work on using low-impact materials in product manufacture.
- Complete life-cycle assessment data gathering to inform decarbonisation for other core product areas.
- Focus on supplier engagement to achieve carbon reduction.
- Ongoing refinement of Scope 3 carbon reduction roadmap and reporting.
- Working with logistics partners to move to lower-carbon fuels in fleet.

Dunelm Conscious Choice

During the year we developed our own transparent and understandable labelling to make it easier for customers to identify products that have one or more sustainable attributes under the 'Conscious Choice' logo – this was launched in August 2022.

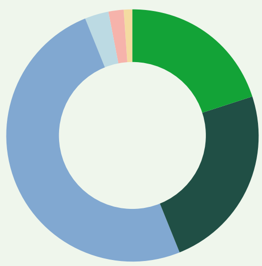
Operational waste management

Our priority is to minimise generated waste, recycle where possible, and send to landfill sites as a last resort.

FY22 PERFORMANCE

In FY22, we generated 15,048 tonnes of waste, up 7.0% since the previous year. Relative to our revenue growth this equated to a year-on-year reduction of 7.8% (9.7 tonnes per £1m revenue in FY22 versus 10.5 tonnes per £1m revenue in FY21). A breakdown of waste generated by category can be seen in the pie chart below. There was no material year-on-year change in the percentage breakdown of waste generated by category. In FY22, we recycled 79.8% of all operational waste (FY21: 80%) against a target of 80% and diverted 96.2% of all waste from landfill (FY21: 96%), against a medium-term target of 98%.

Breakdown of waste generated by weight FY22
%



Non-recycled waste	20
Dry mixed recycling	24
Cardboard and paper	50
Plastic	3
Food waste	2
Store refit waste	1
Hazardous waste	0

MAXIMISING EFFICIENCIES

The majority of our waste is generated at store level and we work closely with our waste management partner, Biffa, to drive continuous improvement in minimising and reprocessing this waste stream. In FY22, we renewed a three-year contract with Biffa and reset performance parameters including, for example, maximising the efficiency of our waste collections, typically around 20,000 journeys per year. By monitoring bin levels and changing collection frequencies we aim to eliminate unnecessary journeys, improve service levels and reduce our carbon footprint.

We aim to transport waste to the most local recycling plants (unless it makes sense to send waste slightly further afield to more efficient plants) and are working with Biffa to identify longer-term solutions, by changing waste processes and investigating other waste diversion routes.

RECYCLING

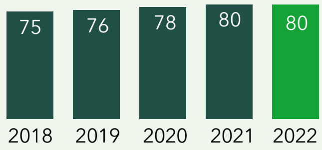
We have improved signage, communication and processes in our stores and sites to make it easier for colleagues to segregate and recycle waste, for example, by dry mix, cardboard and paper, clear plastic, wood, organic and hazardous. We also repurpose old store shelving equipment, which is resprayed and reused in new stores and refits.

In September 2021, at our store roadshows, we relaunched a comprehensive recycling guide and video for colleagues, complemented by kits and posters for each store. Since October 2021, we have incorporated waste management metrics into our health and safety store audits to raise the profile further. Stores provide health and safety and waste information every month, alongside full annual audits, and we are analysing this information to identify further waste management efficiencies – for example, by focusing on anomalies and sharing best practice.

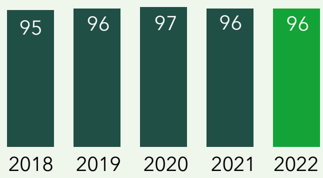
REPURPOSING RETURNS

We aim to sell any less-than-perfect stock in stores at a discount to our customers rather than returning it to our warehouse to be disposed of. If customers return 'online only' products, such as large furniture items to our stores, we also aim to resell these in store (often at a discount). We continue to partner with Appliance Tech who check any returned electrical appliances so that we can resell them safely. Through these initiatives we reduce waste and save transport and warehousing costs.

Operational waste recycled
%



Diversion from landfill
%



FOOD WASTE

We have 153 Pausa cafes in stores and run four Pausa restaurants for our colleagues. Our aim is for no food to be thrown away and we are reducing food waste in a number of ways. Our centralised ordering system, for example, gives us better stock visibility and improves our management of perishable items and wastage. We also train colleagues to standardise serving processes and in-store presentation, and we factor in wastage during range rationalisation. We discount or donate perishable items nearing end of life and are investigating ways to share food with our local communities. Any food waste generated is recycled.

FY22 performance

- 79.8% of operational waste recycled against a target of 80%.
- 96.2% of waste diverted from landfill against a target of 98%.

FY23 focus

- Continue to minimise waste and maximise recycling.
- Expand waste champion network and colleague engagement.
- Identify closed-loop opportunities with suppliers to reduce/monetise waste.

Circular economy

Taking the whole lifecycle of our products into consideration.

Product circularity

Our products have always been designed with quality, choice and value in mind; we now also consider sustainability and circularity.

MOVING TOWARDS PRODUCT CIRCULARITY

Around 80% of c.50,000 own brand products are designed in-house or exclusively for us by external designers, allowing us to influence and develop more sustainable ranges, including the materials we use, how they are produced, and the options for our products at end-of-life.

Moving from a linear to a circular model involves longer-term thinking and, during the year, we embedded circularity principles into our product design processes, raising awareness across our commercial teams, bolstering internal expertise and collaborating with suppliers and industry partners, such as Textiles 2030 and Better Cotton.

Full product circularity cannot be achieved overnight. We will continue to learn, test and scale up as we engage with our key suppliers and work with industry peers to improve our understanding and develop opportunities. In FY22, we launched our exciting collaboration with the Natural History Museum, which epitomises our approach to product circularity.

SUSTAINABLE COLLABORATION

Inspired by the Natural History Museum (NHM) and the natural world it celebrates, the NHM x Dunelm homewares collection is designed for longevity using, where possible, responsibly sourced materials and packaging that has a 'second life'. Each product aims to raise awareness of the importance of protecting wildlife and habitats, such as wetlands and woodlands, to preserve fragile ecosystems. This exclusive range has been designed by Dunelm, working with NHM experts, who share their specialist knowledge. Only suppliers who meet NHM's and Dunelm's highest-rated ethical standards have been selected to work on the project.

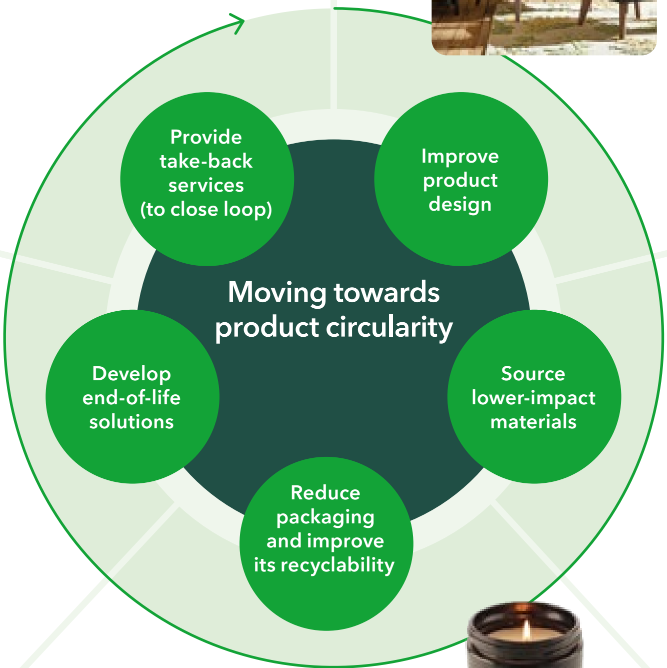
NATURAL HISTORY MUSEUM x Dunelm

TAKE-BACK

- Customer take-back services available
- Products reused, repurposed, recycled
- Researching 'closed loop' opportunities for textiles

MARLOW MARSH ARMCHAIR AND FOOTSTOOL

- Classic wingback silhouette and tapered legs for timeless look
- Filling made from 100% recycled polyester
- Interchangeable legs to extend life
- Made in the UK



PACKAGING TO KEEP

- Some NHM packaging designed to colour in and maybe even frame
- Encourages reuse and educates along the way

KINGFISHER CUSHION

- Cover made from 100% recycled polyester
- Filling made from 100% recycled polyester
- Recyclable through Dunelm's textiles take-back service

DIFFUSERS AND CANDLES

- Plant-based diffuser oil
- Glass vessels and packaging designed to be reused
- Easily recyclable

Responsible sourcing
ENVIRONMENTAL

To achieve our targets to reduce carbon emissions and water usage, we need to change the materials used in our products and the manufacturing process throughout the whole supply chain.

EXPANDING OUR EXPERTISE

In FY22, we expanded the in-house skills of our Product Quality & Sustainability team by recruiting two environmental sourcing specialists. This will help us to identify and improve the environmental credentials of our products more quickly, better educate our suppliers and buying teams, and tackle increasing stakeholder demand for more transparent data that underpins our commitments to carbon and waste reduction, and to related areas such as water and biodiversity.

SUPPLIER ENVIRONMENTAL ASSESSMENT AND ENGAGEMENT

We have continued to work with Track Record Global to map our supply chain to identify potential environmental and social risks in the sourcing of cotton, timber, and palm oil; and to verify claims for recycled materials.

We have engaged with our suppliers through a series of seminars and workshops, and by sharing resources. Through this engagement we set out our targets and our expectations of the standards that we require our suppliers to meet, so that they understand the need to develop their expertise and drive continuous improvement in their own supply chains.

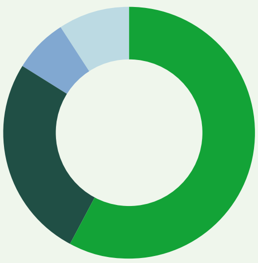
TEXTILES 2030 AND MATERIALS IMPACT ASSESSMENT

We became the first homewares retailer to sign up to Textiles 2030 in FY21, committing to carbon, water and circular textiles targets (see page 44). We are working alongside c.100 other UK companies/signatories to reach these targets at an industry level. This year we submitted our baseline fibre tonnage for textiles products in FY19 and FY21 and completed a materials impact assessment to better understand the GHG emissions, water and waste impacts associated with our products. Our work has helped prioritise our actions, for example to source more recycled polyester to help reduce our carbon footprint, and to use more sustainable cotton alternatives to reduce our water footprint.

COTTON

Our published target is for 100% of the cotton used in our own brand products to meet our 'More Responsibly Sourced' standard by FY25. In FY22, we achieved 30.0%. To accelerate our progress, in FY22 we joined Better Cotton, the world's largest cotton sustainability programme, whose mission is 'to help cotton communities survive and thrive, while protecting and restoring the environment.'[1] Through our association with Better Cotton we are committed to improving cotton farming practices globally. Better Cotton is sourced via a chain of custody model called mass balance. This means that while cotton produced under the programme may not be directly traceable to a Dunelm product, Better Cotton farmers benefit from the demand for Better Cotton in equivalent volumes to those we 'source'.

Textiles used in our products
% of material/fibre in tonnes



Polyester	58
Cotton	26
Polypropylene and Polyurethane	7
Other	9

Source: Dunelm

NON-TEXTILES

Although we have completed a high-level assessment, we are at an early stage in developing a detailed understanding of the environmental footprint of our non-textile materials such as timber, glass, ceramics, and metals. We will do so using a practical approach that makes use of peer-reviewed industry data and proxies in line with ISO 14044. This material impact assessment will be based on life cycle analysis (LCA) and will cover five areas: global warming potential, water quality impacts, water consumption, fossil fuel depletion, and human and environmental toxicity. We have adopted a phased approach, initially focusing on product categories with the highest potential impact, allowing us to test our methodologies and set priorities.

FOOD AND DRINK

Dunelm is committed to using more sustainably sourced raw materials across our range of Pausa cafe products. For example, tea, coffee and cocoa in Pausa branded products must be certified to a recognised responsible sourcing programme that reduces environmental degradation, such as the loss of natural habitats, deforestation and social risk in the area from which they are sourced.

BIODIVERSITY, TIMBER AND WATER

In FY22, we started to assess data requirements to quantify our nature-related dependencies, risks and impacts to understand and address these as part of our decision-making, and to build our first biodiversity strategy. We are at a very early stage in this process and have begun to map the habitats, baseline biodiversity integrity and water-related risks of our main timber and cotton sourcing regions, two areas where our raw material impacts are likely to be greatest.

1. Source: https://bettercotton.org

Circular economy continued

Working with Textiles 2030

WORKING COLLABORATIVELY TO REDUCE THE ENVIRONMENTAL IMPACT OF TEXTILES

Dunelm is one of the pioneering home textiles signatories on WRAP's Textiles 2030 voluntary agreement, an expert-led initiative designed to limit the impact textiles have on climate change in line with the Paris Agreement.

Source: WRAP Textiles 2030

TEXTILES 2030 MEASURABLE TARGETS

As a Textiles 2030 signatory we have adopted a 'Target, Measure, Act' approach to work towards key science-based targets by 2030. We aim to reduce the aggregate carbon footprint of new products sold by 50% and reduce the aggregate water footprint of new products sold by 30%, against a 2019 baseline.

ROADMAP AMBITIONS FOR CIRCULAR TEXTILES

Essential to achieving these targets and moving towards a more circular economy for textiles is designing for circularity, implementing circular business models and closing the loop on materials. The Textiles 2030 Roadmap sets out a series of key milestones between now and 2030 to help businesses on the agreement adopt these principles. More information is available on WRAP's website: https://wrap.org.uk

FY22 performance

- 30.0% of 'More Responsibly Sourced Cotton' in own brand range.
- 6.9% of 'More Responsibly Sourced Timber' in own brand range.
- 90.1% of palm oil used in Dunelm/Pausa products that is sustainably sourced (RSPO).

FY23 focus

- Increase usage of 'More Responsibly Sourced Cotton'/Better Cotton and recycled polyester.
- Improve data to better understand carbon reduction drivers for non-textile products.
- Carry out baseline assessment of habitats, biodiversity integrity and water risk of our main cotton and timber sourcing regions to develop biodiversity strategy.

REDUCING THE ENVIRONMENTAL IMPACT OF OUR TEXTILES

Through our collaboration with Textiles 2030 we have undertaken joint data analysis and scenario modelling and improved our understanding of actions we can take to reduce our environmental impact related to textiles. These include switching to organic or recycled fibres, encouraging the use of renewable energy in our supply chains, reducing chemical and water usage and extending product life. Our updated analysis shows that a carbon emissions reduction of around 24% could be made just by using recycled rather than conventional polyester fibre. We are aiming to switch to using only recycled polyester in our 2023 spring/summer collection and to set targets to increase the use of recycled polyester across the rest of our business.

Plastics and packaging

We cannot eliminate all packaging but are committed to reducing its environmental impact by using less packaging, better packaging and aiming for a fully closed packaging loop.

UK PLASTIC PACKAGING TAX

This new tax came into force in April 2022 and applies to plastic packaging manufactured in, or imported into, the UK that does not contain at least 30% recycled content.

In July 2021, we updated our second Sustainable Packaging Manual, and in last year's Annual Report we shared examples of initiatives already underway to increase recycled content in our packaging for Dunelm branded products. We were unable to meet our target for 30% of recycled content in our own brand packaging in FY22, primarily due to lack of availability of suitable alternatives and provision of evidence by our suppliers. We aim to improve performance in FY23.

The requirement to submit information to the UK Government quarterly, with documented evidence of recycled content, represents a significant workstream for our team. In FY22, we updated our systems to capture data relating to the new tax and engaged extensively with our suppliers to educate and support them. In December 2021, we issued a Supplier Packaging Reporting Requirements Manual, which aligns our packaging standards with the new tax and helps guide all our suppliers through the new data that they must provide.

At year end, over 80% of all suppliers had confirmed their adherence to the new data requirements and we aim to introduce spot checks in FY23 to validate data accuracy.

HOME DELIVERY PRE-PACKING PRODUCT ASSESSMENT

Weight + **Size and shape of product** + **Fragility and value** +

Choice of packaging considerations:
Packaging cost, packing speed, transport costs/volume optimisation, product protection, ease of customer handling, volume of waste to be recycled by customer and overall customer experience.

REDUCING PACKAGING

We have continued to work on various packaging initiatives around the business to reduce overall packaging consumption – from transit packaging to packaging used for consumer-facing products; examples include trialling pre-stretched film (see below).

In FY22, we developed a detailed packing manual and training video (in multiple languages) for people working at the third-party ecommerce facility where the majority of our online orders are handled, guiding them on how to use the optimal packaging size and type, based on the product, our business, our customer experience and the environment.

We trialled using thinner, pre-stretched film to wrap pallets in one warehouse and removed 109 tonnes of plastic and over 285 tonnes of carbon. We are now rolling this out to other sites.

FY22 performance

- 22.7% reduction in volume of own brand plastic packaging used /£1m sales against a FY22 target of 7.5%.
- 15.0% of recycled content used in own brand plastic packaging against FY22 target of 30%.

FY23 focus

- Ongoing packaging reduction and improvement initiatives across the business.
- Further refinement of systems and data collection for UK Plastic Tax reporting and preparing for Extended Producer Responsibility for Packaging tax reporting (legislation expected to be in force 2023-4).
- Strengthening dedicated packaging and technology team.

Circular economy continued

Responsible sourcing ETHICAL

We require our suppliers to provide safe and legal working conditions for the people who work for them, and we do not permit any form of exploitation.

APPROACH

Controls to identify and eradicate modern slavery and any other form of exploitation such as excessive working hours, child labour and poor safety standards through our product supply chain are maintained through the audit activity against our Ethical Code of Conduct for suppliers and partners (available on our corporate website). All Dunelm suppliers sign up to this code, which aligns to international labour standards and includes an enhanced section on modern day slavery.

We regularly audit the manufacturing and UK warehousing facilities of all suppliers of our own brand products for compliance with this code. All Dunelm Tier 1 suppliers must provide a low- to medium-risk graded ethical audit (less than two years old) and a valid building and fire safety certificate. All new suppliers have to be graded low- or medium-risk to be onboarded.

PERFORMANCE

In FY22, we reported an increase in the percentage of low- to medium-risk graded ethical audits to 73.9% against a target of 90%. Although the number of high-risk audits fell, we decided to increase the frequency of auditing for any site with consecutive high-risk audit results; in addition to online follow-ups, we now re-audit these sites within one year (instead of within two years).

We are still experiencing some challenges in keeping audits in date in regions that remain affected by pandemic-related travel restrictions. In FY22, 97.9% of our audits were in date (FY21: 89%) against a target of 100%.

SUPPLY CHAIN TIERS

Tier 4	Tier 3	Tier 2	Tier 1	Tier 0
Fibre processing	Fabric and cotton suppliers	Tier 1 sub-contractor	Final product factory	Office, retail, distribution centres

EXPANDING OUR ETHICAL AUDIT PROGRAMME

Our anti-slavery and ethical audit programme covers all Tier 1 own brand suppliers, all warehouses that hold stock of own brand product and selected Tier 2 sites. We use an independent third-party expert, Verisio, to assess, grade and monitor the social and ethical performance of the supply chain for both product and third-party service providers. In FY21, we developed a bespoke remote auditing service with Verisio to facilitate the closure of specified non-conformance issues; see page 47. We will always endeavour to work with a supplier in a responsible way to resolve issues before we stop placing orders. However, if action is not taken to address non-compliance within an acceptable period, we will not compromise our supply chain integrity.

During the year, we appointed a dedicated Ethical Manager to support our Head of Product Quality & Sustainability to further develop our ethical audit programme and raise supplier awareness through engagement. We have also broadened our anti-slavery ethical assessment programme for higher-risk UK-based non-stock suppliers, such as logistics service providers, cleaners and recruitment agencies, and we have introduced a programme of unannounced spot checks for high-risk suppliers in addition to our regular audits. Renewing a physical auditing presence (post-Covid) and continuing with spot checks are an important way of combatting poor ethical practices and guarding against modern slavery risk, and we aim to increase this activity where we can.

Tier 2 mapping process

We have developed a Tier 2 mapping process, building on work that we started last year. In April 2022, we trialled this process with one of our largest UK Tier 1 suppliers who has over 30 suppliers (our Tier 2 level) in four different countries. We have focused initially on managing and assessing data returned from this exercise. Our next step will be to use this data to create a practical risk management framework to identify and grade risks based on industry, region and scale, including how much value of the final product is made in our Tier 2 sites.

ETHICAL CODE OF CONDUCT: SUMMARY OF TOPICS COVERED

- Child labour
- Employment is freely chosen
- Hours of work
- Wages and benefits
- Freedom of association
- Discrimination
- No harsh or inhumane treatment is allowed
- Regular employment is provided
- Health and safety
- Environmental requirements
- Agency labour
- Audits
- Supplier compliance
- Sub-contractors
- Whistleblowing

ENGAGING OUR SUPPLIERS

We continued to raise awareness of the importance of anti-slavery and ethical practices and the key role our suppliers play in adopting these. In March 2022, we organised an online seminar for around 250 suppliers that focused on anti-slavery and ethical standards and current and future audit information requirements. Our aim was to reinforce our transparent approach, including information about our supplier scorecard (see below), to explain the rationale behind more stringent reporting and to demonstrate commitment to ongoing supplier engagement.

Supplier whistleblowing

We have in place a whistleblowing helpline which is anonymous and run by an independent third party. We actively encourage people in our supplier factories to report any issues they may have, reinforcing that it is in everybody's interest to do so. We are currently introducing a new supplier whistleblowing platform to replace the existing one and aim to launch this in October 2022. Our new system will be set up in multiple languages, and allow concerns to be emailed and collated via an online portal. We are promoting this new service on posters in all Tier 1 factories (around 800 sites).

This is an important part of our diligence process. For example, following a concern raised about one of our suppliers via our whistleblowing helpline, we immediately launched an investigation and made unannounced visits; no slavery practices were uncovered but we found other issues. Although we engaged with the supplier these were not resolved and further spot checks led to us delisting some of their factories.

Supplier scorecards

The anti-slavery and ethical performance of our suppliers has a bearing on legal and brand damage risk exposure, investor decisions and customer and colleague expectations, and we consider individual supplier performance when making commercial sourcing decisions. Our 'live' supplier scorecards inform our decision-making and help our suppliers to see how they can improve their performance, for example, by renewing audits or addressing non-conformance within approved time frames. By increasing the transparency of how we calculate our overall supplier scores, we aim to encourage suppliers to improve their anti-slavery and ethical performance.

MODERN DAY SLAVERY TRAINING

As legally required, we update our Slavery and Human Trafficking Statement each year, and this is signed by our CEO and available on our corporate website. Modern day slavery e-learning modules are compulsory on induction and completed annually by all Dunelm colleagues involved in recruitment and people management, and by those who work in high-risk areas such as warehouses. Training module completion is tracked via our new learning and development portal, Thrive, and we refresh training content regularly. In FY22, 80.2% of targeted colleagues received annual training.

FY22 performance

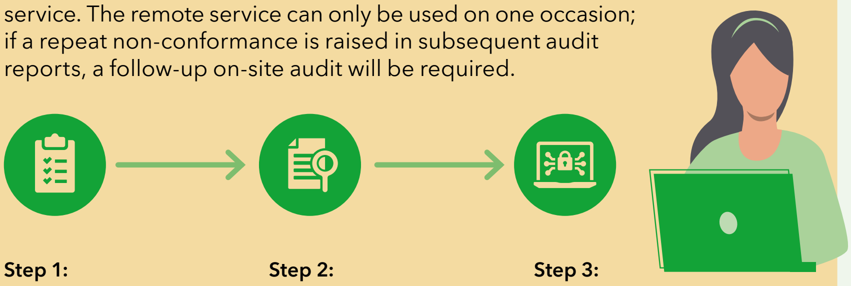
- 97.9% of Tier 1 factory base for own brand products with audits not more than two years old against a target of 100%.
- 73.9% of low- or medium-risk audits against a target of 90%.

FY23 focus

- Continue to reduce high-risk graded factories through improvement plans or re-sourcing.
- Ongoing supplier engagement, Tier 2 supply chain mapping and risk assessments.
- Increase presence in UK factories and spot checks; overseas where permissible.
- Expand anti-slavery and ethical assessment approach for non-stock suppliers.
- Implement and promote new dedicated supplier whistleblowing portal.

REMOTE AUDITING SERVICE

In FY21, we developed a bespoke remote auditing service that allows the closure of authorised non-conformances against the Dunelm Corrective Action Plan to be carried out remotely in place of an on-site follow-up audit. The purpose of this service is not to lower standards, but to reduce barriers to achieving them through a more cost-effective and efficient service. The remote service can only be used on one occasion; if a repeat non-conformance is raised in subsequent audit reports, a follow-up on-site audit will be required.



Step 1:
Ensure that all relevant information will be available to the auditor.

Step 2:
Ensure adequate root cause analysis has been previously provided or available to the auditor.

Step 3:
Ensure adequate technology is available to facilitate the remote Dunelm audit.

Circular economy continued

Take-back services

We aim to make it as easy as possible for our customers to dispose of unwanted homewares items and are working on a growing range of take-back solutions across our major product ranges.

PROGRESS AND PERFORMANCE

In FY22, we set ourselves a target to offer a take-back option for over 50% of our own brand products by sales value by FY24. This is also a current target for the Directors' LTIP and our Revolving Credit Facility. At year-end FY22, customer take-back solutions were in place for 61.3% of our own brand products and a summary of these can be found in the table below.

TACKLING TEXTILES

Although we had take-back facilities in place in FY21 for products such as electricals, batteries, furniture and mattresses, a major initiative in FY22 was to find a take-back solution for textiles – our largest product category by revenue and volume. In October 2021, we piloted a textile take-back facility in 18 stores in partnership with an expert provider and rolled this out to 166 stores in December 2021. At year-end FY22, this was available in 167 stores, representing 94% of our store estate. At present, there are 10 stores where this textile take-back service is not offered owing to space constraints.

We have been overwhelmed by our customer response. There has been no significant drop in volumes since we launched the textile take-back service, averaging collections of around 10 tonnes a week. We have promoted this service via our dunelm.com website and Facebook store community pages and we have developed more in-store promotional materials, including dedicated textile drop-off bins.

Our take-back partner is a signatory to Textiles 2030 (as are we) and ensures that no textile will end up in landfill. Where possible, products are reused; otherwise they are shredded and repurposed or used for energy-from-waste. We segregate feather-filled quilts and pillows and send these to one of our product suppliers who cleanses them and plans to reuse the feathers in new products once the volumes are high enough to do so.

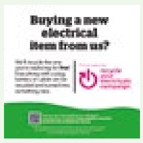
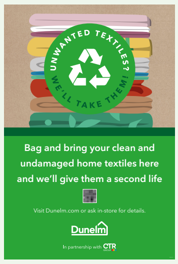
FY22 performance

- 61.3% of own brand products for which we offer an easy-to-use take-back service against a target of 50%.

FY23 focus

- More efficient textile segregation and labelling to facilitate reuse and develop further circular economy initiatives.
- More streamlined internal and external communications of our take-back options.
- Ongoing evaluation of solutions for remaining product ranges.

EXPANDING TAKE-BACK SERVICES

Category	Examples of take-back	Progress and focus	
Electrical items and batteries	All like-for-like electrical items purchased with us (legal requirement as part of WEEE electricals recycling scheme).	In partnership with 'Recycle Your Electricals' scheme, which we actively promote in store, online and via local Facebook store community pages.	
Textiles	Clean bed linen, duvets, pillows and bedding protection, throws and blankets, bath towels and mats, cushions and covers, fabric bathmats and shower curtains, tablecloths, runners and place mats, aprons and tea towels, and curtains.	Textiles take-back scheme in 167 stores; ongoing refinement with partner as we evaluate operational, logistical and segregation improvements. **252 tonnes collected in FY22**	
Homewares	Good quality, pre-loved items.	Encourage customers to donate to our Group charity partner, Mind.	In aid of Mind
Furniture, beds and mattresses	Good quality furniture, beds and unsoiled mattresses with fire safety label.	British Heart Foundation (BHF) collects free (by appointment). **£119k raised for BHF in FY22**	In partnership with British Heart Foundation
	Any condition.	Collected by Clearabee with fee (discounted with proof of Dunelm order).	Clearabee

Community

Engaging with the people who support our business.

Customers

CREATING JOY FOR OUR CUSTOMERS

We want to help find ways to make everyday homelife better for our customers, and our plan to become our customers' 1st Choice for Home is firmly linked to our purpose (see page 4). In FY22, the Board renewed our customer proposition, demonstrating its ongoing commitment to putting our customers at the heart of our business. We have renewed our focus on the value that we offer across all price points ('choice & value') in the light of current cost of living pressures in the UK, seeking to minimise price increases where possible, as well as adding a new element ('good & circular') to reflect our ambition to provide products that make a positive impact on society and the environment.

CUSTOMER SAFETY

We are responsible for making it as safe as possible to shop with us – whether in-store, in our Pausa cafes or online. In our health and safety section on pages 59 to 60, we explain how we provide bespoke training to store colleagues; our approach to managing food safety and examples of improved nutritional and allergen information to better inform customers who eat and drink in our cafes; how we respect our customers' (and colleagues') data privacy; and how we have improved the security of online payments made by our customers.

PRODUCT SAFETY AND RESPONSIBLE MARKETING

We also have a responsibility to market and sell safe products. Our product safety standards are set out in our Quality Manual which is shared with our suppliers. These reflect The General Product Safety Regulations 2005, as set by the UK Government, other specific product-related legislation and our own requirements, for example on the use of sharp items in the manufacturing process to ensure that these do not end up in the finished product. If we decide to recall a product from sale as it does not meet our standards, we communicate this clearly in-store and on our commercial website dunelm.com. We get in touch with customers directly, where we have their contact details, and always provide a full refund. We have a policy on the use of price promotion claims to ensure that these are always made fairly and legally and, during the year, we have introduced specific guidelines on sustainability claims, and rolled out training to our commercial and marketing teams.

CUSTOMER ENGAGEMENT

We are continuing to build our capabilities in customer insight so that we can better serve our customers and give them more reasons to shop more frequently with us. We use a variety of methods to engage our customers – from feedback on our local Facebook group pages to regular surveys and our work with social media influencers. We are also committed to engaging our customers by supporting purpose-driven communities around every one of our stores (see page 50).

MORE SUSTAINABLE CHOICES

Our Community working group has an objective to engage with customers (and colleagues) to raise awareness of our sustainability commitments, products and services (such as our take-back services), and to share tips and life hacks, for example, on how to repair and upcycle products to help customers live more sustainably. Our 'Conscious Choice' launch in August 2022 represented a step forward in how we communicate the sustainability credentials of our products.

MEASURING PERFORMANCE

Our key metric related to customers is net promoter score (NPS) – a Group KPI and executive bonus metric; see page 25. In FY22, our overall score decreased by 4.2%pts (FY21: +4.2%pts) and was heavily influenced by external factors, including supply chain disruption, labour shortages and ongoing Covid-related issues at the beginning of the year. We have made good progress on a number of propositional improvements during the year which we expect will deliver an improved score in FY23. Nick, our CEO, talks more about our customer proposition and developments in his CEO's review on pages 16 to 20.

Strengthening our customer proposition for savvy home lovers

We pride ourselves on making **every pound count** and being good housekeepers. We spend wisely where it matters and minimise unnecessary waste. This means we can provide **unbeatable value products at every price point**, supported by colleagues who care and technology that makes things seamless and efficient.

CHOICE & VALUE
Great value and quality for every style, space and budget.

GOOD & CIRCULAR
Positive choices for people and the environment.

FRIENDLY & EXPERT
Service that is knowledgeable, non-judgemental and warm.

EASY & CONVENIENT
Easy to find, buy and fit everything you need for your home.

Community continued

Store communities

MEANINGFUL CONNECTIONS

In FY20, our colleagues set up Facebook groups in their store communities to help organise local fundraising initiatives, to support vulnerable individuals and to understand local customer and colleague sentiment during Covid-19 lockdowns. We saw the potential to develop this initiative and have since focused our efforts on making more meaningful connections to support thriving, purpose-driven communities around every one of our stores. At year end FY22, we had over 1 million Facebook followers (FY21: over 700k).

RESPONDING TO THE WAR IN UKRAINE

Dunelm was proud to be part of the UK retail community's response in supporting people affected by the war in Ukraine. Colleagues across our stores, support centres, warehouses and supply chains engaged with charities to understand what support was most needed and how best to help. Our store community groups co-ordinated local drop-off points for essential items such as duvets, pillows and toiletries and most of these actions were store-led, building organically. Within just a couple of weeks after the invasion, over 105 pallets of duvets, pillows, blankets and other essential items were delivered to the Polish border, via our take-back logistics partner, for onward distribution to Ukrainian people in affected regions. We identified that around 300 Dunelm colleagues and their families have been directly affected by the war in Ukraine. We sent £20k to the Red Cross on behalf of these colleagues as a 'personal donation'. We also offered a 10% discount for UK residents taking part in Homes for Ukraine to help them prepare their homes for refugees.

BENEFITTING OUR COMMUNITIES

In addition to fundraising as a Group for Mind, Scottish Association for Mental Health and Inspire, we encourage stores to support local events and charities that are meaningful and relevant, benefitting schools, hospitals, hospices and animal shelters, among others.

PROMOTING INNOVATION AND AUTONOMY

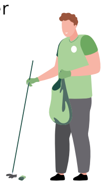
We encourage stores to make their own decisions and 'act like owners'. Strong ideas can and do grow organically across the Group, promoting innovation, as seen during the store-led initiatives for Ukraine. We also support local entrepreneurs and businesses by providing space for pop-up shops and events on our premises.

IMPROVING COLLEAGUE ENGAGEMENT

Our colleagues are proud to support their local communities via their stores and feel more engaged and committed.

REDUCING ENVIRONMENTAL AND BIODIVERSITY IMPACTS

Many community initiatives support our commitment to reducing our impacts on the environment: encouraging the donation of unwanted goods, recycling decorations and litter picking, to name a few.



Dunelm
#Doingtherightthing

Thriving, purpose-driven communities

PROMOTING AND SHARING OUR INITIATIVES

Our community work is so important to our stores, the Dunelm brand and our customer proposition that we measure and share activities at each store via our community leaderboard (nothing like a bit of competition).

BRINGING COMMUNITIES TOGETHER

We have opened up our Pausa cafes as community hubs – bringing together people through social groups and giving people a collective purpose, for example, through our 'Knit & Stitch' groups.

CONNECTING OUR COLLEAGUES

Our colleagues feel more connected to other Dunelm stores and sites by working on joint campaigns, such as our 'Miles for Mind' baton relay to support Mind.

CREATING COMPETITIVE ADVANTAGE

We truly believe that what we are doing in our communities is different, valued and recognised, giving people an extra reason to work for us and shop with us.

In aid of mind

SUPPORTING OUR GROUP CHARITY PARTNER

We rotate our chosen Group charity partner every two years and ask our colleagues to shortlist candidates via an online survey as part of the pitch process. In July 2021, our colleagues voted to support Mind (in England and Wales), Scottish Association for Mental Health (SAMH) in Scotland and Inspire in Northern Ireland. We also continue to support local charitable causes such as LOROS and the Rainbows Hospice for Children and Young People and, in FY22, made ad hoc donations to Age UK, Women's Aid, Good Guys and Loughborough University.

By year-end FY22 we had raised £457k through a variety of Group-wide fundraising activities. The most successful event was 'Miles for Mind' – a baton relay which was very popular with our colleagues who set up route maps for people to run, walk or bus between Dunelm stores. From March 2022 we increased our Pausa donations to Mind, SAMH and Inspire from 5p per cup of tea sold to 5p from any hot drink.

'SHOP SMALL, SUPPORT LOCAL'

In summer 2021, we contacted local business and offered space on our store premises to set up stalls in return for a donation to Mind. During the year around 1,500 businesses took part, selling goods such as hand-made jewellery, paintings and wax melts. In December 2021, we set up local Christmas markets in our Pausa cafes.

PAUSA COMMUNITY HUBS

Last year we reported on how we had opened up our Pausa cafes to local community groups such as Scout groups and book clubs. We are pleased to report that the role of Pausa evolved further in FY22. In February 2022, we launched our 'Knit & Stitch' groups and these have been very popular (thanks, Tom Daley). Signed-up knitters and crocheters are given a free cup of tea, 20% off wool and inspiration to set to work on knitting squares to make blankets or 'twiddle muffs' for people with dementia in our partner care homes and hospitals. Through our newsletters and store Facebook pages we have received positive feedback and evidence that our groups have helped bring people together.

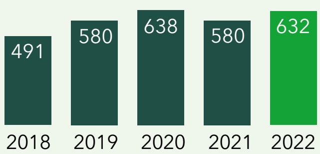
'DELIVERING JOY'

Based on the success of our last two 'Delivering Joy' campaigns we are already planning to run our third one in December 2022, aiming to beat the 19,000 gifts collected and distributed during the festive period in FY22. Gifts donated by customers are sent to people in local care homes, schools and hospitals. We also supported animal shelters and, at our Support Centre in Leicester, gifts donated by colleagues were collected for Age UK who sent them to local elderly people living alone.

VOLUNTEERING

Every Dunelm colleague is encouraged to take up their annual paid day-off to volunteer or provide support for a charity. This was difficult to implement in and out of lockdowns and we have yet to regain full momentum. We aim to promote and better monitor this important aspect of local community engagement in the year ahead.

Group and colleagues fundraising and Group cash charity contributions
£k



FY22 performance

- Increase in charitable funds raised of £52k to £632k (FY21: £580k).

FY23 focus

- Further initiatives to support Mind, SAMH and Inspire.
- Colleague volunteering drive to support more causes across our communities.
- More in-store events to engage our store communities with Dunelm products and services.

Community continued

Colleagues

Our colleagues expect us to treat them fairly, to be rewarded appropriately for the work they do, to be given opportunities to develop and learn, and to be heard and connected to the business. They expect to feel at home in a safe and inclusive working environment.

In this section, we report on the areas we have focused on most in FY22 as part of our overall People Strategy.

INCLUSIVE AND DIVERSE

COMMITMENT TO EQUALITY, DIVERSITY AND INCLUSION

We want Dunelm to be an inclusive place for all. We aspire to achieving a colleague base reflective of society at all levels, providing opportunity for all, regardless of background, ethnicity, gender, sexual orientation, disability or age.

POLICY **Our equality and diversity policy is available on our corporate website, corporate.dunelm.com.**

Our Board diversity policy can be found on page 119.

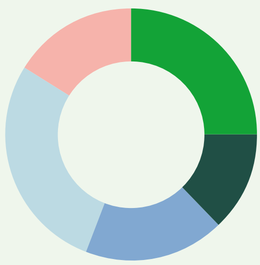
INCREASED FOCUS ON DIVERSITY AND INCLUSION IN FY22

Building on foundations laid last year, we increased our focus on diversity and inclusion in FY22, recognising its importance to our colleagues' overall health and wellbeing. In FY23, through ongoing training and education, we will focus on making it clearer to our colleagues that they have the power to talk in a trusting and supportive environment.

Progress to date	Future focus
Informed and educated colleagues and leaders on a range of diversity and inclusion topics.	Support colleagues to move from learning and being educated to putting findings into action.
Set up four networks (see page 53), each sponsored by an Executive Board member, and a Diversity and Inclusion Steering Group.	Engage more colleagues in networks, including network group 'allies', to make them more visible and impactful.
Trialled census and gathered ethnicity data for around 77% of all colleagues.	Refine data collection method and use it to inform decisions, priorities and engagement.
Trained recruitment teams in inclusive practices, including trial of graduate 'no-CV' recruitment process.	Use new behavioural framework to remove bias in internal/external talent hiring.

KNOWING OUR COLLEAGUES

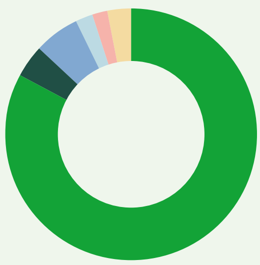
Age split
%



50+	25
41-50	13
31-40	18
21-30	28
Under 21	16

Note: This data covers 100% of all colleagues.

Ethnicity data
%



White British	83
White – Other	4
Asian British	6
Black	2
Multi-ethnic	2
Other	3

Note: This data covers 77% of all colleagues.

Gender breakdown, year-end FY22 versus year-end FY21

	Number							Percentage					
	Female			Male			Total	Female			Male		
	FY22	FY21	Change	FY22	FY21	Change		FY22	FY21	Change	FY22	FY21	Change
Group Board	4	3	1	7	6	1	11	36%	33%	3%	64%	67%	-3%
Executive Board	5	5	–	5	4	1	10	50%	56%	-6%	50%	44%	6%
Dunelm Leadership team[1]	10	9	1	13	15	-2	23	43%	37%	6%	57%	63%	-6%
Store colleagues	6,153	6,673	-520	2,237	2,301	-64	8,390	73%	74%	-1%	27%	26%	1%
All colleagues	7,410	7,564	-154	3,614	3,520	94	11,024	67%	68%	-1%	33%	32%	1%

1. Excluding Executive Board members.

COLLEAGUE NETWORKS

Our first four colleague networks were set up in July 2021 and have been steadily evolving. Each network is sponsored by an Executive Board member, with a departmental sponsor from the Dunelm Leadership Team. Co-chairs are voted in by other members and each network normally meets virtually to encourage colleague attendance from across the business. Visions, goals and other information, including a calendar of events and invitations to sign up, are updated on our *Home Comforts* intranet.

Members of our People team meet monthly with the co-chairs, working with them to help run meetings that induce challenging debate and to encourage people to talk about their lived experiences. Our network groups are proving to be a valuable source of information with suggestions resulting in change, as summarised in the table opposite.

> 900

Over 900 colleagues have taken part in D&I training – from the Group Board through to line managers.

DUNELM COLLEAGUE NETWORKS – INFLUENCE AND FOCUS IN FY22

DISABILITY & NEURODIVERSITY

- Subtitles on videos and live transcripts
- 'Quiet' hours in stores
- Choice of printed materials (to avoid reading from screens)
- Widening aisles so employees with wheelchairs can carry stock
- Employing people on a one hour a week contract to help build confidence

ETHNICITY & RACE

- Celebrated religious and cultural holidays such as Ramadan and Holi to raise awareness of different beliefs
- Launched multi-faith/wellbeing spaces in a number of buildings
- Increasing diversity in recruitment through training, in partnership with Unleashed

LGBTQ+

- Pronouns on email sign-offs and ID badges
- Rewriting parenthood and adoption policies
- Redesign of stationery
- LGBTQ+ History Month events
- Pride Month celebrations and parades

GENDER EQUALITY

- Pregnancy loss policy
- International Women's Day Event and Women's History Month celebrations
- Working groups for parenthood and menopause
- Men's health week, raising awareness of men's mental health

NEW UNIFORM

In FY22, our colleague network groups shared their thoughts on how to improve colleague uniforms which will be launched in FY23. Ideas included: fewer buttons to make them more disability-friendly; better quality fabric that is more sustainable, and comfortable for colleagues going through menopause; and a choice of long and short sleeves that take different religious practices into consideration. Colleagues were then polled on uniform choices via *Home Comforts* – over 3,500 colleagues voted and over 250 additional comments were received.

Community continued

LISTEN AND LEARN

We continue to develop effective two-way colleague communication that is engaging and involving.

COLLEAGUE SURVEY

We undertake a twice-yearly colleague survey from which we derive an eNPS score, which is also considered in determining bonus outcomes for our Executive Directors. In FY22, our eNPS increased by 1.0%pts versus FY21 (May surveys) and we achieved our highest eNPS score to date, with a participation rate of 77%. This year, we also asked a 'yes/no' version of the question 'Would you recommend Dunelm as a place to work?' with 92% of participants saying 'yes'.

An action from a previous survey was to support leaders in creating a culture of continual feedback, helping colleagues to feel included and to improve their potential to perform. This was a focus in FY22: our leadership team has been given access to training and feedback tools; 'Nick's Note' (an email update from our CEO) is sent every two weeks; colleagues are encouraged to feed back their views via our *Home Comforts* intranet; and we continued to evolve our Colleague Voice network.

COLLEAGUE REPRESENTATION

All colleagues are formally represented through our Local, Regional and National Colleague Voice structure which is summarised in the box below. This network has been operating in its current format – with elections and Board attendance – from 2019 and we continue to evolve it to encourage colleagues to feel more confident in sharing views on behalf of their colleagues at Group Board level. More information is available in our Governance Report on page 99, including topics discussed at National Colleague Voice meetings.

All colleagues, without distinction, have the right to join or form trade unions of their own choosing and to bargain collectively (see Colleague Code of Conduct). We have never received a request to enter into such an agreement.

HOME COMFORTS

We strive to create an open environment in which all colleagues are able to ask questions and share their concerns and ideas. Through our *Home Comforts* intranet, colleagues can share how they feel and voice what is on their mind. Questions are considered and answered by senior managers and information is used to guide decision-making.

"Through the National Colleague Voice, Nick, myself, Group Board members and our National Colleague Voice representatives, share and discuss topics that matter to our colleagues. We are seeking to understand and expand possibilities. These conversations have genuinely led to change in the business."

Amanda Cox,
People & Stores Director

	Local Colleague Voice (LCV)	Regional Colleague Voice (RCV)	National Colleague Voice (NCV)
Purpose	To represent opinions of store and site colleagues.	To represent collective colleague views of each region.	To represent collective colleague views from across the business and to share these at Group Board level.
Colleague representatives and meetings	Around 175 colleague representatives from stores and warehouses.	Typically, around 8 to 10 local representatives who attend monthly RCV meetings.	17 colleagues (elected via our *Home Comforts* intranet every two years) as follows: Stores (5), Customer engagement centre (2), Manufacturing centre (2), Home Delivery Network (1), Distribution centres (2), Support centres (5). Six NCV meetings held in FY22.
Engagement with Dunelm Leadership	Each representative works closely with store coach or site manager.	Meetings run by regional store coaches.	Direct contact with NEDs (Marion Sears, William Reeve) and Executive Board members: Nick Wilkinson (CEO), Amanda Cox (People & Stores Director); other members of People team and invitees.

More information about how we (including our Board) engage with our colleagues can be found on page 98.

FAIR REWARD

Our colleagues expect us to pay and incentivise them fairly. We apply pay principles based on giving a reward that is 'fair, relevant and total' throughout the organisation from Board down, aiming for base pay to be competitive and set at median; see Remuneration Committee Report from page 130.

PAY AND BENEFITS

All colleagues are paid at least National Living Wage/Minimum Wage as set by the UK Government. However, we realise that colleagues paid closer to these levels are being impacted relatively more by the increasing cost of living in 2022. In FY22, we took the decision to invest in pay for those colleagues whose ability to pay for essential items is most affected. For example, we moved the base pay of our hourly-paid store colleagues to the upper range of median, and in our support centres we awarded a higher percentage increase to colleagues at the lowest grade; see page 103.

Benefits include pension, colleague discount and a paid birthday day-off. Via a third-party provider we offer access to a range of discounts with other retailers (including food retailers) on holidays, travel and insurance, helping colleagues to save money on everyday items as well as treats; see page 56.

All colleagues with minimum service (usually one month) are eligible to contribute to the annual Sharesave scheme, which allows shares to be bought after three years at a 20% discount to the share price at the start of the scheme.

Engaging on pay

We present pay gap metrics for all colleagues to the Board and these are used, together with feedback from our gender pay analysis, to inform decisions during pay reviews. Through our National Colleague Voice (our employee forum), colleagues discuss fair reward and Board pay with Board members annually and their viewpoints are formally considered.

How we think about pay in our business

Gender pay gap

We published our Gender Pay Gap Report in April 2022 (based on April 2021 data), available on our corporate website. As explained last year, our reported data for 2020 was skewed as the UK Government required us to exclude employees on furlough (for Dunelm, all store colleagues) and employees on reduced pay (which, for Dunelm, included several senior colleagues). In our latest Gender Pay Gap Report, as anticipated, we saw an increase in our mean gap to 19.8% (versus a reported gap of 4.9% and a 'normalised' gap of 17.5% in April 2020). Our median gender pay gap decreased from 5.1% on a 'normalised' basis (-6.4% reported) to 4.0%. The existence of our gender pay gap, which is a different measure to equal pay (see below), reflects the fact that 58% of our colleagues are women in hourly-paid stores roles – a UK retail industry trend. Our opportunity and focus is to achieve gender balance across all levels of the organisation.

Gender pay equality

We are committed to 'equal pay for equal work' as mandated by UK legislation under the Equality Act 2010 which legally entitles men and women to be paid at the same rate for like work, work rated as equivalent, and work of equal value.

Ethnicity pay gap

We do not currently analyse pay data by ethnicity. However, this is something we will consider as we continue to build a more accurate profile of our colleague diversity; see page 52.

Mental health and wellbeing

- Mental health first aiders trained to listen and recommend specialist help.
- Health and wellbeing hub on colleague intranet, which summarises all available help.
- Infoline with Mind, our Group charity partner specialising in mental health.
- With Retail Trust, children's mental health counselling support for parents and guardians.
- Virtual GP service launched with Retail Trust with 24/7 access to virtual consultations and private prescription service.
- New pregnancy loss policy which includes colleague support at work and paid time off.

> 60

'wellbeing buddies'

DOMESTIC ABUSE SUPPORT

In July 2021, we launched our initiative with Retail Trust to combat domestic abuse. Since then we have published a formal policy, developed a guide for line managers and trained over 450 colleagues in domestic abuse awareness. Our policy assures that paid leave, flexible working schedules and a support fund, in the event of having to relocate, will be made available to any affected colleague.

POLICY corporate.dunelm.com

> 450

colleagues trained

"This is a brilliant policy. Unfortunately, I have been in this position myself. Seemingly small things like this make a big difference when going through pregnancy loss. Good work Dunelm."

Helping to improve colleague mental, physical and financial health and wellbeing

> 90

colleagues benefitted from our Colleague Support Fund in FY22

Financial wellness

Improving the financial wellness of colleagues is high priority given the ongoing pressure from the rising cost of living.

Checking in with our colleagues
All of our hourly-paid colleagues have had a one-on-one meeting with their manager so that any financial concerns they have can be understood, and they can be directed to sources of support if needed.

Discounts
We partner with a third party to provide access to discounts with other retailers (including food retailers) to help our colleagues save money.

Colleague Support Fund
Initially introduced during the pandemic, we have retained this fund, and widened access to it, to support colleagues with unexpected life events and hardship. Over 90 colleagues benefitted from the fund in FY22.

Salary Finance
A third-party service providing an interest-free salary advance to colleagues.

Employee Assistance Programme
Run by Retail Trust, this programme offers services, including a free 'virtual GP' service, legal advice, counselling and financial grants.

Financial education and tips
Through Retail Trust we also provide colleagues with tools to help them budget, remortgage, manage debt and give tips on where best to shop.

HOME OF TALENT

In September 2020, we launched a new process, with the oversight of the Group Board and Nominations Committee, and the Talent Committee comprising members of the Executive Board to improve our talent management. Alongside this, in FY22 our People team undertook a Group-wide project to 'bring our shared values to life', to introduce and embed a new behavioural framework and to develop our leaders.

PROMOTING FROM WITHIN

We aim to fill all management roles from within where possible. At the end of FY22, 75% of positions in the Dunelm Leadership Team and Heads of Department and over 90% of store leadership vacancies had been filled internally. In recent years, we have brought in external expertise in new and specialised areas, such as analytics, data/digital engineering and sustainability.

We use our Enterprise Leadership Development and Senior Manager Development Programmes to accelerate talent and succession plans further down the business to support our high-growth ambitions. Our new 'Know-Grow-Flow' campaign seeks to untap hidden or unknown talent in the business and promote internal moves.

To achieve this, we have set up new 'career conversations' which focus solely on the motivations, aspirations and capabilities of individual colleagues. These are decoupled from 'progress conversations' which are held more frequently and focus on business and personal objectives. By the end of FY23 we aim for everybody in the business to have had a 'career conversation' which will improve our internal knowledge.

RETAINING OUR COLLEAGUES

In FY22, our overall unplanned labour turnover increased. This was against a backdrop of well documented instability in the labour market, for example, shortages of HGV drivers, the increasing competition for talent in general, increasing pressures on financial, health and mental wellness from the cost of living increase and the impact of Brexit. We aim to improve colleague retention by focusing on colleague engagement and wellness, our hybrid working proposition for support colleagues and by strengthening our talent pipeline.

Talent management: Know-Grow-Flow

Our behavioural framework project goes hand in hand with our focus on talent management – Know-Grow-Flow.

For our colleagues, we aim to build self-awareness, give them opportunities to learn and open their eyes to new roles in the business. For Dunelm, we gain a better understanding of where talent is, or could be moved to, within the business to support our long-term growth aspirations.

KNOW is

how well we know our colleagues' aspirations and where talent and skills are in our business, helping us fulfil our succession and capability needs. It is also how we help our colleagues build their self-awareness.

GROW is

how we support our colleagues to grow professionally and personally:

- Learning by doing
- Learning through relationships
- Formal learning

FLOW is

how readily we are able to move talent and share skills across our business. Planning the flow of talent across the organisation and opening our doors to new talent, so that we have the diversity and capability we need for sustainable success.

Community continued

COLLEAGUE TRAINING

We know from our surveys that colleagues are more engaged when they feel personally connected to the Dunelm business, and with access to learning and development opportunities. We continue to undertake a mixture of training:

- Skills training to provide personal development opportunities that meet our long-term business needs.
- Compliance training to improve our colleagues' understanding of responsibilities and expected behaviours.

During the year we successfully launched our colleague engagement platform 'Thrive'. Its main purpose is a self-led training ground to encourage a culture of learning. Our dedicated learning and development team is responsible for creating content and campaigns and we have experienced a high level of interaction through 'likes' and 'shares', which encourages increased uptake of training. Since August 2021, we have recorded over 10,000 'active' colleagues out of a total of just over 11,000 registered on the Thrive platform, and have had over 950k views and received over 10,300 comments. The most popular programme on Thrive in FY22 was our Know-Grow-Flow learning campaign, which engaged nearly 6,900 colleagues.

MONITORING SUCCESS

We do not specifically measure our return on investment in training. Instead, we track three metrics internally as an indication of success: colleague engagement, colleague retention and the percentage of home-grown talent (percentage of internal promotions).

'EARLY CAREERS' PROGRAMMES

Our 'early careers' programmes (including graduates, internships, apprenticeships and placements) focus on developing capabilities and career opportunities important to our long-term business growth.

Graduates

Our graduate programme has been running since 2016. In FY22, we had 16 graduates in seven different schemes, including commercial, technology and finance, and a new scheme in data and analytics. Historically our separate 'fast track' retail management scheme targeted internal colleagues. In FY22, we successfully opened this up to external candidates and we aim to merge our retail and non-retail schemes to create a more cohesive cohort.

We have been working with an external Equity, Diversity and Inclusion consultancy to make our recruitment process as inclusive as possible, From January 2022, we have been trialling a 'no-CV' interview process with our Early Careers team that allows hiring managers to focus more on behavioural and culturally-based questions aligned to our shared values. We have applied 'lessons learned' from the trial and are rolling out the new recruitment process to two other departments.

For our FY23 intake, we recruited our most diverse group of graduates to date and our highest number – 24. We also launched a new sustainability graduate scheme and drew a record number of applicants. Our graduates benefit from a structured programme with tailored activities and formal rotations. They are given opportunities to engage with our Executive Board and Group Board, and the whole programme is sponsored by our Commercial Director.

Code First Girls

In FY22, we partnered with Code First Girls, whose mission is to reduce the gender diversity gap in tech globally. Following the successful completion of a 13-week training course provided by Code First Girls, in June 2022 we welcomed 10 females into our data engineering department. This initiative is helping to break misconceptions and increases the supply of more balanced talent with an increasingly important and in-demand skillset.

Apprentices

We continue to run an apprenticeship scheme and supported 117 colleagues in FY22. This scheme is funded by the UK Government and, in FY22, we used around £300k of our ringfenced levy to fund our scheme. We have identified an opportunity to better promote the strategic value of our apprenticeship programmes across our business by encouraging our business leaders to engage more in apprenticeship recruitment and training programmes.

Interns and placements

Internship opportunities at Dunelm have been restructured into a formal, paid, three-month summer placement programme, open to undergraduates and graduates. We currently have five interns and aim to draw more talent into the business, building on our first full-time appointment made through this relatively new programme. We currently have eight people on placement.

INITIATIVES		No. of colleagues
Graduate programmes (new intake)	Retail programme	11
	Support programmes (non-retail) including new programmes in Sustainability, Performance Marketing and Buying & Merchandising	13
Talent pipeline (Targeted entry level role recruitment)	Matching graduate applicants not appointed onto scheme with entry level role opportunities, e.g. Sustainability, Performance Marketing, Business Finance	9
Placements	Including new placements in Software Engineering, Finance and Insight & Analytics	8
Internships	Finance, Design, and Quality and Sourcing teams	5
Social enterprise Programmes	Code First Girls – recruiting more women into Tech by providing coding courses to women and non-binary people	10

Health and safety

We want to ensure the safety and wellbeing of our customers, colleagues and visitors. This is a Group-wide focus, championed by our Board, and backed by stringent policies and procedures.

POLICIES AND PROCEDURES

Our Group Board is responsible for the creation and implementation of our health and safety (H&S) procedures and policy, which are available on our corporate website. H&S is a standard agenda item at every Board and monthly Executive Board meeting, supported by a monthly H&S audit report and a formal annual presentation from the Group's Head of Health and Safety, Risk and Insurance. We also hold meetings for retail safety (quarterly), logistics safety (twice a year) and Pausa safety (six times a year), attended by the Company Secretary.

MONITORING AND TRAINING

Our approach to H&S is supportive rather than punitive; we do not, for example, make unannounced H&S spot checks. Instead, we train and help colleagues across our business to engage with our H&S processes and team to improve overall performance. We use a mix of regular self-audits, additional regional store audits and full annual H&S audits, including for stores, warehouses/logistics centres, our Home Delivery Network (HDN) sites, manufacturing centres and offices. We use a tablet-based solution, i-Auditor, for store self-audits to increase efficiency, enabling our H&S team to track data and trends remotely and to prioritise work and guidance for individual stores and sites.

In FY22, we made a significant investment in pallet racking to mitigate identified risks in our warehouses, and all HDN vehicles are now fitted with rear-door sensors that activate an alarm if doors are not closed properly. All HDN vehicles and made-to-measure fitter vans also now carry dashcams and we monitor driving incidents and driver behaviour, using insights to inform training and improvement actions.

All new joiners undertake an H&S awareness training course on induction, and colleagues can access H&S training updates via our online learning and development platform. Additional training is flexed by business function and risk assessments. For example, in FY22, we delivered a bespoke half-day training course to store coaches and key holders, reviewed and repeated our age-restricted sales training in response to a change in legislation, and focused on manual handling and drug and alcohol advice for our warehouse colleagues. We received a bursary of over £10k from our insurers and used this to support in-house training, including Institution of Occupational Safety and Health courses for senior management and National Examination Board in Occupation Safety and Health and fire safety qualifications for other colleagues.

PERSONAL SECURITY

An ongoing priority is to support the personal security of our store colleagues to address the regrettable increase in aggressive verbal, and sometimes violent, public behaviour. We have installed a radio assistance system for colleagues and issued body-worn cameras. In FY22, we provided additional cameras for high-risk stores.

SUPPLIER H&S

H&S management responsibilities and requirements in our supply chain are set out in our Ethical Code of Conduct for suppliers and partners (available on our corporate website). Compliance with this policy is monitored through our ethical auditing programme and ongoing due diligence (see page 46).

MENTAL HEALTH AND WELLBEING

We continue to place high importance on the mental and financial wellbeing of our colleagues (see on page 56).

FOOD SAFETY AND LABELLING

In our Pausa cafe and restaurants, our policy is to provide safe food and drink in a hygienic environment. Our Food Safety Manual sets out our food safety and hygiene requirements, and our brand standards policy sets out provenance and quality standards.

In recent years, we have improved on-pack allergen and nutritional information for our customers and to meet the legislation which came into force in 2021. Customers can access this information through web-based software displayed on in-store Pausa tablets and on our commercial website.

Food safety involves safe practice from start to finish in the food chain. We have a cross-functional food safety group run by the Head of Pausa and attended by members of operations, legal, H&S teams, and an expert third-party food technologist. This group oversees safety, compliance and the implementation of new legislation. In FY22, there were no reportable food safety incidents or public recalls.

ONLINE SAFETY AND SECURITY

We continue to increase colleague awareness of data security and privacy. Colleagues are trained on induction and have annual refreshers. More detailed training is given to the Dunelm Leadership Team and relevant functional teams. Cyber and data security is a standing Audit and Risk Committee agenda item (see page 122). In the event of any significant data breach, we would comply with our obligations to notify impacted individuals in a timely manner. In FY22, we had no breaches which we were required to notify to the UK Information Commissioner's Office or to any individual.

The security of payments made by customers online is a priority and we have implemented a third-party anti-fraud solution, 3D secure. We do not hold customer credit card data. Our privacy policy (available on dunelm.com) explains to customers why and how we use their data, how we protect it and their rights, including how to opt out of receiving marketing communication. We have a similar policy for our colleagues. Third parties engaged to handle customer data are assessed for good practices and care of customer data. More information on how we manage risks relating to IT systems, data and cyber security is on page 78.

Community continued

STEWARDSHIP

Our Head of Health and Safety, Risk and Insurance is a member of the Health & Safety Forum – a group of over 40 UK retailers, whose aim is to reduce the risk of harm to colleagues and customers in the retail environment. He also sits on the British Retail Consortium's advisory group to help shape government policy in reducing verbal and physical abuse towards retail workers.

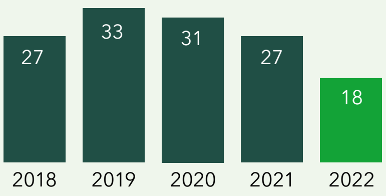
FY22 performance

- In FY22, our reportable accidents under RIDDOR[1] reduced to 18 (FY21: 27).

FY23 focus

- Safety across fleets and HDN operations, including observing and improving on-road driver behaviour.
- Implementing improved safety standards at our new Sunflex business.
- Ongoing focus on colleague safety in stores and online, including personal safety.

Number of reportable accidents under RIDDOR[1]



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

Doing the right thing

Consistent with our shared values and governance approach, we commit to acting legally, fairly and honestly in our business dealings and relationships.

COLLEAGUE CODE OF CONDUCT

We require our Board and all colleagues to comply with our Colleague Code of Conduct, based on internationally recognised labour codes. Its principles are embedded in our colleague terms and conditions, policies and practices. Our policies complement minimum legal requirements to which we are subject (e.g. written contracts of employment, minimum pay rates, child labour, equal pay, working hours, health and safety, minimum paid holiday and parental leave, anti-discrimination and harassment, fair disciplinary procedures, unfair dismissal and redundancy). Except for one store in Jersey, all our operations are in the UK. Our full Colleague Code of Conduct covers other human rights and labour standards and is on our corporate website.

WHISTLEBLOWING PROGRAMME

We encourage our colleagues to raise concerns so these can be addressed and every colleague should feel able to speak to their line manager in the first instance. We operate a policy of non-retaliation and colleagues will not be penalised, prejudiced nor incur reprisals for raising concerns in good faith. If a colleague or worker wishes to report issues anonymously, a reporting line is available online or by telephone 24/7. This service is provided by an independent third party and no contact details are mandated. After investigating the 44 reports received during the year, no unlawful activity was established.

ANTI-CORRUPTION, ANTI-BRIBERY AND TAX EVASION

We have a zero-tolerance approach to bribery, corruption, fraud and tax evasion. Our policies apply across all our operations and require our suppliers to commit to apply the same or equivalent policies. Business risks associated with non-compliance, together our detailed procedures to comply with the Bribery Act 2011, are set out in our anti-corruption and anti-bribery policy, available on our corporate website. Review of controls is a standing Audit and Risk Committee agenda item and we measure the level of internal training every year.

In FY22, 82.3% (FY21: 77%) of eligible colleagues (c.1,000 people) completed initial or refresher training. Online training is mandatory for colleagues in our support and manufacturing sites and customer contact centres. Additionally, new starters in the Dunelm Leadership Team, commercial and procurement teams and selected individuals in the finance team and other departments who award contracts receive personal training.

TAX STRATEGY

We are committed to comply with all statutory obligations and disclosures to tax authorities. We neither operate in 'tax havens' nor use tax avoidance schemes. In FY22, our total tax contributions were £246.0m (FY21: £157.8m). Further information is in our Group Tax Strategy on our corporate website and in the CFO's review on page 30.

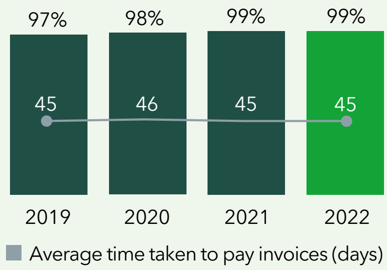
SUPPLIER PAYMENTS

We aim to deal with our suppliers in an open and honest way. We require all suppliers to sign our standard terms and conditions before commencing trade, or otherwise enter into a bespoke agreement. Our twice-yearly payment information is summarised below. The average time taken to pay suppliers in FY22 was 45 days (FY21: 45 days), and we consistently paid 99% of our invoices within agreed terms (FY21: 99%).

Supplier payment statistics

Invoices paid within agreed terms

%



In this section we make our disclosures under the Recommendations and Recommended Disclosures of the Task Force on Climate-related Financial Disclosures (TCFD), building on the voluntary progress report shared in last year's Annual Report.

COMPLIANCE STATEMENT

In accordance with Listing Rule 9.8.6 R, we present our FY22 TCFD consistency index and confirm that we have, in this report, made climate-related financial disclosures for the year ending 2 July 2022 which are consistent with the TCFD Recommendations and Recommended Disclosures, apart from the disclosure under the Metrics and targets recommendation (b).

The reason for this inconsistency is that some of the Scope 3 data disclosed is derived from a screening exercise conducted by Carbon Trust in 2019 and has not been updated. While this exercise followed the GHG protocol guidance, it is three years old. We intend to review our Scope 3 model and update our data this year, so that we anticipate being able to disclose in a manner consistent with the relevant TCFD recommendations in FY23.

In assessing compliance with Listing Rule 9.8.6 R, we took into consideration the documents referred to in the guidance notes to this Listing Rule, as well as considering, on a voluntary basis, the updated guidance on Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures published in October 2021.

In the table opposite, we include cross-references to disclosures made elsewhere within this report and on our corporate website where the information was too lengthy to include in the report. The Board considers that our climate-related reporting is fair, balanced, and understandable.

TCFD CONSISTENCY INDEX

TCFD elements	TCFD recommended disclosures	Cross-reference (page numbers)
Governance	(a) Board oversight	62
	(b) Management's role	62
Strategy	(a) Climate-related risks and opportunities	65
	(b) Impact on the organisation's business, strategy and financial planning	36-40, 64, 66 and 94-106
	(c) Resilience of the organisation's strategy	64, 66
Risk management	(a) Risk identification and assessment processes	64
	(b) Risk management process	66
	(c) Integration into overall risk management	66, 68-70 and 76
Metrics and targets	(a) Climate-related metrics in line with strategy and risk management process	37, 67 and our methodology on the corporate website https://corporate.dunelm.com/about-us/policies-and-statements/
	(b) Scope 1, 2 and 3 GHG metrics and related risks	37, 67 and our methodology on the corporate website https://corporate.dunelm.com/about-us/policies-and-statements/
	(c) Climate-related targets and performance against targets	67

Summary overview of progress in FY22

- Climate change and sustainability topics discussed regularly by the Board, including at its Strategy Day in May 2022.
- First full year of operation of our Pathway to Zero – Strategy and Governance.
- Refined our assessment of climate-related risks and opportunities to include a methodology for assessing and quantifying potential financial impacts against three climate scenarios.
- Two in-depth reviews of climate change risk by the Risk and Resilience Committee.
- Developed a detailed ten-year roadmap for our Scope 1 emissions reductions, including a logistics decarbonisation strategy.
- Gained a better understanding of the emissions generated by our textiles supply chain (c.50% of products) and the key drivers of emissions reduction.
- Increased expert resource dedicated to delivering emissions reduction and other environmental benefits.

Agreed areas of focus in FY23

- Continue to refine our high-level risks and opportunities assessment to include more robust data, particularly on Scope 3 emissions, and use it to develop our Pathway to Zero strategy.
- Build out our detailed Scope 3 emissions reduction roadmap.
- Measure the impact of our risk mitigating actions to test our assumptions about the resilience of our business model.
- Continue to integrate climate change considerations into our 'business as usual' activities.
- Consider the feasibility of adopting an internal carbon price or budget.
- Increase stakeholder engagement, improve internal and external communications.
- Continue to invest in resource and expertise to support our Pathway to Zero strategy.
- Continue to engage more with our peers and stakeholders to improve our understanding, share ideas and progress, and advocate for change.

Governance

BOARD OVERSIGHT OF CLIMATE-RELATED RISKS AND OPPORTUNITIES

The Board takes responsibility for our Pathway to Zero climate change strategy. It considers our approach, strategy, risk management and performance in the following ways:

There are at least two Board presentations per annum on Pathway to Zero, as well as regular Board agenda items on related topics – see the table on page 106. In the past three years, climate change and wider sustainability topics have featured at the annual strategy sessions. The Board also reviews our climate-related risks and opportunities through our risk management framework (see page 69) TCFD governance (see page 63) and as described below on page 66.

An assessment of the environmental impact of major strategic investments (alongside other stakeholder considerations) forms part of the Board and management approval process – see the case study on page 104 as an example.

In addition, the Board receives a monthly update from the Company Secretary and, from FY23, will receive quarterly updates on progress against our climate-related KPIs. Our Board and the Audit and Risk Committee formally review our principal risks, one of which is climate change and environment risk – this is mandated to take place twice a year. In FY22, the Audit and Risk Committee also received a presentation describing the outcome of the quantified risk assessment conducted by management with support from external TCFD consultants, together with a proposed approach to TCFD disclosure.

Through these presentations, a number of which have been given by external experts, we have educated the Board on the implications of climate change for society and our business, and on the regulatory and societal demands on us. They have also guided us in setting our wider sustainability strategy and our long-term carbon emissions reduction targets, and in monitoring progress. In FY23, we will be refining the initial financial quantification of our risks and opportunities and our Scope 3 emissions tracking, and reviewing our Scope 3 roadmap and supporting activities, to improve how we monitor progress against strategy and targets.

MANAGEMENT'S ROLE

The CEO, Nick Wilkinson, heads up the climate-related activities of the Group, and chairs the Pathway to Zero Steering Group, which meets six times a year. Its members include the three Executive Board members who are responsible for delivering the three pillars of our strategy (see page 33), the Company Secretary and the Head of Climate Change. This steering group oversees development and execution of our strategy, with steering groups and other cross functional meetings in place with respect to each of the three pillars. The Executive Board is updated each month on climate-related activities and from FY23 will receive quarterly updates on our climate-related KPIs, but as our climate-related activities become embedded throughout the business in practice all Executive Board members will be required to execute a part of our strategy. The Executive Board also participates in the Group Board Strategy presentations (see below under Strategy).

The principal risks, one of which is climate change and environment risk, are reviewed by the Executive Board prior to the Group Board review, and by the Risk and Resilience Committee. There were two in-depth reviews of climate-related topics by the Risk and Resilience Committee in the year.

Climate change considerations are increasingly integrated into day-to-day business activities: energy efficiency/carbon impact is already included in all new store and store refit proposals; our product design is focused on increasing the use of less carbon intensive materials such as recycled cotton and polyester and reducing packaging/using more sustainable packaging; our mandatory product supplier questionnaire includes climate-related matters (see Circular economy section from page 42, including Responsible sourcing (environmental) on page 43 and Plastics and packaging on page 45). We are also planning to introduce low-carbon fuels into our HGV fleet.

We have increased the number of dedicated climate-related roles in the business, including a Head of Climate Change and two environmental sourcing specialists, as well as including climate change-related accountabilities as part of the roles of numerous other colleagues. Senior management and internal experts participate in climate-related educational events conducted by professional services firms and provided by the British Retail Consortium and the Aldersgate Group, as well as sharing experience with peers in these groups and as part of our participation in Textiles 2030. Internal experts have also provided training to the wider commercial teams and to our suppliers.

MOVING FORWARD

Our governance arrangements have developed significantly over the past year and are working effectively, and we will continue to develop and evolve these as we build our knowledge and approach. As climate-related considerations become more central to our business, we expect them to become 'business as usual' in our strategy and financial planning.

TCFD Governance

OUR BOARD

Responsible for Pathway to Zero climate change strategy. Regularly considers approach, strategy, risk management and performance. Receives monthly update from Company Secretary.

BOARD COMMITTEES

REMUNERATION COMMITTEE

Reviews and approves Executive Director and Executive Board remuneration, including climate-related targets in performance pay.

AUDIT AND RISK COMMITTEE

Formally reviews principal risks (including climate change and environment risk) twice a year, TCFD and climate reporting; and process to verify climate-related KPIs.

NOMINATIONS COMMITTEE

Sets specifications for new Board roles and has oversight of Talent Committee to ensure necessary talent and skills are available to deliver the strategy.

OPERATIONAL COMMITTEES

CHIEF EXECUTIVE OFFICER (CEO)

Heads up climate-related activities of the Group and chairs Pathway to Zero Steering Group which meets six times a year.

Executive Board

Five members (including CEO, CFO and Company Secretary) on the Pathway to Zero Steering Group. Three of these members have specific accountability for delivering one of the three climate change pillars. Company Secretary updates monthly.

Risk and Resilience Committee

Oversight and review of risks, including climate change and environment risk. Chaired by CFO.

Pathway to Zero Steering Group

Chaired by CEO and three other members of Executive Board, Company Secretary and Head of Climate Change.

Talent Committee

Ensures that we have the correct capability in place; increased the number of climate change specialists in year.

Strategy

Our purpose – **To help create the joy of truly feeling at home, now and for generations to come** – is deliberately forward-looking, and designed to encapsulate our objective to make a positive impact on our communities and the environment both now and in the future. Sustainability is one of our six strategic focus areas, and at our Strategy Day in May 2022 we decided to incorporate 'good & circular' into our target customer proposition, alongside 'choice & value', 'friendly & expert' and 'easy & convenient'.

Dunelm engaged external TCFD consultants to support the identification of potential physical and transition risks and opportunities and to determine their financial materiality.

The time horizons we used for the purposes of our assessment were as follows:

- Short term: from 2022 to 2030.
- Medium term: from 2030 to 2040.
- Long term: from 2040 to 2050.

We chose these because the short term includes the period covered by our current greenhouse gas emissions targets and our current five-year plan; while the medium-term and long-term horizons provide a longer-term planning perspective relevant for our current commitments. Beyond 2050 there are significant uncertainties, both physical and transition. These three scenarios were considered to capture the range of uncertainties, including scenarios in which physical and transition risks dominate, to ensure our plan is sufficiently resilient.

Collectively, we reviewed our existing list of risks and opportunities and identified additional risks and opportunities based on a systematic review, peer comparison and sector review exercise. Each risk and opportunity was then scored on the basis of its potential impact, likelihood and velocity to determine its relative materiality, integrating stakeholder insights and secondary data. The top ranked risks and opportunities were then subject to detailed scenario analysis and financial impact quantification.

WE ASSESSED OUR MAJOR CLIMATE-RELATED RISKS AND OPPORTUNITIES AGAINST THREE CLIMATE SCENARIOS:

Net Zero 2050

Limits warming to 1.5°C by 2100, stringent and immediately introduced climate policies and emissions reductions achieve net zero emissions by 2050, broadly aligned to RCP1.9 and RCP2.6.

Delayed transition

Action taken to limit emissions growth, but Paris targets missed resulting in greater than 2°C warming by 2050, aligned to RCP4.5.

Business as Usual

World takes no/limited action, equivalent to a 3.5-4.5°C warming, aligned to RCP8.5.

These risks and opportunities were then quantified, using a number of internal and external data sources, including the IEA World Energy Model Net Zero Strategy 2050, the IEA World Energy Model Sustainable Development Scenario, and various NGFS models, and applying a number of assumptions. The quantification focused on inherent risks and did not take into account any mitigating actions that we are already taking.

The risk assessment found that, generally, the overall risk and potential financial impact of climate change on Dunelm increases with time. The short term is characterised by transition risks, particularly under a 'Net Zero 2050' scenario, with physical risks dominating beyond the 2040s. Based on this assessment, we believe that there is no immediate material financial risk or threat to our business model. Further, the areas of highest potential impact are those which we are already taking action to address through our Pathway to Zero strategy.

THE RESILIENCE OF OUR STRATEGY

We believe that our Pathway to Zero strategy will provide resilience to our significant climate change risks.

Under the 'Net Zero 2050' scenario (equivalent to 1.5°C warming), by 2030 we will have reduced our carbon emissions by 50% in absolute terms against a FY19 baseline and will be able to offer our customers a range of more sustainable products and services as we progress our circular sourcing model. This means that we will be prepared for increased legislation and taxation, as well as reducing the risk/benefiting from the opportunity to gain market share and meet the expectations of our stakeholders.

Under a 'Business as Usual' scenario (equivalent to 3.5-4.5°C warming), the most significant risk is from the increased cost or lack of availability of raw materials, particularly cotton and timber. We are working with our suppliers and peers to understand the risks and dependencies and to explore mitigation and adaptation measures. As we move away from the use of virgin raw materials and towards recycled materials and a more circular business model our dependency on virgin raw materials will reduce.

Key

✓ Net Zero 2050 ◷ Delayed transition ⚠ Business as Usual

A summary of the material risks identified in our risk assessment is set out below, together with a summary of our strategic response. Further details of our targets and activities are set out under Carbon reduction in our sustainability section on pages 36 to 41.

MATERIAL RISK

	TCFD category	Description of financial impact	Time period of maximum impact	Scenario of maximum impact	Strategic response
Impact of carbon taxes on Dunelm or suppliers	Transition risk (Policy & Legal)	Lower profits due to taxation on Dunelm, or taxation on suppliers passed on in product cost	Short/medium	✓	Focus on reducing our carbon emissions and working with our suppliers to reduce their carbon emissions will reduce the impact of potential carbon taxes.
Extension of producer responsibility: increased cost of existing regime and/or extending to additional product categories such as textiles	Transition risk (Policy & Legal)	Lower profits due to increased taxation	Short/medium	✓	We are taking action to reduce packaging, increase its recycled content and improve recyclability. We are sourcing lower impact materials, offering a textiles take-back scheme, and moving towards a more circular sourcing model. These actions should mitigate the impact of any additional taxes.
Physical risks impact the availability of raw materials such as cotton and timber, or impact manufacturing sites and logistics in countries from which we source our products	Physical risk (Acute and Chronic)	Increased costs/lower profits due to supply shortages and freight disruption	Medium/long	⚠	Our work with our suppliers and as part of the Textiles 2030 group of retailers will support action to mitigate these risks, as well as our move to a more circular sourcing model. We will also continue to develop diverse sourcing routes and work with suppliers to build resilience.
Changes to fuel prices caused by climate-related market disruption or increased taxation, and increased cost of transitioning to non-fossil fuel-based fleet	Transition risk (Market)	Increased costs/lower profits	Medium/long	✓ in medium term ⚠ long term	We are moving towards a lower-carbon fuel company car fleet by 2025 and have a logistics decarbonisation plan to move our HGVs progressively towards low-carbon fuel from 2023, subject to development of available technology and infrastructure.
Reputational damage due to failure to act on sustainability trends	Transition risk (Reputation)	Lower sales/harder to attract employees/higher cost of capital	Medium/long	✓	We have ambitious climate change reduction targets and are moving towards the use of low-impact materials in our products and a more circular sourcing model. See also our response to the material opportunity below.

MATERIAL OPPORTUNITY

	TCFD category	Description of financial impact	Time period of maximum impact	Scenario of maximum impact	Strategic response
Increase market share and lower cost of capital by demonstrating leadership in addressing climate change and sustainability	Opportunity (Market)	Higher sales and lower cost of capital	Medium/long	✓	We are increasing our communications to customers, as well as continuing to develop the communication of our strategy and achievements to all our stakeholders.

We have considered the potential for the financial statements to be impacted by climate change, with a particular focus on medium- and long-term non-current assets. Of the assets on our balance sheet which might be considered to be at risk from climate change, the majority of our plant, property and equipment are warehouses, retail stores, plant and machinery and shop fittings in the UK. These assets have a useful remaining life of less than seven years other than the freehold on our Head Office and a small number of freehold stores. These assets are not considered to be at risk of any material physical impacts or transition risks arising from climate change. There has been no material impact on the financial reporting judgements and estimates applied in the preparation of the FY22 Annual Report and Accounts. Please see further information in our accounting policies, from page 180.

MOVING FORWARD

We will:

- Continue to refine our high-level risk and opportunities assessment to include more robust data, and also measure the impact of our mitigating actions so as to test our assumptions about the resilience of our business model.
- Increase stakeholder engagement, improve internal and external communications.
- Invest in resource and expertise to support this activity.
- Continue to engage more with our suppliers and peers to improve our understanding, share ideas and progress, innovate and advocate for change.
- Progress our work on adapting the design of our products to increase longevity and use resources and packaging from more sustainable sources, and to explore and offer end of life options.

Risk management

MANAGING OUR CLIMATE-RELATED RISKS

In FY21, we completed a detailed climate change risk register with the support of Carbon Trust. We refined this with external TCFD consultants in FY22, and quantified the most significant risks by likelihood and potential impact at a high level as described above. This work included an assessment of current and anticipated legislation and regulatory requirements, governmental commitments and trends in consumer preferences. In June 2022, this assessment was reviewed by the Pathway to Zero Steering Group and by the Audit and Risk Committee.

The study confirmed that directionally we have correctly understood the most significant potential risks and that our strategy is addressing the correct mitigating actions. Our Head of Climate Change will maintain this register going forward, adapting it as the risks and our mitigations evolve and our data becomes more accurate. Our Pathway to Zero Steering Group will use the register to inform our strategy, which is then fed into the overall strategy and financial planning process. Our CEO, Head of Climate Change and other leaders throughout the Group will continue to work with expert external advisers, the British Retail Consortium, WRAP, the Aldersgate Group and others to keep up to date with regulatory and best practice developments.

Climate change and environment risk is classified as a principal risk in our risk register, and the detailed climate change risk register and quantification feeds into this. A member of the Executive Board takes responsibility for each of the principal risks, which includes ensuring that the register is kept up to date in respect of regulatory requirements and changes in risk profile (including by reference to industry briefings and participation in peer organisations such as the Aldersgate Group), and for developing and implementing risk mitigations.

The principal risks are discussed with our Executive Board, Risk and Resilience Committee, Audit and Risk Committee and Board as part of the twice-yearly formal review. This includes an assessment of the relevant likelihood and impact of all of our risks. The Risk and Resilience Committee also conducts at least one in-depth review of climate change topics each year. The principal risks are also considered by management in connection with the assessment of the viability of the business over the longer term that is made in connection with the Viability Statement in this report. More information about our climate change and environment risk can be found in the Principal Risks and Uncertainties section on page 76. An overview of our risk management responsibilities is set out on page 69 and explains in more detail how responsibility for risk management is allocated and how that responsibility is discharged by our Board, Audit and Risk Committee, Executive Board and Risk and Resilience Committee.

MOVING FORWARD

We will:

- Continue to evolve our assessment and quantification of our material climate-related risks and opportunities and adapt our Pathway to Zero strategy as required.
- Continue to conduct at least one climate-related in-depth review each year and ensure climate change is discussed in all other deep dive risk reviews where relevant, through the Risk and Resilience Committee.

Metrics and targets

MEASURING OUR CLIMATE-RELATED RISKS AND OPPORTUNITIES

We have chosen the metrics below because they directly address our material climate risks and opportunities, and because they are where we can make the biggest potential impact on climate change. In setting our metrics and targets, we have ensured that they are in line with the Paris Agreement and aligned to a 1.5°C pathway, and the UK's commitment in the Climate Change Act 2008 (2050 Target Amendment) Order 2019 and other relevant legislation; as well as the British Retail Consortium's Climate Action Roadmap which we support. The carbon and cotton metrics are aligned to the Textiles 2030 voluntary agreement, which we are party to. These topics are also important to our colleagues, customers and society.

MOVING FORWARD

We will:

- Continue to improve our data quality and accuracy, particularly our Scope 3 emissions, working with our suppliers.
- Build out our detailed Scope 3 roadmap to meet our targets, gaining a better understanding of the key drivers of carbon reduction through our supply chain.

Strategic target	Deadline	Progress at June 2022	Measures	Link to material climate risk
Reduce Scope 1 absolute carbon emissions by 50% [3,4]	2030	13.4% increase (2021: 23.9% increase)	Reduce absolute Scope 1 carbon emissions by 50% against a FY19 baseline	• Carbon tax • Fuel price • Reputation
Purchase 100% renewable electricity [4]	2030	99.7% (2021: not disclosed)	Purchase 100% renewable electricity every year	• Carbon tax • Reputation
Reduce tCO_2e/£1m Group revenue (Scope 1) in line with absolute target [1,2]	2030	19.6% reduction (2021: not disclosed)	Reduce Scope 1 and 2 carbon emissions per £1m of Group sales against a FY19 baseline	• Carbon tax • Fuel price • Reputation
Reduce Scope 3 absolute carbon emissions by 50% [3,4]	2030	In progress (2021: not disclosed)	Reduce absolute Scope 3 carbon emissions by 50% against a FY19 baseline	• Carbon tax • Physical risk • Producer responsibility • Reputation
100% of own brand cotton more responsibly sourced [1,2,3]	2025	30.0% (2021: not disclosed)	Percentage of own brand cotton products which meet our 'more responsibly sourced' standard, covering carbon emissions and ethical standard	• Carbon tax • Physical risk • Producer responsibility • Reputation
30% less virgin plastic packaging of own brand products [1,2]	2025	-22.7% (2021: not disclosed)	Reduction in plastic packing (by weight per £ sales) of packaging on our own brand products against FY20 baseline	• Carbon tax • Producer responsibility • Reputation
Easy to use take-back service in place for 50% of our own brand products [1,2]	2025	61.3% (2021: not disclosed)	Percentage of our own brand products for which we offer an easy-to-use take-back service	• Carbon tax • Producer responsibility • Reputation
80% of operational waste to be recycled	2023	79.8% (2021: 80%)	Percentage of operational waste that is recycled	• Carbon tax • Reputation

Key:

1. Link to target in our management Long-Term Incentive Plan.
2. Target in our sustainability-linked Revolving Credit Facility.
3. Textiles 2030 target.
4. Dunelm Pathway to Zero target; see page 34.

Note:
Details of our Scope 1, 2 and 3 emissions are on page 37, and the methodology for our Scope 1, 2 and 3 emissions calculations can be found on our corporate website at https://corporate.dunelm.com/about-us/policies-and-statements/

INDEPENDENT ASSURANCE

We engaged Ernst & Young LLP to provide limited assurance for FY22 over the key performance metrics which are linked to our Revolving Credit Facility. These are marked with the number 2 in the table above. The full assurance statement and the Basis of Reporting documents that were applied in preparing these metrics can be found online on our corporate website: corporate.dunelm.com.

Risk management

Risk management underpinned by culture and shared values.

OUR APPROACH

The Board as a whole takes responsibility for the management of risk throughout the business. There is a formal process for identifying, assessing, and reviewing risk, as described opposite on page 69. In addition, our Audit and Risk Committee oversees the risk management process as part of its activities.

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 purpose, culture, and shared values.

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 risks.
- 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.
- The principal risks are reviewed at least twice a year by the Board.
- The systems accord with the guidance to audit committees issued by the Financial Reporting Council dated April 2016.

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 apprised of these developments.
- The Audit and Risk Committee and the Board review the draft consolidated financial statements. The Audit and Risk Committee receives reports from management and the external auditor on significant judgements, changes in accounting policies, changes in accounting estimates and other pertinent matters relating to the consolidated financial statements 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.

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	
Collective responsibility for internal control	Control framework setting out responsibilities
Formal list of matters reserved for decision by the Board	Approval of key policies and procedures
	Monitors performance

EXECUTIVE BOARD	
Responsible for operating within the control framework	Recommends changes to controls/ policies where needed
Reviews and monitors compliance with policies and procedures	Monitors performance

AUDIT AND RISK COMMITTEE	
Oversees effectiveness of internal control process	Approves independent internal audit programme
Receives reports from external auditor	Receives reports generated through the internal audit programme

INTERNAL AUDITOR
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.

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.

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

Sets the risk appetite for the Group.

Conducts formal reviews of principal risks (including emerging risks) and the risk KPIs at least twice a year – one of which is in connection with consideration of the viability statement (see pages 80 to 81).

Risk topics reviewed in depth through regular timetabled presentations or papers.

Regular discussions of 'What keeps us awake at night?'.

Monitors KPIs which measure the effectiveness of risk mitigations through Board reports.

Ensures strategic investment in controls and risk mitigation and manages risk prioritisation.

Ensures Executive Directors have responsibility for managing specific risks.

Assesses the coverage and adequacy of independent assurance.

AUDIT AND RISK COMMITTEE

Oversees risk management process

Receives a formal review of the principal risks, risk KPIs and the risk management process twice yearly.

Reviews the Group risk appetite statement 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 pages 80 to 81).

Receives a report from the Risk and Resilience Committee (executive level committee) at each meeting on its activities.

Holds the relationship with the 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.

See page 126 for the Audit and Risk Committee's review of the risk management and internal control systems.

EXECUTIVE BOARD

Collectively responsible for managing principal and operational 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 which measure the effectiveness of risk mitigations.

Delegates line responsibility for managing individual risks within their area of accountability to individual Executive Board members, and oversight of these to the Risk and Resilience Committee.

RISK AND RESILIENCE COMMITTEE

Oversight of principal and operational risks

Oversight and review of the principal and operational risk registers and the process by which they are compiled.

Reviews the risk landscape, ranks the principal risks, and identifies emerging risks.

Monthly review of the risk KPIs which measure the effectiveness of the mitigations for principal risks and requires explanation from relevant management where the indicator is outside the tolerance range.

Regular cross-functional 'deep dive' of each of the principal risks and associated operational risks.

Reports monthly to the Executive Board and to the Audit and Risk Committee at each meeting.

Conducts a formal review of the principal risks (including emerging risks) twice a year in advance of submission to the Executive Board and the Group Board.

See page 126 for more information on the Risk and Resilience Committee's activities during the year.

CHIEF FINANCIAL OFFICER

Ensures that risk management processes are adhered to

Chair of the Risk and Resilience Committee.

Presents the outcome of the risk review to the Executive Board, the Audit and Risk Committee and the Group Board twice a year.

With the Company Secretary, ensures that principal risk topics are scheduled for regular review by the Executive Board and the Group Board.

Principal risks and uncertainties

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 72 to 79.

CHANGES TO PRINCIPAL RISKS IN THE YEAR

No new principal risks were identified in the year, however there were four risks where the potential impact had increased over the year, with the remaining risks having no change in their overall impact. We have also renamed one of our principal risks.

The first two risks where the potential impact has increased are **competition, markets and customers** and **business efficiency**. Whilst the macroeconomic outlook remains uncertain, we remain confident in the resilience of our business model and the ability of our colleagues and suppliers to adapt to change quickly. However, our ability to deliver against our strategy and achieve our growth ambitions in the short term will likely be impacted by increased inflationary pressures, which have been compounded by geopolitical instability. The potential impact on consumer spending and possible competitive pricing action puts increasing pressure on demand for our customer offer and on gross and net margins.

The third principal risk where the potential impact has heightened is **supply chain disruption**. The business is facing significant supply chain disruption due to the pressures of inflation and ongoing Covid-19 related supply chain issues. During the year shipping container rates have risen significantly and domestic UK labour shortages continued, which has increased the pressure on costs and wages and in some situations impacted the flow of goods.

The final principal risk where the potential impact has increased in the year is **people and culture**. Whilst we remain confident in our culture and employment proposition, the consequences of the pandemic, including skills shortages and wage inflation, have contributed to a tight labour market in both operational roles and some key specialist areas.

'Resilience' was a new risk introduced in FY20 to acknowledge the impact of the Covid-19 pandemic as well as to address low probability and high impact black swan events. The title has been updated to align more closely with the description of the risk and **catastrophic business events** is considered to be more appropriate.

Emerging risks

Risks continue to evolve and an awareness of emerging risks is important in driving effective strategic planning. Monitoring and understanding the potential implications of emerging risks allows us to build a consideration of these into our decision-making processes.

While no emerging principal risks were identified in the year, either through our Board and Audit and Risk Committee or our Executive Board discussions, our response to the war in Ukraine on the opposite page is an example of how our risk management processes respond to new or heightened risks. In addition, we have detailed how we responded to supply chain disruption risks in FY22 on page 73.

RISK APPETITE

The Board sets the risk appetite for the Group, taking into consideration the expectations of its shareholders and other stakeholders. The clear articulation of our risk appetite provides for an effective mechanism to inform investment decisions, facilitate the discussion of risk, set parameters within which objectives must be delivered, and support the awareness of risk by our colleagues and partners. During the year the Board reviewed the Group risk appetite and confirmed that it remained appropriate and addressed uncertainties in the current economic environment.

The Group has a moderate to high risk appetite in pursuit of its purpose-led strategy and a prudent appetite to financial risk. We have a very low appetite for risks to our brand and reputation, which includes the health and safety of our colleagues, customers, suppliers, and visitors to our premises, and non-compliance with our policies and procedures.

We have a very low risk appetite for the misuse of information, cyber and data security and risks that could affect the availability of technology to support our systems, premises, and colleagues. Finally, we have a low appetite for the risk of outsourcing key business processes, functionality, and services.

The full Group risk appetite statement is available from the corporate website at: corporate.dunelm.com.

AT A GLANCE PRINCIPAL RISKS AND UNCERTAINTIES FY22

Risk	Impact compared to FY21
Competition, market and customers	Increasing
Business efficiency	Increasing
Supply chain disruption	Increasing
People and culture	Increasing
Brand damage	No change

Risk	Impact compared to FY21
Climate change and environment	No change
Catastrophic business events	No change
IT systems, data and cyber security	No change
Regulatory and compliance	No change
Finance and treasury	No change

Principal risks and uncertainties key

- Increasing
- Decreasing
- No change

HOW WE RESPONDED AND MANAGED OUR RISKS DURING THE WAR IN UKRAINE CASE STUDY:

When Russia invaded Ukraine in February 2022, the Executive Board set up a cross-functional Working Group to co-ordinate response activities, chaired by the Group Finance Director, and with the Company Secretary representing the Executive Board. The Working Group assessed the impact of the crisis on our principal risks and ensured that required actions were taken, as set out below:

Regulatory and compliance	Assessed legal and governance requirements under the sanctions imposed by the UK Government and briefed relevant internal teams. Linked into the British Retail Consortium to ensure we kept abreast of changes and market practice.
IT systems, data, and cyber security	Increased our cyber defences to address increased risk of attack from Russia. Also assessed any data flows to understand any links to Russia, of which there were none, and cut off links to Russian IP addresses.
Finance and treasury	Reviewed payments to ensure no breach of the HM Treasury sanctions regime and controls were put in place to monitor this regularly. Increased level of US$ forward cover to upper end of our policy given strengthening of US dollar against sterling.
Supply chain disruption/business efficiency	Assessed our exposure to shortages/price increases in key materials, such as components for store fixtures, as well as in all non-stock purchases, including energy, fuel, packaging and food and took mitigating action where possible.
Brand damage	Assessed supply chain for Dunelm branded products to understand whether any are sourced from Russia or Belarus (small amount of timber, which was resourced), or from sanctioned individuals.
People and culture	We identified colleagues who were potentially impacted and offered them support, including from the Colleague Support Fund, and signposted other sources (e.g. MIND). We also supported community-led aid donations through stores and centrally via our take-back partner.
Competition, markets and customers	Issued customer communications via social media setting out our response to the crisis. Addressed the impact on inflation and consumer confidence as part of the ongoing commercial response to the inflation and cost of living crisis.

After making the initial assessment and taking immediate action, the Working Group met regularly to monitor developments and provided updates to the Risk and Resilience Committee. As Dunelm does not have any sales or operations in either country the direct impact was limited and in due course the individual Ukraine-related risks were then absorbed into the ongoing process for managing principal and operational risks and the Working Group disbanded.

Principal risks and uncertainties continued

Risk	How we mitigate	Progress in FY22
Competition, market and customers **Description** 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 the economy and consumer spending, aggressive competitor activity (especially with cost price pressures) could impact sales and profit. **Link to strategy:** All three ambitions **Performance indicator:** Market share Sales, profit and cash **Executive responsibility:** Chief Executive Officer **Reports to:** N/A **Impact compared to FY21:**	• Customer 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 and insight capability and services to raise awareness of the Dunelm brand and meet customer needs. • Investment in supply chain capacity and capability, doubling peak volumes and reducing lead times. • 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 days and individual topics considered throughout the year.	• Dunelm continues to lead the UK homewares market with an increased estimated share of 10.2% in 2022 (2021: 9.1%) (Source: GlobalData). • Development of our strategy includes a significant increase in our sustainability programme, and an enhanced customer experience. • Improved insight on our customer base by recruiting specialists in data analytics and management, enabling us to understand who they are and how they shop with us. • Improved the online customer experience including smoother checkout, better product information management and quicker/named day delivery. • Reviewed all of our core ranges to deliver value and choice across all of our price points. • Continued product innovation in existing categories with 'sustainability' a key element and strengthened seasonal campaigns and promo buys to improve affordability to our customers. • Committed Supplier club reviewed and successfully held a supplier conference. • Increased engagement via social media and community involvement.
Business efficiency **Description** Profitability could be impacted by failure to operate the business efficiently or to manage margin volatility. **Link to strategy:** Ambitious about profitable growth **Performance indicator:** Operating cost % **Executive responsibility:** Chief Financial Officer **Reports to:** Chief Executive Officer **Impact compared to FY21:**	• Costs are managed by the Board and Executive Board through the budget and forecasting process and monthly performance reviews. • Monthly steering groups in place to review specific areas such as sourcing, stock loss and returns. • 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. Head of Procurement and team in place to provide specialist negotiation skill. • Investment Committee reviews non-stock expenditure over a certain threshold. **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. Cost base reviewed and mitigating action taken in the light of the changed economic environment. • In second year of three-year plan to invest in core systems and processes to provide capacity to support our growth strategy. • Productivity group focusing on delivering productivity in stores, more efficient stock processes, and supply chain. • Cost prices with product suppliers renegotiated to minimise price increases to customers and protect margins. • Procurement team being expanded in FY23. • Following successful tender and negotiation of our international freight management contract in FY22, the transition to a new provider is underway.

Principal risks and uncertainties key

Increasing No change Decreasing

Risk	How we mitigate	Progress in FY22
Supply chain disruption **Description** Changes in global supply chain capacity, labour shortages, ongoing disruption from Covid-19 and geopolitical instability may cause interruption to the supply of stock to our stores and fulfilment of online orders which could impact sales. Inflationary pressures linked to these challenges could impact profitability. **Link to strategy:** Ambitious about our brand and profitable growth **Performance indicator:** Service levels **Executive responsibility:** Customer Operations Director **Reports to:** Chief Executive Officer **Impact compared to FY21:** Increasing	• 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 which are reviewed weekly by a cross-functional team where issues and remedial actions are agreed. • 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. • Increased stock visibility providing more insight of stock orders and enabling more effective supply chain capacity planning. • Use of third-party labour suppliers to add flexible capacity and operational working hours increased to 24x7. **Board oversight:** • Business continuity is a standard Audit and Risk Committee agenda item.	• Covid-safe processes resumed across all our sites to enable operations to continue during Covid restrictions in H1. This included a significant increase in 'Direct to Customer' deliveries from our suppliers. • Established a new dedicated furniture storage facility and appointed a new third party to provide additional ecommerce capacity at a new site to meet customer demand. • Flexible capacity in place with third parties to support volumes and manage supply chain volatility. • Vendor system improvements made to support higher logistic volumes. • Continued to strengthen relationships with key suppliers as well as creating new relationships to build capacity. • Established working groups to develop a plan to achieve our 2030 sustainability targets which include introducing lower-carbon fuelled vehicles. • Implemented initiatives to increase the efficiency of supplier collections and store deliveries e.g. by using double deck trailers. • Launched 'stock in multiple locations' project which duplicates stock at key locations to reduce the number of deliveries to customers who order multiple items to improve customer service and reduce fulfilment costs. • Crisis simulation exercise on supply chain resilience, the output of which was reported to the Board.

HOW WE MANAGED SUPPLY CHAIN DISRUPTION RISKS IN FY22

In FY22, ongoing global supply chain disruption triggered by the Covid pandemic increased pressure on international freight capacity, leading to rising supply chain costs and raw material shortages. These significantly impacted our manufacturing partners and increased the risks to our product availability and cost prices. In response, we extended workstreams already in place post-pandemic:

- we expanded key product inventory levels to ensure supply;
- purchased stock ahead of cost increases;
- used third-party service providers to create additional, flexible storage capacity;
- changed our international freight management partner and systems and processes to improve end-to-end visibility of our supply chain; and
- worked even more closely with key domestic suppliers to help them navigate ongoing operational challenges.

Although some product lines were impacted in FY22, through our risk mitigation, we secured product flows for all seasonally sensitive products and maintained a high overall level of product availability. We are still experiencing supply chain disruption and expect this to continue in the medium term. We remain focused on adapting our sourcing, product design and merchandising strategy to reduce freight costs and improve supply reliability; investing in supply chain flexibility; and further developing our international freight management capabilities and visibility.

Principal risks and uncertainties continued

Risk

People and culture

Description

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.

Link to strategy:
Ambitious about being a good company

Performance indicator:
Colleague engagement
Colleague turnover

Executive responsibility:
People and Stores Director

Reports to:
Chief Executive Officer

Impact compared to FY21:

How we mitigate

- Corporate purpose in place, aligned to our strategy, emphasising our shared values
- The composition of the Executive Board is regularly reviewed by the Board to ensure that it is appropriate to deliver the growth plans of the business.
- Talent Committee established, overseen by the Nominations Committee and the Group Board.
- Formal talent management and succession plans in place and external and internal talent pools identified, to build capability and capacity.
- Training and development, with emphasis on 'growing our own' talent – including behavioural framework and development for all leaders.
- High-calibre individuals are retained and developed through sponsored talent management and development.
- 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.
- Bonus and share incentive plans in place to promote retention and share ownership.
- Suite of policies designed to retain and recruit colleagues.
- Regular communication and engagement through National Colleague Voice, Store Coach Voice and similar forums.
- Half-yearly engagement surveys.
- Wellbeing buddies in place across the business and half of store colleagues trained as mental health first aiders (with remainder planned for FY23).
- Inclusion and diversity programme in place with supporting training and colleague networks to support.

Board oversight:

- People plan, talent and succession and culture reviewed at least annually by the Board.
- Monthly CEO report covers 'people'.
- KPIs for the Board to measure culture in place, alongside colleague dashboard of specific colleague-related measures.
- Nominations Committee and Remuneration Committee continued oversight of people policies and practice.
- Group Board engagement with colleagues through site visits, and NED attendance at annual seminar and National Colleague Voice meetings.

Progress in FY22

- Capability increased through resource investment in key areas, notably in our digital and data teams.
- Increased Group Board focus on Board and Executive Board succession and talent management and introduced framework to aid better discussion.
- Increased investment in colleagues on hourly pay and those at the lower end of the pay scale.
- Reverted to simpler incentivisation structure to aid understanding and support better retention of colleagues across the business.
- Our diversity and inclusion colleague networks, which are sponsored by an Executive Board member, have made good progress in establishing themselves and growing membership.
- Board of Directors attended inclusion and diversity awareness workshops, with expert guest speakers on diversity and inclusion subjects.
- Continued the work of the Store Colleague Safety Group to oversee colleague personal safety in stores.
- New health-related benefits introduced including virtual GP service for all colleagues and specific awareness training on domestic abuse for all line managers.
- Developed and embedded our behavioural framework which is based on our shared values.
- Increased focus on colleague wellbeing, including an extension of eligibility for our Colleague Hardship Fund.

Principal risks and uncertainties key

Increasing   No change   Decreasing

Risk

Brand damage

Description

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.

Link to strategy:
Ambitious about our brand

Performance indicator:
Product recalls
Percentage of audits completed within policy
Cotton and packaging KPIs

Executive responsibility:
Commercial Director

Reports to:
Chief Executive Officer

Impact compared to FY21:

How we mitigate

- 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 risk 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 quality team.
- Product quality and performance standards are monitored through inhouse and third-party due diligence checks.
- 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 meetings take place.
- All stock and food suppliers and the majority of our other suppliers are required to sign up to our Anti-Bribery Policy and Ethical Code of Conduct, which is in line with international guidelines, and also covers modern slavery.
- All Tier 1 and Tier 2 factories supplying Dunelm with food products are BRC and/or SALSA approved to ensure that they have suitable processes in place. Tier 1 suppliers complete an ethical/safety risk assessment.
- Code of Conduct sets out standards for working conditions which all factories supplying Dunelm branded products must adhere to.
- Our ethical programme requires all sites who manufacture a finished product to be audited by our specialist ethical partner to review and grade audits and follow up on corrective actions.
- Regular supplier conferences and awareness training at which ethical trading issues and modern slavery awareness are raised.

Board oversight:

- Ethical trading/modern slavery/ product quality/responsible sourcing reviewed at least annually in depth by the Board.

Progress in FY22

- Further expanded the unannounced audit programme across Tier 1 and Tier 2 suppliers.
- Review of audit cycle and criteria – all factories with a current grading of high risk moved to a one-year cycle.
- Introduced remote follow-up process to help suppliers close audit non-conformances, and feasibility assessment of remote audits undertaken if lockdowns in China continue.
- Developed an enhanced online quality, ethical, sustainability and packaging assessment for third-party branded products.
- Updated supplier portal so that own brand suppliers can access latest policy, product specifications and testing requirements.
- Engaged with suppliers through seminars and workshops to progress our work to reach sustainability targets.
- On track to achieve plastic packaging reduction targets.
- Internal targets set for introducing more sustainable materials into our products in SS23.
- Joined Better Cotton to fast track our progress to reach our cotton target and strengthen our sourcing policy.
- Further developed supply chain assessment and verification programme to include recycled materials.
- Conscious Choice (signposting our more sustainable products for customers) labelling on products in development for launch in FY23.

Principal risks and uncertainties continued

Risk

Climate change and environment

Description
Failure to anticipate and address the strategic, regulatory, and reputational impact of climate change and environmental matters, and governmental, consumer and media action in response to it.

Link to strategy:
Ambitious about being a good company

Performance indicator:
Prosecution and other regulatory action

Executive responsibility:
Chief Executive Officer

Reports to:
N/A

Impact compared to FY21:

How we mitigate

- Sustainability – 'Make sustainability accessible to all' is a key part of our Corporate Purpose and is reflected in our Focus Areas.
- Chief Executive oversees our approach to sustainability issues, including climate change. Accountability for three working groups (Carbon Reduction, Circular Economy and Community) allocated to Executive Board members.
- Pathway to Zero Steering Group oversees progress against environmental targets and climate change work with external advisers supporting on climate change.
- Targets in place to reduce emissions, energy usage and waste to landfill, and increase recycling in our own operations. Roadmap developed for key Scope 1 contributors (see page 36).
- Waste management contractor appointed with contractual KPIs to deliver waste minimisation, recycling targets including audit and advice to stores.
- Sustainability is part of the product strategy and product selection process. Policies in place for high-risk product types and routes (cotton, timber, palm oil and animal-derived materials, e.g. leather, feathers and down).
- Company Secretary and Head of Climate Change keep abreast of relevant regulatory, investor and societal requirements to advise the business as needed.
- Part of the collaborations such as Textiles 2030, to advocate and support the industry to reduce environmental impacts, and BRC's Climate Action Roadmap, to make the industry net zero by 2040.

Board oversight:
- Presentation at least twice a year is part of our proposition and focus area.
- Topic at the Board's Strategy Days.

Progress in FY22

- Prepared our first full report in accordance with the Task Force on Climate-Related Financial Disclosures (see pages 61 to 67)
- Announced ten-year Scope 3 reduction target.
- Entered into an ESG-linked Revolving Credit Facility using four key ESG KPIs.
- Long-term executive remuneration includes ESG performance targets.
- New Head of Climate Change appointed and specialist sustainability roles added to product sourcing team.
- Expansion of the textiles take-back scheme to all stores and contract signed with partner for another year.
- Mapped baseline emissions for our textiles products and identified priority focus areas.
- Joined Better Cotton to support environmental improvement in cotton production and set internal target for use of recycled polyester.
- Developed solutions to improve and simplify sustainability data gathering and analysis.
- Sustainability in products training developed and rolled out to buying teams and product suppliers to help drive changes in the product supply chain towards a circular model.
- More sustainable and recycled materials introduced into our product ranges such as the Natural History Museum range.
- Scope 1 carbon emissions modelled to 2030 to assess progress to target.
- Decarbonisation working group established for Home Delivery Network (HDN), parcels and store delivery.
- Pausa completed carbon footprinting exercise to inform its sustainability plan.

Principal risks and uncertainties key

Increasing No change Decreasing

Risk

Catastrophic business events

Description
Failure to withstand the impact of an external event or combination of events that severely disrupts markets and causes significant damage to all or a substantial part of the Group's sales or operations (e.g. pandemic).

Link to strategy:
All three ambitions

Performance indicator:
Sales, profit and cash
Market share

Executive responsibility:
Chief Executive Officer

Reports to:
N/A

Impact compared to FY21:
No change

How we mitigate

- 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).
- Family shareholding provides long-term stability.
- 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.
- Risk and Resilience Committee established comprising cross-functional members to discuss risk and mitigation.

Board oversight:

- Audit and Risk Committee reviews progress on internal control improvement programme and business continuity plans.

Progress in FY22

- Significant progress made against our strategic focus areas, evolving into longer-term objectives.
- Purpose, ambitions and shared values bought to life and embedded in colleague communications and recruitment and appraisal process.
- Five-year strategic plan in place setting ambitious but realistic growth plans with renewed prioritisation and focus on both investment in growth activity and further improving our systems and controls.
- The Group entered into a new £185m sustainability-linked Revolving Credit Facility.
- In the second year of implementing internal controls improvement plan and project to improve processes and capability in the commercial function.
- Focus on value and affordability to respond to potential recession.
- Post-covid disruption and ongoing economic uncertainty continue to be managed in line with our values by:
  - Maintaining strong financial discipline and operational grip with clear prioritisation of investment decisions and good cost control.
  - Continuing to prioritise colleague engagement and wellbeing and relationships with all key stakeholders.
  - Continuing to work closely with suppliers to implement alternative fulfilment routes.

Principal risks and uncertainties continued

Risk

IT systems, data and cyber security

Description
Operations impacted by failure to develop technology to support the strategy, lack of systems availability due to cyber attack or other failure, and reputational damage/fines due to loss of personal data.

Link to strategy:
All three ambitions

Performance indicator:
Number of major incidents
Reportable data breaches

Executive responsibility:
Chief Information Officer

Reports to:
Chief Executive Officer

Impact compared to FY21:

How we mitigate

- Steering Group in place to oversee the Group's approach to IT security and data protection.
- 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 projects, or bespoke iterative development methodologies for smaller-scale changes.
- A detailed IT development and security roadmap is in place, aligned to strategy.
- Use of cloud-based hosting infrastructure which increases failover options and improved resilience.
- Comprehensive third-party support in place for relevant technologies.
- Business continuity in place for all major systems and applications.
- Security incident response and crisis management plans are in place.
- Business process, authorisation controls and access to sensitive transactions are kept under review.
- Point of sale end-to-end encryption in place on our payment terminals of which software is updated continuously.
- Regular training and awareness programmes are rolled out throughout the business to keep colleagues informed and to reduce likelihood of an event occurring.

Board oversight:
- Cyber security is a standard agenda item for the Audit and Risk Committee.
- Major security incidents reported by the Company Secretary.

Progress in FY22

- Further developed our IT security governance with specific recruitment to increase capability and resource.
- Continued improvements on securing our networks for colleagues working from home.
- Developed clear roadmap to deliver step change in cyber security strategy and risk management.
- Completion of exercise to decommission old infrastructure leading to significant drop in vulnerabilities.
- Continued to implement the GDPR risk treatment plan and have recruited a dedicated GDPR specialist.
- Continued to implement security improvements.
- Aligned to the ISO 27001 framework to broaden our cyber security perspective across the enterprise, whilst retaining Cyber Essentials and National Institute of Standards and Technology (NIST).
- Recruited specialist resource across various technology teams to improve capabilities and resilience and transformed organisational structure to improve colleague engagement and retention.
- Increased availability of IT support staff out of hours.
- Internal audit review of IT general controls and GDPR conducted.
- Implemented third party risk management procedure to ensure suppliers have robust security and data controls.

Principal risks and uncertainties key

Increasing · No change · Decreasing

Risk	How we mitigate	Progress in FY22
Regulatory and compliance **Description** 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, or competition law. **Link to strategy:** Ambitious about being a good company **Performance indicator:** Prosecutions and other regulatory action **Executive responsibility:** Company Secretary **Reports to:** Chief Financial Officer **Impact compared to FY21:** No change	• Policies and training in place in respect of key compliance areas. These are regularly reviewed and updated. • Operational management is 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. • Supplier terms and conditions include provisions on compliance with law and regulations and our policies as standard. **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.	• The health and safety team continued to play a leading part in our response to the Covid-19 crisis. Through each phase of the crisis we have developed and implemented safe physical measures and processes at our stores, warehouses, vehicles, manufacturing site and offices. • Refreshed our Challenge 25 training material and updated our age restricted sales policy to comply with new legislation. Continued programme of test audits with pass rates above industry average. • Continued focus on compliance training for all colleagues. New learning and development system launched to enable easier digital access and better tracking and reporting on compliance training. • Continued to strengthen governance of food safety in Pausa cafes including refreshed hygiene and allergen training, and guide available on a newly created tablet-based app in store. • Continued focus of the store colleague safety committee on colleague safety in stores. • Relevant policies and training provided to new colleagues who joined Dunelm following acquisition of Sunflex. • Introduced a food safety/allergen app to make it easier for colleagues to access up-to-date information. • Replaced forklift trucks from stores with installation of goods lifts.
Finance and treasury **Description** Progress against business objectives constrained by a lack of short-term funding and long term capital. **Link to strategy:** All three ambitions **Performance indicator:** Operating cash conversion Banking covenant compliance **Executive responsibility:** Chief Financial Officer **Reports to:** Chief Executive Officer **Impact compared to FY21:** No change	• Dunelm works with a syndicate of committed partner banks to ensure appropriate funding is available. • 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.	• Entered into a new sustainability linked four-year Revolving Credit Facility of £185m with the option to extend for two one-year periods. • Successfully transitioned from LIBOR to SONIA. • Actions continued to improve controls around stock and cash management, plus stock purchasing and forecasting. • Strong focus remained on cashflow with robust process created to provide dynamic forward looking cashflows on a weekly basis. • Hedging coverage in the light of currency volatility due to the war in Ukraine.

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 has considered the Group's current financial position, its strategy, the market outlook and its principal risks. As the Group run a five-year planning process, the Board has reviewed viability over a five-year period. The base case for this review is the five-year plan presented to and approved by the Directors in May 2022.

The Group is operationally and financially strong and has a long track record of consistently generating profits and cash, which is expected to continue both in the short and long term. In the financial years ending June 2020 and June 2021, despite the impact of the pandemic and the enforced closure of its stores for significant periods, the business continued to generate high levels of cash before distributions.

MODELLING POTENTIAL DOWNSIDE SCENARIOS

In their consideration of going concern and the future viability of the Group, the Directors have reviewed future profit forecasts and cash projections, which are based on market data and reflect their experience in managing the business, including through the recent challenging Covid-impacted years. During all of these years the business continued to generate high levels of cash before distributions.

The 'market downturn' scenario assumes a change in consumer spending away from homewares, due to inflationary pressures, with FY23 showing no sales growth on FY22 and 12% lower growth in FY24 than in the base case scenario. In addition, a lower margin than base case is assumed in FY23. This 'market downturn' scenario does not include any mitigating cost reduction actions, which would be taken if such a downturn occurred, and assumes the continuation of dividend payments in line with our current dividend policy. In this 'market downturn' scenario, the Group would not breach any of its financial covenants and would not require any additional sources of financing in any of the five years under review.

The 'deeper market downturn' scenario assumes a 5% sales decline in FY23 compared to FY22 and 12% lower growth in FY24 than in the base case. A more severe margin erosion is assumed in this scenario compared to the 'market downturn' scenario and margin erosion continues into FY24. Similar to the 'market downturn' scenario, we have assumed no cost mitigation actions are taken and the continuation of dividend payments in line with our current dividend policy. As with the 'market downturn' scenario, the Group would not breach any of its financial covenants and would not require any additional sources of financing in this 'deeper market downturn' scenario over any of the five years under review.

In addition, based on a review of the impact of climate change (as discussed on page 185), climate change is not expected to have a significant impact on the Group's going concern assessment or on the viability of the Group over the next five years and therefore no incremental impact has been modelled in either of the downturn scenarios.

REVERSE STRESS TESTING

To provide additional assurance around the Group's viability, two reverse stress tests have been modelled, similar to the reverse stress testing carried out at the end of FY21. In both of these reverse stress tests we have assumed that variable costs would reduce as sales reduce, that we would be able to save £20m per annum of current fixed costs and that we would reduce the level of capital investment to £10m per annum and suspend the payment of dividends. In the first reverse stress test, we have modelled the sales decline required to breach either of the current covenants in the existing Revolving Credit Facility (RCF). A sales reduction of 30% from Q2 FY23 and a reduction of 37% in FY24 from the base case would be required for covenants to be breached by the end of FY24. In the second reverse stress test scenario, we have modelled the level of sales reduction required to breach the RCF limit of £185m. This would require a reduction in sales of 55% per annum in both FY23 and FY24 from the base case to effectively run out of funding by the end of FY24, assuming reasonable mitigating actions have been implemented.

FINANCING

The Group's banking agreements and associated covenants are set out in the CFO's Review and include a £185m RCF (maturing in December 2025 but with two one-year extensions, subject to lender consent, to take the facility out to December 2027), an accordion option with a maximum facility of £75m and a £10m uncommitted overdraft.

The Group ended the financial year with net debt of £23.8m. The financial covenants are tested semi-annually in line with our December Interim reporting and June year-end reporting. These covenants are met with significant headroom. In both downside scenarios explained on page 80, the Group continues to forecast compliance with all financial covenants throughout the going concern and viability period.

GOING CONCERN AND VIABILITY CONCLUSION

In both downside scenarios Dunelm has sufficient liquidity to continue trading, including maintaining the payment of dividends in line with its dividend policy and comfortably meeting its financial covenants. The reverse stress modelling has demonstrated that a prolonged sales reduction of 30% from Q2 FY23 and 37% from FY24 is required to breach covenants by the end of FY24, and a 55% sales reduction is required to breach the RCF limit by the end of FY24, assuming reasonable mitigating actions have been implemented. In such an event, management would follow a similar course of actions to those initially undertaken during the recent Covid-19 pandemic.

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 at least the next five years. For this reason, the Board also considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

S172(1) Companies Act 2006 Confirmation Statement

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 94 to 106, which are incorporated into this Strategic Report by reference.

Strategic Report

This report was reviewed and signed by order of the Board on 14 September 2022.

Nick Wilkinson
Chief Executive Officer

14 September 2022

Chairman's letter

Dear shareholder

PURPOSE, CULTURE AND SHARED VALUES

This financial year was marked by an uncertain and disrupted external environment, including the ongoing public health impact of Covid-19, a challenging labour market, continued global supply chain disruption, inflationary pressures, a cost of living increase for consumers and the war in Ukraine. The Board and management focused on our strong shared purpose, supported by our culture and shared values, to take long-term decisions, manage capital prudently, promote strong operational performance and maintain good relationships with all our stakeholders. This has enabled Dunelm to deliver a strong financial performance and deliver value to all of our stakeholders. I would like to thank my Board colleagues and the Executive Board for their commitment and support over the year.

SUSTAINABILITY AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

Our Board has always believed that long-term, sustainable growth and profitability can only be delivered by respecting those who are impacted by our activities, and this is a cornerstone of our shared values. As Boards are increasingly measured by how they contribute to society, we continue to focus on developing and maintaining strong relationships with our customers, colleagues, suppliers and communities, to ensure that workers who make our products are treated correctly, and to seek to limit our impact on climate change and the environment. In FY22, we set ourselves the challenging target to halve our greenhouse gas emissions by 2030, and we are increasingly embedding considerations of climate change and environmental matters into our decision-making. The Board is keen to continue to show leadership in this matter, and to include our progress in how we judge our performance, including executive pay. We have included ESG measures in our annual bonus and, from FY22, in our Long-Term Incentive Plan performance measures, as well as in our new Revolving Credit Facility (RCF).

BOARD MEMBER UPDATE

There have been a number of changes to our Board since I wrote to you last year. In April 2022 we announced the appointment of Karen Witts as Chief Financial Officer (CFO). Karen is an accomplished finance leader who brings a wealth of experience from a number of roles with high-profile, consumer-facing brands, and this will be hugely beneficial as we work to achieve our ambitious growth plans. Karen joined the Board on 9 June 2022 and succeeded Laura Carr, who stepped down from the Board in that month.

As I mentioned last year, Vijay Talwar joined the Board as a Non-Executive Director (NED) on 1 October 2021, and this year we welcomed Kelly Devine to the Board as an additional NED on 1 March 2022. I am pleased that both of our new NEDs are bringing a more digital and data-led approach to our Board discussions.

Finally, we announced the appointment of Alison Brittain to the Board as a NED with effect from 7 September, with the intention that she will succeed me as Chair early in 2023 when I will retire from the Board. I am delighted that Dunelm has been able to attract a Chair of Alison's calibre, to lead the Board in its next stage of growth.

Details of the background to the above appointments can be found in the Nominations Committee Report on pages 114 to 115.

TALENT, DIVERSITY AND SUCCESSION

In our 2020 Board review, we identified the need to increase the focus of the Board and the business on senior leader level succession and talent management as one of the key capabilities needed to support our growth ambitions. We are in the second year of the three-year talent and succession plan, with the Nominations Committee having oversight of this at Executive Board level, and the Board reviewing progress across the whole business. We are now starting to benefit from our more structured approach, with succession plans in place for the members of the Executive Board, our main leadership capability gaps filled, and increasing numbers of internal promotions.

The Board continues to promote diversity and inclusion actively across our colleague population. In FY22, we have continued our tailored education programme to help us better understand societal diversity and inclusion issues, and how we can address these in the business by supporting our colleagues. We review progress on our training and support twice a year, and details of these activities can be found in the Nominations Committee Report.

Our Board is over 40% female and meets UK governance requirements on gender diversity. We now have British, Indian and Swedish nationals on our Board and meet UK governance best practice guidelines on ethnicity. However, we appreciate that our current Board's make-up reflects neither our colleague nor customer ethnicity profile, nor that of the UK population. We always work closely with recruitment specialists to select candidates from as diverse a pool as possible to enable us to recruit people with the best talent, relevant experience and who adhere to our shared values.

GOVERNANCE AND REPORTING DEVELOPMENTS

We adopted the 2018 UK Corporate Governance Code in FY20, and our subsequent reports have been received positively by our investment community. In March 2022, we presented a corporate governance update to shareholder representatives, which I attended together with our Non-Executive Directors, the Deputy Chair and our Company Secretary.

Each year we review and aim to lay the groundwork for upcoming regulatory changes and important reporting guidance. This year we considered the Financial Reporting Council's (FRC) review of corporate governance reporting published in November 2021 and various FRC LAB reports on climate change and TCFD reporting, taking on recommendations where it makes pragmatic sense for us to do so. During the year we engaged with various global ESG ratings agencies, including a new index, and were pleased to maintain or better our scores with the most prominent ones.

AGM

At our AGM this year, in line with our policy, 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. As our largest shareholder, Sir Will Adderley, reduced his shareholding slightly in the year, we are required to seek a Rule 9 waiver to allow us to buy back shares to fulfil colleague share option entitlements. We hope that shareholders will support this resolution, which is limited to this purpose only.

I look forward to meeting shareholders at the AGM.

Yours sincerely,

Andy Harrison
Chairman

14 September 2022

Code compliance statement

This Corporate Governance Report explains how we have applied the Code's Principles – supported by reporting on its Provisions – as set out in the UK 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 complied with the Corporate Governance Code during the financial year by applying the principles and reporting against the provisions in this Annual Report, except for the following:

PROVISION 38 – EXECUTIVE PENSIONS

As reported last year, Nick Wilkinson (CEO) and Laura Carr (CFO), who stepped down from the Board on 8 June 2022, agreed to reduce their pension entitlement to align to the current workforce average of 3% which took effect from 1 August 2021. Therefore, for a very short period between 27 June 2021 and 31 July 2021 both executives' pension entitlement was 8% of base salary. Karen Witts joined the Board as CFO, on 9 June and her pension entitlement is 3%. Further details can be found in the Remuneration Report on page 136.

This table provides an overview of where relevant content and information can be found in this Annual Report so stakeholders can evaluate how Dunelm has applied the principles of the Corporate Governance Code.

HOW WE COMPLY WITH THE UK CORPORATE GOVERNANCE CODE 2018

Directors and officers

A breadth and depth of complementary skills and experiences with diversity of age, gender, ethnicity and nationality.

Andy Harrison
Chairman

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 and attends meetings of the National Colleague Voice by rotation. 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 and relevant activities
Chair of the Board and the Nomination Committee at SEGRO plc.

Gender and ethnicity
Male, British

Sir Will Adderley
Deputy Chairman

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

Dunelm role
Director and major shareholder, who spends his time on strategic activities which protect and enhance shareholder value and preserve the Group's culture and values. Member of the Nominations Committee. 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 supplier relationships, sustainability 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 for an interim period until 31 December 2015.

Previous experience
All parts of Dunelm's business.

Other commitments and relevant activities
WA Capital Limited and The Stoneygate Trust, a multipurpose charity with a particular focus on medical research and helping to support equal educational opportunities for economically disadvantaged children and students.

Gender and ethnicity
Male, British

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 is accountable for delivery of strategic and financial objectives; customer, colleague and investor engagement and sustainability objectives. Chairs the Pathway to Zero Steering Group. Regularly attends meetings of the National Colleague Voice. 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 and relevant activities
Member of the British Retail Consortium's Climate Action CEO Committee since inception in November 2020.

Gender and ethnicity
Male, British

Karen Witts
Chief Financial Officer

Key strengths
An experienced Chief Financial Officer with a strong background in finance and management, and with a wealth of experience across global retail and consumer-facing businesses.

Dunelm role
Karen leads the Finance Team, as well as taking responsibility for risk and resilience and a number of strategic and cross-functional initiatives; and for engagement with investors, corporate advisers and finance providers. Member of the Executive Board, chairs the Risk and Resilience Committee and a member of the Pathway to Zero Steering Group. Participates in Audit and Risk Committee meetings by invitation.

Joined Dunelm Board
June 2022

Previous experience
Chief Financial Officer of Compass Group plc (2019 to 2021). CFO of Kingfisher Group plc (2012 to 2019). Various senior finance, strategic and operational roles with Vodafone Group plc (2010 to 2012), and at BT Group plc (1999 to 2010). Qualified as a Chartered Accountant with Ernst & Whinney.

Other commitments and relevant activities
Non-Executive Director of Ipsen Pharma, SA

Gender and ethnicity
Female, British

Committee memberships

- A Audit and Risk Committee member
- N Nominations Committee member
- I Independent Director
- R Remuneration Committee member
- D Designated NED for colleague matters
- Chair

Alison Brittain

Independent Non-Executive Director and Chair Designate

Key strengths
Highly experienced business leader who brings considerable expertise as CEO and NED of a range of consumer-facing companies, and prior to this has held senior roles in the UK banking industry. Has successfully scaled businesses in the UK and internationally. Long-standing plc experience and shareholder understanding.

Dunelm role
As an Independent Non-Executive Director, provides strategic advice, monitors management performance and oversees risk management. Will regularly visit the Dunelm website, stores and non-store sites to meet colleagues and members of the senior management team and attend meetings of the National Colleague Voice by rotation. Will attend investor presentations. Member of the Remuneration and Nominations Committees. Will succeed Andy Harrison as Chair in 2023 when he retires from the Board.

Joined Dunelm Board
September 2022

Previous experience
Group Director in the Retail Division of Lloyds Banking Group PLC (2011-2015) Board Director at Santander UK PLC (2007-2011) and Barclays PLC (1987-2007). Non-Executive Director of Marks and Spencer Group plc (2014-2020).

Other commitments and relevant activities
CEO of Whitbread PLC and Senior Independent Director at Experian plc.

Gender and ethnicity
Female, British

Ian Bull

Independent Non-Executive Director

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 and attends meetings of the National Colleague Voice by rotation. 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.

Former Non-Executive Director of Paypoint Limited and Senior Independent Director and Chair of the Audit Committee at St. Modwen Properties plc.

Other commitments and relevant activities
Chair of Lookers plc, Senior Independent Director at Domino's Pizza Group plc. Member of Chapter Zero, the Directors' Climate Forum, and a regular attendee of its events.

Gender and ethnicity
Male, British

Kelly Devine

Independent Non-Executive Director

Key strengths
An experienced business leader having held multiple executive roles in financial services and payment firms. Deep experience building enterprise partnerships in complex ecosystems to increase market share. Passionate about building extraordinary teams and developing people.

Dunelm role
As an Independent 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 and attends meetings of the National Colleague Voice by rotation. Attends investor presentations. Member of the Audit and Risk, Remuneration and Nominations Committees.

Joined Dunelm Board
March 2022

Previous experience
SVP Head of Bank Partnerships (2018-2020). Various roles at Mastercard (2015-2018). Various roles at American Express (2005-2015). Member of PwC's Economics consultancy practice (2003-2005).

Other commitments and relevant activities
President of Mastercard UK & Ireland. Board Member at UK Finance.

Gender and ethnicity
Female, British

William Reeve

Senior Independent Non-Executive Director

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 and engages with the National Colleague Voice by rotation and annually on remuneration matters. Attends investor presentations. 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, Zoopla and Chair of Nutmeg Saving and Investments Limited.

Other commitments and relevant activities
Chief Executive of Oh Goodlord Limited.

Gender and ethnicity
Male, British

Directors and officers continued

Committee memberships

- A Audit and Risk Committee member
- N Nominations Committee member
- I Independent Director
- R Remuneration Committee member
- D Designated NED for colleague matters
- Chair

Peter Ruis

Independent Non-Executive Director

Key strengths
A current CEO 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 and attends meetings of the National Colleague Voice by rotation. Attends investor presentations.

Joined Dunelm Board
September 2015

Previous experience
Managing Director of URBN Corporation (2018 to 2020), 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 and relevant activities
CEO of Indigo Books & Music Inc.

Gender and ethnicity
Male, British

Marion Sears

Non-Independent Non-Executive Director

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. Designated Non-Executive Director for colleague matters and usually attends meetings of the National Colleague Voice.

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. Former Chair of the Corporate Responsibility Committee at Persimmon plc.

Other commitments and relevant activities
Non-Executive Director and Chair of Remuneration Committee at WHSmith plc, and Keywords Studios plc, and Senior Independent Director at abrdn New Dawn Investment Trust plc. Director of WA Capital Limited. Member of Chapter Zero, the Directors' Climate Forum, and a regular attendee of its events.

Gender and ethnicity
Female, British

Arja Taaveniku

Independent Non-Executive Director

Key strengths
A former CEO with a breadth of knowledge from international home retail businesses, with specific expertise in the strategic and operational development of customer propositions and product value chains, alongside environmental, social and governance initiatives.

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 and attends meetings of the National Colleague Voice by rotation. Attends investor presentations.

Joined Dunelm Board
February 2021

Previous experience
Member of Group Executive of Kingfisher plc and CEO of its subsidiary, Kingfisher International Products Limited (2015 to 2018). CEO of Ikano Group S.A. (2012 to 2015). Various leadership roles at IKEA Group including Global Business Area Director (1989 to 2012). Until recently Non-Executive Director at Nobia Group.

Other commitments and relevant activities
Chair of the board at Svenska Handelsfastigheter AB and of Polarn O. Pyret. Non-Executive Director at Handelsbanken Group.

Gender and ethnicity
Female, Swedish

Vijay Talwar

Independent Non-Executive Director

Key strengths
An experienced CEO who has held multiple executive roles across consumer products, online and retail sectors. Proven business leadership in driving multichannel digital transformation through progressive strategies, with expertise in a global enterprise operating in 90+ countries. Customer focused and strategic.

Dunelm role
As an Independent 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. Member of the Audit and Risk, Remuneration and Nominations Committees.

Joined Dunelm Board
October 2021

Previous experience
Various leadership roles at Foot Locker including CEO of Footlocker EMEA (2019 to 2022) and President of Digital at Foot Locker (2016 to 2019). President of Gifts/Special Occasions at Sears Holdings (2014 to 2016). President of International, Chief Executive Officer, Chief Financial Officer at Blue Nile (2010 to 2014). Chief Executive Officer at William J Clinton Foundation India (2008 to 2010). Chief Operating Officer for EMEA at Nike (2002 to 2008). Director of ContextLogic Inc (Feb 2022 to Sep 2022).

Other commitments and relevant activities
Board member at Federation of the European Sporting Goods Industry. Board of Advisors at Vouched.id.

Gender and ethnicity
Male, Indian

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 led the Group's sustainability activities until the CEO assumed responsibility for this in July 2021. Member of the Pathway to Zero Steering Group and the Risk and Resilience Committee. Member of the Executive Board and engages with investors and the National Colleague Voice on sustainability.

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 and relevant activities
Member of Chapter Zero, the Directors' Climate Forum, and a regular attendee of its events.

Gender and ethnicity
Female, British

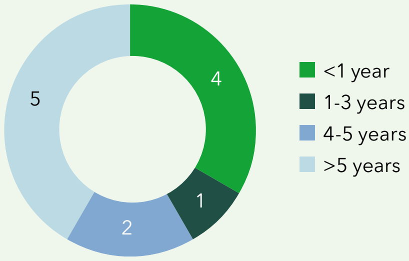
Bill Adderley

Founder and Life President

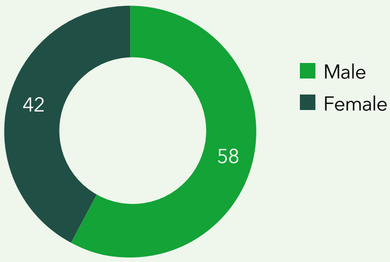
Bill together with his wife Jean founded the business in 1979. Although no longer on the Board or actively involved in management, Jean remains a major shareholder, and both Bill and Jean frequently visit stores and shop online at dunelm.com.

BOARD ANALYSIS

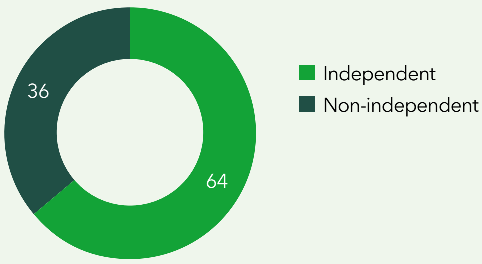
Length of tenure
years



By gender
%



By independence*
%



* Numbers exclude Chairman who was independent on appointment.

Notes:

Vijay Talwar joined the Board on 1 October 2021.

Kelly Devine joined the Board on 1 March 2022.

Laura Carr was CFO during the period and stepped down from the Board on 8 June 2022.

Karen Witts joined the Board on 9 June 2022.

Alison Brittain joined the Board on 7 September 2022.

Board leadership and company purpose

A down-to-earth approach to governance

DOING THINGS PROPERLY
We believe that good governance – in our words 'doing things properly' – leads to stronger value creation, the building of greater understanding and trust of our business, lowering risks and creating opportunities for all stakeholders.

SETTING THE TONE FROM THE TOP
It is the Board's responsibility to instil and maintain a culture of openness, integrity and transparency throughout the business, through our policies and communications, and by the way in which the Board, and therefore Dunelm, acts.

ALWAYS AIMING TO COMPLY
We always intend to comply with the prevailing principles of good governance and codes of best practice honestly, simply, transparently, and with clarity and integrity.

PRAGMATIC APPLICATION
We are pragmatic in our approach and apply corporate governance guidelines in a way that is beneficial to our business, and our stakeholders, consistent with our culture and true to our shared values.

COMPLY OR EXPLAIN
If we decide that the interests of the Group can be better served by doing things in a different way – without compromising our purpose, culture or shared values – we will explain our reasons why in a thoughtful, compelling way, including how we have mitigated any impacts of not following the Corporate Governance Code.

CONSIDERED DECISION-MAKING
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.

We have always believed that good governance helps companies make better decisions for the benefit of all stakeholders, including the communities in which they operate, and for the economy, environment, and society as a whole. This is reflected in our purpose and shared values which are referred to throughout this report. We fully support the Corporate Governance Code, which sets out good practice that boards should adopt to be effective, accountable, transparent and focused on success over the longer term; and which encourages boards to focus on their purpose and culture, and to respond demonstrably to society's demand that they consider the needs and expectations of their stakeholders.

Our governance approach, summarised above, has not changed fundamentally since the flotation of the Company in 2006. We do, however, review emerging guidance and best practice regularly to ensure we follow not just words and processes but the spirit of what is being asked of today's UK plc.

PROMOTING AND PRESERVING LONG-TERM VALUE
Our Board members continue to work effectively together and are committed to promoting the long-term success of the Company, generating value for all stakeholders, including the wider contribution to the economy and society. The Board believes that good governance supports Dunelm's purpose, shared values and strategy, and is satisfied that these elements and Dunelm's culture are aligned.

Strategic elements are reviewed every year by the Board and brought together on our 'plan on a page' which we use for internal and external communication.

For more information on 'our plan on a page' see page 4.

CORPORATE GOVERNANCE UPDATE FY22
Our Corporate Governance meeting, normally held every two years, took place in March 2022. This gives the corporate governance representatives of our shareholders an opportunity to discuss a range of governance topics with the Chairman, Deputy Chairman, Non-Executive Directors and the Company Secretary. We opened with a short presentation which covered 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, and Nominations Committee; and an overview of our sustainability focus areas and progress. This was followed by a wide-ranging discussion of topics including Board composition and succession, executive pay, colleague engagement and wellbeing, and climate change. Attendees told us that they were pleased to be given the opportunity to meet and exchange views with Dunelm's non-executive Board members – which other companies who they follow do not provide – and they confirmed that the ideal frequency for these meetings is once every two years.

A copy of the Corporate Governance presentation from March 2022, together with presentations from previous years, can be found on our corporate website: corporate.dunelm.com.

Our governance framework

The Board as a whole is responsible for:

PURPOSE, VALUES, AND STRATEGY	GOVERNANCE	PERFORMANCE
Setting and role modelling our corporate purpose and shared values.	Instilling and maintaining a culture of openness, integrity and transparency.	Reviewing progress towards strategic and operational goals and the performance of management.
Setting the strategy to deliver our purpose and 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.	Oversight of succession planning and talent management.	Ensuring that Board balance and committee membership are appropriate and effective, and fully compliant with the requirements of the Corporate Governance Code.
Ensuring that resources are in place to deliver the strategy.	Ensuring that financial and other controls and processes for risk management are in place and working effectively.	
	Setting an effective remuneration policy.	
	Ensuring that a process for assessing stakeholder balance is embedded in key decision-making and maintaining good relationships with shareholders and all our stakeholders.	

Board and management committee structure

OUR BOARD

For Directors' biographies see page 84 and Board activities page 91.

BOARD COMMITTEES

NOMINATIONS COMMITTEE

Nominations Committee Report see page 110.

AUDIT AND RISK COMMITTEE

Audit and Risk Committee Report see page 120.

REMUNERATION COMMITTEE

Remuneration Committee Report see page 130.

OPERATIONAL COMMITTEES

CHIEF EXECUTIVE OFFICER (CEO)

Responsible for running the business and setting and executing the Group strategy.

Executive Board

Supports CEO, to develop and deliver strategy, monitor performance, review budget and operational plans.

Biographies available on corporate.dunelm.com.

Risk and Resilience Committee

Oversight and review of principal and operational risks. Chaired by the CFO.

For more information see page 126.

Pathway to Zero Steering Group

Manages and tracks progress of initiatives to address the impact of climate change on our business.

For more information see page 32.

Talent Committee

Oversight and development of succession planning pipeline at all levels.

For more information see page 57.

Board leadership and company purpose continued

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 110, 120 and 130.

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 strategic progress and operational performance (including customers, colleagues and health and safety), and the Chief Financial Officer reports on financial performance. There is a rolling agenda of other operational, strategic, sustainability 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 FY22 are set out on the opposite page.

BOARD ATTENDANCE

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

Director	Meetings attended
Andy Harrison (Chairman)	9/9
Sir Will Adderley (Deputy Chairman)	9/9
Nick Wilkinson (CEO)	9/9
Karen Witts[1] (CFO)	0/0
Ian Bull[2]	8/9
Kelly Devine	3/3
William Reeve	9/9
Peter Ruis	9/9
Marion Sears	9/9
Arja Taaveniku[2]	8/9
Vijay Talwar	7/7
Alison Brittain[3]	0/0

1. Karen Witts joined the Board on 9 June 2022. There were no meetings of the Board between that date and the period end. Laura Carr, who stepped down from the Board as CFO on 8 June 2022, attended all Board meetings held in the year.
2. Ian Bull and Arja Taaveniku missed one meeting due to a prior commitment. When unable to attend a meeting, a Director receives papers and feeds back comments in advance to Andy Harrison, the Board Chair.
3. Alison Brittain joined the Board on 7 September 2022, after the year end.

NON-EXECUTIVE DIRECTOR MEETINGS

There is a scheduled 'Non-Executive Director 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.

MANAGING CONFLICTS OF INTERESTS

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 the independent judgement of the Board. 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 and potential conflicts of interest, and to provide a communications channel for any unresolved concerns, are in place and operating effectively.

For more information see page 166 in the Directors' report.

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. While we do not split out time spent discussing sustainability topics as they fall into all three categories, we have listed them separately in the table below to demonstrate the clear shift in focus over recent years.

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

At each meeting the Board receives an update on customers, people, health and safety, regulatory breaches (if any), policy breaches (if any), reports to the whistleblowing helpline and a sustainability update including quarterly KPIs.

Topics of Board focus during the year

Purpose and strategy	• Purpose, ambitions and strategy • Climate change and sustainability • Culture and values • Capital structure and dividend policy • Budget and future financial plan • Annual approval of Tax Strategy • Competitor reviews
Governance and risk	• Board succession • Approved annual Gender Pay Gap Report • Board independence, composition and diversity • Diversity and inclusion • Investor feedback via advisers • Health and safety • AGM voting and feedback • Ethical sourcing and modern slavery • Cyber security and data protection • Stakeholder engagement • Corporate governance and audit reform • Feedback from National Colleague Voice • Review of half-year and year-end principal risks, including climate change and environment, regulatory, reputational and people risks • Approved annual statement under the Modern Slavery Act
Operational	• Colleague reward and fair pay • Talent, succession and capability • Technology strategy • Data and insight • Plan to grow and deepen customer base • Brilliant stores • Digital shopping experience • Supply chain strategy • Customer operations and post-sale service • Product strategy • People update from the Stores and People Director, which included consideration of reward, training and development, and diversity data (age, gender, ethnicity)
Sustainability	• Approved Scope 3 greenhouse gas emissions target • Two external presentations on Business Strategies to Regenerate Nature, Society and the Economy and Human Connections in a Digital World • Approved Sustainability section, Risks and Uncertainties and TCFD disclosure • Reviewed feedback from National Colleague Voice on sustainability • Approved sustainability-linked Revolving Credit Facility • Two presentations on neurodiversity and physical disability • Annual health and safety and waste management presentation • Product strategy – including approach to sourcing of more sustainable products and circularity • Updated climate change risk assessment

Board leadership and company purpose continued

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 shared 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

Our purpose, which we rearticulated and adopted in FY21, is 'To help create the joy of truly feeling at home, now and for generations to come'. Our purpose explains why we do what we do (i.e., why we exist within the UK homewares market, our long-lasting/sustainable approach and what we seek to achieve). On the inside front cover our CEO, Nick, reiterates how our purpose is being used increasingly within the business to drive everything that we do and, on pages 6 to 13, we explain how purpose-led decisions and actions strengthen our business to support growth. Our 'plan on a page' on page 4 shows how our purpose, proposition, strategic focus areas and shared values interlink and are communicated to internal and external stakeholders. Our purpose also sits at the heart of our sustainability reporting (pages 32 to 67).

Shared values

Our shared values underpin our purpose and describe how all colleagues in the Company are expected to act towards others and influence our culture. Our Board and senior leadership team role model our shared values and at our Board's strategy days, our five-year plan and the strategic elements which will deliver the objectives described in it, were debated and challenged in the context of our purpose and shared values. Our shared values are also reflected in our Code of Business Conduct, our Anti-Corruption and Anti-Bribery Policy, our Ethical Code of Conduct for Supplier and Partners, our Colleague Code of Conduct and other policies such as our Tax Strategy. They are also an important expression of how we look after our colleagues – from employee representation through our National Colleague Voice (NCV) (see page 54) to further initiatives in health and wellbeing, and diversity and inclusion (see pages 52 to 56). All colleagues learn about our purpose and shared values on induction; we recruit with them in mind, they form part of our communications, and colleagues are assessed against them.

Colleagues, people and culture

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 on page 98. By training, listening to, respecting and responding to our colleagues, we inspire them to deliver the best experience to our customers and deliver our strategy. People and culture is one of our principal risks considered formally by the Executive Board and Board of Directors twice a year. For more information on our people and culture risk see page 74.

Codes of conduct

Alongside our shared values we have a Code of Business Conduct and Colleague Code of Conduct, available on our corporate website: corporate.dunelm.com, which sets out the specific standards of conduct, including human rights standards, that our Board and colleagues are expected to meet. We have a separate Anti-Corruption and Anti-Bribery Policy, and senior colleagues and colleagues who have the ability to influence purchasing decisions receive training on induction and annual refresher training. Other relevant policies include our Privacy Policy and our Equality and Diversity Policy.

Suppliers

We also expect our suppliers to adhere to our standards of conduct; all suppliers are required to adopt our Anti-Corruption and Anti-Bribery Policy (or commit to an equivalent policy), and to sign our Ethical Code of Conduct for Suppliers and Partners which commits them to appropriate ethical and human rights standards (including anti-slavery) and to minimise their impact on the environment. Adherence is monitored closely by the Executive Board and Board.

BRINGING OUR SHARED VALUES TO LIFE

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

Our shared values have evolved over time from the business principles formulated by Sir Will Adderley, our Deputy Chairman, over a decade ago, and continue to encapsulate the values of the Company's founders, the Adderley family. We have been pleased that the evolution of our shared values has never required wholesale alterations – an indication of their strength and importance to the business. In FY22, given the speed at which our business is growing, our People Team undertook a project to bring our shared values to life, and to make these values and their associated behaviours and leadership styles easier to understand and communicate.

HOW THE BOARD MONITORS OUR CULTURE

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

- Interacting with members of the Executive Board, members of the Dunelm Leadership Team, and other colleagues in Board meetings and with colleagues on visits to stores and other Company locations. Colleagues can (and do!) speak openly to all Board and Executive Board members and are encouraged to feed back ideas of how we can do better.
- 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.
- Reviewing a set of 'culture' KPIs once a year alongside our risk register. These are set out below:

Customer	NPS, brand perception metrics
Colleague	eNPS, labour turnover, gender pay gap
Product	Ethical audits completed, ethical audit scores, ethical policy breaches, product recalls
Safety	RIDDORs
Compliance	Prosecutions, reportable data breaches, Bribery Act training completed, whistleblowing reports

- As an overall proxy for measuring 'culture' we use our colleague engagement (eNPS) – a Group KPI, which is also a remuneration measure (annual bonus) for our CEO and CFO and all members of the Executive Board.
- Reviewing our 'Colleague Dashboard' at least twice a year, looking at a range of colleague indicators, including engagement, retention, absence, gender pay, diversity, workforce composition and demographics. These inform Board and Committee decisions on talent management, share incentives and executive pay, and form part of the assessment of the performance of the Executive Directors.
- Engaging formally with National Colleague Voice representatives and via our designed NED for colleague matters. Our Chief Executive, Nick Wilkinson, and at least one of our Non-Executive Directors (by rotation) engages formally at meetings every two months with our colleague representative body, the National Colleague Voice. Marion Sears, as designated NED for colleague matters, provides a direct, regular and formal route of contact with colleagues. Each meeting includes a 'Big Topic' where members are encouraged to feed back views and ideas, and Marion reports back to the Board after each meeting. Further details are set out on page 99.
- Engaging with other stakeholders, as described in the s172 Companies Act section of this Corporate Governance Report.

During the year, and at the formal reviews in September 2021 and September 2022, 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.

Section 172 Companies Act 2006

OUR APPROACH TO S172 REPORTING

Each of our Directors is mindful of their duties under section 172 (s172) to run the Company for the long-term benefit of its shareholders and, in doing so, to consider the interests of its key stakeholders during its decision-making, and the impact of any of its decisions on stakeholder relationships, on the Company's reputation for high standards of business conduct, and on the environment.

Although we have taken the matters set out in s172 into consideration for many years, the Code requires us to provide specific information about how the Group and the Directors have considered them, with recent guidance encouraging greater insight into the outcome of stakeholder engagement rather than the process itself.

The matters encompassed in s172 touch on everything we do, and, in reality, most of the day-to-day decision-making and stakeholder engagement is carried out at the business level by members of our Executive Board, and the Dunelm Leadership Team. However, more material matters require the attention of the Board and wider discussion, and we describe on pages 95 to 102 and through case studies on pages 103 to 105 how these are considered and challenged through formal Board processes, how the Board engages with stakeholders and how it oversees how the business does so. We include cross references to other sections of this report where more information and examples can be found.

The Non-Financial Information Statement on page 167 should be used to identify information relevant to s172 factors, as should the numerous operational actions and outcomes described in our Sustainability section on pages 32 to 67, resulting from significant engagement with various stakeholder groups.

SUMMARY: 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, challenged and debated through a combination of the following practical approaches:

- The Board sets the Group's purpose, ambitions 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 reflects relevant factors considered against each agenda item in the minutes.
- Standing agenda items and papers are presented at each Board meeting as detailed on page 106: for example, the CEO presents a customer report, a health and safety report and an update on people matters at each meeting; the Company Secretary reports on sustainability matters in 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 advisers; an update on people matters and a 'Colleague Dashboard' twice a year; an annual presentation on health and safety; and annual updates on ethical trading, modern slavery and climate change and 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.
- Where a particular matter or decision requires a balance of stakeholder interests, a summary of the relevant factors is set out by stakeholder in the supporting papers that are submitted to the Board and are minuted.
- Board members regularly attend seminars organised by external parties which provide updates on investor and governance concerns, including climate change and sustainability. The Company Secretary also regularly attends these events, and circulates a summary of relevant issues and presentations/papers with Board papers.
- This year, to improve the Board's awareness of issues relating to diversity and inclusion, the Board attended two training events hosted by Dunelm's partner, Unleashed.
- The Board regularly reviews the KPIs which it receives in relation to each stakeholder group and requests additional information when relevant.

About our stakeholders

Key stakeholders

Our actions and decisions are highly likely to impact our key stakeholders (and vice versa); we cannot follow our purpose, live up to our ambitions nor deliver our strategy without them.

The importance that we place on each key stakeholder group in relation to our longer-term thinking can be demonstrated through our three Group ambitions, as set out in the table to the right on this page. Our ambitions are aspirational, will still be relevant in the medium to long term and each one is supported by Group KPIs (see pages 24 and 25) which indicate the effectiveness of our engagement. Our Directors are regularly informed about our key stakeholders and their interests, and engage with them formally and on an ad hoc basis.

HOW KEY STAKEHOLDERS ARE RELEVANT TO OUR AMBITIONS

AMBITIOUS ABOUT		
Our brand	Being a good company	Profitable growth
RELEVANCE TO KEY STAKEHOLDER GROUPS		
Customers	Store communities	Shareholders
Suppliers	Colleagues	Colleagues
	Suppliers	
	Shareholders	

OTHER STAKEHOLDERS

In addition to the Group's key stakeholders we have others with whom our Board and/or senior management interact regularly.

We have a trusted team of professional advisers (for example, brokers, financial PR, accountancy firms and recruitment, environment and sustainability advisers); through our Revolving Credit Facility we have relationships with a number of banks; the majority of our stores are leasehold premises, and so we have relationships with many landlords; and we have a number of supplier partners who provide services to us in logistics, technology and construction/store development.

We also have relationships with regulators, including Leicestershire and Charnwood County Councils with whom we have a Primary Authority relationship and other bodies such as the Health and Safety Executive, Trading Standards and Environmental Health Officers. We also engage with national, regional and local media, and social media influencers, and many of our senior colleagues represent Dunelm on industry bodies and working groups, such as Textiles 2030, Better Cotton and the British Retail Consortium. Our approach to all our stakeholders is to seek to build long-term relationships based on fairness and respect, and to meet our contractual obligations, consistent with our Code of Business Conduct and our shared values.

Further information about how we manage our stakeholder relationships at the operational level can be found in our Sustainability section, from page 32.

STAKEHOLDER INFORMATION

Taking on board recommendations from the Financial Reporting Council (FRC) and other guidance, on the following pages, for each key stakeholder group, we provide information on:

- Why we engage with them.
- What each stakeholder group cares about; matters that we know are important to our key stakeholders as a result of our various engagement methods.
- Who has key responsibility for stakeholder engagement (operational level).
- Core operational stakeholder engagement channels (operational level), indicating where stakeholders have access to independent reporting mechanisms.
- How and when our Board members have opportunities to engage directly.
- How our Board is informed/keeps oversight, including how important stakeholder feedback is presented to the Board for debate and discussion.
- How we measure the effectiveness of our engagement (through key measures routinely monitored by the Board).

Performance against some of these measures is detailed on pages 24 to 25. Sustainability metrics are presented on pages 34 to 35, with commentary on pages 36 to 60. For some measures, performance is not published owing to commercial sensitivity, or simply owing to the recent adoption of the measure in question.

Section 172 Companies Act 2006 continued

Customers

WHY WE ENGAGE

Our plan is to become our customers' 1st Choice for Home by delivering the best products, services and experiences for them. Engagement improves our customer insight and influences our focus areas and capital allocation. Recent investment in customer data and insight means we can respond more quickly and accurately to develop relevant product ranges and services, drive brand awareness and grow our customer base and customer loyalty.

For more information see page 49.

WHAT OUR CUSTOMERS CARE ABOUT

- Products that are great value, with choice, style, quality and sustainability.
- Convenient and accessible shopping options.
- Safe shopping services (in-store and home delivery).
- Safe products to buy and to eat (in our cafes).
- Responsive customer service.
- Friendly, knowledgeable colleagues.
- Fair marketing practices.
- Responsible use of personal data.
- Ethical and sustainable brand they can trust.

HOW WE ENGAGE AND HOW WE MEASURE OUR EFFECTIVENESS

Key management responsibility	Core operational engagement channels	How our Board engages directly	How our Board is informed/ keeps oversight	Measures routinely reviewed by the Board
CUSTOMER DIRECTOR – MEMBER OF THE EXECUTIVE BOARD	Customer focus groups/ panels; 'How did we do?' questionnaire*.	Formal annual store visits and ad hoc visits to stores as customers.	Every Board meeting: • Customer insight report, including customer satisfaction scores and other customer KPIs.	• **Unique active customers growth #** • **Total revenue #** • **Net promoter score #** • **Perfect order scores** • **Safety score** • CO_2 emissions # • **Reportable accidents under RIDDOR** • **Customer quality and value perception** • **Number of reportable data breaches (if any)** • Regulatory breaches/ reputational issues (if any) **Measures in bold** are reviewed at every Board meeting; others at least once a year. # denotes Group KPI (pages 24-25)
	Customer hotline* available seven days a week; Customer engagement centre*/individual store managers.	CEO/Deputy Chairman reply personally to customers.		

* Denotes independent feedback channel.

Store communities

WHY WE ENGAGE

By understanding local community needs and concerns we build awareness and trust, help evolve our customer offer, strengthen our reputation, and provide another reason to shop with us. We learned the importance of having a 'voice' in our communities and how much our customers and colleagues benefited from being involved in meaningful local initiatives, by having a direct line of communication to their stores.

For more information see page 50.

WHAT OUR STORE COMMUNITIES CARE ABOUT

- Meaningful charitable donations and local initiatives.
- Local employment and volunteering opportunities.
- Diverse and inclusive approach that mirrors their community.
- A business they are proud to have in their neighbourhood.
- Ethics and sustainability.
- Fair tax policy.

HOW WE ENGAGE AND HOW WE MEASURE OUR EFFECTIVENESS

Key management responsibility	Core operational engagement channels	How our Board engages directly	How our Board is informed/ keeps oversight	Measures routinely reviewed by the Board
STORES AND PEOPLE DIRECTOR – MEMBER OF THE EXECUTIVE BOARD	Daily interaction with local store communities via individual store Facebook groups* (organised by locally appointed Community champions).	–	CEO reports to Board on Group-wide activities (such as 'Delivering Joy' initiative to provide gifts via local charities).	• CO_2 emissions # • Community KPIs (including charitable and community activities) • Diversity data
	Group charity representative invited to attend annual colleague conference (see 'Colleagues' on page 52).	CEO/Deputy Chairman reply personally to customers.		# denotes Group KPI (pages 24-25)

* Denotes independent feedback channel.

Section 172 Companies Act 2006 continued

Colleagues

WHY WE ENGAGE

Being a great place to work and to shop go hand in hand. We engage with our colleagues to understand how best to retain, motivate and reward them, how to respond to the needs of a diverse colleague community, how to look after their wellbeing, and how to make better decisions for our customers, store communities and long-term growth.

For more information see page 52.

WHAT OUR COLLEAGUES CARE ABOUT

- Fair, non-discriminatory employment conditions, pay and benefits.
- Training, development and career opportunities.
- A safe place to work.
- Diversity and inclusion.
- Responsible use of personal data.
- A business that listens and takes action in response.
- A business they trust and are proud to work for.

HOW WE ENGAGE AND HOW WE MEASURE OUR EFFECTIVENESS

Key management responsibility	Core operational engagement channels	How our Board engages directly	How our Board is informed/ keeps oversight	Measures routinely reviewed by the Board
STORES AND PEOPLE DIRECTOR - MEMBER OF THE EXECUTIVE BOARD	Twice-yearly colleague engagement survey*, followed up by targeted pulse survey, if needed.	Formal annual store visits and ad hoc visits to stores as customers.	Every Board meeting: • Colleague matters via CEO report • Matters discussed circulated after each NCV meeting • Whistleblowing hotline issues analysed by Company Secretary and reported monthly to Board Twice a year: • Colleague engagement survey results • Colleague scorecard results	• **Colleague net promoter score#** (updated twice a year following full survey) • CO_2 emissions# • **Reportable accidents under RIDDOR** • Bribery Act training compliance • Gender pay gap disclosure, internal promotions (% home-grown talent) • Colleague turnover • **Reportable data breaches (if any)** • Colleague engagement survey results • Colleague dashboard results • NCV meeting feedback • **Whistleblowing reports*** **Measures in bold** are reviewed at every Board meeting; others at least once a year. # denotes Group KPI (pages 24-25)
	All colleagues represented through our National Colleague Voice* (NCV) with meetings (online and bi-monthly for most of FY22). See pages 54 and 99 for further details.	CEO, elected NCV colleagues and designated Non-Executive Director for colleague matters (Marion Sears) attends; NEDs by rotation.		
	Annual conference for store managers and senior support colleagues.	Deputy Chairman, CEO, CFO and Company Secretary attend annual conference.		
	Two-way 'always on' *Home Comforts* intranet is main platform for all-colleague communications, including CEO updates. Colleagues can add comments/questions* which are answered by our People Team.	Weekly CEO communication for all colleagues. Board members can view 'live' colleague comments/ questions on intranet.		
	Weekly/monthly colleague 'huddles' (at every store); led by departmental head for other business areas.	–		
	24/7 independent whistleblowing hotline*.	–		

* Denotes independent feedback channel.

COLLEAGUE ENGAGEMENT IN MORE DETAIL

The Dunelm Board has always sought honest, direct feedback from our colleagues to help inform and improve the business. We have formal and informal colleague engagement and feedback channels, which reflect our 'listening' culture and give our colleagues many opportunities to let us know what they think. We encourage colleagues to engage personally with the business wherever feasible; an independent, confidential whistleblowing helpline is always available, but we aim for this to be used as a last resort. The vast majority of our colleagues deal with our customers and local communities every day and provide valuable insight into our business, and we value their opinions.

We have a hybrid approach to how we communicate with our colleagues. Regular Group-wide communications are shared via our Home Comforts intranet with additional target-specific updates sent by email. Regular operational updates by our CEO, Nick Wilkinson, include quarterly results and are complemented by genuine two-way communication blog/chat-style discussions to provide support across the 'Dunelm family'. In the year under review these included fun activities and competitions alongside business and strategy developments such as opening our warehouse in Daventry, our approach to supporting and helping those affected by the invasion of Ukraine, community activities, wellbeing, mental health, domestic abuse and personal finance. Our inclusion and diversity colleague networks (see page 53) also provided insightful and thought provoking updates throughout the year on inclusion and diversity matters via Home Comforts, together with informative and fun events organised online and in-person to encourage colleague participation and engagement on this topic.

During FY22 we held six National Colleague Voice (NCV) meetings. Each was attended by Nick Wilkinson, supported by the People Team. Marion Sears, who is our designated Non-Executive Director (NED) for colleague matters, attended most meetings and other NEDs often joined, together with Executive Board members who led discussions around specialist topics. In April 2022, as in previous years, William Reeve, our Senior Independent Director and Remuneration Committee Chair, attended to lead colleague engagement on remuneration. During this session, we discussed our approach to Fair Reward at all colleague levels, explained CEO and CFO compensation and asked for feedback. A description of this engagement and feedback received is included in the Remuneration Report on page 159.

NCV members represent different colleague groups, with a good range of age, ethnicity, location, length of service and level of seniority. Our standard format for each meeting is to have three main parts: an update from Nick on the performance of the business, a 'What's on your mind?' item where members feed back comments and concerns, and one 'Big Topic' where we communicate and seek feedback on important matters. These topics and NED attendees are set out in the table below. The aim is to stimulate discussion and feedback rather than simply have presentations from management and, following the training received by NCV members in 2021, meetings have become increasingly useful to both sides as representatives develop their confidence and skills as advocates for their colleagues. After each meeting, feedback is summarised and presented at the next Board meeting for noting or discussion. We have elevated the importance of colleague feedback in Board decision-making and our NCV representatives know that their views are listened to and result in concrete actions.

NATIONAL COLLEAGUE VOICE (NCV) MEETING TOPICS, BOARD ATTENDEES AND OUTCOMES

Month	'Big Topic' discussed	NED attendee	What we did as a result
AUG 2021	Sustainability	Marion Sears William Reeve	Developed our communication approach around how we engage our colleagues and customers with our sustainability plan.
DEC 2021	Wellbeing	None	On the back of the feedback, we changed the way we communicated our wellbeing benefits on our communication platforms, to make it clearer and more accessible. We launched a trial of additional store tech equipment investment, to help with the service of customers.
JAN 2021	Engagement survey results	Sir Will Adderley	Feedback informed the development of several policies including ways of working, SLAs on maintenance issues, Christmas opening hours, frequency of technology updates and store uniforms.
APR 2021	Reward	Marion Sears William Reeve	Feedback had led to prioritising hourly rates over a thank you bonus to increase level of pay for store colleagues. An explanation of the role and remit of the Remuneration Committee in setting Executive pay was provided and colleagues were pleased at the level of care and scrutiny exercised by the Committee.
MAY 2021	Diversity and inclusion	Marion Sears Sir Will Adderley	Feedback led to sharing more stories about colleagues within our networks, to raise awareness of diversity and inclusion matters. Also clarifying that the networks are open to all colleagues, and the importance of the role of an ally.
JUN 2021	New year plans	Marion Sears	Immediate feedback on our business plans for FY23, which had been communicated that same day. Feedback informed our plans to support colleagues with the cost of living.

Section 172 Companies Act 2006 continued

Suppliers

WHY WE ENGAGE

We do not manufacture the vast majority of products that we sell. Therefore we need to maintain relationships with suppliers and manufacturers worldwide who can meet our high standards. We are a demanding yet fair customer who aims to meet agreed terms and conditions. We work closely with our committed suppliers to develop long-standing relationships and business growth opportunities through regular engagement.

For more information see page 47.

WHAT OUR SUPPLIERS CARE ABOUT

- Fair trading and prompt payment terms.
- Mutual operational improvements.
- High ethical standards (to combat bribery, corruption and modern day slavery).
- Working in partnership to improve environmental and sustainable sourcing.
- A business that treats them fairly.
- A business they are proud to supply.
- A growth opportunity for their business.

HOW WE ENGAGE AND HOW WE MEASURE OUR EFFECTIVENESS

Key management responsibility	Core operational engagement channels	How our Board engages directly	How our Board is informed/keeps oversight	Measures routinely reviewed by the Board
COMMERCIAL DIRECTOR – MEMBER OF THE EXECUTIVE BOARD	Annual supplier conference.	Deputy Chairman and Executive management attend the supplier conference.	Annually at Board meetings: • Update on ethical trading/modern slavery • Supplier payment terms reported and published Ongoing: • Supplier interests championed by Deputy Chairman • Whistleblowing hotline* issues (if any) analysed by Company Secretary and reported monthly to Board	• **Supply chain whistleblowing reports** • Ethical trading/modern slavery and supplier payment terms updates • % Tier 1 factory base audited/ low-medium risk audit performance • % products containing responsibly sourced cotton, timber, and palm oil • CO_2 emissions # **Measures in bold** are reviewed at every Board meeting; others at least once a year. # denotes Group KPI (pages 24-25)
	Ad hoc supplier meetings with Board members.	CEO and Deputy Chairman meet regularly with suppliers.		
	Annual colleague conference (key suppliers normally attend).	Deputy Chairman, CEO, CFO and Company Secretary attend annual colleague conference.		
	Via several teams, including our Design and Quality and Sourcing departments; with core supply chains through our supplier auditing processes.	–		
	24/7 independent whistleblowing hotline*.	–		

* Denotes independent feedback channel.

Shareholders

WHY WE ENGAGE

Continued access to capital is important if we are to achieve our long-term aspirations. We work to ensure that our shareholders and their representatives have a good understanding of our strategy, business model, investment opportunities and culture, and we aim to be transparent and comply with shareholder governance requirements. Shareholder engagement is a Board affair.

WHAT OUR SHAREHOLDERS CARE ABOUT

- Long-term value creation and growth opportunities.
- High-functioning Board and senior executive team.
- Financial stability and disciplined management.
- Culture and shared values conducive to good governance and long-term growth.
- Transparency and acting fairly between shareholders.
- Reputation for high standards of business conduct.
- Increasing focus on ethics and sustainability.
- Climate change and biodiversity risks and opportunities.

HOW WE ENGAGE AND HOW WE MEASURE OUR EFFECTIVENESS

Key management responsibility	Core operational engagement channels	How our Board engages directly	How our Board is informed/ keeps oversight	Measures routinely reviewed by the Board
CEO, CFO, COMPANY SECRETARY	Results announcements/ presentations at least six times a year (with feedback follow-up* by financial PR adviser/broker). Corporate Governance presentation.	CEO, CFO and NEDs attend.	• NED attendance at results presentations • Feedback from results presentations and investor meetings twice a year* • Ad hoc presentations from brokers • AGM voting, shareholder comments and proxy reports presented*	• **Analysis of share price and share register movements*** • Dividend and total shareholder return • Diluted earnings per share # • **Free cash flow #** • **Profit before tax #** • Twice-yearly feedback from results presentations and investor meetings • AGM feedback and voting from shareholders and proxy agencies • Bank covenant compliance • CO_2 emissions # • Customer/supplier sustainability measures **Measures in bold** are reviewed at every Board meeting; others at least once a year. # denotes Group KPI (pages 24-25)

* Denotes independent feedback channel.

SHAREHOLDER ENGAGEMENT IN MORE DETAIL

The Board, as a whole, is able to obtain 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-year 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.
- Corporate Governance meetings with our major institutional shareholders, attended by the Deputy Chairman, Sir Will Adderley, the Non-Executive Directors and Company Secretary.
- In FY22, we also presented an update on our sustainability agenda to an investor conference hosted by our brokers.
- All Directors will be available at the Annual General Meeting to meet with shareholders and answer their questions.
- The Company Secretary reviews corporate governance guidelines prepared by our major institutional investors and their representatives and proxy advisers, and attends updates from professional advisers summarising shareholder expectations and voting actions. A summary of recent developments is provided to the Board at each meeting.
- Attendance and voting at the AGM.

Feedback received is considered in relation to our strategy, capital and dividend policy, and governance priorities.

Section 172 Companies Act 2006 continued

IMPACT OF DECISIONS ON CLIMATE CHANGE AND OUR ENVIRONMENT

As a result of our engagement, we know that matters relating to climate change and the environment are considered important to all our key stakeholder groups. In the table below we summarise important climate change and other environmental issues and how these are managed and communicated to our Directors. In addition, we share how our Board and Board Committees oversaw and were kept informed on various sustainability topics throughout FY22, including details of presentations and papers from internal and external specialists. Details of actions taken to understand the impact of climate change and biodiversity on our business, and to monitor and reduce our environmental impact, can be found in the Carbon Reduction and TCFD sections of our Sustainability section on pages 36 to 41 and 61 to 67.

KEY MANAGEMENT RESPONSIBILITY	• CEO (as Chair of Pathway to Zero Working Group, from July 2021). • All other members of the Executive Board have specific responsibilities within their functional areas.
WHAT MATTERS TO OUR STAKEHOLDERS	• Reducing energy usage. • Reducing emissions from company vehicles. • Reducing overall GHG emissions. • Promoting circular solutions, reducing impact on biodiversity and scarce natural resources, through product design, closed loop products, options to reuse, repair, take-back and recycle. • Minimising waste, packaging materials and single-use plastics (across supply chain). • Responsible sourcing – both ethical and environmental standards (for example, cotton, timber, palm oil and coffee). • Responsible waste management across our own operations (in-store, delivery network distribution and support centres). • Engaging with customers, colleagues, suppliers and industry groups to promote and share solutions and best practice.
HOW BOARD IS INFORMED	• Regular presentations on sustainability topics. • Strategy Day discussion topic. • Monthly Board report from the Company Secretary. • Energy, waste and emissions KPIs reviewed by the Board regularly. • Tracking of KPIs against Group sustainability targets quarterly from FY23.

REPUTATION FOR HIGH STANDARDS OF BUSINESS CONDUCT

On pages 92 to 93 in this governance report, we explain how the Board oversees and monitors our culture, including how our colleagues are expected to maintain our reputation for high standards of business conduct, by complying with our Code of Business Conduct and our Colleague Code of Conduct; how both colleagues and suppliers must comply with our Anti-Corruption and Anti-Bribery Policy; and how suppliers and partners must adopt our Ethical Code of Conduct for Suppliers and Partners. More importantly, we explain how our shared values and culture guide what we do and how we do things.

ACTIONS/CHANGE RESULTING FROM BOARD ENGAGEMENT AND DISCUSSIONS

When making decisions which require balance across different stakeholder interests, the Board is careful to consider each stakeholder group separately and in the context of the long-term interests of the Company. We also carefully consider whether a decision is consistent with our culture and shared values, and to ensure that we maintain the Group's reputation. Principal decisions made by the Board during the period where different stakeholder interests were discussed and considered include:

- To declare a final and special dividend in September 2021, and to declare an in interim and special dividend in February 2022.
- To recommence a share buyback programme to satisfy employee entitlements under share incentive schemes.
- To acquire the Sunflex business.
- To invest further in pay for our hourly-paid colleagues and support colleagues on the lowest pay scale, as well as our HGV drivers and colleagues in warehousing and distribution.
- To increase investment in technology, data and insight, supply chain capacity and human resources to deliver and support future growth.
- To increase investment in the removal of gas-fired heating and increase in-house resource to meet our climate change targets.
- Investment in a new delivery hub in Daventry to support the growth of our furniture business.
- To invest in our store estate ('Brilliant stores' initiative).

On pages 103 to 105 we share three case studies that show how principal decisions made by the Board involved considerable debate and discussion and the balancing of competing interests of key stakeholders.

S172 case studies

Colleague pay decisions taken in FY22

With the business facing post-Covid recruitment challenges and colleagues facing increased financial pressures, our Board took the decision to make significant and 'flexed' pay increases across the business, incurring additional employment costs.

BUSINESS CONTEXT

Dunelm employs over 11,000 colleagues, the majority of whom are hourly-paid and work in our stores and distribution centres. Our Remuneration Strategy and Remuneration Principles are set out in the Remuneration Policy, and applied throughout the organisation.

Recruitment pressures

In FY22, like many other businesses, we faced a number of workforce pressures. As the UK emerged from the Covid pandemic towards the end of 2021, competition for talent increased the risk of higher labour turnover (with a consequent loss of knowledge and productivity) and made it difficult to attract new colleagues in general and, specifically, in certain areas, such as warehousing and distribution, technology and digital.

Financial pressures

At the same time, our colleagues faced increasing financial pressures, with the UK experiencing rising inflation, particularly in energy, fuel and food bills, and an increase in National Insurance from April 2022. Combined, these factors have a disproportionate impact on people at the lower end of the income scale, including many of our colleagues, as these costs make up a larger proportion of their household expenses.

FY22 PAY REVIEW

Hourly-paid colleagues

The annual pay review for most of our hourly-paid colleagues, who tend to earn the least, usually takes effect in April each year. In October 2021, we implemented an exceptional increase to the pay of our warehouse and distribution colleagues to ensure that their pay was competitive. For other hourly-paid colleagues, we awarded an average base pay increase in April 2022 of 7.65%, which is just over 1% above the increase in the National Living Wage of 6.6%, as set by the UK Government. This differential also moved the rate for our store colleagues to the upper end of the median scale.

Monthly-paid colleagues

The pay review of our monthly-paid colleagues (in management and support functions) takes place every August. Usually, we award a flat average rate of increase across all roles. This year, we decided to implement a graded approach: colleagues at the lowest tier of our four 'job levels' received an average increase of 7%, with other colleagues receiving an increase that averaged 4%.

Importance of colleague engagement in decision-making

The Board engages formally with colleagues on pay each year at a dedicated National Colleague Voice meeting (see page 99). We also ask questions about pay in our formal engagement survey, the results of which are fed back twice a year to the Board. Through this engagement we know that colleagues are attracted by our overall employment proposition, which includes a range of benefits, training and development opportunities, inclusive wellbeing and mental health programmes, and additional financial support. However, colleagues also tell us consistently that they value their fixed pay.

DISCUSSION AND DEBATE

In awarding these pay increases the Board considered our purpose and shared values, feedback from colleague engagement and the long-term impact of these outcomes on the business. For example, the Board discussed the potential impact of additional employment costs on short-term profit and shareholder returns, while noting that ordinary dividend payments had resumed and two special dividends had been paid in the year (in October 2021 and March 2022). The Board considered the positive impact on our customers, recognising that our ability to attract and retain a higher calibre of engaged, skilled customer-facing colleagues would provide better customer service. The Board also noted that the business aimed to recover additional employment costs through increased productivity rather than price increases or reducing investments in other parts of our business. Overall, our Board considered the approach of awarding a pay increase that is weighted towards those who are paid the least to be consistent with our purpose and our shared values of 'Stronger together' and 'Long-term thinking', in line with the strategic development of our customer proposition, and supportive of colleagues who are most impacted by inflationary cost increases. The Board also concluded that for these reasons, the proposed investment in pay would benefit shareholders and the prospects of the business over the long term.

Risks to Dunelm:	Increased employment costs; short-term impact on profit; diversion from shareholder returns or other investments.
Opportunities for Dunelm:	Improved ability to attract and retain talent; improved colleague engagement and financial wellbeing; improved customer proposition; positive long-term impact on profits for shareholders.
Key stakeholder trade-offs:	Colleagues v Shareholders

S172 case studies continued

New warehouse and hub in Daventry

To support the growth of our furniture and online business, our Board took the decision to invest in a new furniture warehouse and Home Delivery Network hub.

BUSINESS CONTEXT

In January 2022 we started the phased opening of a new furniture warehouse in Daventry. This project also involved transferring the home delivery network (HDN) depot from Northampton and existing furniture operations from our Stoke warehouse to the new warehouse. Specifically designed for stocking, handling and distributing furniture products – and now linked to HDN to improve order fulfilment and home delivery capacity – the new Daventry warehouse will help us meet customer demand for furniture products and overall growth aspirations for our business.

DISCUSSION AND DEBATE

In making its decision, the Board considered the risk to profit of increasing our fixed costs (offset by reduced costs of third-party storage and stock movements) and of business disruption as we transfer to a new site, which would impact shareholders and any colleagues whose pay included performance-related incentives.

The Board also considered potential impacts on colleagues and local communities. It noted that all Dunelm colleagues in the Northampton depot would be offered the opportunity to transfer to Daventry (around 14 miles away), and that this operation would expand, creating new job opportunities in the local community; that reduction in furniture volumes through our Stoke site would be offset by increasing volumes of other products currently going through third parties, so employment would be maintained; and that the complexity of managing product flows distributed across multiple third parties would be reduced for our Merchandising and Supply Chain teams.

For other stakeholders, the Board noted that increased capacity would enable us to deliver a better service to customers, which would also benefit suppliers through increased sales. The warehouse's location in the centre of the UK is serviced by excellent trunking routes, which will help optimise journeys and shorten delivery times, and there is the possibility of transporting stock by rail from ports, in both cases reducing road miles and environmental impact. The additional environmental impact of operating a new facility would be offset by decreasing the use of third-party storage facilities. The Board decided that the long-term benefits of investing in capacity to meet our growth and improve our customer proposition outweighed the disadvantages.

Risks to Dunelm:	Short-term impact on profit; impact on short-term bonus and long-term incentives for certain colleagues; increased fixed cost base; diversion from other investments.
Opportunities for Dunelm:	Improved customer proposition; additional capacity for growth of the furniture business; increased employment; reduced carbon emissions; long-term benefit to shareholders, customers, colleagues, suppliers and communities.
Key stakeholder trade-offs:	Customers v Shareholders

“Creating joy for our colleagues means creating a quality working environment.”

Our 200,000 square foot Daventry warehouse is located in a well-known logistics hub with excellent access to trunk roads and the future possibility of linking up ports by rail.

GROWING WITH PURPOSE

Our operations team worked closely with the landlord to discuss bespoke lay-out requirements, local infrastructure and labour pools, our shift and vehicle movement patterns, environmental impacts and future growth prospects. The warehouse is built with modern materials, is well insulated and has three-stage automatic sensor lighting, complemented by skylights to provide natural light. Outside, EV chargers are installed for colleagues and visitors and inside there are lithium-free charging points for electric forklift trucks. To facilitate colleague journeys to and from the site, there is a 24-hour bus service and cycle lanes, and to enhance colleague wellbeing an outdoor seating area with a new planting scheme has been created. To better engage our colleagues with the wider Dunelm business, care has been taken to make the warehouse 'feel like home' through impactful store images and branding. Our current focus is on building colleague competencies in new ways of working and embedding warehouse management systems in our new, bespoke facility.

'Brilliant Stores' plan

To support ongoing investment in our stores to create future value, our Board approved a Group-wide 'Brilliant Stores' plan to focus time and resource more effectively.

BUSINESS CONTEXT

Our stores play a vital role for our customers, many of whom will research or place orders online but also come into our stores to browse, get expert help, measure up items and test out products, or come in for a drink, snack or chat. Increasingly, our stores and Pausa cafes are used as social hubs and are supporting local communities and businesses.

'BRILLIANT STORES' PLAN

As well as continuing to open new stores, we have an ongoing programme to invest in upgrading our existing store estate and installing the latest formats. In FY22, we invested in nine large and medium-sized refits as well as installing 18 new furniture formats, 11 new decorating fixtures and four Pausa cafes. In addition to this, at its Strategy Day in 2021, the Board debated and approved a Group-wide 'Brilliant Stores' plan as part of our ongoing investment in our store estate and performance, reinforcing the importance of stores to our long-term business model.

Our aim is for every store to be brilliant every day. By bringing together all the elements that we know we need to get right to make our stores brilliant under one umbrella, we can focus time and resource more effectively. Although the outcome of the initiatives is store-focused, we keep our customers at the forefront of our thinking to ensure that our online and store shopping experiences are seamless, for example when collecting a Click and Collect order or returning a home delivery order.

MEASURING AND MONITORING PROGRESS

We use store scorecards to measure and monitor performance and the impact of initiatives implemented. Up-to-date metrics (by store or region) can be accessed at any time by store coaches and are an important improvement driver. They include typical 'hard' retail measures such as sales information by shopping channels, perfect order scores, speed of service and stock management, but also ratings from customers about how friendly the service was and colleague engagement scores. Each store coach is held accountable for his or her scorecard performance which is also fed back into appraisal and bonus calculations. Separately, we monitor and rank store community engagement levels on our community leader board.

DISCUSSION AND DEBATE

Our 'Brilliant Stores' plan pulls in knowledge and expertise from around the Group, encouraging greater colleague collaboration and engagement. It is purpose-led, and strengthens our customer proposition and our ability to create thriving local communities. Investing in store colleague training and technology to make their tasks easier also promotes colleague engagement in our store teams. Whilst additional resource and investment in our stores refit and 'Brilliant Stores' plan may impact short-term profit and shareholder returns, the Board considered these and concluded that the ongoing importance of stores to our future long-term value creation and the stakeholder benefits outweighed these considerations.

Risks to Dunelm:	Increased investment costs; short-term impact on profit; diversion from shareholder returns or other investments.
Opportunities for Dunelm:	Improved ability to attract and retain customers; improved colleague engagement; improved customer proposition; positive long-term impact on profits for shareholders.
Key stakeholder trade-offs:	Customer v Shareholders

Section 172 Companies Act 2006 continued

GROUP BOARD OVERSIGHT OF S172 AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE TOPICS FY22

Date	Board/Committee	Topic
JUL 2021	Board	New sustainability governance for FY21 led by CEO under 'Pathway to Zero' structure. Update on Scope 3 carbon footprint and options for Scope 3 greenhouse gas emissions target.
SEPT 2021	Audit and Risk Committee	Review of principal risks, including: climate change and environment; regulatory and compliance; brand damage; and people and culture.
		Review of annual report disclosures, including risks and uncertainties, Audit and Risk Committee Report, voluntary TCFD disclosure and sustainability KPIs.
		Anti-corruption and anti-bribery policy update.
	Board	Review of principal risks, including: climate change and environment; regulatory and compliance; brand damage; and people and culture. Approved target to reduce Scope 3 greenhouse gas emissions by 30% by 2030 in absolute terms, matching target for Scope 1 emissions; committed to purchasing renewable energy (Scope 2 emissions). Approved annual report disclosures, including Sustainability section, principal risks, and uncertainties and voluntary TCFD disclosure. Annual review of stakeholder engagement and balance, and review of culture KPIs.
	Remuneration Committee	Reviewed performance against KPIs in FY21 annual bonus, which included customer and colleague satisfaction scores. Set targets for FY22-24 LTIP award which include climate change-related targets.
OCT 2021	Board	Approved annual Modern Slavery Act statement and Gender Pay Gap Report. Reviewed August National Colleague Voice meeting report where 'Big Topic' was sustainability.
NOV 2021	Board	People update from Stores and People Director, including consideration of reward, training and development and diversity data (age, gender, ethnicity). Approved terms of sustainability-linked Revolving Credit Facility, including targets linked to carbon reduction, packaging reduction, use of more responsibly produced cotton and provision of customer take-back schemes. External presentation on diversity (neurodiversity).
JAN 2022	Board	Sustainability progress update. Annual presentation on health and safety and waste management. External presentation on diversity (gender).
FEB 2022	Audit and Risk Committee	Half-year review of principal risks, including: climate change and environment; regulatory and compliance; brand damage; and people and culture. Update on FY22 TCFD report progress. Annual review of Tax Strategy. Anti-corruption and anti-bribery policy update.
	Board	Half-year review of principal risks, including: climate change and environment; regulatory and compliance; brand damage; and people and culture. Annual approval of Tax Strategy. Product strategy, including sustainable products.
MAR 2022	Board	People update from Stores and People Director, including consideration of: talent management, diversity data (age, gender, ethnicity). Approved Gender Pay Gap Report.
	Nominations Committee	Executive Director and Executive Board talent and succession (attended by external talent consultant).
APR 2022	National Colleague Voice	Remuneration strategy, executive pay and fair reward.
MAY 2022	Board	External presentation on mental health and wellbeing (human connections in a digital world) and business strategies to regenerate nature, society and the economy.
JUN 2022	Audit and Risk Committee	Review of verification process for environmental, social and governance KPIs. Updated climate change risk assessment for TCFD, including three temperature rise scenarios. Proposed TCFD disclosures.
At every meeting:		Regulatory and policy breaches (if any), people update, health and safety update, review of reports from whistleblowing helpline, sustainability update including quarterly KPIs.

Division of responsibilities

ABOUT OUR BOARD

Board structure

The Board has agreed that our optimum Board size is between nine and eleven Directors, with an Independent Chair, four Executives/Non-Independent Directors, and between four and six independent Non-Executive Directors. We consider this structure gives the right level of independent challenge, and mix of backgrounds and skills, and is 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 2022 and we confirmed that Andy Harrison was independent on appointment to the Board and subsequently as Chairman, and that Alison Brittain, Ian Bull, Kelly Devine, William Reeve, Peter Ruis, Arja Taaveniku, and Vijay Talwar are independent.

Non-Independent Director

The Board has treated Marion Sears as a Non-Independent Non-Executive 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 Sir 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 Sir Will Adderley are parties to a Relationship Agreement (referred to in the section headed 'Managing conflicts of interest' on page 166) 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 Nominations Committee Report on pages 110 to 119.

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. For details of the specific skills and experience of each Director see the Directors' biographies on pages 84 to 87.

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 responsibilities of the Directors is set out on page 108. An overview of responsibilities for individual Board Committees and their Chairs are set out in the relevant Committee reports.

Division of responsibilities continued

BOARD RESPONSIBILITIES

Position	Responsibilities
Chairman	• 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	• Maintaining a close dialogue with the Chairman and the CEO. • Contributing to the development of the Group's purpose, 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	• 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	• Proposing the strategic objectives of the Group for approval by the Board, and delivering the strategic and financial objectives in line with the agreed purpose and strategy. • Leading the Executive Board and senior management in managing the operational requirements of the business. • Leading the climate change and sustainability objectives of the Group. • Providing clear and visible leadership of our shared values. • Effective and ongoing communication with colleagues and shareholders.
Chief Financial Officer	• Working with the CEO to develop and implement the Group's purpose and 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 shareholders.
Non-Executive Directors	• Constructive contribution and challenge to the development of strategy and ensuring that decisions are taken so as to promote the success of the Company in the interests of all stakeholders. • 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.
Designated Non-Executive Director for colleague matters	• Engaging with colleagues (for example through the National Colleague Voice) so as to represent the 'Colleague Voice' at the Board.
Company Secretary	• Supporting the Chairman and the Non-Executive Directors with their responsibilities. • Advising on regulatory compliance, corporate governance, climate change and sustainability. • Facilitating individual induction programmes for Directors and assisting with their development as required. • Communications with shareholders and organisation of the AGM.

SHARE BUYBACK AND RULE 9 WAIVER

Since the time of flotation of the Company, the members of the Adderley family, including Bill and Jean Adderley and Sir 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 'Takeover Code'). At the date of this report, Sir Will Adderley controls 37.3% of the issued share capital of the Company, and the Concert Party controls 42.8%. Bill and Jean are no longer Directors of the Company or actively involved, although Sir Will Adderley is a Director and Deputy Chairman.

As usual we will be requesting authority to buy back up to 5 million shares (2.5%) of our share capital) at the AGM. This authority is to allow the Company to purchase shares in order to satisfy future share option entitlements for Executives, excluding Sir Will Adderley. Given that it is expected that shares bought by Dunelm in the market will be reissued, then no dilution or change of control should occur either for the Concert Party or for other shareholders. As Sir Will Adderley has a beneficial interest of above 30% of our share capital, and the interest of the Concert Party is less than 50%, for the Company to exercise the authority to buy back shares we have to ask shareholders to approve a waiver of Rule 9 of the Takeover Code, as otherwise Sir Will would be required by law to make an offer to buy all of the shares in the Company. We understand that a number of shareholders have concerns about Rule 9 waivers in general, as they can lead to major shareholders gaining 'creeping control'; as a result they may be bound by their voting policy to vote against the resolution. We hope that shareholders will give this administrative matter full consideration and conclude that they can support the waiver, notwithstanding any internal voting policy. In this regard we would like to reassure shareholders that:

- Shares bought back by the Company would be held in treasury and used only to satisfy share option entitlements, and not cancelled.
- Since 2012, Sir Will Adderley no longer participates in the Long-Term Incentive Plan or any other share-based incentive plan, and therefore his shareholding will not increase through that mechanism.
- Since flotation of the Company in 2006, the Adderley family has reduced its holding (from 67% to 42.8% currently).
- There has been a Relationship Agreement in place since flotation which provides safeguards to other shareholders – for details please see the Directors' Report on page 166.

We therefore request that shareholders take into account our specific circumstances when making their voting decision in relation to the waiver resolution, and we hope that shareholders will support the Board's recommendation.

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. We would like to reiterate 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 purchased 2,500,000 of its own shares during the financial year. See page 30 for an overview of our capital and dividend policy.

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.

Composition, succession and evaluation

Nominations Committee Report

Andy Harrison
Chair of the Nominations Committee

Dear shareholder

In yet another very challenging year, Dunelm has delivered a record performance for our shareholders and indeed an excellent performance for all our stakeholders. This is a tribute to all my Dunelm colleagues and a testament to our talented, committed and cohesive leadership team. In this, my last report as Chair of the Board and the Nominations Committee, I would like to say a huge thank you to our colleagues for their hard work, commitment and continued determination and ambition to grow our company in a sustainable way consistent with our purpose, ambitions and shared values.

BOARD SUCCESSION

We believe that the optimal size of our Board is between nine and eleven Directors. This will enable us to comply with all the governance requirements on independence and diversity, while maintaining a cohesive culture in which all Board members can continue to contribute fully.

We endeavour to manage our succession plan to ensure that we have the appropriate and diverse range of skills and experience needed to deliver our strategy for the benefit of our stakeholders. We also take care to ensure that all new members of our Board are aligned to our purpose and culture, and share our values, whatever their skills and background.

When we appoint a Non-Executive Director (NED) to the Board or when a Director takes on any additional responsibilities we always assess their other commitments to ensure that they have sufficient time to dedicate to Dunelm, including during periods of unanticipated additional activity.

CHAIR SUCCESSION

An important focus for the Committee this year has been to carefully manage my succession. My nine-year tenure on the Board is due to expire on 1 September 2023 and we have been keen to manage the succession process in a careful and timely fashion. William Reeve, our Senior Independent Director, led the search process, which commenced in 2021 to ensure that there was sufficient time to find a candidate of the right calibre, available within our time frame. On 21 July 2022 we announced that Alison Brittain would join the Board on 7 September 2022 as a Non-Executive Director, and it is expected that she will succeed me as Chair early in 2023, and I am delighted that Dunelm has been able to attract a candidate of her skills and experience and approach, whose values are clearly aligned to ours. I am sure that Alison will help us to unlock the potential of the business even faster, and I look forward to working with her as she transitions into the Chair role.

CFO SUCCESSION

Laura Carr advised the Committee in December 2021 that she intended to step down from the Board in June 2022, to take up a new opportunity outside of retail and the public markets. Laura has made a tremendous contribution as CFO during her tenure of three and a half years, and on behalf of the Board I thank her, and we wish her well in her new role.

We started the search for Laura's successor early in 2022 and I was very pleased that in April we were able to announce that Karen Witts would join us as CFO in June. Karen is an accomplished finance leader who brings a wealth of experience from a number of roles with high-profile, consumer-facing brands. She has already started to make a strong contribution to the Board and the Executive team.

NED SUCCESSION

During the year, two Non-Executive Directors joined the Board, to enhance our skills and to support our ambitious growth plans. They also enhance the diversity of our Board in terms of background, experience, gender and approach.

As I mentioned last year, to increase our NED experience of large-scale digital commerce, including cyber security and multichannel supply chains, Vijay Talwar joined the Board on 1 October 2021. Vijay has already contributed to our business discussions, and not least in terms of cyber security.

I am also pleased that we were joined on 1 March 2022 by Kelly Devine. Kelly brings experience from the fast-changing international payments industry, driven by technology, changing consumer behaviour and the power of data. She has already started to broaden our discussions.

We now have the required number of independent Directors on the Board, and also meet the requirements of the Corporate Governance Code on diversity of gender and background. The process for the appointment of all of the new Board members is described in the Nominations Committee Report, and I thank all of my Board colleagues for the time that they have invested this year in this important activity.

DIVERSITY AND INCLUSION

Last year I reported on the creation and roll out of Dunelm's diversity and inclusion programme across the business, designed to step change our approach. This has continued throughout the year with the full support of the Board, and more details can be found in the Sustainability section on page 52. This year the Board and Executive Board again participated in interactive learning sessions on neurodiversity and gender, designed to build our knowledge and understanding, and help us to consider how we can promote diversity and inclusion throughout the business. We also review diversity KPIs at least twice a year alongside the other colleague measures as part of our oversight of the people policies and culture of the business.

At Board level, our policy is that our Board should always be of mixed gender, and in all recent appointments we have requested that a range of candidates from diverse social and ethnic backgrounds be brought forward for consideration. Further details can be found in our report on page 52. I am pleased that all of our appointments this year have enhanced the diversity of our Board.

SUCCESSION AND TALENT

Last year I reported on how we have accelerated our approach to succession planning and talent management across the business. We are now in the second year of a three-year programme, which has been fully rolled out throughout the business, so that all management colleagues now discuss their development and aspirations with their manager at least once a year. This has created a far more robust and effective process for identifying and growing our talent. Further details can be found in the Sustainability section on page 57. The Nominations Committee has had direct oversight of how this has been implemented for the members of the Executive Board, and all members with operational roles now have potential internal successors in place. At Board level, I encourage each Board member to have an open conversation with myself about future intentions as part of the annual Board review.

BOARD EFFECTIVENESS

We were not due to hold an external Board review until FY23, but we decided to bring this forward to FY22 specifically to focus on the priorities for the incoming Board Chair and to help her as she develops her agenda. The review concluded that the Board is performing effectively, and helped us to set some priorities for the forthcoming years as set out on page 117.

I look forward to meeting shareholders at the AGM.

Yours faithfully,

Andy Harrison
Chair of the Nominations Committee

14 September 2022

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
Sir Will Adderley	17 February 2011	To date	3/3
Ian Bull	10 July 2019	To date	3/3
Kelly Devine[1]	1 March 2022	To date	1/1
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
Arja Taaveniku	15 February 2021	To date	3/3
Vijay Talwar[1]	1 October 2021	To date	2/2

1. Kelly Devine and Vijay Talwar were appointed to the Board during the financial year, and joined the Nominations Committee on appointment.

Alison Brittain joined the Board on 7 September 2022, after the end of the year, and became a member of the Committee on that date.

The Company Secretary acts as secretary to the Committee.

Additionally, two presentations were made to the Board on succession and talent management, one attended by the independent consultant referred to below under 'Succession and Talent', and both attended by the People and Stores Director.

No Director attended that part of a meeting during which his or her own position was discussed.

Composition, succession and evaluation continued

SUMMARY OF THE NOMINATIONS COMMITTEE'S PRINCIPAL ACTIVITIES IN FY22

Succession principles

Our Board succession plan is designed to achieve a Board that:

- Is cohesive, engaged, aligned to purpose and shared values.
- Has diversity of nationality, ethnicity, gender, thought and skills to deliver our strategy.
- Has strong executive capability.

Board appointments and induction

FY22 appointments reflect ambitious multichannel growth plans, mindful of best governance practices.

- Completed search for Chair; Alison Brittain joined the Board on 7 September 2022 and is expected to succeed Andy Harrison as Chair early in 2023.
- Appointment of two Independent Non-Executive Directors:
  - Vijay Talwar joined in October 2021, bringing multichannel retail and digital expertise.
  - Kelly Devine joined in March 2022, with a background in consumer and data.
- Appointment of Executive Director:
  - Karen Witts joined the business and Board as CFO in June 2022.
- New Board members welcomed into the business through a comprehensive induction, co-ordinated by the Company Secretary in FY22.

Board effectiveness

- Oversight of external Board review to ensure that the Board is working as effectively as possible.
- Ongoing review of the Board's composition, to ensure it follows best practice and meets the strategic needs of the business, taking into account the main trends and factors affecting the long-term success and future viability of the Group.

Group-wide role

- Played an active role in the increased focus on succession and talent management across the whole business, and our approach to diversity.
- Oversight of the Board and the Group's diversity and inclusion programme to increase inclusion and diversity of gender, ethnicity, background, thought and skills throughout the business.

Focus FY23

- Continuing to oversee the ongoing Board succession plan.
- Continuing to oversee succession and talent management, and diversity throughout the business.

OUR NOMINATIONS COMMITTEE'S ACTIVITIES IN MORE DETAIL FY22

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

PRINCIPAL DUTIES

The purpose of our Nominations Committee is: to assist the Board by keeping the composition of the Board under review; to conduct 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; to oversee the succession plans for the Board and senior management; and to ensure 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 Group's website: corporate.dunelm.com. These terms were last reviewed by the Committee in June 2020.

BOARD CHANGES IN FY22 AND PLANNED SUCCESSION ACTIVITY

Board succession has played a larger than usual part of the Committee's activities in the year, as we sought both a Board Chair and CFO, and made two Non-Executive Director appointments. In all cases appointments were made against objective criteria, and the Committee specified that candidates be sought from a range of diverse ethnic and social backgrounds, and for both male and female candidates to be put forward.

Chair succession

A major focus for the Committee this year has been the search for my own successor. Although I am not required to retire from the Board until 1 September 2023, I have always said that I remain flexible to the wishes of the Board. The search process was started early in 2021, so as to give the Board the maximum time to find a candidate of the required calibre, and, of equal importance, who shares the Dunelm culture and values.

The process was led by William Reeve, the Senior Independent Director. I did not play a part in this, although William did seek my views at specific stages. An external search firm, Russell Reynolds, was appointed to lead the search. Given the sensitivity of the appointment we decided not to also use the Nurole platform, as is our normal practice on the appointment of a Non-Executive Director (NED). The search firm spoke to all of the Directors and the Company Secretary to seek their input before drawing up a role specification which was agreed by the Committee. We were looking for an experienced business leader, who has worked in a range of large, consumer-facing businesses and has a track record of delivering growth.

In her most recent CEO role at Whitbread PLC, from which she will retire early in 2023, Alison has been responsible for successfully scaling the company's various hospitality brands before overseeing the sale of its Costa Coffee portfolio in 2019. Since then, she has refocused the Group as a pureplay hotel company, strengthening the success of the UK business whilst developing an international platform for long-term growth. Prior to joining Whitbread PLC, Alison held a number of senior roles in the UK banking industry. As stated above, we were also seeking an individual whose personal values are aligned to our own. William Reeve and other Committee members interviewed a number of the shortlisted candidates, and all members of the Board met with the preferred candidate and gave their unanimous support. The Committee therefore recommended to the Board that Alison Brittain be appointed to join the Board on 7 September 2022, with the aim of succeeding me as Chair on my retirement early in 2023.

CFO succession

Laura Carr, the Chief Financial Officer (CFO), advised the Board in December 2021 that she intended to step down from the Board to take up a role outside of retail and the public markets. A search for her successor commenced in January 2022. The Committee engaged an external search firm, Sam Allen Associates, to conduct the search. A role specification was agreed by the Committee with input from other Committee members and from Nick Wilkinson, the Chief Executive Officer, given the important executive role that the CFO will play in the business. Following an extensive search process, a shortlist was drawn up of candidates who had the required skills and experience, and whose approach was aligned with the Group's shared values. This included candidates from a diverse range of backgrounds, as well as an internal candidate. Candidates met with myself and Nick Wilkinson, Ian Bull, who chairs the Audit and Risk Committee, and other Board members. References were taken and all were positive. The Board accepted the recommendation of the Nominations Committee that Karen Witts be offered the CFO position.

Non-Executive Director succession

Last year I reported that we had identified a need for a further NED with experience in digital businesses, including digital risk management, and to meet the increasing regulatory requirements of an Audit and Risk Committee member – financial expertise and a deeper ability to understand cyber risk. On 14 July 2021 we announced the appointment of Vijay Talwar to the Board, and Vijay joined the Board on 1 October 2021.

We also commenced the search for an additional female NED, so as to meet the required gender balance on the Board. I was pleased to be able to announce the appointment of Kelly Devine to the Board with effect from 1 March 2022. Kelly has a background in economics and has built her career in the payments industry. Her current role is President, UK and Ireland of Mastercard, where she has overseen significant market share expansion, business diversification and delivery of high employee engagement. Her experience in the fast-changing international payments industry, driven by technology, changing consumer behaviour and the power of data, will strengthen our Board as we accelerate our multichannel growth.

Ongoing activity

The Board's priority for this year is to complete the Chair and CFO transitions and to continue to develop strong relationships between all of our Board members. There are no scheduled Board vacancies until 2024, so we will commence our planning for these during the coming financial year.

Composition, succession and evaluation continued

OVERVIEW OF FY22 APPOINTMENTS AND FUTURE BOARD SUCCESSION PLANNING

Position	Actions and timings	Rationale/best practice
Chair designate	• Commenced search process in 2021 for Chair to succeed Andy Harrison when he retires in 2023. • Alison Brittain joined the Board on 7 September 2022, and is expected to succeed Andy Harrison as Chair early in 2023.	• Alison is a highly experienced business leader who brings considerable experience from a range of consumer-facing companies, with a track record of delivering growth. • Continue to meet best practice, having either female CFO, CEO, SID or Chair; early adoption of new UK Listing Rule. • We will exceed the Hampton-Alexander guidance of 40% female representation on Board; early adoption of new UK Listing Rule.
CFO	• Immediate search undertaken for a new CFO following Laura Carr's resignation announcement in December 2021. • Appointment of Karen Witts announced in April 2022. • Karen joined the Board on 9 June 2022	• Accomplished finance leader who brings a wealth of experience from a number of roles with consumer-facing brands. • Continue to meet best practice, having either female CFO, CEO, SID or Chair; early adoption of new UK Listing Rule. • Brings us in line with Hampton-Alexander guidance; over 40% of female representation on Board; early adoption of new UK Listing Rule.
NED with digital experience and deeper understanding of digital/cyber risk	• Vijay Talwar's appointment confirmed in July 2021. • Vijay joined the Board in October 2021.	• Vijay brings additional financial expertise to our Audit and Risk Committee capability. • As a non-UK national from a non-white background, Vijay strengthens the Board's diversity profile, meeting Parker Review guidelines; early adoption of new UK Listing Rule.
Additional female NED	• Appointment of Kelly Devine announced in January 2022. • Kelly joined the Board in March 2022.	• Offers consumer and data expertise. • Brings us in line with Hampton-Alexander guidance; over 40% of female representation on Board; early adoption of new UK Listing Rule.

BOARD APPOINTMENT PROCESS

For all Board appointments and our ongoing succession plans we generally follow this well-rehearsed process, adapting where necessary to account for specific skills required and circumstances.

- Detailed role and person specification drawn up by Nominations Committee.
- Independent external search consultant appointed to conduct the process. NED vacancies usually 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 longlist as standard practice. Search consultant also asked to bring forward candidates from a diverse background.
- Initial candidates meet with Chair and at least one other Board member; shortlist candidates meet with other Board members.
- Extensive references taken and, for NEDs, an assessment of candidates' 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.

Our purpose, culture and shared values

Preservation of our culture and shared values – through alignment with our purpose – has always been a Board priority. No appointment is made to the Board unless we are satisfied that the individual is a good cultural fit, is fully aligned to our shared 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 Board succession planning. Further details of our shared values, and how they are aligned to our refreshed purpose and embedded throughout our business, and how the Board monitors these, are set out in the Corporate Governance Report.

Board induction process

Each new Board Director receives a full and tailored induction, led by the Chairman and the Company Secretary. The Company Secretary provides a full set of relevant documents and access to past Board and Committee papers, as well as a briefing on Directors' duties and responsibilities. Induction meetings are held with all Board members and members of the Executive Board, as well as other senior management and external advisers relevant to that Director's interests and any specific Board responsibilities. A programme of site visits is also arranged.

Board succession

We have always had 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. In general, and as discussed during our Board evaluation, we aim to maintain a Board of between nine and eleven Directors (current membership is twelve, but will be eleven when Andy Harrison retires, early in 2023), with ideally no more than one new appointee in any year.

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 Board Diversity and Inclusion Policy, and mindful of the Guidelines set out in the Parker Review that all FTSE 250 companies should have a Board member of colour by 2024, we also have regard to the requirement to achieve a diversity of characters, backgrounds and experiences amongst Board members, as well as of ethnicity and gender. All Board appointments irrespective of background must satisfy the high standards Dunelm requires. Candidates must have the competence to contribute to wide-ranging debates and cope with the demands of a stretching future-focused agenda, and share our values.

We also take into account the corporate governance guidance on Chairman and Non-Executive Director tenure; for reference the tenure and re-election cycle is summarised in the table on page 119. Our updates on recent and planned Board appointments are described on page 114.

As described above, during the financial year we welcomed two new Independent Non-Executive Directors, Vijay Talwar and Kelly Devine, to our Board. On 7 September 2022 we were joined by Alison Brittain who it is planned will succeed Andy Harrison as Chair in early 2023 after an induction and handover period. Karen Witts joined the Board as CFO in June 2022, succeeding Laura Carr who stepped down from the Board in that month.

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. 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 the Executive Board development and succession process, and the pipeline of talent available for succession to the Board.

Dunelm Board members have regular contact with members of the Executive Board and the wider Dunelm Leadership Team, 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 Dunelm leadership team on a less formal basis.

Succession and talent management

The Committee is responsible for Board succession planning and monitoring Executive Board succession to ensure that the respective composition of these leadership bodies enables us to embed and deliver our purpose ‘To help create the joy of truly feeling at home, now and for generations to come’; and that we have the capability to progress our ambitious growth strategy. We maintain a consistent recruitment approach across the business; our Board and Nominations Committee members have oversight of, and follow, Dunelm’s Talent Management Strategy (see pages 57 to 58) and its management of succession and talent.

Under the guidance of the Committee, the Talent Committee comprising Executive Board members was established in September 2020, led by the Chief Executive Officer, Nick Wilkinson, and supported by an external consultant. Its members include the People and Stores Director and other members of the Executive Board. Its purpose is to develop and implement a more structured ‘Home of Talent’ process, to ensure that there is a strong succession pipeline for our Executive Directors, members of the Executive Board and throughout the business. The Group is mid-way through a three-year project to embed a ‘Know-Grow-Flow’ mechanism throughout the business, which is designed to ensure that talented individuals with diverse skills and backgrounds can thrive and have the opportunity to move across and up in the organisation. Further details can be found in our Sustainability section.

Nick Wilkinson reports at least twice a year to the Committee (in relation to the development and succession of Executive Board members) and the Stores and People Director reports twice a year to the Board (in respect of other colleagues). The Nominations Committee agreed that this is an appropriate structure, given that matters relating to our workforce are whole-Board topics.

Composition, succession and evaluation continued

BOARD EFFECTIVENESS

Each Director receives a formal evaluation of their performance during the year, which is conducted by the Chairman. The Senior Independent Director reviews the performance of the Chairman and feeds back to the other Board members.

The performance of our Board and Committees is also formally evaluated as a whole. In FY21 the review was led by the Chairman. The actions taken as a result of this are described on the following pages. We were not due to hold an external Board review until FY23, but we decided to appoint Lorna Parker, who we trust and who has facilitated our reviews in the past, to carry out a review for us. We asked Lorna specifically to focus on the priorities of the incoming Board Chair, so as to help her as she develops her agenda.

FIVE-YEAR BOARD EVALUATION CYCLE SUMMARY

FY18	Internal	Chair-led evaluation with individual members
FY19	Internal	Chair-led evaluation with individual members
FY20	External	External evaluation led by Lorna Parker
FY21	Internal	Chair-led evaluation with individual members
FY22	External	External evaluation led by Lorna Parker

FY21 Board evaluation summary

The recommendations arising from our FY21 internal Board evaluation, conducted by the Chairman, Andy Harrison, and the actions implemented in response are set out below:

Outcomes and recommendations from FY21 evaluation	Actions implemented
Ensure there are regular discussions of 'what keeps us awake at night'.	Scheduled discussion deferred to October 2022 due to Covid restrictions – we find these discussions to be more effective if they take place in person.
Continue to develop the work of the Risk and Resilience Committee.	The Risk and Resilience Committee is now well established and is a forum for more in-depth discussion of risk and monitoring of risk KPIs by the Executive Board, which is then reported to the Audit and Risk Committee.
Board members to feed back suggestions for additional KPIs which they would find useful.	KPIs further refined, particularly customer and colleague KPIs.
Continue to address governance requirements in a pragmatic way to ensure that the majority of Board time is spent on strategy; keep committee memberships under review.	Managed by the Chairman and Company Secretary – majority of time spent on strategy. Current committee membership considered to be the most effective solution.
Continue search for an additional female NED.	Kelly Devine appointed in March 2022. In addition, both the new CFO, Karen Witts, and the Chair Designate, Alison Brittain are female, meaning that five of the current twelve Board members are female.
Continue to build on succession plans for the Executive Board and oversee talent management in the business.	Discussed at two Nominations Committee and two Board meetings during the year. Succession plans in place for all members of the Executive Board with operational duties.

OVERVIEW OF FY22 BOARD EXTERNAL EVALUATION PROCESS

Confidential questionnaire
Completed by each Director and Company Secretary

Individual meetings between Lorna Parker and Directors and Company Secretary

Presentation of results to Board
Discussion
Agreed actions

FY22 BOARD EVALUATION

Lorna Parker, a Board evaluation specialist, led the external Board evaluation in May and June 2022. The process involved each Director and the Company Secretary completing a confidential questionnaire, which included questions on a number of relevant, forward-looking topics as well as a number of regular 'standard' questions on committee performance, stakeholder engagement, agenda topics and meeting management. This was followed up by individual meetings between Lorna Parker and each of the Directors and the Company Secretary to discuss the outcome of the questionnaire and views on the Board's priorities for the incoming Chair. All Board members actively engaged in the process and provided open and constructive comments. Lorna then summarised the outcomes and reviewed this with the Chairman before presenting it back to the Board in July. A number of actions were agreed and these are set out below.

The review recognised that in the past two years the Board has developed and changed, with new NEDs and two key roles in the process of transitioning to new incumbents. There is a breadth and depth of complementary skills and experiences around the table with more diversity in terms of youth, ethnicity, gender and international background than previously. The Board continues to function well, and Board dynamics are good, with trust, respect and openness between all Directors, and alignment around the immediate strategic priorities.

FY22 Board evaluation summary

A summary of actions from our latest evaluation is set out below:

Topic	Action
STRATEGY DEVELOPMENT	• Continue to carefully balance time spent on activities promoting 'value creation' with the 'value protection' role of the Board. • Ensure that more time is set aside to discuss long-term, strategic topics, in the context of the risk appetite and ambition of the Board. • Increase the amount of time available for less formal, discursive interactions. • Continue to invite external speakers, to build knowledge on strategic topics and stimulate discussion.
NED INVOLVEMENT IN THE BUSINESS	• Set aside agenda time for NEDs to share their experiences on a topic of mutual interest. • NEDs are encouraged to spend more time interacting with colleagues in the business outside of formal meetings, for example through attendance at National Colleague Voice meetings and on-site meetings with management.
TALENT AND SUCCESSION	• Continue to build visibility of talent management and succession for the Executive team and other senior roles through the Nominations Committee and Board discussions.
MEETING AND OTHER INTERACTIONS	• Adapt the meeting schedule to have fewer and longer 'in person' meetings focused on strategy development, using remote meetings for more routine or transactional matters.

Composition, succession and evaluation continued

DIVERSITY AND INCLUSION

The Board's ambition to secure the best talent in Dunelm includes being known for our inclusive, diverse and tolerant culture, as encapsulated in our 'stronger together' shared value. For Dunelm to continually improve as a business, it is crucial that we select and recruit the best people in the industry. This involves calling on the widest possible pool of candidates and selecting them based on their ability to do the job regardless of their gender, marital status, sexual orientation, disability, race, religion, colour, nationality, ethnic origin, or age.

The Board agrees that diversity of input helps to promote better decision-making and is focused on three broad activities:

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

Diversity and inclusion programme

In FY21, a significant programme – overseen by the Board – was launched to promote diversity and inclusion throughout the Group with the support of a specialist consultancy. This has continued in FY22, as we build more awareness across the business, and we have set up and developed four networks enabling colleagues to share experiences, each sponsored by a member of the Executive Board. Awareness training has been rolled out across the business and there have been numerous posts in our Home Comforts intranet by colleagues providing information and sharing their stories. The Group Board and Executive Board have again attended awareness-raising workshops on specific topics, designed to educate and stimulate discussion (see opposite).

FY22 COMMITTEE AND BOARD TALENT AND DIVERSITY AND INCLUSION ACTIVITY

Date	Board/ Committee	Topic	Presenter(s)
NOV 2021	Board	People update from the Stores and People Director, which included consideration of the following topics • Reward • Training and development • Diversity data (age, gender, ethnicity)	Amanda Cox (Stores and People Director)
	Board	Diversity – Neurodiversity	Unleashed (external diversity expert consultancy)
JAN 2022	Board	Diversity – Gender	Unleashed (external diversity expert consultancy)
MAR 2022	Board	People update from the Stores and People Director, which included consideration of the following topics • Talent management • Diversity data (age, gender, ethnicity)	Amanda Cox (Stores and People Director)
	Nominations Committee	Executive Director and Executive Board talent and succession	External talent consultant Nick Wilkinson (CEO) attending

Our Group equality and diversity policy is available on our website, corporate.dunelm.com and is reviewed periodically, giving due consideration to legislative changes.

Gender, age and ethnicity

Gender diversity has been an area of focus for us for many years. We have continued to make progress in balancing our gender ratios in the workforce, and have seen a shift towards female representation on our senior leadership team: 50% of our Executive Board and 43% of our senior leadership roles are held by women, and at the date of this Annual Report, 42% of Board Directors, including our Chair Designate, Alison Brittain and our CFO, Karen Witts, are female, as is the Company Secretary. Full details of the gender balance on our Board and in our senior management population as at year end are set out on page 52 in our Sustainability section. Dunelm published its fifth Gender Pay Gap Report in April 2022, and an overview is provided on page 55 in our Sustainability section.

As part of its oversight of colleague policies and practices across the Group, the Board also receives a full breakdown of our colleague population by age, and, for the last 18 months, we have been collecting ethnicity data on new joiners. In 2021 we trialled our first colleague census; this proved a useful exercise and we are working with our Data and Analytics Team to refine this before relaunching. Through our planned census roll out we aim to provide the Board with more robust ethnicity data, to enable us to develop our strategy and action plan further. As mentioned above, at Board level we now meet the Parker Review guidelines on ethnic representation. Further commentary on our colleague population and findings is made in our Sustainability section, on page 54.

OUR BOARD DIVERSITY POLICY

This year we have updated the policy so that it meets best practice governance guidelines and the new UK Listing Rule.

Our overriding concern is to ensure that the Board and Group comprise outstanding individuals who can lead the business effectively in a manner aligned to our purpose and shared values. We believe the Group's best interests are served by ensuring that these individuals represent a range of skills, experiences, backgrounds and perspectives. Our Company culture must be inclusive, and it is our policy that the Board should always be at least 40% female – and ideally higher to meet increasing expectations, and that at least one of the Chair, Senior Independent Director, CEO and CFO positions must be held by a woman. We also aim to ensure that we have at least one Board Director from an ethnically diverse background.

- We support the objective of promoting diversity in all of its forms on our Board and throughout the Group.
- 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, marital status, sexual orientation, disability, race, religion, colour, nationality, ethnic origin, or age to enjoy career progression within Dunelm.

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	8	September 2023	Chairman and Nominations Chair
Alison Brittain	September 2022	0	September 2025	Chair Designate
Ian Bull	July 2019	3	July 2025	Audit and Risk Chair
Kelly Devine	March 2022	0	March 2025	
William Reeve	July 2015	7	July 2024	Remuneration Chair and Senior Independent Director
Peter Ruis	September 2015	7	September 2024	
Marion Sears	July 2004	18	July 2023	Designated NED for colleague matters
Arja Taaveniku	February 2021	1	February 2024	
Vijay Talwar	October 2021	0	October 2024	

Marion Sears has served 18 years on the Board. Marion is now considered by the Board to be non-independent in view of her tenure. See page 107 for more details.

In accordance with our policy and the UK Corporate Governance Code, all Directors will seek election or re-election at the 2022 AGM, and as now required by the Listing Rules, all Non-Executive Directors will be subject to an additional vote by shareholders independent of the Adderley family.

Approved by the Board on 14 September 2022.

Andy Harrison
Chair of the Nominations Committee

14 September 2022

Audit, risk and internal control

Audit and Risk Committee Report

Ian Bull
Chair of the Audit and Risk Committee

Dear shareholder

I am pleased to provide you with an overview of the Committee's main activities, progress in a number of areas, and specific areas of focus during the year.

RISK AND CONTROL

During the year good progress has been made to improve controls. Following a review of accountabilities across the Group, a number of new roles were created in the Finance team to enhance capability and reduce overreliance on key individuals. The restructured Finance team includes a Head of Process Transformation and Controls who will focus on driving control improvements both in Finance and across the business. In addition to this, the project to improve processes and controls in the commercial function is fully underway, with dedicated resource and governance. This is a significant multi-year programme with meaningful investment that will create a robust platform for future growth. The Board receives regular updates on this.

The Risk and Resilience Committee met monthly throughout the year and conducted eight 'deep dive' peer reviews of certain principal risk areas, as well as a horizon scanning exercise and a fraud risk assessment facilitated by KPMG. Cross functional reviews of the principal risks have improved the management assessment of potential impacts and resulted in a more holistic approach; for example, dependence on third-party information technology has been considered in the context of other principal risks such as supply chain disruption risk, as well as in relation to the specific IT principal risk. While this is not a formal Board committee, the conclusions and actions from the deep dives are circulated to the Board and the Audit and Risk Committee, and feed into the Board risk review process. This provides an additional level of assurance and offers the Committee deeper insight into how risks are managed operationally. For more details on the activities of the Risk and Resilience Committee during the year see page 126.

FRAUD RISK

With the additional regulatory focus on fraud risk, the Committee reviewed the outcome of the entity level fraud risk assessment, and the planned next steps. These include enhancing the documentation of controls, identifying and addressing any gaps in mitigation, and consolidating and improving the fraud reporting mechanisms that are currently in place. The Committee will keep this under review in the coming year.

INTERNAL AUDIT

KPMG completed their second full year as our internal auditor. During the year they completed reports on stock management, contract management, follow up on segregation of duties and GDPR compliance. For details on the scope of the internal audits see page 128. Work on the two final reports, Validation of Assurance Activity and General IT Controls, was underway at the year end. Management is working through the various recommendations, as well as those from previous reports, and an update is provided to the Committee at every meeting (as well as being reviewed monthly by the CEO, the CFO and other members of the Executive Board).

CLIMATE CHANGE

Last year management commissioned the Carbon Trust to carry out a first stage high-level climate change risk assessment, the output of which informed the debate at the Board strategy day in May 2021, and the finalisation of our 2030 ambitions and greenhouse gas emission targets. It was also incorporated into the review of principal risks by the Committee and the Board in September 2021. We published an abbreviated disclosure under the Task Force on Climate-Related Financial Disclosures (TCFD) in the FY21 Annual Report ahead of the regulatory requirement to do so. We have built on this work with the help of EY, to refine our risk assessment, test key risks against three climate change scenarios, and assess the financial impact of climate change. This has informed our first full report under TCFD in this year's Annual Report and Accounts. The report is on page 61. The Committee had oversight of this work and reviewed the process for verifying climate change-related and other sustainability KPIs in the report. We also noted that EY have provided limited assurance in respect of the four sustainability targets that are in our Revolving Credit Facility (RCF) and in management long-term incentives. During the year, our external auditors, PwC, reviewed certain elements of our climate-change related disclosures, and the scope of their work is set out in their audit report.

AUDIT AND CORPORATE GOVERNANCE REFORM

The Board and the Committee support measures that increase the quality of governance, audit, and transparency for the benefit of our shareholders and other stakeholders. Last year the Committee considered the proposals for the reform of audit and corporate governance set out in the consultation paper issued by Department for Business, Energy and Industrial Strategy (BEIS) in March 2021 and assessed the steps and actions that we may need to take if these requirements are implemented. In May 2022, BEIS published its response to the consultation and, while the outcome is still to be determined, we have started work to address matters which are likely to be implemented. These include the focus on internal controls described above, as well continuing to develop our Viability Statement, distributable reserve tests and Audit and Assurance Policy, to ensure Dunelm is ready to adopt any regulatory changes in the near future.

AUDIT QUALITY INDICATORS

The Committee reviews the effectiveness of the external audit annually using a set of qualitative criteria. During the year we have developed indicators covering areas such as levels of professional scepticism, timely audit planning, communication approach and findings, appropriate use of specialists/experts, team continuity and supervision, quality of the audit team and quality and timeliness of information. These will be further refined for the FY23 audit.

EXTERNAL AUDITOR TENDER

By the end of FY23, PwC will have been our auditors for ten years and it is a requirement under our auditor rotation policy that we tender the statutory audit at least every ten years. Accordingly, we will tender the FY24 statutory audit during the upcoming financial year and while it is unlikely to be in force for this audit tender cycle, the Committee and management will also consider the impact of the audit market reform announced in May 2022 which includes the appointment of a challenger firm as auditor or as part of a managed shared audit. The audit tender process will be overseen by the Audit and Risk Committee and is expected to conclude later in FY23. A resolution proposing the appointment of the selected firm will be put to shareholders at the 2023 Annual General Meeting.

Finally, I would like to take the opportunity to extend my thanks to my Committee colleagues for their work and support during the year and also welcome Kelly Devine and Vijay Talwar to the Committee, as well as Karen Witts as CFO. I look forward to working with all of my colleagues in the coming year, and to meeting shareholders at the AGM.

Yours faithfully,

Ian Bull
Chair of Audit and Risk Committee

14 September 2022

AUDIT AND RISK COMMITTEE MEMBERSHIP

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

Member	From	To	Meetings attended	Skill area
Ian Bull (Chair)	10 July 2019	To date	3/3	Financial
Kelly Devine[1]	1 March 2022	To date	1/1	Operational
William Reeve	1 July 2015	To date	3/3	Operational
Peter Ruis	10 September 2015	To date	3/3	Operational
Arja Taaveniku[2]	15 February 2021	To date	2/3	Operational
Vijay Talwar[1]	1 October 2021	To date	2/2	Financial

1. Kelly Devine and Vijay Talwar were appointed to the Board during the financial year and joined the Audit and Risk Committee on appointment.
2. Arja Taaveniku was unable to attend the meeting in June 2022 due to a prior commitment.

The Company Secretary, Dawn Durrant, acts as secretary to the Committee. The Committee also met in September 2022.

The Chief Executive Officer, Chief Financial Officer, the Chairman, the Chair Designate and Deputy 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 the following members of the Committee have recent and relevant financial experience:

- Ian Bull, Chair of the Committee, by virtue of his professional qualification and his previous executive roles, including as Chief Financial Officer of Parkdean Resorts Group, Ladbrokes plc and Greene King plc, and his other non-executive roles which include chairing the Board of Lookers plc, chair of the Audit Committee at Domino's Pizza Group plc until 2022 and chair of the Audit Committee at St. Modwen Properties plc until 2021.
- Vijay Talwar is a Certified Public Accountant and recent CEO of Wish.com and director of the parent company, ContextLogic Inc, which is listed on the US NASDAQ.

Other members of the Committee also demonstrate a breadth of experience across the retail and consumer goods sector through their current and previous roles. For more information on their skills and experience see the Directors' biographies on pages 84 to 87.

Audit, risk and internal control continued

SUMMARY OF PRINCIPAL ACTIVITIES AND FOCUS FY22

The Committee has a broad remit and to ensure that it discharges its responsibilities effectively meeting agendas are planned to allow time for routine items to be covered sufficiently. These include financial, reporting, audit, assurance, and risk matters. We also allow time to consider and focus on specific ad hoc items which are topical, timely or 'forward looking'. During the year the Committee met three times at appropriate intervals in the financial reporting and audit cycles and also met in September 2022 when it approved the FY22 Annual Report and Accounts. A summary of the key items of business considered by the Committee in the year is set out below:

Routine items

- Approval of the FY21 full-year results issued in September 2021 and the approval of the FY22 half-year results issued in February 2022 and full-year results issued in September 2022.
- Assessment and challenge of management's approach to 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 September 2021, a mid-year review in February 2022, and a further review in September 2022.
- Update on the work undertaken by the Risk and Resilience Committee during the year including the outcome of deep dives on principal risk topics.
- Review of the risk management process, risk appetite statement and risk KPIs.
- 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 supplier payment practices.
- Receipt of internal audit plan and completed reports.
- Review of progress on improvements and developments in the internal control environment.
- Approval of the annual Audit and Risk Committee Report.
- Review of whether the FY21 and FY22 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.

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 Group 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 effectiveness, independence, quality, and the provision of additional services.
- Hold sessions with external auditor and internal auditor without management present.

Full terms of reference for the Committee can be found on the Group's website, corporate.dunelm.com. These were last reviewed in June 2022.

Specific topics and items reviewed

- Review of the process to verify environmental, social and governance KPIs.
- Approach to climate change risk assessment and reporting, and preparation for reporting under the Task Force on Climate-Related Financial Disclosures.
- Understanding and considering our approach to proposed audit and corporate governance reforms issued by BEIS and the Financial Reporting Council (FRC).
- Roadmap to implement more systematic process of internal controls.
- Cyber security and IT general controls.
- Internal control and fraud.
- Intercompany dividend flows and parent company reserves.
- Update on Plastic Packaging Tax.

FOCUS AREAS FOR FY22 AND BEYOND

- Preparing for implementation of audit and corporate governance reforms anticipated following the BEIS consultation.
- Continuing to evolve our approach to risk and resilience through oversight of the Risk and Resilience Committee.
- Ensuring risk management is instrumental in driving the internal audit and assurance plan.
- Continuing close oversight by the Board of development of our IT general controls and cyber security capabilities and our GDPR governance.
- New reporting requirements for FY22, FY23 and beyond.
- Continuing to evolve our environmental, social and governance reporting and the quality of supporting data, in line with emerging regulations and investor requirements.
- Maintaining high standards in relation to material estimates, judgements and rationale.

COMMITTEE EFFECTIVENESS

The effectiveness of the Committee was reviewed by the Committee at its meeting in June 2022. This concluded that the expected progress had been made in FY22, and that all areas were rated at least "good" against our target measures, apart from "forward looking and appropriate internal control processes and systems", which was rated "fair" and reflects the outcome of the KPMG healthcheck that was completed in FY21. As noted elsewhere in this report, further process is planned in FY23, specifically on documenting controls and processes and fraud risk.

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 matters and judgements contained in them.

At its meetings in September 2021, February 2022 and September 2022, 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. There were no material matters requiring the Committee to make amendments to the interim and annual reports.

VIABILITY STATEMENT AND RISK MANAGEMENT

At the Committee's meeting in September 2022, the Committee reviewed the Viability Statement given by the Board in this report and the process in place to support the assurance given and confirmed that it is appropriate and in compliance with regulatory requirements. This review took into account the principal risks facing the Group, including the impact of a downturn in consumer demand and inflationary pressures, and the process by which they are managed by the Board and management, and were able to support the adoption by the Board. The Going Concern and Viability Statement can be found on pages 80 to 81.

REVIEW OF NARRATIVE REPORTING

The narrative sections of this report including the corporate governance disclosures have been enhanced to address the findings of the FRC in its Annual Review of Corporate Reporting issued in October 2021, its Review of Corporate Governance Reporting issued in November 2021, and recommendations from relevant thematic reviews and financial reporting lab reports published by the FRC throughout the year. As a result of this review, a number of improvements have been made to the disclosures in this report, including those which relate to the Corporate Governance Code, s172 of the Companies Act 2006, the Viability and Going Concern Statement, principal risks, TCFD and climate change-related reporting and alternative performance measures (APMs).

Audit, risk and internal control continued

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING

Last year we reported for the first time in accordance with the Task Force on Climate-Related Financial Disclosures (TCFD), ahead of the introduction of the regulatory requirement to do so. This year, with the support of specialists from advisory firm EY, we have issued our first full report.

Our Group strategy, targets and plans have continued to evolve this year, as has the approach from the Board and Audit and Risk Committee. In preparation for the full TCFD report this year, management reviewed our existing climate change risk assessment to identify areas of development, specifically to cover the physical climate risk to our raw material supply, a more robust analysis against three climate scenarios and a quantitative assessment of the impact of climate change, together with a set of appropriate KPIs. The Committee and management acknowledged that external expert support would be required to complete this work. EY was appointed in December 2021 to assist us and advise on how to reflect this in our financial statements, as well as the narrative disclosures. The outcome of this work is reflected in our TCFD report and in the financial statements. In addition, we appointed EY to provide limited assurance in respect of the Environmental, Social and Governance (ESG)-linked KPIs set out in our Revolving Credit Facility (RCF) as at FY22 year end, which include a target to reduce the Group's Scope 1 emissions. All other KPIs relating to TCFD have been reviewed by PwC for consistency with the financial statements. During the year, status updates on the progress of the work were provided to the Board and the Committee at regular intervals to provide an opportunity for feedback, scrutiny, and challenge.

During the year, management also strengthened the process by which all sustainability KPIs set out in the Annual Report are measured. This was reviewed by the Committee in June 2022 and found to be satisfactory.

DISCUSSING AND ADDRESSING SIGNIFICANT ISSUES

The major accounting issues discussed by the Committee in September 2022 in relation to the FY22 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 there was a high degree of consistency in the methodology applied by management compared with the prior year, with updated inputs based on trading experience. The Committee concluded that the values recorded in the financial statements are appropriate.

FAIR, BALANCED AND UNDERSTANDABLE

At the request of the Board, the Committee also considered whether the Annual Report and Accounts as a whole are 'fair, balanced and understandable'. Factors taken into account included:

- Does the narrative of the CEO Review and CFO 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'?
- Is there a clear link and consistency in reporting of climate-related risks, including the outcome of scenario analysis disclosed, KPIs and carbon commitments in the Strategic Review of the Annual Report and the financial statements?

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 FY22 Annual Report was 'fair, balanced and understandable' and provided the information necessary for our shareholders to assess the Group's position, performance, business model and strategy.

EXTERNAL AUDITOR

The report and financial statements were audited by PricewaterhouseCoopers LLP, following the firm's appointment as statutory auditor in January 2014. Our audit partner from the FY19 audit onwards is Mark Skedgel.

PricewaterhouseCoopers LLP attended the Committee meetings in September 2021, and February, June and September 2022. The Committee also met privately with the auditor 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 CFO and her team presented their review of the FY21 audit in February 2022. 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 appropriate scepticism and findings on areas which required management judgement.
- The findings from the FRC's annual inspection of auditors published in July 2021.

The Committee reviewed the effectiveness of the audit, taking into account the CFO's paper. Its conclusion was that the audit had been effective and carried out with the necessary objectivity and challenge to demonstrate independence, and that there were no significant issues to highlight. The indicators covered areas such as levels of professional scepticism, timely audit planning, communication approach and findings, appropriate use of specialists/experts, team continuity and supervision, quality of the audit team and quality and timeliness of information. These will be further refined for the FY23 audit.

EXTERNAL AUDITOR APPOINTMENT FOR FY22

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 2022, the external auditor presented their strategy for the FY22 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 £301,500 (FY21: £254,000).

Taking into account the review of the FY21 audit and the proposed plan and fee, the Committee agreed that PricewaterhouseCoopers LLP be reappointed as auditor for the FY22 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.

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; and 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 £42,000 (2021: £40,000) for their review of the interim financial statements (considered to be a non-audit service). This was 12.2% of the total audit fees, and the three year average is 12.4%. No other non-audit services were provided by the external auditor. Fees paid to PricewaterhouseCoopers LLP for audit work were £301,500 (2021: £254,000).

Audit, risk and internal control continued

AUDITOR ROTATION

A competitive tender is in the best interests of shareholders, and 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. PwC has been the Group's statutory auditor since January 2014. In accordance with this policy the Committee has decided to initiate a tender process in respect of the FY24 statutory audit and will have regard to the Government's audit reform proposal to include a challenger firm as part of the tender process and consider the approach to implementation of a managed shared audit. The audit tender process will be overseen by the Audit and Risk Committee and is expected to conclude later this year. A resolution proposing the appointment of the selected firm will be put to shareholders at the 2023 Annual General Meeting.

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 September 2021 and September 2022. 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 have been improved year over year and 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.

In forming its view, the Committee considered the following:

- Regular risk reviews conducted in September 2021, February 2022 and September 2022;
- KPIs to measure the effectiveness of the mitigations in place for our principal risks;
- Biannual review of principal risks by the Board;
- The formal risk appetite statement which is reviewed by the Committee annually;
- Regular feedback and updates from the Risk and Resilience Committee on its work;
- Management review of the principal and operational risk registers at least twice a year;
- Management report on developments and improvements to the control environment;
- The conclusions of the internal and external audit reports;
- Continued progress on improving business continuity plans, including IT continuity, and keeping plans up to date; and
- Satisfactory insurance programme in place.

RISK AND RESILIENCE COMMITTEE

The Risk and Resilience Committee was established in FY21. The monthly meetings are chaired by the CFO and attended by the Company Secretary, the Chief Information Officer, the Group Finance Director, the Head of Health and Safety, Risk and Insurance and other senior representatives from relevant teams. In addition, a representative from KPMG is invited to attend the meetings to provide the benefit of their experience, insight, and challenge. At each meeting a detailed cross-functional peer review of the principal risk and associated mitigations is conducted to provide challenge and to identify any cross-functional dependencies or impacts, and any emerging risks. Standing agenda items for each meeting also include a review of cyber security KPIs, and of KPIs associated with each principal risk that are used to identify any failures in risk mitigation which would require management action. In depth reviews of principal risks are conducted on a rotational basis; the intention is to review each principal risk at least once every two years, with the highest-impact risks (measured by likelihood and severity) reviewed annually but refocused as necessary to consider emerging risks. A forward plan of in-depth reviews is agreed at the beginning of the financial year. A summary of the discussions and actions is circulated to the Executive Board after each meeting and the Audit and Risk Committee is updated at each meeting.

Summary of the Risk and Resilience Committee's key activities during the year:

- Completed eight peer deep dive reviews of certain principal risk areas.
- In October 2021 a 'Horizon Scanning' session was led by KPMG and attended by the CEO and a number of the executive management team to establish whether there were any gaps in our risk registers.
- Regular discussions of any emerging risks such as the impact of the war in Ukraine.
- A full review of our principal risks was conducted at half and full year following separate individual review sessions with each of the executive risk owners and their teams.
- Updates on crisis management from the Head of Health and Safety, Risk and Insurance which included learnings from two planned crisis simulations and from an unannounced crisis management group mobilisation event in December 2021.
- A session on fraud risk management led by KPMG to assess the robustness of our controls and to understand current fraud trends.

See page 69 for further information on our risk management framework.

The Committee considers that the processes in place to manage risk by the Board and management are robust and working effectively.

INTERNAL CONTROL FRAMEWORK

Management is responsible for establishing and maintaining an effective system of internal controls and the Committee has responsibility for ensuring the effectiveness of those controls. In the last 18 months there has been a continuous detailed assessment of and progressive improvement in our general control environment, which began in FY20 with the internal controls 'health check' completed by KPMG, followed by ongoing regular internal audit reviews and reports, and a review of our readiness to implement a detailed and documented internal controls framework should it be required, also conducted by KPMG. Further to this and, as reported last year, management is conducting a multi-year programme of investment in modernisation of our key business systems to ensure that we have the foundations in place to support our ambitious strategic growth plans, commencing with our commercial systems.

The Board continues to monitor progress and the Committee receives relevant updates on any aspects that impact internal controls and risk management.

One of the key risk factors to the effectiveness of the control environment identified by KPMG was the level of resourcing in the Finance team and overreliance on key individuals. During the year the Finance team was restructured, and accountabilities changed. Eight new roles were created and filled, including a new Head of Process Transformations and Controls who reports to the Group Finance Director. This key role will provide dedicated resource to focus on driving control improvements both in finance and across the business, especially as we undertake system transformation, as well as preparation for more stringent regulatory requirements.

The Committee is of the view that our control environment remains satisfactory and progressive improvements are being made.

INTERNAL AUDIT

The internal audit function was outsourced to KPMG in December 2019. The purpose, scope and authority of KPMG is defined within its charter which is approved by the Committee annually. KPMG's role as internal auditor is to provide independent and objective assurance to the Committee and senior management on matters set out in the internal audit plan.

The internal audit engagement partner attends all scheduled meetings of the Committee and further meets with members of the Committee and its Chair without management present.

During the year KPMG presented the internal audit plan together with an overview of its approach to delivering the internal audit function over the next 18 months. The Committee also received updates on progress against the internal audit plan, which included a summary of the results of any completed audits, any changes to the plan, and commentary on how lessons learned from the internal audits were shared across the business. The Committee also approved the deferral of the Cyber Security follow up to FY23 to allow the business time to implement the actions arising from the original audit and replaced the Cyber Security follow up with an internal audit on General IT controls which will have a broader scope than previous years.

Audit, risk and internal control continued

KPMG completed the following reviews in the year:

Internal audit review	Overview of scope
Stock management	To focus on controls over stock movement, returns of stock, obsolescence and valuation.
Contract management	A detailed review of Dunelm's contract management and compliance framework was completed. The audit included a review of contract due diligence and risk assessment processes, legal review, delegation of authority, retention, accessibility & security of contracts, and contract monitoring. A specific focus on ethical sourcing and assessment was applied in response to recent issues highlighted in the retail sector.
Segregation of duties – follow up	To follow up on the progress made by management in implementing the actions agreed in the 'FY21 Core Financial Controls internal audit' to remediate the risks identified.
GDPR compliance	A 'deep dive' internal audit of GDPR to ensure there are no further gaps in compliance.

The findings and actions from internal audit reviews are agreed with the relevant business area, communicated to the Committee and tracked through to completion. Areas where the Committee has focused particular attention on action resolution include the on-going work around data security and supplier risk management, including contract governance. All agreed actions have been completed in the approved timescale, although some items have required extension as remediation requirements become better understood. The outputs from remediation activities are used to inform the rolling internal audit plan.

The assurance mapping exercise undertaken by KPMG in FY21 identified a significant amount of assurance activity across all principal risks, as well as some inefficiencies and gaps. Within the scope of each of the internal audits listed above KPMG conducted a validation exercise of the documented assurance activity to review the gaps and inefficiencies identified and recommend management actions to address these.

The risk-based internal audits planned for FY23 comprise:

- General IT Controls (report finalised post year end);
- Validation of Assurance Activity (report finalised post year end);
- Code of Conduct;
- Third-party risk management;
- Cyber Security follow up; and
- Review of ESG processes.

As we move into the third year of our engagement with KPMG, during which the business has developed significantly, particularly due to the growth of our digital business, the Committee has asked our CFO Karen Witts, who joined the Group in June 2022, to review the effectiveness of the internal arrangements over the coming year and discuss any proposed internal audit arrangements with the Committee Chair.

IT SYSTEMS, 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 set out in the Principal Risks and Uncertainties section on page 78 of this Annual Report.

We have a number of policies in place to set out how we manage IT, cyber security and data, including an overall Personal Information Security Policy, a Data Protection Policy, and other policies covering matters such as use of social media and personal devices to access Group systems.

In 2020 we decided to align to the ISO 27001 framework. We carry out formal penetration testing at least annually; this happens far more frequently when we test new areas of the commercial website and any new software developments. Vulnerability assessments are carried out continuously.

Significant improvements in cyber security have been made by the Information Security and Development Security & Operations teams in line with the recommendations in the cyber security maturity assessment completed by KPMG last year. The strategy and priorities for the next three years have been developed, additional resources recruited, and work commenced on the foundational controls required to mature the security posture. There has been a significant drop in the overall risk caused by vulnerabilities in our estate and an increased response to any new, zero-day threats. Additionally, Deloitte has been engaged as our security service partner, which will see an increase in the knowledge and skills of the relevant internal teams and the availability of expert responders to any security incidents.

We have a Data Protection Steering Group, which is attended by the Head of Information Security, members of the legal team and other managers, and reports to the Company Secretary and the Chief Information Officer. The Steering Group has oversight of GDPR compliance, and during the year has systematically reviewed our position against the detailed requirements of the Information Commissioner's Office. This group will also oversee the implementation of the recommendations of the KPMG internal audit review on GDPR which is referred to opposite. In FY23, the Company Secretary will review the governance in place to ensure that our regulatory requirements continue to be met as the business becomes increasingly digital. She will conduct this with the Data Engineering Director, the Head of Data Management, the Head of Information Security and other senior leaders; she will report back to the Committee on this work.

Data breach/incident response plan

Our information security incident management process is documented and tested annually. Our process includes definitions of what determines a major or minor incident and the steps we are required to take. Any major incident is escalated to the Cyber Security Incident Response Team (CSIRT) and significant incidents are raised to the Company Secretary and Chief Information Officer (both Executive Board members), who would invoke our Crisis Management Plan, if necessary. In the event of any significant data breach, we would comply with our obligations to notify impacted individuals in a timely manner.

Responsibility for privacy and data security

The Chief Information Officer has executive responsibility for managing risks relating to IT systems, data and cyber security. The Company Secretary is responsible for compliance with data protection legislation. This year we formally appointed our Company Secretary as the Data Protection Officer, to reflect the increasing sophistication of our data analytics capability. In addition to this, a Head of Data Management has recently been appointed, to oversee the quality and integrity of our data. Cyber security is a standing agenda item for the Audit and Risk Committee and Risk and Resilience Committee, with a 'deep dive' scheduled at least annually. The output of this meeting is reported monthly to the Executive Board.

SUNFLEX ACQUISITION

On 3 May 2022, the Group completed the acquisition of the assets of the Sunflex business. Sunflex is a supplier of curtain tracks, poles and blinds to Dunelm and other businesses and operates from one facility in the UK. While this is a small acquisition with a simple operating model, the Company Secretary led a process post-acquisition to ensure that key financial and compliance controls were implemented. These included financial delegated authorities, health and safety, competition law, anti-bribery and cyber security. These were reported to the Board at the May meeting. Management also incorporated additional risks arising from the Sunflex acquisition into the year-end review of principal and operational risk registers. As part of the acquisition of Sunflex, we considered IFRS 3 Business Combinations, and have determined that the acquired set of activities and assets is a purchase of a business, and as such has been classed as a business combination. We have therefore assessed the fair value of the assets, determined any identifiable intangible assets and worked through the relevant disclosures required within the financial statements. For more information refer to note 27 of the financial statements on page 207.

AUDIT AND CORPORATE GOVERNANCE REFORM

The Committee has considered and continues to monitor the proposed audit and corporate governance reforms set out in the consultation paper issued by Department for Business, Energy and Industrial Strategy (BEIS) in March 2021, of which further details were published in May 2022. While the outcome is yet to be determined, we have started work to address matters which are likely to be implemented, and which we consider will add value to our business. We will continue to progress our plans to develop our Viability Statement, distributable reserve tests, and Audit and Assurance Policy, to ensure Dunelm is ready to adopt any regulatory changes in the near future.

The Board and the Committee support measures that increase the quality of governance, audit and transparency for the benefit of our shareholders and other stakeholders, and as usual, we will aim to apply any changes that are implemented in a pragmatic way so as to deliver this outcome.

Approved by the Board on 14 September 2022.

Ian Bull
Chair of the Audit and Risk Committee

14 September 2022

Remuneration

Remuneration Committee Report

William Reeve
Chair of Remuneration Committee

REMUNERATION COMMITTEE MEMBERSHIP

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

Member	From	To	Meetings attended
William Reeve (Chair)	1 July 2015	To date	4/4
Ian Bull	10 July 2019	To date	4/4
Kelly Devine[1]	1 March 2022	To date	2/2
Andy Harrison	1 September 2014	To date	4/4
Peter Ruis	10 September 2015	To date	4/4
Arja Taaveniku	15 February 2021	To date	4/4
Vijay Talwar[1]	1 October 2021	To date	2/2

1. Kelly Devine and Vijay Talwar were appointed to the Board during the year and joined the Remuneration Committee on appointment.

Alison Brittain joined the Board on 7 September 2022, after the end of the financial year, and became a member of the Committee on that date.

The Company Secretary acts as secretary to the Committee. No Director ever participates when his or her own remuneration is discussed.

Dear shareholder

INTRODUCTION

Our Executive Board performed strongly throughout the year, delivering another year of strong growth and record Profit Before Tax (PBT) of £212.8m, even when compared to FY21 PBT of £157.8m, which in itself was a record. This is despite disruption and uncertainty due to Covid-19 in the first half of the year, ongoing international supply chain disruption, and significant cost inflation. With a little bit of hindsight, it is clear that FY22 was an exceptional year, combining strong recovery from the pandemic which the Executive Board then made the most of and grew market share, and with good strategic progress as we continued to build our customer proposition, digital capability, supply chain capacity and our approach to climate change and sustainability. We have also continued to support the financial and emotional wellbeing of our colleagues, and of our communities.

CHIEF EXECUTIVE PAY OUTCOME

Our senior management team performed strongly in a difficult year in which we achieved record sales and profits for the Group, even after making significant investment in capacity and capability to drive future growth, and after managing disruption from Covid-19 and from international supply chains and inflationary pressures. A high proportion of our executive remuneration is in performance-related variable pay so as to incentivise and reward strong performance, and so this has resulted in a high bonus outcome for FY22. Our strong performance over the last three years has also delivered full LTIP vesting. These outcomes are reflected in the reported single figure remuneration earned by our Chief Executive, Nick Wilkinson, of £2.7m (2021: £3.8m). In line with our policies, over 75% of Nick's FY22 pay will vest or be held in shares, and at least two thirds of these (after payment of tax and National Insurance contributions) must be retained.

The Committee considers that this pay outcome is fair and well-deserved and it reflects the overall shareholder and stakeholder experience of the Group, as well as the strong performance of the executives.

CHIEF FINANCIAL OFFICER PAY

The Board was sorry that Laura Carr decided to step down from the Board as Chief Financial Officer (CFO) on 8 June 2022 after more than three years of service, during which she performed strongly and was an integral part of the Executive Board, to take up a role in private equity. Laura worked her full notice period so as to mitigate disruption to the Board and the business as a result of her departure, and she was paid salary and benefits to the date that she left. Laura did not receive any other compensation and although she worked for 11 months of the year, in accordance with the practice applied to other colleagues who voluntarily resign, all of her FY22 bonus and share award entitlements have lapsed. Laura is obliged to retain Dunelm shares equal to 1× salary until June 2024 in line with the shareholding guidelines set out in our policy.

Karen Witts joined as CFO in June 2022, the final month of the financial year. Her base salary of £450,000 is higher than Laura's but is within the current median range for the top 50 companies in the FTSE250, and reflects her skills and experience. Karen's pay in FY22 of £52,000 included pro rata participation in the FY22 bonus as part of her joining arrangements, and two thirds of this after tax is required to be invested in Dunelm shares, to be held in accordance with the shareholding guidelines set out in the Remuneration Policy. Karen has also been issued with a pro-rated award under the FY22-24 Long-Term Incentive Plan. Apart from relocation costs and an accommodation and travel allowance, no other joining arrangements were awarded. Karen invested £200,000 in Dunelm shares shortly before she joined the Group, in accordance with our shareholding guidelines.

VESTING OF INCENTIVES IN FY22

Following the specific temporary incentive arrangements for the FY20 and FY21 annual bonus, for FY22 we reverted to our usual cash bonus. The Committee set bonus targets related to sales (25% weighting), PBT (50% weighting), and strategic and personal progress, including customer and colleague satisfaction measures and at least one other measure linked to our "Pathway to Zero" ambition (25% weighting). The Committee has determined that 90% of the maximum bonus opportunity has been earned by Nick Wilkinson and 67.5% by Karen Witts (pro-rated from date of employment). Karen has declined any payment in respect of personal and strategic objectives given her relatively short tenure during the financial year. After payment of tax and National Insurance liabilities, at least two thirds of this must be invested in Dunelm shares which are retained for at least the duration of employment, in accordance with the shareholding guidelines which are set out on page 140.

For the LTIP covering the performance period July 2019-June 2022, 100% of the award granted in 2019 to Nick Wilkinson will vest in October 2022, representing 134,984 shares, plus special dividend equivalents. During the performance period for this LTIP award Dunelm's diluted EPS grew at a compound annual rate of 18.8%. After sales to cover tax and National Insurance liabilities, at least two thirds of these shares must be retained for at least the duration of employment, in accordance with the shareholding guidelines which are set out on page 140. No adjustment was made to the targets or the vesting outcome in respect of our decision to repay funds received from the Job Retention Scheme in FY21, to reflect FY20 financial performance which was significantly impacted by Covid-19, or any other reason.

STAKEHOLDER ALIGNMENT

After considering the experience of each of our key stakeholder groups during FY22 the Committee determined that the FY22 pay outcome for Nick Wilkinson and Karen Witts is fair and reasonable and reflects the performance of the Group and stakeholder experience. No discretion was exercised by the Committee to adjust the FY22 bonus outturn as a result.

In making this determination, the Committee considered the following factors:

- The financial performance of the Group has been strong, delivering record sales and profit, despite the Covid-19 crisis and the external environment throughout the financial year referred to above.
- Although the share price has fallen significantly in the second half of the year, the advice given by our brokers is that this reflects the financial markets' general view of the UK retail sector and growth stocks in the light of the changed economic conditions and the war in Ukraine, rather than management performance or a Group-specific issue.
- Further, at least two thirds of the bonus and shares vesting (after payment of tax and National Insurance liability) must be retained in Dunelm shares in accordance with the Company's shareholding guidelines.
- Significant progress has been made to advance the strategic objectives designed to accelerate future growth and advance the Group's long-term ambitions.
- The Group has significantly advanced its sustainability ambitions, setting science-based targets to reduce greenhouse gas emissions by 50% by 2030, progressed the creation of roadmaps to deliver these, and moved forward on people, diversity, human rights and community matters.
- The business performed strongly on colleague engagement scores and implemented customer proposition improvements.
- All colleagues received a pay increase during the year; hourly paid colleagues in our warehouses and stores received an annual pay increase that exceeded the 6.6% increase in the national living wage; nearly 1,000 colleagues in the FY19-21 Sharesave doubled their savings due to the increase in the share price over the period of the scheme; colleagues in a bonus scheme will receive a similar outcome as a percentage of bonus opportunity to that of the CEO.
- Continued support was given to local communities and charitable activity, as described elsewhere in this report.
- Feedback from the National Colleague Voice (NCV) on Executive pay has been that colleagues are satisfied with pay awarded provided that it reflects the performance of the business.
- In the year, the Group paid an interim dividend of 14p per share to shareholders and two special dividends of 65p per share in October 2021 and 37p per share in March 2022. The Board is recommending to shareholders that a final dividend of 26p per share be paid in December 2022.
- No claims for Covid-related government support were made in FY21 or FY22 and in FY21 the Group repaid £14.5m claimed from the Government's Job Retention Scheme in FY20 and in FY22 repaid £4.0m in Covid-related grants received in FY21. No adjustments were made to LTIP targets in respect of the impact of Covid-19 or the repayment of Covid-related support. Colleagues who were placed on furlough in FY21 received the same payments that they would have received via the Government scheme, funded by the Group. No colleagues were put on furlough in FY22.

Remuneration continued

FY19-21 SHARESAVE

Nick Wilkinson participated in the FY19-21 Sharesave, alongside over 900 other colleagues across the entire business. Options were granted at 479p, and at the time of maturity of the scheme (1 January 2022) the price of Dunelm Shares was 1,318p per share. Nick exercised his options on 14 February 2022 and retained all his shares.

FY23 REMUNERATION

Pay Structure

We apply a consistent pay structure throughout the business, with the remuneration of Executive Directors more heavily weighted towards variable pay and share-based incentives than other colleagues, so that a greater part of their pay is linked to successful delivery of strategy and aligned with shareholders. For FY23 we have taken the decision to invest more in the pay of our hourly paid colleagues and our office based colleagues on the lowest grade, recognising that they have been impacted disproportionately by rising energy prices. The median pay increase across the Group has therefore been 7.6%, with management receiving a lower average increase of around 4%.

Executives' base salary

At our annual review of Nick Wilkinson's remuneration, the Committee determined that Nick has continued to perform strongly throughout the year, and this has been reflected in the financial performance of the Group.

We noted that due to the successful, profitable growth of the Group during recent years, our CEO's base salary is now at the lower quartile versus our peers, and the bonus opportunity of 125% of salary is now below the lower quartile. The Committee would like the flexibility to increase the quantum of the CEO's potential performance-related pay, in line with stretching performance targets, but is unable to do so under the terms of the current Remuneration Policy. We expect to discuss this with our major shareholders and their representatives as part of the consultation process for the 2023 policy renewal.

Nick has asked not to receive a base pay increase for FY23, and the Board has reluctantly agreed. The base pay increase that Nick has declined to take was a 4% increase in base salary, in line with the increases given to management colleagues across the Group, and also to incorporate his 5% travel allowance into his base pay. This takes into account the median pay award made to the wider colleague population of 7.6%, including awards to hourly paid colleagues across the business which averaged 7.6%. The Committee considered a wider range of stakeholder considerations, including the feedback on Executive Director pay given by the NCV referred to above. Both his base salary and total remuneration package remain positioned between the lower quartile and median when compared with his peers.

Karen Witts joined the Group on 9 June 2022 and her base salary is eligible for review in August 2023.

Executives' annual bonus and FY23-25 LTIP

We will adhere to our usual policy of paying our FY23 annual bonus in cash, two thirds of which, for the Executive Directors, (after payment of tax and National Insurance liability) must be invested in Dunelm shares to be retained during employment. Targets will be based on our annual budget and are 75% financial and 25% strategic and personal, including environmental, social and governance measures linked to delivery of our strategy. We have also set targets for awards to be made under our Long-Term Incentive Plan, expected to be made in October 2022, and these are 80% financial and 20% environmental, social and governance related. Further details are set out in the Implementation Report.

Pension

In August 2021, Nick Wilkinson volunteered to reduce his pension entitlement going forward to the workforce average, which is 3% of base salary, where it remains. This rate also applies to Karen Witts, the only other Executive Director who receives a pension allowance.

CONCLUSION

The Committee considers that the single figure remuneration received by Nick Wilkinson and Karen Witts in respect of FY22 is appropriate to provide reward, motivation, and retention, with over 75% of Nick's award being paid or invested in shares subject to holding requirements. I hope that shareholders will agree that the outcome is aligned to shareholders and all other stakeholders and that you will support the resolution in relation to the Implementation Report.

Our Remuneration Policy is due for regular renewal at the 2023 AGM, and as I mentioned above I will be writing to our major shareholders and their representatives during the year with our proposals.

I look forward to meeting shareholders at the AGM.

Yours faithfully,

William Reeve
Chair of the Remuneration Committee

14 September 2022

Remuneration at a glance

Our remuneration principles guide the overall remuneration structure that we have adopted for our Executive Directors, as summarised below. Both relate directly to our long-term strategic goal of delivering value for our shareholders and other stakeholders through the profitable growth of a purpose-led, quality business.

SUMMARY OF EXECUTIVE PAY

BASE PAY	LTIP
Median or below	Upper quartile Up to 200% of salary Three-year performance period Two-year retention period Linked to profit and strategic/ESG targets
PENSION	**SHAREHOLDING TARGETS**
Aligned to workforce average, 3%	1 x salary after three years 2 x salary after five years Two-year post-termination holding requirement
BENEFITS	**LIFETIME LOCK-IN**
Median	2/3 of bonus and LTIP outcome retained in shares for duration of employment
ANNUAL CASH BONUS	**CLAWBACK AND MALUS PROVISIONS**
Median 125% of pay Linked to performance: sales, profit, strategic/ESG, personal	On bonus and LTIP

REMUNERATION PRINCIPLES

- Consistent, simple, transparent
- Aligned to shared values and ownership structure
- Applied consistently throughout organisation
- Enshrined in Directors' Remuneration Policy 2020
- Reflect Board's desire to reward sustainable, profitable growth over the longer term

Remuneration continued

How our remuneration policy is linked to our strategy

GROUP STRATEGY

Deliver value for our shareholders and other stakeholders through long-term, sustainable, profitable growth

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

Remuneration structure
- Base pay and benefits at median or below
- Annual bonus at median
- Long-Term Incentive Plan at upper quartile
- Two thirds of variable pay retained in shares for duration of employment and for a further two years in line with our shareholding guidelines

ABOUT OUR REMUNERATION POLICY

Our binding Remuneration Policy was last updated in 2020, and approved by shareholders at the AGM on 17 November 2020 with over 99% of votes in favour of it.

The principles behind, and the reasons for, the overall remuneration structure that we have adopted for our Executive Directors are directly related to the creation of long-term, sustainable growth in shareholder value through delivery of the objectives set out in our corporate purpose and ambitions, which are all long-term in nature. It is also consistent with our shared values, which include 'long- term thinking' and to 'act like owners'. Our approach is also in keeping with the family origin of the business, and is important to the Adderley family, who remain our largest shareholders.

The following table summarises how the Remuneration Committee has addressed the factors set out in Provision 40 of the 2018 UK Corporate Governance Code in setting the remuneration structure and Remuneration Policy:

HOW WE ADDRESSED PROVISION 40 OF THE UK CORPORATE GOVERNANCE CODE	
CLARITY **Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce**	• The remuneration arrangements for the Executive Directors are set out in a clear and simple way in the Directors' Remuneration Policy and in the plan rules for each incentive plan. Guides are provided to participants explaining how each incentive plan operates. • The Committee is committed to transparent disclosure. Full details of incentive targets and outcomes are published in detail in the Annual Report on Remuneration each year. • Queries on remuneration practices from shareholders or colleagues are welcomed by the Committee throughout the year and encouraged at the AGM and at the annual presentation to the NCV by the Committee chair. • Executive remuneration was discussed at the investor Corporate Governance presentation in March 2022 when discussion topics raised by shareholders included the ability of the Group to pay market rates to attract talented executives within the terms of the Remuneration Policy, choice of LTIP targets, shareholder approach to assessment of variable pay outcomes and the personal shareholding targets for Executive Directors.
SIMPLICITY **Remuneration structures should avoid complexity and their rationale and operation should be easy to understand**	• Since flotation of the Company, the approach of the Remuneration Committee has been to maintain a remuneration structure that is simple in nature and it is well understood. • Executive Directors (and senior leadership) receive fixed pay (salary, benefits, pension), and participate in a single short-term incentive (the "Annual Bonus") and a single long-term incentive (the "LTIP"). • The financial performance criteria for the Annual Bonus and LTIP are linked to reported figures, usually PBT for the annual incentive, and earnings per share for the long-term incentive. Hence, they are transparent and predictable. • A percentage of the performance criteria for the Annual Bonus, and from FY21 for the LTIP, is linked to delivery of strategic objectives, which include measurement via numerical KPIs that are used by the Board and management to measure performance, such as colleague and customer satisfaction and measures linked to our sustainability strategy. • The Committee reviews the appropriateness of targets annually, being mindful of alignment with strategy and keeping them simple. For example, the PBT and LTIP financial targets are aligned to the annual budget and 5 year plan.

HOW WE ADDRESSED PROVISION 40 OF THE UK CORPORATE GOVERNANCE CODE	
RISK **Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target based incentive plans, are identified and mitigated**	• The Committee considers that the incentive arrangements do not encourage inappropriate risk-taking, due to the Committee's rigorous process for reviewing incentive outcomes. • The ability to mitigate potential risks is within in the Remuneration Policy and the rules of the performance-related incentive plans. Examples include: – The Policy provides wide-ranging flexibility to adjust payments where outcomes are not considered to reflect underlying business performance, stakeholder experience or individual contributions, or where behaviours are inconsistent with the risk appetite of the Group. No such adjustments were made in FY22; – The inclusion of malus and clawback provisions under a wide range of potential scenarios; and – The majority of the variable remuneration of the Executive Directors is paid in shares which are subject to in-employment and post-employment shareholding requirements.
PREDICTABILITY **The range of possible values of rewards to individual directors should be identified and explained at the time of approving the Policy**	• At the time of approving the Policy and annually in the annual report full information on the potential values of the Annual Bonus and LTIP are provided, with strict maximum opportunities and minimum, on target and maximum performance scenarios. An indication of the potential impact of a 50% share price appreciation on the value of LTIP awards is also included. • The FY22 Annual Bonus and LTIP award opportunities were in line with the maximum opportunity in the Policy.
PROPORTIONALITY **The link between individual awards, the delivery of strategy and the long-term performance of the Group should be clear. Outcomes should not reward poor performance.**	• Payments under variable incentive schemes require robust performance against challenging conditions over the short and longer term. For example, 50% of the Annual Bonus is based on PBT, and 25% on sales, with 40% of the opportunity earned for achieving budgeted PBT; and 80% of the LTIP target is linked to EPS growth over a three-year period, paying out 50% of "on target" performance. Both measures are Group KPIs. • Non-financial performance measures account for 25% of the opportunity for Annual Bonus and 20% of the LTIP. These are linked to delivery of strategic objectives which are key to the long-term growth of the Group, and a number of them are linked to Group KPIs, including for example customer NPS, colleague NPS and reductions in carbon emissions. • The Committee considers the formulaic outcome, as well as other relevant factors, when making decisions on remuneration outcomes. • Outcomes do not reward poor performance due to the Committee's overriding discretion to depart from formulaic outcomes which do not reflect underlying business performance.
ALIGNMENT TO CULTURE **Incentive schemes should drive behaviours consistent with company purpose, values, and strategy.**	• The Committee sets the remuneration principles that apply to all colleagues and is satisfied that these drive the right behaviours and reinforce the Group's purpose (to help create the joy of truly feeling at home, now and for generations to come) and shared values (act like owners, keep listening and learning, stronger together and long-term thinking), which in turn promote an appropriate culture. Our shared values are reflected in the measures used in our incentive schemes. For example, our incentive arrangements link to them in the following ways: – Financial targets under the Annual Bonus and all targets for the LTIP are the same for all management, regardless of seniority, linking everyone's contribution to a shared Group financial outcome. – Strategic targets require our Executive Directors and senior leadership to work together to deliver strategic growth and value to our stakeholders. For example, increasing the number of active customers requires input from product, marketing, digital, stores and supply chain colleagues. – Non-financial performance measures in the Annual Bonus and LTIP incentivise participants to choose the right path for our customers, our people and shareholders by using measures which directly assess outcomes for these stakeholders, for example colleague and customer NPS, and measures related to delivery of our sustainability strategy. – The use of LTIP holding periods, requirement to invest a percentage of Annual Bonus in shares and our shareholding requirements strengthen the focus on our long-term strategic aims and ensure alignment with the interests and experiences of shareholders, both during and after employment.

The Remuneration Committee considers that the policy and practices have operated as intended. The Company has attracted high quality executives; overall levels of pay over recent years have been in line with the value delivered to shareholders and other stakeholders; and positive feedback has been received from shareholders via AGM voting and other engagement mechanisms such as the engagement process conducted in connection with the 2020 Policy renewal, and from colleagues through our regular consultations with the NCV.

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 Policy which was approved by shareholders at the AGM on 17 November 2020 with over 99% of votes in favour. This Policy will remain in force until the AGM in 2023. The Policy can be viewed in the 2020 Annual Report which is available on the corporate website at: https://corporate.dunelm.com/investors/reports-and-presentations/

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 Group-wide review unless other circumstances apply, such as: – A significant change in the size, scale or complexity of the role or of the Group'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%). Please note that from FY22 the incumbent Executive Director(s) have agreed to reduce their entitlement to the workforce average.
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; and 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.

BENEFITS	
MAXIMUM OPPORTUNITY	• Current benefits provided are described in the Implementation Report from page 147. • The Committee reserves the right to provide such benefits as it considers necessary to support the strategy of the Group. • The Committee does not consider it to be appropriate to set a maximum cost to the Group of benefits to be paid.
PERFORMANCE METRICS	• None. • No recovery provisions apply to benefits.

ANNUAL BONUS	Awards to be made to Executive Directors other than Sir Will Adderley, who has requested that he not be considered for an annual bonus
PURPOSE AND LINK TO STRATEGIC OBJECTIVES	• Rewards and incentivises delivery of annual financial, strategic and personal targets.
OPERATION **Annual bonus specifically for FY20 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 FY21; and – As regards the balance of the shares subject to it, on the first dealing day after the announcement of Dunelm's results for FY22. • 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 on page 140.
OPERATION **Annual bonus specifically for FY21 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 FY21; 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 FY22. • 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 on page 140.

Remuneration continued

ANNUAL BONUS	Awards to be made to Executive Directors other than Sir Will Adderley, who has requested that he not be considered for an annual bonus
OPERATION **Annual bonus for FY22 and subsequent years to which this Policy applies**	• 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 FY22 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 FY20 and FY21. 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 FY20 and FY21) 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 on page 140. • The Committee has discretion to adjust the bonus pay-out 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.
MAXIMUM OPPORTUNITY **Annual bonus specifically for FY20 due to Covid-19 situation**	• 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 FY20, as set out on pages 144 to 146 of the FY20 annual report.
MAXIMUM OPPORTUNITY **Annual bonus specifically for FY21 due to Covid-19 situation**	• 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.
MAXIMUM OPPORTUNITY **Annual bonus for FY22 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.

ANNUAL BONUS	Awards to be made to Executive Directors other than Sir Will Adderley, who has requested that he not be considered for an annual bonus
PERFORMANCE METRICS	• No further performance targets will apply to the share awards granted in respect of the bonuses for FY20 as those awards reflect the outcome of the performance targets for that year, as set out on pages 144 to 146 of the FY20 Annual Report. • 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 FY20 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 of the FY20 Annual Report. • Awards are subject to recovery provisions (malus and clawback) as set out on page 140.

LONG TERM INCENTIVE PLAN	Awards to be made to Executive Directors other than Sir 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 on page 140. • 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 Group'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 140.

ALL EMPLOYEE SHARE PLAN (SHARESAVE)	
PURPOSE AND LINK TO STRATEGIC OBJECTIVES	• Promotes share ownership by all eligible colleagues (including Executive Directors).

Remuneration continued

ALL EMPLOYEE SHARE PLAN (SHARESAVE)	
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 any share awards (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. This is a contractual requirement set out in each Director's service contract.

The Company also reserves the right to require share certificates to be lodged in its custody.

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 that the LTIP or share bonus award may be cancelled or reduced (if it has not been exercised) or that 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 Chair and Non-Executive Directors by offering competitive fee levels.
OPERATION	• Fees for the Chair and Non-Executive Directors are set by the Board. No Director participates in any decision relating to his or her own remuneration. • The Chair 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 Group-wide increase. In addition, there will be a periodic review against market rates, taking into account time commitment and any change in the 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 Chair or Non-Executive Director of the appropriate calibre. • With the exception of colleague discount, no benefits are paid to the Chair 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 a number as having a value at the relevant time equal to the value of the fixed remuneration being delivered in cash.

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

PERFORMANCE MEASURES AND HOW TARGETS ARE SET

The Remuneration Committee selects performance measures that it believes are:

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

ANNUAL BONUS

For FY22 the Committee determined 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.

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.

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 because it 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.

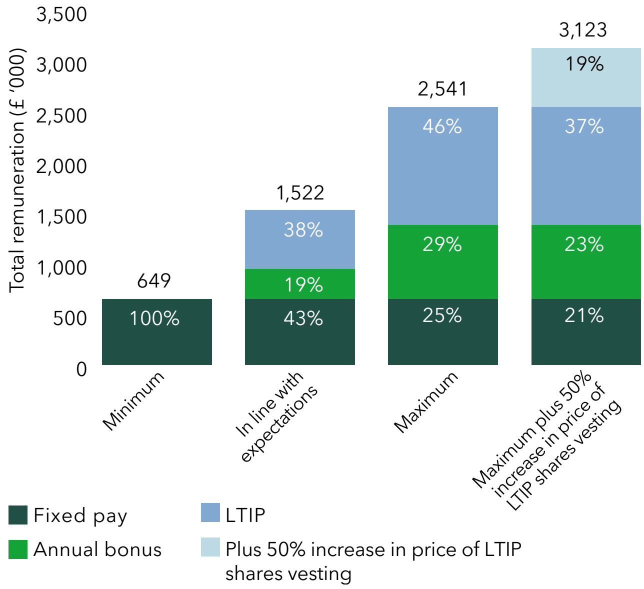
The number of shares comprised in an award or the performance target which applies may be adjusted by the Remuneration Committee in accordance with the plan rules if justified by the circumstances, for example, if there were a major capital transaction. Any amendment and the reason for it would be fully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

Remuneration continued

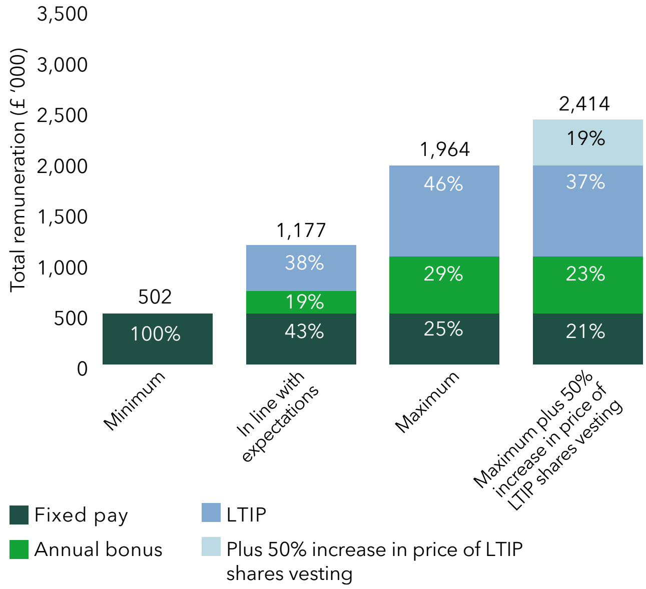
ILLUSTRATIVE PERFORMANCE SCENARIOS

The following graphs set out what Nick Wilkinson and Karen Witts, two of the Executive Directors in office at the date of this report, could earn in FY23 under the following scenarios:

Nick Wilkinson*



Karen Witts*



* Please note some % in graphs above have been manually amended to resolve roundings (i.e. so that they add up exactly to 100%).

At his request, Sir Will Adderley, who is an Executive Director, 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 above.

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

	Base (last known salary) £'000	Benefits £'000	Pension (3% of salary) £'000
Nick Wilkinson	582	50	17
Karen Witts	450	38	14

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

Performance level	Fixed pay	Annual Bonus	LTIP
Minimum (performance below threshold)	As above	Nil	Nil
In line with expectations	As above	40% of annual bonus will vest	50% of the LTIP award (i.e. 100% of salary for Nick Wilkinson and Karen Witts), based on face value of the award at the date of grant.
Maximum performance	As above	100% of annual bonus will vest	100% of the LTIP award (i.e. 200% of salary for Nick Wilkinson and Karen Witts), based on face value of the award at the date of grant.
Maximum performance, plus share price increase	As above	100% of annual bonus will vest	100% of the LTIP award (i.e. 200% of salary for Nick Wilkinson and Karen Witts), 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 Karen Witts during the year as:

- Actual pay will reflect Group and personal performance over the relevant performance period.
- We are required to show the value of the LTIP awards that are expected to be made in the year, not those which 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.

SERVICE CONTRACTS AND LOSS OF OFFICE PAYMENTS

All of the Executive Directors have service contracts. The notice period for termination for Sir Will Adderley is 12 months from either party, and for Nick Wilkinson and Karen Witts 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 or 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 Chair. 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 7 on page 155 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.

Remuneration continued

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 Group).

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 Director's 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 in the remuneration strategy on page 133 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 on page 140.

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

All colleagues with a minimum service requirement (usually three months or less) 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 and Stores Director provides information to the Board about workforce policies and practices.
- The Board receives a 'Colleague Dashboard' twice a year, which contains a number of colleague measures, including gender and age split, gender and ethnicity pay (ethnicity pay based on preliminary data) reward, Sharesave participation, colleague engagement, voluntary turnover and internal promotion.

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 March 2022, 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), ISS, Glass Lewis 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 2020 Policy including, in particular, our approach to share bonus awards proposed specifically due to the Covid-19 situation for FY20 and FY21, our approach to LTIP awards for FY21, pensions and salary increases. We were pleased with the level of engagement from shareholders and for the support shown for our proposals, which we finalised having regard to feedback received. The Remuneration Committee has also taken the views of shareholders into account when setting the remuneration of newly appointed directors, the annual pay increases and fee increases for directors, and the variable pay outcomes for the Executive Directors.

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 Group'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 Group.

Circumstances in which the Committee might apply this discretion include:

- Where an interim appointment is made on a short-term basis, including where the Chair 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 136. The Committee would explain the rationale for the remuneration package in the next Annual Report.

Remuneration continued

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 Chair 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.

Implementation Report

This section of the report sets out how the Directors' Remuneration Policy which was approved by shareholders on 17 November 2020 has been applied in FY22.

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

REMUNERATION COMMITTEE MEMBERSHIP

The table below sets out the membership of the Remuneration Committee and the attendance of Directors at meetings during the year:

Member	From	To	Meetings attended
William Reeve (Chair)	1 July 2015	To date	4/4
Ian Bull	10 July 2019	To date	4/4
Kelly Devine[1]	1 March 2022	To date	2/2
Andy Harrison	1 September 2014	To date	4/4
Peter Ruis	10 September 2015	To date	4/4
Arja Taaveniku	15 February 2021	To date	4/4
Vijay Talwar[1]	1 October 2021	To date	2/2

1. Kelly Devine and Vijay Talwar were appointed to the Board during the year and joined the Remuneration Committee on appointment.

Alison Brittain joined the Board on 7 September 2022, after the end of the year, and became a member of the Committee on that date.

The Company Secretary acts as secretary to the Committee. No Director ever participates when his or her own remuneration is discussed.

ADVISERS

The Committee has appointed Deloitte to provide general advice in relation to executive remuneration on an ad hoc basis due to their expertise and sound advice given in previous years. Total fees paid to Deloitte for remuneration-related work in the year were £14,850 (FY21: £16,550) which was a mixture of fixed fees and time spent basis, depending on the work conducted.

Deloitte also provided non-remuneration-related consultancy services in the year in relation to supporting the Group in improving processes and controls in the commercial function. This appointment was made based on Deloitte's expertise on an arm's length basis and without reference to the fact that Deloitte also provides remuneration advice.

Having reviewed the fees paid to Deloitte for non-remuneration-related work as specified above, the Committee noted that Deloitte provides remuneration advice through a team which is separate to the other consultancy teams. Deloitte is also 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 remuneration advice that they have received from Deloitte in the year has been objective and independent.

The Chief Executive Officer attends part of Committee meetings by invitation to make recommendations as to the remuneration payable to below Board executives. The Stores and People Director attends part of 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.

Remuneration continued

SINGLE FIGURE FOR TOTAL REMUNERATION (AUDITED INFORMATION)

The following table sets out total remuneration for Directors for the period ended 2 July 2022:

Table 1 – Directors' remuneration – single figure table

	Salary/fees[1] £'000		Benefits[2] £'000		Pension[5] £'000		Total fixed remuneration[6] £'000		Bonus[3] £'000		Share bonus award lapse[3] £'000		LTIP awards[4] £'000		Total variable remuneration[7] £'000		Total £'000	
Director	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Executive																		
Nick Wilkinson	580	563	48	50	20	45	648	658	653	570	–	–	1,382	2,528	2,035	3,098	2,683	3,756
Laura Carr	372	383	19	21	13	31	404	435	–	386	(192)	–	–	1,567	(192)	1,953	212	2,388
Karen Witts	27	–	2	–	1	–	30	–	22	–	–	–	–	–	22	–	52	–
Sir Will Adderley	–	–	20	20	–	–	20	20	–	–	–	–	–	–	–	–	20	20
Non-Executive																		
Andy Harrison	216	216	–	–	–	–	216	216	–	–	–	–	–	–	–	–	216	216
Marion Sears	54	52	–	–	–	–	54	52	–	–	–	–	–	–	–	–	54	52
William Reeve	71	68	–	–	–	–	71	68	–	–	–	–	–	–	–	–	71	68
Peter Ruis	54	52	–	–	–	–	54	52	–	–	–	–	–	–	–	–	54	52
Ian Bull	64	62	–	–	–	–	64	62	–	–	–	–	–	–	–	–	64	62
Arja Taaveniku	54	19	–	–	–	–	54	19	–	–	–	–	–	–	–	–	54	19
Vijay Talwar	40	–	–	–	–	–	40	–	–	–	–	–	–	–	–	–	40	–
Kelly Devine	18	–	–	–	–	–	18	–	–	–	–	–	–	–	–	–	18	–
Paula Vennells	–	43	–	–	–	–	–	43	–	–	–	–	–	–	–	–	–	43
Total	1,550	1,458	89	91	34	76	1,673	1,625	675	956	(192)	–	1,382	4,095	1,865	5,051	3,538	6,676

1. Paula Vennells was appointed to the Board on 4 September 2019 and stepped down on 25 April 2021. Arja Taaveniku was appointed to the Board on 15 February 2021. Vijay Talwar was appointed to the Board on 1 October 2021 and Kelly Devine was appointed on 1 March 2022. Laura Carr stepped down from the Board on 8 June 2022 and Karen Witts joined the Board on 9 June 2022. Basic salary/fee for Paula Vennells, Arja Taaveniku, Vijay Talwar and Kelly Devine and salary, pension and benefits for Laura Carr and Karen Witts are pro-rated over the relevant year. From 1 August 2021, Nick Wilkinson's and Laura Carr's salary increased by 3.5%. Sir Will Adderley's base salary is held at £1 per annum. Andy Harrison, the Chairman, asked not to be considered for a fee increase in FY22. The fees for the other Non-Executive Directors were increased by 3.5%.
2. Benefits include the cost 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. Karen Witts is entitled to an allowance of £1,500 per month to cover the cost of rent on a property close to the office in Leicester and travel costs. This is for 12 months from 9 June 2022 and then until she purchases a home close to Leicester, or for the duration of her of employment should Karen not choose to do so.
3. Nick Wilkinson was awarded an annual performance-related bonus for FY22 with a maximum face value of 125% of contractual salary. The performance conditions which applied to the bonus were set in September 2021 and are described in the report below. Due to cessation of her employment before the payment date Laura Carr was not entitled to an annual bonus for FY22. Payment of bonuses earned for FY20 and FY21 which would normally have been paid in cash, were deferred in shares under a Share Bonus Award, with 50% vesting in September 2021 and 50% vesting in September 2022. The value of these awards was included in the 'single figure' tables for FY20 and FY21 respectively and has not been included in this table. The shares which would have vested to Laura in September 2022 have lapsed following cessation of her employment. The amount included in the share bonus award lapse column has been calculated as the difference between the original bonus values and the market value of the shares exercised in the first tranche in September 2021. Further details can be found in the Policy table and the FY20 and FY21 Annual Reports. Karen Witts was awarded a pro-rated performance-related annual bonus for FY22, reflective of the period from her start date to the end of the financial year and subject to the financial performance criteria applicable to Nick Wilkinson. Karen declined any payment in respect of personal and strategic performance (25% of opportunity) given the relatively short period that she had been in role during the financial year.
4. The figure for Nick Wilkinson is the value of the FY20-22 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 awards, which will vest on 16 October 2022 was the average of Dunelm's closing share price over the last three months of the FY22 financial year, which was 909.11p per share. It also includes a 'special dividend equivalent' of 32p per share in respect of the special dividend paid on 11 October 2019, of 65p per vested share in respect of the special dividend paid on 8 October 2021, and of 37p per vested share in respect of the special dividend paid on 18 March 2022. The share price used to calculate the number of shares in Nick's 'special dividend equivalent' was 731p per share in respect of the October 2019 special dividend, 1,310p per share in respect of the October 2021 special dividend and 1,127p per share in respect of the March 2022 special dividend being the share price the day before the special dividend date. The amount of the values above include an element that may be attributed to share price increase of £103,000 for Nick. No discretion was applied to adjust the amount vesting for share price appreciation or depreciation or for any other reason. The figures for Nick Wilkinson and Laura Carr for the FY19-21 LTIP award have been restated to show the actual value of the award on vesting which was 197,693 shares times share price at close of business on 17 October 2021 of 1,279p for Nick and 115,785 shares times share price at close of business on 30 November 2021 of 1,353p for Laura. 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. Sir Will Adderley has asked not to be considered for an LTIP award.
5. Pension for FY22 is 3% of contractual salary from 1 August 2022 for Nick Wilkinson, Laura Carr and Karen Witts. Prior to this pension entitlement for Nick Wilkinson and Laura Carr was 8% of contractual salary from 1 August 2021, and 10% of contractual salary prior to that. Sir Will Adderley waived his entitlement to a pension from 1 July 2015.
6. Total fixed remuneration includes salary/fees, benefits and pension.
7. Total variable remuneration includes bonus and LTIP awards.

FY22 ANNUAL BONUS

Each of Nick Wilkinson and Karen Witts were eligible to earn an annual bonus of up to 125% of base salary during the year, subject to meeting the performance targets set out below. The bonus of Karen Witts was pro-rated from the date she joined the Group. Laura Carr stepped down from the Board in June 2022 and therefore her annual bonus lapsed. Will Adderley asked not to be considered for an annual bonus.

Financial targets – 75% of bonus opportunity

Two targets were set in respect of FY22, achievement of budgeted sales and PBT.

Sales – 25% of bonus opportunity

The target was set so that no part of the bonus would be paid until sales of £1,424.4m were achieved and maximum bonus would be paid at £1,668.6m. Between those points, bonus would be paid on a straight-line basis, with "on-target" bonus paid at £1,483.8m. Market consensus for FY22 sales at the date the target was set in July 2021 was for sales of £1,425m. FY22 sales were £1,553.1m. Targets and performance were calculated on a 52 week basis. Therefore 70% of this element has been earned (2021: 100%).

PBT – 50% of bonus opportunity

The target was set so that no part of the bonus would be paid until PBT of £157.4m was achieved and maximum bonus would be paid at £180.4m. Between those points, bonus would be paid on a straight-line basis, with "on-target" bonus paid at £164.0m. Market consensus for FY22 PBT at the date the target was set in July 2021 was for PBT of £168m, although at this point the market was not aware of significant budgeted increase in revenue investment in FY22 to drive future growth. FY22 PBT significantly exceeded budget at £209.0m. Targets and performance were calculated on a 52 week basis. Therefore 100% of this element has been earned (2021: 75%).

Personal and strategic targets – 25% of bonus opportunity

Nick Wilkinson

Progress was measured against the six strategic focus areas described in the FY21 annual report. Assessment was made by reference to performance across the objectives as a whole, with no specific weighting.

Details of Nick's targets and performance against them is set out on page 151. Based on this, the Committee considered that strong strategic progress had been made both overall and across all six focus areas, and expectations were greatly exceeded in key profitability measures. Strong progress had been made in developing and executing the sustainability strategy, as well as developments to the customer proposition and strengthened internal capability and succession. It therefore assessed that 90% of the personal and strategic targets had been met by Nick, (2021: 88% personal and 80% strategic) which earned 22.5% of total bonus opportunity.

Karen Witts

Karen joined the Group in the final month of the financial year. Karen asked not to be considered for any element of bonus linked to personal objectives given that she had only been in role for three weeks of the year.

ASSESSMENT OF BONUS OUTCOME AFTER APPLYING PERFORMANCE CONDITIONS

The Committee reviewed the outcome of performance against the targets described above. It also considered the overall business context and stakeholder experience. It concluded that the Executive Board had delivered very strong performance, despite ongoing external challenges due to Covid-19 in the first half of the year, ongoing international supply chain disruption, and significant cost inflation. Record sales and profit have been delivered, as well as improved colleague engagement scores and market share gains, while the strong financial and market position has been maintained. Acceleration of digital growth has continued, data resource and capability has been built, and the customer proposition has been strengthened. There has been a further step change in the Group's sustainability ambition, knowledge and plans. Meaningful progress has also been made to ensure that the business demonstrably delivers value to all of its stakeholders, for the climate, and to society as a whole.

Taking all of the above into account, it was agreed that the bonus outcome after applying the measures described was fair, reasonable and appropriate.

DISCRETION

The Committee carefully considered whether it should exercise its discretion to adjust the overall outcome of the FY22 annual bonus after applying the performance criteria described above. In doing so it considered the following factors:

- The financial performance of the Group has been strong, delivering record sales and profit, despite the Covid-19 crisis and the external environment throughout the financial year referred to earlier in the report.
- Although the share price has fallen significantly in the second half of the year, the advice given by our brokers is that this reflects the financial markets' general view of the UK retail sector and growth stocks in the light of the changed economic conditions and the war in Ukraine rather than management performance or a Group-specific issue.
- Further, at least two thirds of the bonus and shares vesting (after payment of tax and National Insurance liability) must be retained in Dunelm shares in accordance with the Company's shareholding guidelines.
- Significant progress has been made to advance the strategic objectives designed to accelerate future growth and advance the Group's long-term ambitions.
- The Group has significantly advanced its sustainability ambitions, setting ambitious science-based targets to reduce greenhouse gas emissions by 50% by 2030, progressed the creation of roadmaps to deliver these, and moved forward on people, diversity, human rights and community matters.

Remuneration continued

- The business performed strongly on colleague engagement scores and implemented customer proposition improvements.
- All colleagues received a pay increase during the year; hourly paid colleagues in warehouses and stores received an annual pay increase that exceeded the 6.6% increase in the national living wage; nearly 1,000 colleagues in the FY19-21 Sharesave doubled their savings due to the increase in share price over the period of the scheme; colleagues in a bonus scheme will receive a similar outcome as a percentage of bonus opportunity to that of the CEO.
- Continued support was given to local communities and charitable activity, as described elsewhere in this report.
- Feedback from the NCV on executive pay has been that colleagues are satisfied with pay awarded provided that it reflects the performance of the business.
- In the year, the Group paid an interim dividend of 14p per share to shareholders and two special dividends, 65p per share in October 2021 and 37p per share in March 2022. The Board is recommending to shareholders that a final dividend of 26p per share be paid in December 2022.
- No claims for Covid-related government support were made in FY21 or FY22 and, in FY21, the Board repaid £14.5m claimed from the Government's Job Retention Scheme in FY20 and in FY22 repaid £4.0m in Covid-related grants received in FY21. No adjustments were made to LTIP targets in respect of Covid or repayment of Covid-related support. Colleagues who were placed on furlough in FY21 received the same payments that they would have received via the Government scheme, funded by the Group. No colleagues were put on furlough in FY22.

Having considered all of the above factors, the Committee agreed that the FY22 annual bonus outcome for Nick Wilkinson and Karen Witts was fair and reasonable in the circumstances, reflected shareholder and wider stakeholder experience, and should not be adjusted.

Total bonus earned in respect of FY22 performance is set out in the table below:

Table 2 – Annual bonus earned in respect of FY22 performance

	Bonus awarded £	Percentage of maximum award
Nick Wilkinson	653,045	90%
Karen Witts[1]	22,148	67.5%
Laura Carr[2]	–	N/A
Sir Will Adderley (waived entitlement)	–	N/A

1. Karen Witts has declined any payment in respect of personal and strategic objectives given her relatively short tenure during the financial year.
2. Laura Carr was not eligible to receive a bonus for the year as she left the Group in June 2022.

FY20 AND FY21– SHARE BONUS AWARDS

Payment of bonus earned for FY20 and FY21 which would normally have been paid in cash, was in deferred shares, with 50% vesting in September 2021 and 50% in September 2022. Although these awards were paid in the FY22 and FY23 financial years, in accordance with reporting guidelines the value of the FY20 and FY21 bonus awards were included in the 'single figure' tables for FY20 and FY21 respectively, and not in the FY22 table in this report. Further details of these awards are set out in the Policy table and the FY20 and FY21 annual reports. Shares vesting have been retained in accordance with the Lifetime Lock-in.

Shares that were due to vest under the share bonus award to Laura Carr in September 2022 lapsed on her leaving the Group in June 2022.

Nick Wilkinson – Performance against strategic and personal objectives

Objective	Performance	Related KPI target	Related KPI performance
Invest successfully in growth drivers to improve customer proposition c.25% weighting	**Exceeded expectations** • Deployed FY22 investment plan and delivered strong progress across all Focus Areas. • Delivered improvements to customer proposition in website, stores and post sales experience. Higher than expected volumes coupled with supply and labour constraints impacted the customer satisfaction score which meant that the targeted improvement was not met. • Increased customer frequency as stores re-opened strongly and digital sales continued to be strong. • Made material progress in our data resource and capability.	Increase customer satisfaction score (NPS) Customer frequency 2.9x	Missed customer NPS target by 5.6% Customer frequency at year end was 3.1x
Further develop strategic plans particularly on sustainability (Focus Area 0) c.25% weighting	**Greatly exceeded expectations** • Set ambitious 2030 targets for Scope 3 greenhouse gas reduction (target for Scopes 1 and 2 set in FY21). Significantly increased resource, capability and knowledge, and started to embed carbon reduction objectives throughout the business, particularly through our product design and sourcing. Set detailed roadmap to achieve Scope 1 targets and made progress on gas decarbonisation, moving owned car fleet away from fossil fuels and provision of customer take-back scheme. Worked with EY, the British Retail Consortium and Textiles 2030 to understand the drivers of carbon reduction and start to build and execute our Scope 3 roadmap. Sustainability – linked Revolving Credit Facility in place from December 2021. • Developed the customer proposition despite greater than expected operational focus caused by supply and pricing issues. Added 'Good & Circular' to the proposition, and increased focus on Value & Choice.	8% Reduction in scope 1 carbon emissions per £m of sales v FY19 baseline	19.6% reduction in scope 1 carbon emissions per £m of sales v FY19 baseline
Develop Executive Board performance and succession c.25% weighting	**Exceeded expectations** • Executive Board performing strongly as a team. • Onboarded a new Chief Information Officer, who has built the Tech team and increased engagement. • Recruited a CFO to replace Laura Carr, who resigned to take up an opportunity outside of retail and the public markets. • Recruited a Company Secretary, to replace Dawn Durrant who is retiring from this role at the 2022 AGM. • Internal succession and talent management process established, delivering a step change in the quality of people development and succession. Active steps taken to develop internal successors for key Executive Board roles.		
Maintained a highly effective and ambitious performance environment in the face of continuing disruption from external challenges (Covid, inflation, international freight) c.15% weighting	**Greatly exceeded expectations** • Achieved an environment in which the business can deliver both higher growth (investing, proposition development, learning) and focus on excellent operational execution, despite significant supply and cost issues. • Interim results presentation marked a step up in quality and supporting analysis. • Evolved effective hybrid ways of working for Support Centre colleagues. • Reset the performance environment post lockdown to avoid fatigue, increase connection and empowerment.	Exceed budgeted PBT of £164.0m Maintain cost: serve ratio Improve colleague satisfaction (eNPS) score	Delivered PBT on a 52 week basis of £209.0m Cost: serve ratio improved by 0.1% Colleague satisfaction (eNPS) score improved by 1%
Explore alternative sources of growth and strategic development, including acquisitions and partnership opportunities c.10% weighting	**Greatly exceeded expectations** • Delivered the acquisition of the Sunflex business, and successfully integrated it, to secure a strategic source of supply to a key growth category. • Investigated a further acquisition but opted to pursue an alternative organic approach to achieve the desired strategic objective.		

Remuneration continued

LTIP – AWARDS EARNED IN RESPECT OF PERFORMANCE IN FY20-22

The performance condition which applied to the FY20-22 LTIP award was that compound growth in diluted EPS over the three-year performance period of July 2019 to July 2022 should exceed the compound growth in RPI over the same period by between 3% and 12%. Over the three-year performance period which ended on 2 July 2022, reported diluted EPS grew at a compound annual rate of 18.8%.

This is 13.3% above the compound annual growth in RPI over the same period. Accordingly, 100% of this award has vested to Nick Wilkinson as set out below. This is included in the single figure for total remuneration for FY22 as set out in Table 1. Laura Carr's FY20-22 LTIP award lapsed on her leaving the Group in June 2022.

Table 3 – LTIP awards earned in respect of performance in FY20-22

	Shares vesting	Percentage of maximum award
Nick Wilkinson	134,984	100%

No awards are due to vest to Sir Will Adderley in respect of the LTIP. Nick Wilkinson will also receive £154,921 by way of 'special dividend equivalent' in relation to the special dividend of 32p per share paid on 11 October 2019, of 65p per share paid on 8 October 2021 and of 37p per share paid on 18 March 2022. In each case these will be paid in shares. The number of shares to vest for Nick Wilkinson is 17,041. These values are included in the single figure for total remuneration for FY22 as set out in Table 1 on page 148, and the basis on which they have been calculated is set out in note 4 of Table 1. Shares vesting must be retained in accordance with the shareholding guidelines set out in the Remuneration Policy.

AWARDS MADE TO DIRECTORS UNDER SHARE INCENTIVE SCHEMES IN FY22

LTIP awards were made on 20 October 2021 to Nick Wilkinson and on 9 June 2022 to Karen Witts as set out below:

Table 4 – LTIP awards made to Directors during FY22 (audited information)

Name	Award	Number of shares	Face value at date of award (200% of salary)	Performance conditions	Performance period	Vesting date	% vesting at threshold performance
Nick Wilkinson	Nil cost option under LTIP	89,078	£1,164,250[1]	**Financial measures (80% of opportunity)** Diluted EPS for FY24. No part of this element of the award will vest if EPS is less than 66.6p. 10% of this element of the award vests if EPS is 66.6p, 50% vests if EPS is 72.2p, 75% vests if EPS is 80.9p and 100% vests if EPS is 88.8p or more. Performance between these percentage thresholds will be calculated on a straight-line basis. **Non-financial measures (20% of opportunity)** Three sustainability-based measures, each accounting for 1/3 of this element of the award, on a simple pass or fail basis against target. Full details were in the FY21 annual report. All of the shares vesting (after payment of tax and National Insurance) must be held for two years from the vesting date, and then two thirds of these must be held for the duration of employment.	July 2021 to June 2024	20 October 2024	6.67%
Karen Witts	Nil cost option under LTIP	73,979	£699,841[2]	As for Nick Wilkinson	July 2021 to June 2024	9 June 2025	6.67%

1. Based on the closing share price on 19 October 2021 of 1,307p per share.
2. Based on the average of the closing share prices over the period 1 April-8 June 2022 of 946p per share.

The awards are eligible to receive a 'special dividend equivalent' in respect of the special dividends of 65p per share paid on 8 October 2021, of 37p per share paid on 18 March 2022 and any other special dividend paid before the awards vest.

An LTIP award on the same terms as Nick Wilkinson of 54,628 shares was also made to Laura Carr on 20 October 2021, which lapsed on her leaving the Group on 8 June 2022.

PAYMENTS TO PAST DIRECTORS AND FOR LOSS OF OFFICE (AUDITED INFORMATION)

No payments have been or are being made to any former Director in the financial year in respect of loss of office or the termination of his or her employment.

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 or share bonus award and LTIP awards earned (after payment of tax and National Insurance liability on exercise) in Dunelm shares. In addition, for LTIP awards granted from 2020 onwards, all shares received (after sales to cover tax and National Insurance liability on exercise) must be retained for two years from vesting, then up to one third can be sold, the remainder being retained for the duration of employment. Post-employment shareholding requirements also apply, as set out in the Remuneration Policy.

All Executive Directors comply with this requirement at financial year end. Laura Carr complied with this requirement at 8 June 2022, the date upon which she stepped down from the Board.

Nick Wilkinson was appointed on 1 February 2018 and Karen Witts was appointed on 9 June 2022. As at 2 July 2022, they have beneficial shareholdings equal to 356% and 44% of salary respectively (based on the closing share price at year-end, see below for details).

Table 5 and Table 6 show the interests of the Directors in shares of the Company at 2 July 2022.

Table 5 – Shareholdings of Directors and Persons Closely Associated with them (audited information)

	At 2 July 2022 1p Ordinary Shares	At 26 June 2021 1p Ordinary Shares	Percentage of salary at 2 July 2022 (where applicable)[1]	Shareholding target (where applicable)
Sir Will Adderley	76,371,779	76,371,779		
Ian Bull	11,000	4,000		
Kelly Devine	–	–		
Andy Harrison	454,811	416,480		
William Reeve	22,000	18,000		
Peter Ruis	–	–		
Marion Sears	105,000	105,000		
Arja Taaveniku	6,000	–		
Vijay Talwar	–	–		
Nick Wilkinson	249,759	125,749	356%	1× salary by Feb 2021 2× salary by Feb 2023
Laura Carr[2]	107,799	36,000	N/A	1× salary by Nov 2021 2× salary by Nov 2023
Karen Witts	23,744	–	44%	1× salary by July 2025 2× salary by July 2027

1. Based on the closing share price of 830p at 2 July 2022 and base salary at 1 August 2022.
2. Laura Carr left the Group on 8 June 2022.

Since 2 July 2022, Vijay Talwar purchased 9,670 shares and Karen Witts has purchased 1,174 shares bringing her total shareholding to 24,918 shares. Karen's share purchase was pursuant to her obligation under the Life-time Lock-in to invest at least two thirds of her annual bonus (after payment of tax and National Insurance) in Dunelm Shares.

Remuneration continued

Table 6: Directors' interests in options at the period end (audited information)

All share awards held by the Executive Directors who served during the year, together with any movements, are shown below:

	Date of award	Nature of award	Share options at 27 June 2021	Share options granted during the year	Share options vested and exercised during the year[3]	Share options lapsed during the year	Share options at 2 July 2022[1]	End of performance period	Option price
Sir Will Adderley	–	–	Nil	–	–	–	**Nil**	–	–
Nick Wilkinson	October 2018	FY19-21 LTIP	180,802	–	(180,802)	–	**–**	June 2021	–
	October 2019	FY20-22 LTIP	134,984	–	–	–	**134,984**	June 2022	–
	November 2020	FY21-23 LTIP	94,846	–	–	–	**94,846**	June 2023	–
	October 2021	FY22-24 LTIP	–	89,078	–	–	**89,078**	June 2024	–
	November 2020	FY20 Share Bonus	11,594	–	(5,797)	–	**5,797**	June 2020	–
	November 2020	FY21 Share Bonus	59,130	–	(24,012)	(11,105)	**24,013**	June 2021	–
	November 2018	Sharesave	3,757	–	(3,757)	–	**–**	December 2021	479p
	November 2021	Sharesave	–	1,720	–	–	**1,720**	December 2024	1,046p
Karen Witts	June 2022	FY22-24 LTIP	–	73,979	–	–	**73,979**	June 2024	–
Laura Carr[2]	November 2018	FY19-21 LTIP	105,893	–	(105,893)	–	**–**	June 2021	–
	October 2019	FY19-22 LTIP	71,481	–	–	(71,481)	**–**	June 2022	–
	November 2020	FY21-23 LTIP	58,166	–	–	(58,166)	**–**	June 2023	–
	October 2021	FY22-24 LTIP	–	54,628	–	(54,628)	**–**	June 2024	–
	November 2020	FY20 Share Bonus	7,675	–	(3,837)	(3,838)	**–**	June 2020	–
	November 2020	FY21 Share Bonus	40,291	–	(16,211)	(24,080)	**–**	June 2021	–
	November 2019	Sharesave	2,752	–	–	(2,752)	**–**	December 2022	654p

1. Interests in share awards table excludes dividend equivalent shares.
2. Laura Carr's last day of employment at Dunelm was 8 June 2022 and all her unvested share options lapsed on leaving.
3. During the year Nick Wilkinson and Laura Carr made gains on share options exercised of £3,003,000 and £1,863,000 respectively. Sir Will Adderley and Karen Witts did not exercise any options.

Performance conditions in respect of the LTIP awards above granted in FY19 and FY21 are subject to the performance conditions described in the Remuneration Report set out in the FY19 and FY21 annual reports respectively, and the performance conditions in respect of the award granted in FY20 are in the FY21 Remuneration Report. The FY21 Share Bonus awards granted to Nick Wilkinson were subject to the performance conditions referred to on pages 155 to 158 of the FY21 annual report. No conditions were applied to the FY20 Share Bonus Awards. LTIP awards are eligible to receive a 'special dividend equivalent' in respect of any special dividend paid during the performance period applicable to the award and up to the date of vesting. The second tranche of the Share Bonus Awards which vest in September 2022 is eligible to receive a special dividend equivalent in respect of the special dividends paid in October 2021 and March 2022.

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 ten-year period options have been granted over 2.8% 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 Sir Will Adderley, and six months for Nick Wilkinson and Karen Witts. 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 7 – Directors' service contracts

	Start date	Unexpired	Notice period
Sir Will Adderley	28 September 2006	N/A	12 months
Nick Wilkinson	1 February 2018	N/A	6 months
Karen Witts	9 June 2022	N/A	6 months
Marion Sears[1]	22 July 2004	10 months	1 month
Andy Harrison	1 September 2014	12 months	3 months
William Reeve	1 July 2015	21 months	1 month
Peter Ruis	10 September 2015	23 months	1 month
Ian Bull	10 July 2019	33 months	1 month
Arja Taaveniku	15 February 2021	17 months	1 month
Kelly Devine	1 March 2022	29 months	1 month
Vijay Talwar	1 October 2021	24 months	1 month
Alison Brittain[2]	7 September 2022	36 months	1 month

1. 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.
2. Should Alison Brittain succeed Andy Harrison as Chair, her notice period will be increased to 3 months.

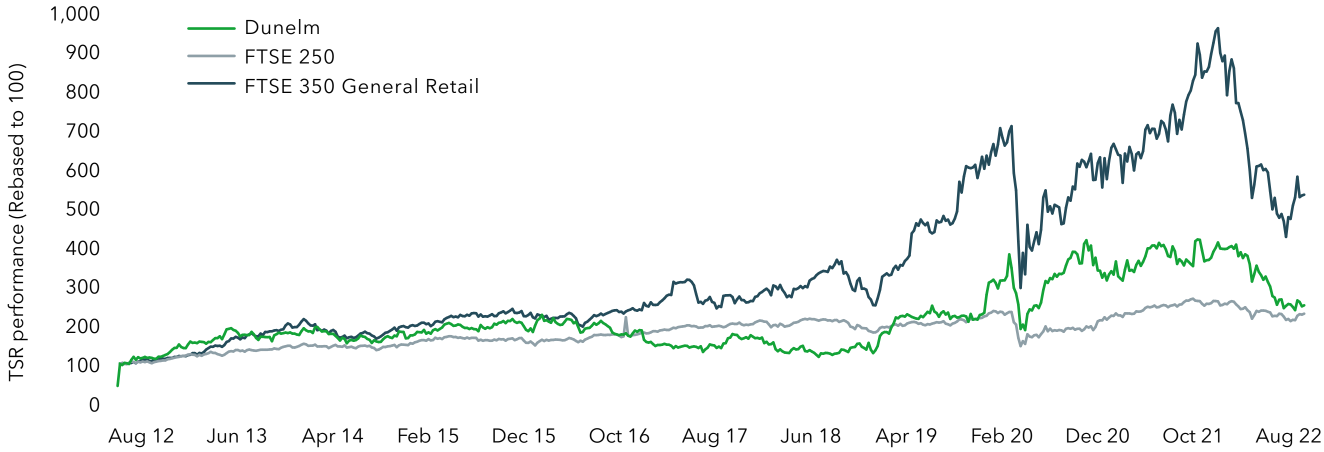
Remuneration continued

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 8 – Total shareholder return performance graph (rebased to 2 July 2012 = 100)

The shares traded in the range of 777p to 1,399p during the year and stood at 830p at 1 July 2022.



Source: Factset as of 11th August 2022. 1. Last 10 years data on weekly frequency. FTSE 350 General Retail Index includes Dunelm.

Table 9 – 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 %
FY22	**Nick Wilkinson**	2,683	90.0%	100.0%
FY21	**Nick Wilkinson**	3,756	81.2%	100.0%
FY20	**Nick Wilkinson**[1]	885	20.0%	19.8%
FY19	**Nick Wilkinson**	1,365	97.9%	N/A
FY18	**Nick Wilkinson**[2]	308	13.3%	N/A
FY18	**John Browett**[2]	429	N/A	N/A
FY17	**John Browett**	722	14.0%	N/A
FY16	**John Browett**	489	57.7%	N/A
FY16	**Sir Will Adderley**[3]	10	N/A	N/A
FY15	**Sir Will Adderley**[4]	507	5%	N/A
FY15	**Nick Wharton**[4]	110	N/A	N/A
FY14	**Nick Wharton**[5]	1,509	22.5%	77.5%
FY13	**Nick Wharton**	1,292	97.0%	86.7%

1. During the period April to June 2020 inclusive, Nick Wilkinson took a voluntary 90% reduction in base salary.
2. 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 FY18 is pro-rated by time of service as Chief Executive Officer.
3. Sir Will Adderley was succeeded by John Browett as Chief Executive Officer on 1 January 2016. The data for each Director for FY16 is pro-rated by time of service as Chief Executive Officer. Sir Will Adderley's base salary was reduced to £1 on 1 July 2015.
4. Sir 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 FY15 is pro-rated by time of service as Chief Executive Officer.
5. Nick Wharton's first LTIP award vested and was exercised in December 2013. No LTIP awards vested to John Browett during his tenure.

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

Table 10 – Change in Directors' pay compared with annual change in average employee's pay

	Percentage change in remuneration between FY21 and FY22			Percentage change in remuneration between FY20 and FY21			Percentage change in remuneration between FY19 and FY20		
	Salary and fees[1]	Benefits[9]	Short-term incentive[2,4]	Salary and fees[1]	Benefits	Short-term incentive[2,4]	Salary and fees[1]	Benefits	Short-term incentive[2,4]
Nick Wilkinson[9]	3.4%	(4.3%)	14.6%	1.8%	3.6%	313.0%	2.0%	(55.6%)	(79.2%)
Karen Witts[8]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Laura Carr[7,9]	3.2%	(6.9%)	(100%)	5.0%	2.3%	324.2%	0.0%	(93.3%)	(66.3%)
Sir Will Adderley	0.0%	0.0%	N/A	0%	(4.8%)	N/A	0.0%	0.0%	N/A
Andy Harrison	0.0%	N/A	N/A	0%	N/A	N/A	2.0%	N/A	N/A
Marion Sears	3.2%	N/A	N/A	0%	N/A	N/A	2.0%	N/A	N/A
William Reeve[5]	4.5%	N/A	N/A	8.4%	N/A	N/A	2.2%	N/A	N/A
Peter Ruis	3.2%	N/A	N/A	0%	N/A	N/A	2.0%	N/A	N/A
Ian Bull	2.7%	N/A	N/A	0%	N/A	N/A	2.0%	N/A	N/A
Arja Taaveniku	3.2%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Vijay Talwar[8]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Kelly Devine[8]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
All colleagues[3,6]	4.9%	0.8%	(4.7%)	4.4%	0%	145.4%	3.5%	0%	(42.7%)

1. 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 between April and June 2020 inclusive, or the waiver by all other Directors of 100% of their fees for this period.
2. 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 not usually eligible for a bonus in respect of FY20 and the 'thank you' payment of between £250 and £350 made to colleagues not usually eligible for a bonus in respect of FY21.
3. All colleagues salary increase is calculated only for colleagues employed for the whole of the financial year.
4. The difference between the increase in short-term incentives of the Directors and the 'all colleagues' rate reflects the strong performance of the business, and the fact that a higher proportion of the Directors' pay is performance-related.
5. The increase in William Reeve's fee in FY21 is due to the assumption of responsibilities as Senior Independent Director.
6. Comparisons have been made against colleague pay across the entire Group as the parent company employs a limited number of individuals.
7. Laura Carr's last day of employment was 8 June 2022 and so she was not eligible to receive a bonus in FY22.
8. No comparator data is provided for these Directors as they were appointed during FY22.
9. The decrease in benefits for Nick Wilkinson and Laura Carr in FY22 is due to benefits received in lieu of holiday in FY21 which were not received in FY22.

Table 11 – CEO pay ratio

There are three permissible methods available to calculate the CEO pay ratio, which are outlined below:

Option	Method
A	Determining the total full term equivalent remuneration for all UK employees. Rank from low to high. Identify the colleagues at 25th percentile, 50th percentile, 75th percentile.
B	Identify the colleagues at 25th, 50th, 75th percentile, using the Gender Pay Gap Reporting.
C	Use a different data set, but calculate in the same way as the Gender Pay Gap Reporting.

Option A is considered the most statistically accurate method and therefore we have opted for this method. The data used to identify the colleagues at 25th percentile, 50th percentile, 75th percentile was taken on 5 April 2022.

Remuneration continued

The table below shows the ratio of actual pay of Nick Wilkinson, CEO, to other colleagues. Full year pay data has been used to calculate these ratios and the elements included are based on the CEO single figure remuneration in Table 1:

Financial year	Method	25th percentile pay	50th percentile pay	75th percentile pay
FY22	Option A	124:1	121:1	112:1
FY22 Total pay and benefits		£21,569	£22,193	£24,003
FY21	Option A	204:1	204:1	186:1
FY21 Total pay and benefits		£19,793	£19,793	£21,740
FY20 (Based on actual remuneration – including Nick's 90% pay reduction during the period April to June 2020)	Option A	54:1	47:1	38:1
FY20 (Based on contractual remuneration)	Option A	62:1	53:1	43:1
FY20 Total pay and benefits		£16,409	£18,918	£23,498

The following assumptions were made to calculate these figures:

- We have used a 40-hour week in order to consistently calculate the annual salary for everyone, converting hourly rate of pay into a full-time equivalent salary, to ensure direct comparison.
- 10,669 colleagues were included in the data set.
- 90% bonus outcome for Nick Wilkinson and 100% LTIP vesting.

Commentary:

The Committee considered whether the median pay ratio for the year is consistent with the pay, reward and progression policies for the Group's UK employees taken as a whole, and concluded that it is, for the following reasons:

- The pay gap has significantly reduced, compared to the previous year. The main difference is in the value of the LTIP vesting.
- Whilst the LTIP is vesting at 100%, the number of shares is lower than that which vested in 2021 (as the share price was higher on award) and the share price used to calculate the notional value on vesting is lower than last year's.
- The LTIP and bonus are reflective of the strong business performance shown under Nick's leadership both in the last year, in the case of bonus, but also sustainably over the past three years, which is rewarded through the LTIP.
- The colleagues at the 25th, 50th and 75th percentile are hourly paid colleagues, reflective of the fact that c.80% of our colleague base are employed in hourly-paid roles.
- The median pay ratio is considered appropriate and consistent with the pay and reward policies for the Group's UK colleagues. Our remuneration strategy is based on paying median to market for salary and bonus, and upper quartile for LTIP awards, with the quantum of performance-related pay relatively higher in senior colleagues. This is to reward strong performance and focus on long-term value creation. The CEO remuneration is reflective of this, as Nick's pay has a larger quantum in variable pay.
- The CEO pay ratio in FY20 was lower than the FY21 and FY22 ratio, but the FY21 ratio was higher than that in FY22. This reflects the fact that, in line with the Group's remuneration strategy, a high proportion of the CEO's remuneration is performance-related and paid in shares, to incentivise long term, sustainable growth and alignment with shareholders. FY21 and FY22 financial performance was stronger than FY20, and the share price at the end of FY21 was higher than in FY22, and these have strongly influenced the CEO's 'single figure' pay.
- In FY22 we have invested to improve the pay of our hourly-paid colleagues to upper median or above versus the market – see case study on page 103.
- It was also noted that the discussion at the NCV had supported our pay policies and approach – particularly when it came to attracting and retaining strong and effective leadership and aligning pay with performance.
- The increase in the number of store colleagues relative to the total colleague population in FY21 impacted the total pay and benefits attributable to the percentile bandings.

Table 12 – 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 FY22 and FY21:

	FY22 £'m	FY21 £'m	% change
Total spend on pay	**194.9**	166.7	16.9%
Ordinary dividend to shareholders	**75.1**	24.3	209.1%
Distributions to shareholders via treasury share purchases	**28.3**	–	100.0%
Special distributions to shareholders	**207.0**	–	100.0%
Total distributions to shareholders	**310.4**	24.3	1,177.4%

This information is based on the following:

- Total spend on pay – total employee costs excluding car and travel allowances and bonuses from note 4 on page 187. This excludes £14.5m repayment of the UK Government's Job Retention Scheme in the prior year.
- Dividends taken from note 7 on page 189.

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 does not hold any external appointments. Karen Witts is a Non-Executive Director of Ipsen Pharma SA. Sir 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 and for Share Bonus Awards.

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

We are committed to paying men and women equally for roles of the same size and scale. Please see page 55 for details of our latest Gender Pay Gap report.

Dunelm's brand purpose is 'To help create the joy of truly feeling at home, now and for generations to come.' 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 one of our commitments.

We have good male/female representation in our senior leadership. As at 2 July 2022, our Executive Board had 50% female representation. When combined with the Group Board, our senior leadership team is 43% female.

ENGAGING WITH OUR COLLEAGUES ON PAY

In April 2022, the NCV allocated a full meeting to a discussion on pay and reward. The meeting was well attended by representatives from across the business with a 46%/54% male/female gender split and ethnic diversity representation of 23%. The meeting was led by our People team who were joined by Marion Sears, our designated Non-Executive Director for colleague matters, and William Reeve, Chair of the Remuneration Committee. The meeting covered two topic areas as explained below and was followed by group breakout sessions for further discussion and feedback.

Topic 1: Engaging on colleague pay review

The People Team provided an overview of reward at Dunelm, with a reminder of the difference between equal pay and fair pay and the thought process that led to the recent pay review. This included an explanation of how the People Team had taken on board colleague feedback and prioritised hourly rate increases over granting another 'thank you' bonus, and that Dunelm had consciously given a percentage pay increase higher than most of its peers. Our NCV representatives were impressed with the amount of thought that went into pay strategy and were reassured by the benchmarking and further agreed that the recent pay review was "very fair".

Topic 2: Engaging on Board remuneration

William Reeve provided an overview of the remit of the Remuneration Committee, core elements of Dunelm's Remuneration Policy and the context in which the Committee takes decisions. It was explained that the Committee was held to account through shareholder voting and that for most of the Dunelm Leadership Team reward was related to business performance. William also talked about how a significant proportion of reward is held in shares, including an obligation to hold shares after leaving Dunelm, to ensure shareholder alignment. He also highlighted the fixed and variable reward elements for different role levels. Our NCV colleagues were pleased by the level of care and scrutiny exercised by the Remuneration Committee and its long-term thinking. Colleagues gave very positive feedback about Nick and the good performance of the Executive Board in guiding the business through 2020 to 2022.

For more information on the NCV and its other activities during the year see page 99.

Remuneration continued

STATEMENT OF IMPLEMENTATION OF POLICY IN THE FY23 FINANCIAL YEAR

Base salary and benefits for each of the Executive Directors for FY23 are set out in the table below:

Table 13 – Base salary, benefits and pension for FY23

Name	Base salary	Increase to base salary YoY	Benefits	Increase to benefits year on year	Pension	Change to pension contribution year or year
Nick Wilkinson	£582,125	Nil	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.	Nil	£17,464	Nil
Karen Witts	£450,000	N/A	Car allowance; travel and accommodation allowance of £1,500 per month; private health insurance for the individual and their family; permanent health cover; life assurance; mobile phone; colleague discount.	N/A	£13,500	N/A
Sir Will Adderley	£1	Nil	Car allowance; private health insurance for the individual and their family; permanent health cover; life assurance; mobile phone; colleague discount.	Nil	Nil	N/A

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

BASE SALARY

Nick has asked for no base salary increase in FY23. Had Nick not made this request the Committee had agreed that they would like to award an increase in base salary to Nick Wilkinson in view of his strong performance and that of the Group. The Committee considered his total remuneration for FY22, the performance of the business, the other stakeholder considerations outlined in relation to payment of the FY22 annual bonus award, including the feedback on Executive Director pay given by the NCV, and the wider economic climate.

The Committee noted that due to the successful, profitable growth of the Group during his tenure, Nick's base salary is now at or below lower quartile for his peers, and the bonus opportunity of 125% of salary is also now uncompetitive. The Committee would like to increase the quantum of Nick's potential profit-related pay, in line with stretching performance targets, but is unable to do so under the terms of the current Remuneration Policy. The Committee will therefore be discussing this with shareholders as part of the consultation process for the 2023 policy renewal.

In light of this, the Committee decided to remove Nick's contractual travel allowance of 5% of base salary and make a corresponding increase in his base pay. In addition, the Committee rewarded Nick a 4% increase in base salary. This increase is below the median pay increase across the Group of 7.6%. However given that Nick has declined the base salary increase and the decision to remove his 5% of salary travel allowance and make a corresponding increase in his base salary, Nick' base pay for FY23 will be unchanged at £582,125 and he will retain his travel allowance.

Karen Witts joined the Board on 9 June 2022. Her base salary was set at median for the top 50 companies of the FTSE250 on appointment and reflected her skills and experience. It is first eligible for review in August 2023.

PENSION

The pension entitlement of both Nick Wilkinson and Karen Witts is 3% of base salary, which is in line with the workforce average.

FY23 ANNUAL BONUS

Nick Wilkinson and Karen Witts have each been awarded a bonus opportunity of up to 125% of base salary. The performance conditions attached to the bonus are:

- 50% linked to achievement of budget PBT.
- 25% linked to achievement of budget sales.
- 25% linked to achievement of strategic and personal targets, aligned to the Group strategy. These include customer and colleague satisfaction measures, and at least one other environmental, social and governance measure linked to our 'Pathway to Zero' ambition.

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

Nick Wilkinson and Karen Witts have contractually committed that two-thirds of the bonus earned (after payment of income tax and National Insurance) will be invested in Dunelm shares, to be held for the duration of employment. Shares held on termination of employment will be retained for up to a minimum of two years as required by the shareholding requirements set out in the Remuneration Policy.

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

LTIP FY23-25

In line with our 2020 Remuneration Policy, an award is expected to be made to Nick Wilkinson and Karen Witts in October 2022 under the Long-Term Incentive Plan over shares to the value of 200% of salary. 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 sales 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. Shares held on termination of employment will be retained for a minimum of two years as required by the shareholding requirements set out in the Remuneration Policy. Our current intention is that the FY23-25 LTIP awards will be granted in line with our standard approach (with the number of shares to be awarded based on the average share price for the three business days preceding grant) and we will review the final outturn to ensure that there have not been any windfall gains. This is in addition to the performance underpin and review of the final outturn to ensure it is warranted based on shareholder experience over the performance period.

The performance criteria that apply to the award were set by the Remuneration Committee in line with the Remuneration Policy, and are set out below:

Financial measures: 80% of the award

Diluted EPS of the Company for FY25	Less than 83.4p	83.4p	87.6p	95.5p	103.4p or more
Percentage of this element of the FY23-25 Award vesting[1]	Nil	10%	50%	75%	100%

1. Performance between each of these percentage thresholds will be calculated on a straight-line basis.

Note that these numbers assume that UK corporation tax increases to 25% from April 2023. Should this assumption prove incorrect the Committee expects to adjust the targets proportionately and disclose this in the Annual Report. This corporation tax increase also accounts for the relatively modest increase in EPS in the above target range, which the Committee is satisfied will reward a stretch level of performance.

Non-financial measures: 20% of the award

Measure	FY25 Target	% of LTIP award
Reduction in Scope 1 greenhouse gas emissions per £m sales against a FY19 base	32%	5%
Percentage of own brand cotton products which meet our 'More Responsibly Sourced Cotton' standard	100%	5%
Reduction in plastic packaging of own brand products against FY20 base	30%	5%
% of own brand products for which we offer an easy to use take-back service with a credible end of life solution in at least 90% of our superstore estate	50%	5%

These targets were chosen because they are aligned to our strategy and long-term targets, and they cover areas where we are able to make the most impact on the environment and provide the most benefit to our customers and our communities. Reduction of our Scope 1 greenhouse gas emissions will enable us to reduce our impact on climate change in line with our Pathway to Zero commitment. Products purchased for resale, and their packaging, account for over 80% of Dunelm's carbon footprint, and cotton products comprise about half of these. Cotton which meets our More Responsibly Sourced standard will have a lower carbon footprint, as well as using less water and meeting our ethical/social standards. Enabling customers to take back products and reducing plastic packaging also reduces waste and adverse environmental impacts. The Committee has set stretching meet/fail targets rather than setting a target range in order to incentivise management to make significant progress in delivering these important objectives.

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

SHARESAVE

An invitation will be issued in October 2022 to all eligible employees, to apply for options to be granted under the Sharesave scheme at a 20% discount to the average closing market price of Dunelm Group shares on the three dealing days 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.

JOINING ARRANGEMENTS FOR KAREN WITTS

Karen Witts joined the Board as Chief Financial Officer on 9 June 2022. Her remuneration package is in accordance with Dunelm's Remuneration Policy and that of her successor, Laura Carr, and reflects her skills and experience. In order to secure her services we needed to agree certain joining arrangements.

Karen was financially disadvantaged by joining Dunelm as she had to forego remuneration payable by her former employer which was forfeit when she took up employment with Dunelm.

We therefore agreed that we would partially compensate her for costs incurred and remuneration foregone. These arrangements were:

- A conditional award under the FY22-24 LTIP award on joining to the value of 200% of salary, pro-rated to 1 March 2022 to reflect a percentage of time she will have been employed over the three-year performance period which commenced in June 2021, plus a further two months (77.77% of the full award). The performance conditions associated with this are set out in the FY21 annual report.
- Pro-rated participation in the FY22 Annual Bonus scheme, reflective of the period from Karen's start date to the end of the financial year, and subject to the financial performance criteria applicable to Nick Wilkinson. Karen has declined any payment to be made in respect of personal performance as she has only been employed for a short period during the financial year.
- A contribution of up to £50,000 towards the cost of purchasing and furnishing a home close to Dunelm's offices in Leicester, on the understanding that the purchase completes within two years of the commencement of her employment. The majority of any furnishings should be purchased from Dunelm. Approvable expenses will include stamp duty and any agents' fees plus furnishings, fixtures and fittings.
- An allowance of £1,500 per month to cover the cost of rent on a property close to Dunelm's offices in Leicester and/or other expenses and travel costs. This will apply during the first twelve months of employment and will then continue until Karen purchases a home close to Leicester, or for the duration of employment should Karen choose not to do so (in which case the £50,000 contribution to relocation expenses referred to above will not be paid).

The maximum amount of Karen's joining compensation is less than that put in place for her predecessor, Laura Carr, in 2018. If Karen voluntarily leaves the business or is lawfully dismissed within two years of commencing her employment with the Group, she will be liable to repay this joining compensation.

The Remuneration Committee was satisfied that this joining compensation is proportionate and reflects remuneration foregone on a 'like-for-like' basis.

NON-EXECUTIVE DIRECTOR FEES FOR FY23

Fees to be paid to Non-Executive Directors in FY23, as set out in the table below:

Table 14 – 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
Andy Harrison[1]	Chairman	£216,487	Nil	Nil	N/A
Alison Brittain[2]	Non-Executive Director	£45,363	Nil	N/A	N/A
Ian Bull	Audit and Risk Committee Chair	£55,747	£10,785	4%	4%
Kelly Devine	Non-Executive Director	£55,735	Nil	4%	N/A
William Reeve	Remuneration Committee Chair	£55,747	£10,785	4%	4%
	Senior Independent Director (SID)		£6,852	4%	4%
Peter Ruis	Non-Executive Director	£55,747	Nil	4%	N/A
Marion Sears	Non-Executive Director	£55,747	Nil	4%	N/A
Arja Taaveniku	Non-Executive Director	£55,747	Nil	4%	N/A
Vijay Talwar	Non-Executive Director	£55,747	Nil	4%	N/A

1. Andy Harrison has waived his fee increase for FY23.
2. Alison Brittain's fee is pro-rated to her start date of 7 September 2022. Should she succeed Andy Harrison as Chair during the year, her base fee will be increased to £322,400 per annum, inclusive of all committee chair fees. This base fee was set by the Remuneration Committee at median for companies in the FTSE50-150, reflecting the growth ambition of the Group over Alison's likely tenure as chair.

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 16 November 2021, the total number of shares in issue with voting rights (excluding treasury shares) was 203,275,126. Details of voting on remuneration-related resolutions are set out below:

Table 15 – Voting on remuneration-related resolutions at the 2021 AGM

Resolution	Votes for	% of votes cast	Votes against	% of votes cast	Votes withheld	% withheld
Approve Annual Remuneration Report	182,896,339	98.58	2,642,335	1.42	97,528	0.05

Approved by the Board on 14 September 2022.

William Reeve
Chair of the Remuneration Committee

14 September 2022

Directors' report

The Directors present their report together with the audited financial statements for the period ended 2 July 2022.

Disclosures that are relevant to the Directors' report have been incorporated by reference and can be located elsewhere within the Annual Report and Accounts as noted below.

STRATEGIC REPORT

The Group's Strategic Report is set out on pages 1 to 81. This contains an indication of likely future developments in the business of the Company and the Group.

CORPORATE GOVERNANCE

Our Corporate Governance Report on pages 82 to 162 explains how we have applied the Code's Principles as set out in the UK Corporate Governance Code published in July 2018 (the 'Corporate Governance Code').

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'.

RESULTS AND DIVIDENDS

The consolidated profit of the Group for the year after taxation was £171.2m (2021: £128.9m). The results are discussed in greater detail in the CFO's review on pages 27 to 31.

A final ordinary dividend of 26p per share (2021: 23p per share) is proposed in respect of the period ended 2 July 2022, to add to two special dividends of 65p and 37p per share paid on 8 October 2021 and 18 March 2022 respectively (2021: nil) and an interim ordinary dividend of 14p per share paid on 8 April 2022 (2021: 12p per share). The final dividend will be paid on 5 December 2022 to shareholders on the register at 11 November 2022.

TREASURY AND RISK MANAGEMENT

The Group's approach to treasury and financial risk management, including its use of hedging instruments, is explained in the Principal Risks and Uncertainties section on page 79 and note 17 to the annual financial statements.

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 Corporate Governance Report on pages 95 to 102, with complementary information in the Strategic Report on pages 42 to 60. Our s172(1) Companies Act 2006 statement can be found on page 81.

EMPLOYEE INFORMATION

Information relating to employees of the Group, including our approach to disabled persons, is set out in the 'Community' section of the Sustainability section on pages 52 to 58.

Share incentive schemes in which employees participate are described in the Remuneration Report on pages 143 to 146.

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. There are no special voting rights attached to any of the Company's shares. In order to be passed, an ordinary resolution of the Company must be supported by at least 50% of the votes cast at a shareholders' meeting, and a special resolution by at least 75% of votes cast.

On 2 October 2006, Jean Adderley, Bill Adderley and Sir Will Adderley (all shareholders at that time) entered into a Relationship Agreement with the Company, pursuant to which each of Jean Adderley, Bill Adderley and Sir 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, Sir 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 LR11.1.7.R(4) of the Listing Rules applies involving Jean Adderley, Bill Adderley or Sir 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.

Directors' report continued

WA Capital Limited and Nadine Adderley, to whom Sir 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 (as at 1 January 2018 this reference is now LR 9.2.2AD R(1)). 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 Sir 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.

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. As at 2 July 2022, its capital comprised 203,426,835 (2021: 202,833,931) fully paid Ordinary shares of 1p each.

During the year and in accordance with the authority issued by shareholders at the 2020 Annual General Meeting, and a further authority at the 2021 Annual General Meeting, 592,904 Ordinary Shares were allotted at par value to satisfy the vesting and exercise of awards of Ordinary Shares made under the Company's share-based incentive arrangements.

At 2 July 2022, the Company held 1,686,200 Ordinary Shares in treasury (2021: 160,319).

Under the authority provided at the 2021 Annual General Meeting the Company commenced a share buy back programme on 18 November 2021. During the year ended 2 July 2022 the Company purchased 2,500,000 Ordinary Shares for a total consideration of £28,239,372 and these shares are held in treasury with no voting or dividend rights. 974,119 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, 40,689 Ordinary Shares have been moved out of treasury to employees who exercised options under a share incentive scheme.

Further details on the Company's share capital are set out in note 20 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

At 2 July 2022 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
Sir Will Adderley	75,231,779	36.98
Jean Adderley	9,968,500	4.92
J P Morgan Asset Management	11,320,031	5.56
abrdn plc	10,274,359	5.05
Jupiter Fund Management PLC	10,044,063	4.95
Royal London Asset Management Limited	9,907,809	4.87

Sir 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.

Between the period end date and 14 September 2022 we have been notified of the following:

On 31 August 2022, J P Morgan Asset Management disclosed that their holding has fallen below the applicable threshold for disclosure.

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 84 to 87. Details of changes to the Board during the period are set out on page 87. Details of the interests of the Directors in shares of the Company can be found in the Implementation Report section of the Remuneration Report on page 153.

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 in the Corporate Governance Report on page 90, 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.

APPOINTMENT AND REMOVAL OF DIRECTORS AND ANNUAL RE-ELECTION

The Articles of Association of the Company provide that a Director may be appointed by ordinary resolution of the Company's shareholders in a 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 Board's policy is 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. The Articles also provide that each Director must stand down and offer him or herself for re-election by shareholders at the Annual General Meeting at least every three years.

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

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 are 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.

INDEMNITIES AND INSURANCE

During the year the Company entered into a deed of indemnity in favour of each of its Directors and the Company Secretary to the extent permitted by law in respect of costs of defending claims against them and third-party liabilities. These provisions, deemed to be qualifying third-party indemnity provisions pursuant to section 234 of the Act, were in force from 12 May 2022 to the year ended 2 July 2022. Deeds of indemnity in favour of Karen Witts and Alison Brittain were entered into on 9 June 2022 and 7 September 2022 respectively on their appointment to the Board. All these remain in force as at the date of this report.

A copy of the indemnity is available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Company's Annual General Meeting.

The Group maintained Directors' and Officers' liability insurance cover for its Directors and officers as permitted under the Articles of the Company and the Companies Act 2006 throughout the financial year.

Directors' report continued

MANAGING CONFLICTS OF INTEREST AND RELATED-PARTY MATTERS

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:

- Sir Will Adderley is a major shareholder and connected to other major shareholders. Authorised on the basis that Sir 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 Sir 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.
- Kelly Devine is the Head of Mastercard for the UK and Ireland. Mastercard indirectly provides payment services to Dunelm but there is no direct contractual relationship. Authorised on the basis that there are sufficient safeguards in place to prevent any actual conflict arising. More recently Mastercard has approached Dunelm to initiate discussions about their buy now pay later service, in accordance with the authorisation Kelly will not be directly involved any negotiations and any relationship would be on an arms-length terms.
- Kelly Devine's spouse, Todd Latham, is the CEO of Dividio, which is a potential supplier to Dunelm. Authorised on the basis that there are sufficient safeguards in place to prevent any actual conflict arising.
- Vijay Talwar was CEO of Wish.com, a company based in San Francisco which sells some homewares in the UK. Authorised as Wish.com operates as a marketplace platform with no own brand offer, and the homewares offer is limited and does not compete with Dunelm.
- William Reeve has a small stake in ConferWith, a company which facilitates video chat with a customer care adviser and which has a contractual relationship with Dunelm. Authorised as William is not involved in decisions made by either ConferWith or Dunelm in respect of any business relationship, and that any relationship is on arm's length terms.

DONATIONS

The Group does not make any political donations.

PUBLIC POLICY

We are members of the British Retail Consortium and support relevant campaigning activity by that body. During the year we have not taken part in any direct lobbying or public policy activity.

ARTICLES OF ASSOCIATION

The Company's Articles of Association may only be amended, or new articles adopted, by a special resolution of shareholders.

NON-FINANCIAL INFORMATION STATEMENT FY22

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 required	Some of our relevant policies (see website: corporate.dunelm.com)	Where to read about our impact, including principal risks relating to these matters in this report and KPIs	Page(s)
Environmental matters	Responsible Animal Welfare Policy	Measuring and rewarding progress against our ambition about being a good company	24
	Responsible Timber Policy	Sustainability section and sustainability metrics, targets and progress	33 and 35
	Responsible Cotton Policy	'Carbon Reduction' and 'Circular economy' in Sustainability section	36 and 42
	Plastic and Packaging Policy	Task Force on Climate-related Financial Disclosures report	61
	Responsible Palm Oil Sourcing Policy	'Climate change and environment' principal risk	76
	Task Force on Climate-related Financial Disclosures report 2022	Chairman's letter in Corporate Governance Report	82
	Sustainability Home Page	'Impact of decisions on climate change and our environment' in s172 Companies Act statement	102
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Directors' report continued

STREAMLINED ENERGY AND CARBON REPORTING (SECR)

In the table below we set out the energy disclosures required by the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

Streamlined Energy and Carbon Reporting (SECR)

Summary MWh[1]	FY20[2]	FY21[2]	FY22
Purchase of energy	50,547	53,158	**51,980**
Vehicles on Company business	3,720	4,382	**3,979**
Vehicles in the Home Delivery Network	12,198	15,959	**15 ,773**
	66,465	73,499	**71,732**

1. We have used the conversion factors published in BEIS GHG conversion factors for company reporting to convert from passenger miles in company-owned vehicles to MWh.
2. FY20 and FY21 figures restated as part of refining our data on Scope 1 and 2 emissions.

The increase in energy between FY20 and FY22 is related to the expansion of our vehicle home delivery network, aligned to our business growth.

The greenhouse gas emissions disclosure required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 can be found on pages 36 to 41 together with further details on our energy and carbon reduction progress.

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.

IMPORTANT EVENTS SINCE 2 JULY 2022

There have been no important events affecting the Company or any subsidiary since 2 July 2022.

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.

This document also contains non-financial information and data. While reasonable steps have been taken to ensure that this is correct, it has not been externally audited or verified unless specifically stated in this document.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 11:30am on Wednesday 30 November 2022 at the Dunelm Support Centre, Watermead Business Park, Syston, Leicester, LE7 1AD. A formal notice of meeting, explanatory circular and a form of proxy will accompany this Annual Report and financial statements.

This report was reviewed and signed by order of the Board on 14 September 2022.

Dawn Durrant
Company Secretary

14 September 2022

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the parent company financial statements in accordance with UK-adopted international accounting standards.

Under company law, 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 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 UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

The directors are responsible for 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 also responsible for keeping adequate accounting records that are sufficient to show and explain the group's 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.

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's and parent company's position and performance, business model and strategy.

Each of the directors, whose names and functions are listed in the Governance section confirm that, to the best of their knowledge:

- the group and parent company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities and financial position of the group and parent company, and of the 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's 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's and parent company's auditors are aware of that information.

Nick Wilkinson
Chief Executive Officer

14 September 2022

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 2 July 2022 and of the group's profit and the group's and parent company's cash flows for the 53 week period then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 parent company statement of financial position as at 2 July 2022; the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows, consolidated statement of changes in equity, parent company statement of cash flows and parent company statement of changes in equity for the 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.

Other than those disclosed in note 3, we have provided no non-audit services to the parent company or its controlled undertakings in the period under audit.

OUR AUDIT APPROACH

Overview

Audit scope

- The group is structured with one segment which comprises a consolidation of the parent company and eight additional components.
- For the purposes of the group financial statements, we conducted an audit of the complete financial information of one financially significant component, together with additional procedures performed centrally including the group consolidation.
- We separately audited the parent company financial statements.

Key audit matters

- Inventory provisions (group)
- Recoverability of investments in subsidiary undertakings (parent)

Materiality

- Overall group materiality: £10,640,000 (2021: £7,800,000) based on 5% of profit before tax.
- Overall parent company materiality: £1,600,000 (2021: £5,400,000) based on 1% of total assets.
- Performance materiality: £8,000,000 (2021: £5,850,000) (group) and £1,200,000 (2021: £4,050,000) (parent company).

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.

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.

Carrying value of investments in the parent company is a new key audit matter this year. Covid-19 pandemic impact, which was a key audit matter last year, is no longer included because of the reduced level of uncertainty in respect of the impact of Covid-19 on the Group and Company. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Inventory provisions (group) Refer to the Audit and Risk Committee Report, the Accounting Policies, note 3 (Operating Profit) and note 13 (Inventories) to the Consolidated Financial Statements. 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; and a further provision for 'at risk' lines where the calculated provision was not considered to be sufficient.	We tested sales made post period-end to ensure that inventory items were held at the lower of cost and NRV. We examined inventory write-offs in the financial period to ensure they are consistent with the key assumptions used in the inventory provision model at the year end. 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 a sample of inputs to source documentation and testing freight and duty costs. We tested the integrity of the provision model to ensure that it was using the underlying data correctly and calculating provision amounts accurately. We challenged management's assumptions on what they deemed the 'at risk' inventory lines were, and corroborated whether 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 NRV provision against inventory was consistent with the evidence obtained.
Recoverability of investments in subsidiary undertakings (parent) Refer to note 4 (Investments) to the Parent Company Financial Statements. In accordance with IAS 36 (Impairment of assets), the Parent Company's investments balance of £64.8m (FY21: £60.7m) should be carried at no more than its recoverable amount, being the higher of fair value less costs to sell and its value in use. IAS 36 requires an entity to determine whether there are indications that an impairment loss may have occurred and if so, make a formal estimate of the recoverable amount.	We evaluated whether any indications that an impairment loss may have occurred in relation to the Parent Company's investments balance with specific consideration given to the following: • the market capitalisation of the Group is significantly in excess of the investments balance, noting that substantially all of the market capitalisation is considered to be in relation to one indirect subsidiary (Dunelm (Soft Furnishings) Ltd) of the Parent Company; • the trading results of Dunelm (Soft Furnishings) Ltd are not worse than expected and are not expected to be worse in future periods; and • there have not been and are not expected to be any significant changes with an adverse impact in relation to the technological, market, economic or legal environment in which this indirect subsidiary operates. We consider management's conclusion that there are no indicators of impairment to be appropriate.

Independent auditors' report continued

to the members of Dunelm Group plc

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the parent company, the accounting processes and controls, and the industry in which they operate.

The group is structured with one reporting segment which comprises a consolidation of the parent company and eight additional components.

In establishing the overall approach to the group audit, we identified one component: Dunelm (Soft Furnishings) Ltd, which, as the sole trading legal entity in the Group, required an audit of its complete financial information due to its financial significance to the group.

Further specific audit procedures over central functions including the Group consolidation, equity, taxes and the business combination were performed.

With regards to assessing potential risks arising from climate change we enquired of management as to their risk assessment, obtained their papers and also assessed commitments made by Dunelm Group plc in the Annual Report and Accounts and their website. We also considered the industry in which Dunelm Group plc operates and assessed the nature and magnitude of assets held at the period-end date which could be subject to either transition or physical climate risks. Based on management's assessment noted on page 185 we did not identify any audit risks which were expected to be significantly impacted by the effects of climate change, principally due to the fact that the majority of the Group's asset base is expected to be realised in the short to medium term.

All audit procedures were performed by the Group Engagement Team. The scoping above gave us the evidence we needed for our opinion on the group financial statements as a whole.

The Parent Company is comprised of one component which was subject to a full scope audit for the purposes of the Parent Company financial statements.

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	£10,640,000 (2021: £7,800,000).	£1,600,000 (2021: £5,400,000).
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 benchmark, 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 benchmark, 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.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £8,000,000 (2021: £5,850,000) for the group financial statements and £1,200,000 (2021: £4,050,000) for the parent company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £530,000 (group audit) (2021: £390,000) and £80,000 (parent company audit) (2021: £270,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

CONCLUSIONS RELATING TO GOING CONCERN

Our evaluation of the directors' assessment of the group's and the parent company's ability to continue to adopt the going concern basis of accounting included:

- We obtained management's going concern assessment and ensured that this was consistent with board approved budgets;
- We have evaluated management's forecasting accuracy based on historical budgets versus actual performance;
- We obtained confirmation from lenders of the level of drawn and undrawn revolving credit facilities and tested the actual and forecast covenant compliance associated with these facilities; and
- We assessed the adequacy of the going concern disclosures in the accounting policies.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the parent company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this 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, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. 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 and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

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 2 July 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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.

Directors' Remuneration

In our opinion, the part of the Remuneration Committee report to be audited has been properly prepared in accordance with the Companies Act 2006.

CORPORATE GOVERNANCE STATEMENT

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the parent company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on Other Information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Strategic report and Corporate governance report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;

Independent auditors' report continued

to the members of Dunelm Group plc

- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and parent company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the parent company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and parent company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and parent company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit and Risk Committee.

We have nothing to report in respect of our responsibility to report when 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.

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 in respect of the financial statements, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to employment regulations, 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 financial statements such as the Companies Act 2006. 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 the posting of journals with unexpected account combinations, which manipulate revenue or profits, and management bias in accounting estimates and judgements. Audit procedures performed by the engagement team included:

- Discussions with management, internal audit and the Company Secretary, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of matters reported on the Group's whistleblowing log;
- Searches for news articles which would highlight potential non-compliance with laws and regulations;
- Identifying and testing journal entries, in particular journal entries posted with unusual account combinations which manipulate revenue or profits; and
- Challenging assumptions and judgements made by management in their significant accounting estimates and judgements, in particular in relation to inventory provisions (see related key audit matter).

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 obtained 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 Remuneration Committee 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 members 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 nine years, covering the years ended 28 June 2014 to 2 July 2022.

Other matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

Mark Skedgel (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

14th September 2022

Consolidated Income Statement

For the 53 weeks ended 2 July 2022

	Note	2022 53 weeks £'m	2021 52 weeks £'m
Revenue		**1,581.4**	1,336.2
Cost of sales		**(772.0)**	(647.3)
Gross profit		**809.4**	688.9
Operating costs	2	**(591.7)**	(522.5)
Operating profit	3	**217.7**	166.4
Financial income	5	**1.2**	0.1
Financial expenses	5	**(6.1)**	(8.7)
Profit before taxation		**212.8**	157.8
Taxation	6	**(41.6)**	(28.9)
Profit for the period		**171.2**	128.9
Earnings per Ordinary Share – basic	8	**84.5p**	63.7p
Earnings per Ordinary Share – diluted	8	**83.6p**	62.9p

Consolidated Statement of Comprehensive Income

For the 53 weeks ended 2 July 2022

	Note	2022 53 weeks £'m	2021 52 weeks £'m
Profit for the period		**171.2**	128.9
Other comprehensive income/(expense):			
Items that may be subsequently reclassified to profit or loss:			
Movement in fair value of cash flow hedges	17	**32.4**	(17.7)
Deferred tax on hedging movements	12	**(5.3)**	2.2
Other comprehensive income for the period, net of tax		**27.1**	(15.5)
Total comprehensive income for the period		**198.3**	113.4

Consolidated Statement of Financial Position

As at 2 July 2022

	Note	2 July 2022 £'m	26 June 2021 £'m
Non-current assets			
Intangible assets	9	**9.9**	14.8
Property, plant and equipment	10	**173.7**	162.6
Right-of-use assets	11	**248.5**	262.0
Deferred tax assets	12	**4.1**	11.4
Derivative financial instruments		**4.6**	0.3
Total non-current assets		**440.8**	451.1
Current assets			
Inventories	13	**223.0**	172.4
Trade and other receivables	14	**22.9**	11.8
Current tax asset		**1.1**	2.4
Derivative financial instruments		**19.9**	0.4
Cash and cash equivalents	15	**30.2**	128.6
Total current assets		**297.1**	315.6
Total assets		**737.9**	766.7
Current liabilities			
Trade and other payables	16	**(223.2)**	(181.8)
Lease liabilities	11	**(52.8)**	(49.0)
Derivative financial instruments		**–**	(5.1)
Total current liabilities		**(276.0)**	(235.9)
Non-current liabilities			
Bank loans	18	**(52.8)**	–
Lease liabilities	11	**(225.3)**	(244.3)
Provisions	19	**(5.5)**	(4.5)
Derivative financial instruments		**–**	(0.8)
Total non-current liabilities		**(283.6)**	(249.6)
Total liabilities		**(559.6)**	(485.5)
Net assets		**178.3**	281.2
Equity			
Issued share capital	20	**2.0**	2.0
Share premium account		**1.7**	1.6
Capital redemption reserve		**43.2**	43.2
Hedging reserve		**20.2**	(4.3)
Retained earnings		**111.2**	238.7
Total equity attributable to equity holders of the Parent		**178.3**	281.2

The financial statements on pages 176 to 207 were approved by the Board of Directors on 14 September 2022 and were signed on its behalf by:

Karen Witts
Chief Financial Officer

14 September 2022

Consolidated Statement of Cash Flows

For the 53 weeks ended 2 July 2022

	Note	2022 53 weeks £'m	2021 52 weeks £'m
Cash flows from operating activities			
Profit before taxation		**212.8**	157.8
Net financial expense	5	**4.9**	8.6
Operating profit		**217.7**	166.4
Depreciation and amortisation of property, plant and equipment and intangible assets	3	**30.5**	31.8
Depreciation of right-of-use assets	3	**48.6**	45.7
Loss on disposal and impairment of property, plant and equipment and intangible assets	3	**0.3**	2.3
(Gain)/loss on disposal and impairment of right-of-use assets	3	**(0.1)**	1.0
Share-based payments expense		**4.8**	7.5
Operating cash flows before movements in working capital		**301.8**	254.7
Increase in inventories		**(40.3)**	(54.2)
Decrease/(increase) in trade and other receivables		**(7.7)**	4.1
Increase in trade and other payables		**33.2**	15.1
Net movement in working capital		**(14.8)**	(35.0)
Tax paid		**(35.2)**	(35.5)
Net cash generated from operating activities		**251.8**	184.2
Cash flows from investing activities			
Acquisition of intangible assets		**(0.7)**	(0.6)
Acquisition of property, plant and equipment		**(23.3)**	(15.1)
Acquisition of Business combination	27	**(17.7)**	–
Interest received		**0.1**	0.1
Net cash used in investing activities		**(41.6)**	(15.6)
Cash flows from financing activities			
Proceeds from issue of treasury shares and ordinary shares	21	**3.9**	1.8
Purchase of treasury shares	21	**(28.3)**	–
Drawdowns on Revolving Credit Facility		**85.0**	–
Repayments of Revolving Credit Facility		**(31.0)**	(45.0)
Interest paid and loan transaction costs		**(2.2)**	(0.8)
Interest paid on lease liabilities	11	**(4.8)**	(5.3)
Repayment of principal element of lease liabilities		**(50.2)**	(54.0)
Ordinary dividends paid	7	**(282.1)**	(24.3)
Net cash used in financing activities		**(309.7)**	(127.6)
Net (decrease)/increase in cash and cash equivalents		**(99.5)**	41.0
Foreign exchange revaluations	5	**1.1**	(2.4)
Cash and cash equivalents at the beginning of the period	15	**128.6**	90.0
Cash and cash equivalents at the end of the period	15	**30.2**	128.6

Consolidated Statement of Changes in Equity

For the 53 weeks ended 2 July 2022

	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 28 June 2020		**2.0**	**1.6**	**43.2**	**5.3**	**121.3**	**173.4**
Profit for the period		–	–	–	–	128.9	128.9
Movement in fair value of cash flow hedges	17	–	–	–	(17.7)	–	(17.7)
Deferred tax on hedging movements	12	–	–	–	2.2	–	2.2
Total comprehensive income for the period		–	–	–	(15.5)	128.9	113.4
Proceeds from issue of treasury shares	21	–	–	–	–	1.8	1.8
Share-based payments		–	–	–	–	7.5	7.5
Deferred tax on share-based payments	12	–	–	–	–	2.9	2.9
Current tax on share options exercised		–	–	–	–	0.6	0.6
Movement on cash flow hedges transferred to inventory	17	–	–	–	5.9	–	5.9
Ordinary dividends paid	7	–	–	–	–	(24.3)	(24.3)
Total transactions with owners, recorded directly in equity		–	–	–	5.9	(11.5)	(5.6)
As at 26 June 2021		**2.0**	**1.6**	**43.2**	**(4.3)**	**238.7**	**281.2**
Profit for the period		–	–	–	–	171.2	171.2
Movement in fair value of cash flow hedges	17	–	–	–	32.4	–	32.4
Deferred tax on hedging movements	12	–	–	–	(5.3)	–	(5.3)
Total comprehensive income for the period		–	–	–	27.1	171.2	198.3
Proceeds from issue of shares	20	–	0.1	–	–	–	0.1
Proceeds from issue of treasury shares	21	–	–	–	–	3.9	3.9
Purchase of treasury shares	21	–	–	–	–	(28.3)	(28.3)
Share-based payments		–	–	–	–	4.8	4.8
Deferred tax on share-based payments	12	–	–	–	–	0.8	0.8
Current tax on share options exercised		–	–	–	–	2.2	2.2
Movement on cash flow hedges transferred to inventory	17	–	–	–	(2.6)	–	(2.6)
Ordinary dividends paid	7	–	–	–	–	(282.1)	(282.1)
Total transactions with owners, recorded directly in equity		–	0.1	–	(2.6)	(298.7)	(301.2)
As at 2 July 2022		**2.0**	**1.7**	**43.2**	**20.2**	**111.2**	**178.3**

Accounting Policies

For the 53 weeks ended 2 July 2022

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 176 to 207 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 financial statements presented cover a 53 week trading period for the financial period ended 2 July 2022 (2021: 52 week period ended 26 June 2021).

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Dunelm Group plc transitioned to UK-adopted International Accounting Standards in its Company financial statements on 27 June 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

The financial statements of Dunelm Group plc have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. These financial statements are presented on pages 176 to 207.

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

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. To support this assessment, the Board is required to consider the Group's current financial position, its strategy, the market outlook and its principal risks.

The key judgement that the Directors have considered in forming their conclusion is the potential impact on future revenue, profits and cashflows of a downturn in consumer spending away from homewares due to the current economic environment, resulting in no growth in Year 1 and lower sales and margin across all channels throughout the review period. They have also considered a deeper downturn in consumer spending away from homewares, resulting in negative growth in Year 1 and lower sales and margin across all channels throughout the review period.

In both downside scenarios Dunelm has sufficient liquidity to continue trading, including maintaining the payment of dividends in line with its dividend policy, and to comfortably meet its financial covenants. Reverse stress modelling has demonstrated that a prolonged sales reduction of 30% from Q2 FY23 and 37% from FY24 is required to breach covenants by the end of FY24 and a 55% sales reduction is required to breach the RCF limit by the end of FY24, assuming reasonable mitigating actions have been implemented.

In such an event, management would follow a similar course of actions to those initially undertaken during the recent Covid-19 pandemic.

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. In addition, based on a review of the impact of climate change, climate change is not expected to have a significant impact in the Group's going concern assessment.

Further detail in respect of the Directors' going concern assessment are included in the going concern statement on pages 80 to 81.

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 2 to 81. 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

Based in the IAS 1 definitions, there are no significant estimates or critical judgements used in the Financial Statements. The inventory provision is not considered a significant estimate as there is not a significant risk of a material adjustment to the level of the provision in the next 12 months. Management do, however, consider the inventory provision to be a key estimate as it is based on assumptions relating to a highly material balance (gross inventory) and is subject to uncertainty. It is therefore disclosed as an other estimate in line with IAS 1.

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, and applied to the inventory population as deemed appropriate given the expected sell through period and discontinuation status. A 100 basis points change in the provision rate of each stock discontinuation category would lead to a change in the provision of £2.0m (2021: £1.7m). Consideration is also given to whether any stock categories require additional provision due to specific circumstances in place at the period end date.

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, relevant discounts 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.

In general, these conditions for store sales are met at the point of sale. The exceptions to this are custom-made products and Click & Collect sales, where revenue is recognised at the point that the goods are collected, and 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. Revenue on home delivery sales 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; stocked products and products which are sent directly from suppliers to customers. 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 their journey often 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 Consolidated 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 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 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 Consolidated Income Statement, with a corresponding adjustment to equity.

Accounting Policies continued

For the 53 weeks ended 2 July 2022

When options are exercised, the Company either issues new shares, or uses treasury shares purchased for this purpose. For newly 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 Group is obligated to pay the dividend.

INTANGIBLE ASSETS

Intangible assets comprise of software development, licences, rights to brands and customer lists, and 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. 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, or useful life if shorter
Fixtures, fittings, and equipment	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.

LEASES

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.

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.

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.

Accounting Policies continued

For the 53 weeks ended 2 July 2022

- **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 the Consolidated Income Statement in the period in which it arises.

Impairment of financial assets

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 remain 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 over the same period as the related costs for which the grants are intended to compensate. The Group has chosen to present receipt and repayment of government grants 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 rate 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 OF NON-FINANCIAL ASSETS

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 Group'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 and 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.

CLIMATE CHANGE

In preparing the financial statements we have considered the potential impact of climate change. Given that the identified risks of climate change are expected to be present in the medium to long term our focus has been on the non-current assets within the Statement of Financial Position. Specifically, for the material non-current assets, we note the following:

- The plant, property and equipment, and the right-of-use assets have relatively short useful lives (the average remaining lease term of our leasehold land and buildings is 5.2 years). The longer life assets relate to freehold stores and our head office, none of which are located in areas identified as being at significant risk to climate change
- The intangible assets, which consist of a brand, internally generated and other software, have a useful life of 3 to 5 years and therefore we would not expect the identified risks to impact these assets.

The other non-current assets were also reviewed, and no risk was identified. Current assets, by their nature, are expected to be fully utilised within the business in the short term and no climate risk has been identified in this time horizon. Consequently, there has been no material impact on the financial reporting judgements and estimates applied in the preparation of the FY22 Annual Report and Accounts. Please see page 76 of the Annual Report and Accounts for further detail on our climate change risk assessment.

NEW STANDARDS AND INTERPRETATIONS

No new standards, amendments or interpretations, effective for the first time for the financial period beginning on or after 27 June 2021 have had a material impact on the financial statements of the Group.

Notes to the Consolidated Financial Statements

For the 53 weeks ended 2 July 2022

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 their journey often 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. The Executive Board reviews internal management reports on a monthly basis and performance 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 24 to 25.

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

All material operations of the Group 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.

At the year end the company had £12.2m (2021: £11.8m) of sales orders placed that will be recognised in the Consolidated Income Statement when the goods are despatched in the following financial year.

2. Operating costs

	2022 53 weeks £'m	2021 52 weeks £'m
Selling and distribution costs	**469.4**	423.9
Administrative expenses	**122.3**	98.6
	591.7	522.5

3. Operating profit

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

	2022 53 weeks £'m	2021 52 weeks £'m
Cost of inventories included in cost of sales	**765.3**	638.5
Amortisation of intangible assets	**6.2**	7.3
Depreciation of owned property, plant and equipment	**24.3**	24.5
Depreciation of right-of-use assets	**48.6**	45.7
Loss on disposal and impairment of property, plant and equipment and intangible assets	**0.3**	2.3
(Gains)/losses on disposal and impairment of right-of-use assets	**(0.1)**	1.0
Expense related to short-term leases	**0.6**	1.8

The cost of inventories included in cost of sales includes the impact of a net increase in the provision for obsolete inventory of £4.2m (2021: £5.3m increase) of which £2.6m relates to Sunflex.

The analysis of the auditors' remuneration is as follows:

	2022 53 weeks £'000	2021 52 weeks £'000
Fees payable to the Group's auditors for the audit of the Parent and consolidated annual financial statements	**46**	29
Fees payable to the Group's auditors and their associates for other services to the Group		
• Audit of the Company's subsidiaries pursuant to legislation	**256**	225
• Other assurance services (See Audit and Risk Committee Report on page 120 for further information)	**42**	40

4. Employee numbers and costs

The average monthly number of people employed by the Group (including Directors) was:

	2022 53 weeks Number of heads	2022 53 weeks Full time equivalents	2021 52 weeks Number of heads	2021 52 weeks Full time equivalents
Selling	**9,544**	**5,437**	9,039	5,390
Distribution	**963**	**930**	829	812
Administration	**925**	**906**	704	695
	11,432	**7,273**	10,572	6,897

The aggregate remuneration of all employees (including Directors) comprises:

	2022 53 weeks £'m	2021 52 weeks £'m
Wages and salaries (including termination benefits)	**211.1**	190.8
Social security costs	**14.3**	13.0
Share-based payment expense	**4.9**	7.5
Pension costs – defined contribution plans	**5.2**	4.5
	235.5	215.8

In the prior year, payroll costs included £14.5m relating to the Board's decision to repay claims made in 2020 under 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 130 to 162 and in the Related Parties note 25 on page 206.

Notes to the Consolidated Financial Statements continued

For the 53 weeks ended 2 July 2022

5. Financial income and expenses

	2022 53 weeks £'m	2021 52 weeks £'m
Financial income		
Interest on bank deposits	**0.1**	0.1
Net foreign exchange gains	**1.1**	–
	1.2	0.1
Financial expenses		
Interest on bank borrowings	**(0.9)**	(0.8)
Amortisation of issue costs of bank loans	**(0.4)**	(0.2)
Net foreign exchange losses	**–**	(2.4)
Interest on lease liabilities	**(4.8)**	(5.3)
	(6.1)	(8.7)
Net financial expense	**(4.9)**	(8.6)

6. Taxation

	2022 53 weeks £'m	2021 52 weeks £'m
Current taxation		
UK corporation tax charge for the period	**39.0**	32.7
Adjustments in respect of prior periods	**(0.2)**	(1.7)
	38.8	31.0
Deferred taxation		
Origination of temporary differences	**3.0**	(1.3)
Adjustments in respect of prior periods	**(0.2)**	–
Impact of change in tax rate	**–**	(0.8)
	2.8	(2.1)
Total tax expense	**41.6**	28.9

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

	2022 53 weeks £'m	2021 52 weeks £'m
Profit before taxation	**212.8**	157.8
UK corporation tax at standard rate of 19.0% (2021: 19.0%)	**40.4**	30.0
Factors affecting the charge in the period:		
Non-deductible expenses	**1.6**	1.4
Adjustments in respect of prior periods	**(0.4)**	(1.7)
Impact of change in tax rate	**–**	(0.8)
Tax charge	**41.6**	28.9

The taxation charge for the period as a percentage of profit before tax is 19.5% (2021: 18.3%).

The UK Government substantively enacted an increase in the corporation tax rate to 25.0% effective from 1 April 2023. The deferred tax asset as at 2 July 2022 has been calculated based on the rate of 25.0% unless the asset/liability is expected to be realised or settled before the rate increase in which case the rate of 19.0% has been used.

7. Dividends

The dividends set out in the table below relate to the 1 pence Ordinary Shares:

		2022 53 weeks £'m	2021 52 weeks £'m
Interim dividend for the period ended 26 June 2021	– paid 12.0 pence	–	24.3
Special dividend for the period ended 26 June 2021	– paid 65.0 pence	**131.9**	–
Final dividend for the period ended 26 June 2021	– paid 23.0 pence	**46.8**	–
Interim dividend for the period ended 2 July 2022	– paid 14.0 pence	**28.3**	–
Special dividend for the period ended 2 July 2022	– paid 37.0 pence	**75.1**	–
		282.1	24.3

The Board are proposing a final dividend of 26.0 pence per Ordinary Share for the period ended 2 July 2022 which equates to £52.9m. Subject to shareholder approval at the AGM this will be paid on 5 December 2022 to shareholders on the register at the close of business on 11 November 2022.

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 Group's Ordinary Shares during the period.

Weighted average numbers of shares:

	2022 53 weeks '000	2021 52 weeks '000
Weighted average number of shares in issue during the period	**202,722**	202,445
Impact of share options	**2,135**	2,445
Number of shares for diluted earnings per share	**204,857**	204,890

	2022 53 weeks £'m	2021 52 weeks £'m
Profit for the period	**171.2**	128.9
Earnings per Ordinary Share – basic	**84.5p**	63.7p
Earnings per Ordinary Share – diluted	**83.6p**	62.9p

Notes to the Consolidated Financial Statements continued

For the 53 weeks ended 2 July 2022

9. Intangible assets

	Software development and licences £'m	Rights to brands and customer lists £'m	Total £'m
Cost			
At 28 June 2020	51.7	11.0	62.7
Additions	0.6	–	0.6
Disposals	(0.3)	–	(0.3)
At 26 June 2021	52.0	11.0	63.0
Additions	0.9	–	0.9
Acquisition through business combination	–	0.5	0.5
Disposals	(0.3)	–	(0.3)
At 2 July 2022	**52.6**	**11.5**	**64.1**
Accumulated amortisation			
At 28 June 2020	29.0	11.0	40.0
Charge for the financial period	7.3	–	7.3
Disposals	(0.3)	–	(0.3)
Impairment	1.2	–	1.2
At 26 June 2021	37.2	11.0	48.2
Charge for the financial period	6.2	–	6.2
Disposals	(0.2)	–	(0.2)
At 2 July 2022	**43.2**	**11.0**	**54.2**
Net book value			
At 28 June 2020	22.7	–	22.7
At 26 June 2021	14.8	–	14.8
At 2 July 2022	**9.4**	**0.5**	**9.9**

All amortisation is included within operating costs in the Consolidated Income Statement.

There was no trigger for impairment in the period. Last year's impairment of £1.2m relates to tablet-based sales enabling software that was impaired following the development and roll out of new functionality in this area.

Within software development and licences there were no additions (2021: nil) related to internally generated assets.

10. Property, plant and equipment

	Freehold land and buildings £'m	Leasehold improvements £'m	Fixtures, fittings and equipment £'m	Total £'m
Cost				
At 28 June 2020	97.7	160.6	119.9	378.2
Additions	–	3.8	9.0	12.8
Disposals	–	(6.7)	(4.7)	(11.4)
At 26 June 2021	97.7	157.7	124.2	379.6
Transfer	–	1.2	(1.2)	–
Additions	0.1	13.3	12.6	26.0
Acquisition through business combination	9.2	0.1	0.3	9.6
Disposals	–	(8.3)	(3.7)	(12.0)
At 2 July 2022	**107.0**	**164.0**	**132.2**	**403.2**
Accumulated depreciation				
At 28 June 2020	16.4	84.8	101.6	202.8
Charge for the financial period	1.7	13.2	9.6	24.5
Disposals	–	(6.2)	(4.3)	(10.5)
Impairment	–	0.1	0.1	0.2
At 26 June 2021	18.1	91.9	107.0	217.0
Transfer	–	(0.5)	0.5	–
Charge for the financial period	1.8	14.4	8.1	24.3
Disposals	–	(8.1)	(3.7)	(11.8)
At 2 July 2022	**19.9**	**97.7**	**111.9**	**229.5**
Net book value				
At 28 June 2020	81.3	75.8	18.3	175.4
At 26 June 2021	79.6	65.8	17.2	162.6
At 2 July 2022	**87.1**	**66.3**	**20.3**	**173.7**

All depreciation and impairment charges have been included within operating costs in the Consolidated Income Statement.

There was no trigger for impairment in the period. Last year's impairment of £0.2m relates to store impairment. The recoverable amount was determined as the value in use, applying a discount rate of 10.0% (pre-tax).

Similar asset categories have been amalgamated into leasehold improvements and fixtures, fittings and equipment in the current year. The nature of this change is presentational under IAS 1.

Notes to the Consolidated Financial Statements continued

For the 53 weeks ended 2 July 2022

11. Leases

Right-of-use assets included in the Consolidated Statement of Financial Position at 2 July 2022 were as follows:

	2022 Land and buildings £'m	2022 Motor vehicles, plant and equipment £'m	2022 Total £'m	2021 Total £'m
At the beginning of the period	**254.7**	**7.3**	**262.0**	283.3
Additions	**30.9**	**4.4**	**35.3**	25.5
Disposals	**(0.1)**	**(0.1)**	**(0.2)**	(0.1)
Impairment	**–**	**–**	**–**	(1.0)
Depreciation	**(45.1)**	**(3.5)**	**(48.6)**	(45.7)
At the end of the period	**240.4**	**8.1**	**248.5**	262.0

Right-of-use additions include £3.1m of lease modifications (2021: £1.3m).

Lease liabilities included in the Consolidated Statement of Financial Position at 2 July 2022 were as follows:

	2022 Land and buildings £'m	2022 Motor vehicles, plant and equipment £'m	2022 Total £'m	2021 Total £'m
At the beginning of the period	**(286.1)**	**(7.2)**	**(293.3)**	(314.4)
Additions	**(31.5)**	**(4.4)**	**(35.9)**	(26.9)
Disposals	**–**	**0.1**	**0.1**	0.1
Interest	**(4.7)**	**(0.1)**	**(4.8)**	(5.3)
Repayment of lease liabilities	**52.2**	**3.6**	**55.8**	53.2
At the end of the period	**(270.1)**	**(8.0)**	**(278.1)**	(293.3)

The discount rate applied across all lease liabilities ranged between 0.9% and 2.8% (2021: 1.0% and 2.1%). The discount rate reflects our incremental borrowing rate which we assess by considering the marginal rate on the Group's RCF, the Bank of England base rate, the yield on Government bonds and the term of the lease.

The maturity analysis of the lease liabilities is as follows:

	2022 £'m	2021 £'m
Current	**(52.8)**	(49.0)
Non-current	**(225.3)**	(244.3)
	(278.1)	(293.3)

The remaining contractual maturities of the lease liabilities, which are gross and undiscounted, are as follows:

	2022 £'m	2021 £'m
Less than one year	**(57.1)**	(53.7)
One to two years	**(53.2)**	(51.8)
Two to five years	**(111.9)**	(119.1)
Five to ten years	**(68.3)**	(78.2)
More than ten years	**(5.0)**	(10.1)
Total undiscounted lease liability	**(295.5)**	(312.9)

The average remaining lease term of our leasehold land and buildings is 5.2 years.

11. Leases continued

The following amounts have been recognised in the Consolidated Income Statement:

	2022 53 weeks Land and buildings £'m	2022 53 weeks Motor vehicles, plant and equipment £'m	2022 53 weeks Total £'m	2021 52 weeks Total £'m
Depreciation of right-of-use assets	**45.1**	**3.5**	**48.6**	45.7
Gain on disposal of right-of-use assets	**(0.1)**	**–**	**(0.1)**	–
Impairment of right-of-use assets	**–**	**–**	**–**	1.0
Interest expenses (included in financial expenses)	**4.7**	**0.1**	**4.8**	5.3
Expense relating to short-term leases	**0.5**	**0.1**	**0.6**	1.8

There was no trigger for impairment in the current year. The prior year's impairment of £1.0m relates to store impairment. The recoverable amount has been determined as the value in use applying a discount rate of 10.0% (pre-tax).

The total cash outflow for leases during the financial period was £55.0m (2021: £59.3m).

12. Deferred tax assets/liabilities

Deferred tax is provided in full on temporary differences under the liability method using a taxation rate of 25.0% unless the asset/liability is expected to be realised or settled before the corporation tax rate increase in 2023 in which case the rate of 19.0% has been used.

Deferred taxation assets and liabilities are attributable to the following:

	Assets		Liabilities		Net assets/(liabilities)	
	2022 £'m	2021 £'m	2022 £'m	2021 £'m	2022 £'m	2021 £'m
Property, plant and equipment	**0.7**	3.6	**–**	–	**0.7**	3.6
Share-based payments	**7.5**	6.5	**–**	–	**7.5**	6.5
Hedging	**–**	1.0	**(4.3)**	–	**(4.3)**	1.0
Other temporary differences	**0.2**	0.3	**–**	–	**0.2**	0.3
	8.4	11.4	**(4.3)**	–	**4.1**	11.4

	Assets		Liabilities		Net assets/(liabilities)	
	2022 £'m	2021 £'m	2022 £'m	2021 £'m	2022 £'m	2021 £'m
Deferred tax recoverable/(payable) after more than 12 months	**1.4**	4.6	**(0.2)**	–	**1.2**	4.6
Deferred tax recoverable/(payable) within 12 months	**7.2**	6.8	**(4.3)**	–	**2.9**	6.8
	8.6	11.4	**(4.5)**	–	**4.1**	11.4

Notes to the Consolidated Financial Statements continued

For the 53 weeks ended 2 July 2022

12. Deferred tax assets/liabilities continued

The movement in the net deferred tax balance is as follows:

	Balance at 28 June 2020 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 26 June 2021 £'m
Property, plant and equipment	2.5	1.1	–	3.6
Share-based payments	2.2	1.4	2.9	6.5
Hedging	(1.2)	–	2.2	1.0
Other temporary differences	0.7	(0.4)	–	0.3
	4.2	2.1	5.1	11.4

	Balance at 27 June 2021 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 2 July 2022 £'m
Property, plant and equipment	3.6	(2.9)	–	**0.7**
Share-based payments	6.5	0.2	0.8	**7.5**
Hedging	1.0	–	(5.3)	**(4.3)**
Other temporary differences	0.3	(0.1)	–	**0.2**
	11.4	(2.8)	(4.5)	**4.1**

13. Inventories

	2022 £'m	2021 £'m
Raw materials	**1.7**	–
Work in progress	**1.6**	–
Goods for resale	**219.7**	172.4
	223.0	172.4

Goods for resale includes a net realisable value provision of £21.4m (2021: £17.2m). Write-downs of inventories to net realisable value amounted to £20.1m (2021: £16.4m). These were recognised as an expense during the period and were included in cost of sales in the Consolidated Income Statement. As at 2 July 2022, included within the above is £10m relating to Sunflex.

14. Trade and other receivables

	2022 £'m	2021 £'m
Trade receivables	**2.9**	0.9
Other receivables	**9.5**	4.8
Prepayments and accrued income	**10.5**	6.1
	22.9	11.8

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 (2021: nil). No material amounts are overdue (2021: nil).

15. Cash and cash equivalents

	2022 £'m	2021 £'m
Cash at bank and in hand	**30.2**	128.6

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

	2022 £'m	2021 £'m
Trade payables	**98.3**	69.4
Accruals and deferred income	**86.8**	69.9
Taxation and social security	**34.0**	42.3
Other payables	**4.1**	0.2
	223.2	181.8

Other payables includes £3.1m payable for the acquisition of Sunflex (note 27).

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 an 'A' credit rating. The credit limit for the syndicate banks is up to £60m. 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 (2021: nil). At the period end the maximum exposure is detailed in the table below:

	2022 £'m	2021 £'m
Current		
Cash and cash equivalents	**30.2**	128.6
Trade and other receivables	**12.4**	5.7
Accrued income	**0.6**	0.3
Derivative financial instruments	**19.9**	0.4
Total current financial assets	**63.1**	135.0
Non-current		
Derivative financial instruments	**4.6**	0.3
Total financial assets	**67.7**	135.3

Notes to the Consolidated Financial Statements continued

For the 53 weeks ended 2 July 2022

17. Financial risk management continued

CREDIT RISK

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 ECL 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 26 June 2021 and 2 July 2022 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 the capital management section of this note.

All cash flows on financial liabilities for 2022 and 2021 are contractually due within one year with the exception of provisions, bank loans, derivative financial liabilities and lease liabilities. The details of lease liabilities are shown in note 11.

Total borrowings of £54.0m (2021: nil) reflect the level of facility drawdown at the period end on the Group's RCF.

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 SONIA interest rates had been 100 basis points higher with all other variables held constant, post-tax profit would have been £0.1m lower (2021: nil impact).

FOREIGN CURRENCY RISK

All of the Group's revenues are in sterling. The majority of purchases are also in pounds sterling, but some goods purchased direct from overseas suppliers are paid for in US dollars, accounting for just over 30% (2021: 30%) of stock purchases in the period ended 2 July 2022.

The Group uses various means to cover its exposure to US dollars including holding US dollar cash balances and taking out forward foreign exchange contracts for the purchase of US dollars. All the Group's foreign exchange transactions are designed to satisfy US dollar denominated liabilities. The maximum level of hedging coverage which will be undertaken is 100% of anticipated expenditure on a three-month horizon, stepping down to 75% on a four- to 12-month horizon and 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 US dollars. At the Consolidated Statement of Financial Position date, the fair value of US dollar foreign exchange forward contracts held in cash flow hedges was a £24.5m asset (2021: £5.2m liability) which relates to a commitment to purchase $369.0m (2021: $242.0m) for a fixed sterling amount. A fair value gain of £32.4m (2021: £17.7m loss) was recognised in other comprehensive income and no loss (2021: nil) was recognised on cash flow hedges during the period. In the period, a gain of £2.6m (2021: £5.9m loss) 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.

The outstanding US dollar liabilities at the period end were $0.1m (2021: $0.1m).

17. Financial risk management continued

At the period end if GBP had strengthened by 10% against US dollar with all other variables held constant, post-tax profit would have been £0.7m higher (2021: £1.5m higher) as a result of foreign exchange gains on translation of US dollar denominated trade payables and cash and cash equivalents. Other components of equity would have been £2.5m higher (2021: £4.2m 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 US dollar with all other variables held constant, post-tax profit for the period would have been £0.8m lower (2021: £1.2m lower) and other components of equity would have been £2.5m lower (2021: £6.3m higher).

The US dollar period end exchange rate applied in the above analysis is £1=$1.2087 (2021: £1=$1.3877).

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 regularly monitors the level of capital in the Group to ensure that this can be achieved.

The Company has a syndicated RCF of £185m which is committed until 9 December 2025, which may be extended by a maximum of a further two years at Dunelm Group plc's request, subject to lender consent. 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 (Group net debt to be no greater than 2.5x Group EBITDA before exceptional items) and fixed charge cover (Group EBITDAR before exceptional items to be no less than 1.75x Group fixed charges), both of which were met comfortably as at 2 July 2022 as shown below. In addition, the Company maintains £10m of uncommitted overdraft facilities with one syndicate partner bank.

The gearing ratio and banking covenants were as follows:

	2022 53 weeks £'m	2021 52 weeks £'m
Total borrowings (note 18)	**54.0**	–
Less: unamortised debt issue costs (note 18)	**(1.2)**	(0.2)
Less: cash and cash equivalents (note 15)	**(30.2)**	(128.6)
Net debt/(cash)	**22.6**	(128.8)
Total equity	**178.3**	281.2
Total capital	**200.9**	152.4
Gearing ratio	**11.2%**	(84.5%)
Operating profit	**217.7**	163.1
Add: Depreciation and amortisation of property, plant and equipment and intangible assets (note 3)	**30.5**	31.8
Add: Loss on disposal and impairment of property, plant and equipment and intangible assets (note 3)	**0.3**	2.5
Adjusted EBITDA*/EBITDA	**248.5**	197.4
Leverage ratio	**0.09**	(0.65)
Adjusted EBITDA*/EBITDA	**248.5**	197.4
Rent plus RoUA depreciation**/Rent	**50.4**	53.9
EBITDAR	**298.9**	251.3
Net interest (note 5)	**4.9**	3.3
Rent plus RoUA depreciation**/Rent	**50.4**	53.9
Fixed charges	**55.3**	57.2
Fixed charge cover	**5.4**	4.4

* Adjusted EBITDA for 2022 definitions is EBITDA excluding Right of Use Asset Depreciation.

** In the post-IFRS16 calculations, rent plus right-of-use asset depreciation is used as a proxy to pre-IFRS16 rent to keep the pre- and post-IFRS16 calculations as comparable as possible.

Notes to the Consolidated Financial Statements continued

For the 53 weeks ended 2 July 2022

17. Financial risk management continued

In 2022 the banking covenants are calculated on a post-IFRS16 basis, whereas in 2021 the calculation was on a pre-IFRS16 basis. The reason for the change is that the definitions of the covenants were updated in the RCF agreement that was signed in December 2021 to be on a post-IFRS16 basis. If the 2021 banking covenants were to be calculated on a post-IFRS 16 basis then the leverage ratio would be (0.64) and the fixed charge cover would be 4.2.

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.

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.

EFFECTS OF HEDGE ACCOUNTING ON THE FINANCIAL POSITION AND PERFORMANCE

	2022 £'m	2021 £'m
Foreign currency forwards		
Carrying amount of asset/(liability)	**24.5**	(5.2)
Notional amount	**280.4**	174.0
Maturity date	**July 2022-June 2024**	July 2021-May 2023
Hedge ratio	**1:1**	1:1
Change in value of hedged item used to determine hedge effectiveness	**32.4**	17.7
Change in the value of hedging instruments	**(32.4)**	(17.7)
Weighted average hedged rate for the year (including forward points)	**£1:US$1.3426**	£1:US$1.3493

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.

17. Financial risk management continued

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 26 June 2021	Financial assets at amortised cost £'m	Financial liabilities at amortised cost £'m	Derivatives used for hedging £'m	Total £'m
Cash and cash equivalents	128.6	–	–	128.6
Trade and other receivables	5.7	–	–	5.7
Accrued income	0.3	–	–	0.3
Derivative financial instruments	–	–	0.7	0.7
Total financial assets	134.6	–	0.7	135.3
Trade and other payables	–	(69.6)	–	(69.6)
Accruals	–	(57.9)	–	(57.9)
Lease Liabilities	–	(293.3)	–	(293.3)
Bank loans	–	–	–	–
Provisions	–	(4.5)	–	(4.5)
Derivative financial instruments	–	–	(5.9)	(5.9)
Total financial liabilities	–	(425.3)	(5.9)	(431.2)
Net financial assets/(liabilities)	**134.6**	**(425.3)**	**(5.2)**	**(295.9)**

At 2 July 2022	Financial assets at amortised cost £'m	Financial liabilities at amortised cost £'m	Derivatives used for hedging £'m	Total £'m
Cash and cash equivalents	**30.2**	**–**	**–**	**30.2**
Trade and other receivables	**12.4**	**–**	**–**	**12.4**
Accrued income	**0.6**	**–**	**–**	**0.6**
Derivative financial instruments	**–**	**–**	**24.5**	**24.5**
Total financial assets	**43.2**	**–**	**24.5**	**67.7**
Trade and other payables	**–**	**(102.4)**	**–**	**(102.4)**
Accruals	**–**	**(74.2)**	**–**	**(74.2)**
Lease liabilities	**–**	**(278.1)**	**–**	**(278.1)**
Bank loans	**–**	**(52.8)**	**–**	**(52.8)**
Provisions	**–**	**(5.5)**	**–**	**(5.5)**
Derivative financial instruments	**–**	**–**	**–**	**–**
Total financial liabilities	**–**	**(513.0)**	**–**	**(513.0)**
Net financial assets/(liabilities)	**43.2**	**(513.0)**	**24.5**	**(445.3)**

Notes to the Consolidated Financial Statements continued

For the 53 weeks ended 2 July 2022

17. Financial risk management continued

The currency profile of the Group's cash and cash equivalents is as follows:

	2022 £'m	2021 £'m
Sterling	**19.7**	122.4
US dollar	**10.4**	5.8
Euro	**0.1**	0.4
	30.2	128.6

18. Bank loans

	2022 £'m	2021 £'m
Total borrowings	**54.0**	–
Less: unamortised debt issue costs[1]	**(1.2)**	(0.2)
	52.8	(0.2)

1. Unamortised debt issue costs of £0.2m are included in other receivables as at 26 June 2021 as there was no debt at the period end.

Borrowings relate to the Group's syndicated 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 analysis below shows the reconciliation of net debt:

	2022 53 weeks £'m	2021 52 weeks £'m
Net cash at 27 June 2021 and 28 June 2020	**128.8**	45.4
Net (decrease)/increase in cash and cash equivalents (excluding foreign exchange revaluations)	**(99.5)**	41.0
Effect of foreign exchange (note 5)	**1.1**	(2.4)
Repayments of Revolving Credit Facility	**31.0**	45.0
Drawdowns of Revolving Credit Facility	**(85.0)**	–
Loan transaction costs	**1.4**	–
Change in net debt resulting from cash flows	**(151.0)**	83.6
Amortisation of debt issue costs (note 5)	**(0.4)**	(0.2)
Movement in net debt	**(151.4)**	83.4
Net debt represented by		
Cash and cash equivalents (note 15)	**30.2**	128.6
Non-current borrowings (note 18)	**(54.0)**	–
Net (debt)/cash including unamortised debt issue costs	**(23.8)**	128.6
Unamortised debt issue costs (note 18)	**1.2**	0.2
Net (debt)/cash at 2 July 2022 and 26 June 2021	**(22.6)**	128.8

19. Provisions

	Balance at 26 June 2021 £'m	Utilised in the period £'m	Created in the period £'m	Released in the period £'m	Balance at 2 July 2022 £'m
Property-related	4.5	(0.1)	2.7	(1.6)	**5.5**

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

	2022 Number of Ordinary Shares of 1p each	2021 Number of Ordinary Shares of 1p each
In issue at the start of the period	**202,833,931**	202,833,931
Issued during the period in respect of share option schemes	**592,904**	–
In issue at the end of the period	**203,426,835**	202,833,931

	2022		2021	
	Number of shares	£'m	Number of shares	£'m
Ordinary shares of 1p each:				
Authorised	**500,000,000**	**5.0**	500,000,000	5.0
Allotted, called up and fully paid	**203,426,835**	**2.0**	202,833,931	2.0

Proceeds received in relation to shares issued during the period were £0.1m (2021: £nil).

21. Treasury shares

	2022		2021	
	Number of shares	£'m	Number of shares	£'m
Outstanding at the beginning of the period	**160,319**	**1.4**	573,590	5.1
Purchased during the period	**2,500,000**	**28.3**	–	–
Reissued during the period in respect of share option schemes	**(974,119)**	**(12.2)**	(413,271)	(3.7)
Outstanding at the end of the period	**1,686,200**	**17.5**	160,319	1.4

The Group acquired 2,500,000 (2021: nil) shares through purchases on the London Stock Exchange during the period for a total value of £28.3m (2021: nil).

The Group reissued 974,119 (2021: 413,271) treasury shares during the period for a total value of £12.2m (2021: £3.7m).

Proceeds from the issue of treasury shares included in the Consolidated Statement of Cash Flows and Consolidated Statement of Changes in Equity of £3.9m (2021: £1.8m) is the amount employees contributed.

The Group has the right to reissue the remaining treasury shares at a later date.

Notes to the Consolidated Financial Statements continued

For the 53 weeks ended 2 July 2022

22. Share-based payments

The Group operates a number of share-based payment schemes as follows:

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 diluted earnings per share relative to RPI as well as continuing employment with the Group.

The Dunelm GSOP provides options over shares, exercisable between three and ten years following their grant, to be allocated to Dunelm (Soft Furnishings) Ltd employees at the discretion of the Remuneration Committee. No options were granted to any Directors or changes made to existing entitlements in the year under review. There are no cash-settlement alternatives and they are therefore accounted for under IFRS 2 as equity-settled awards. Option prices are set at the prevailing market price at the time of grant. This is a legacy share option scheme and the last grants under this scheme were made in October 2016.

The following table summarises the movement in Dunelm GSOP options during the year:

GSOP	2022 No. of options	2022 Weighted average exercise price (p)	2021 No. of options	2021 Weighted average exercise price (p)
Outstanding at beginning of year	**3,731**	**872.96**	3,731	872.96
Exercised	**(3,731)**	**(872.96)**	–	–
Outstanding at end of year	**–**	**–**	3,731	872.96
Exercisable at end of year	**–**	**–**	3,731	872.96

Exercisable at end of year refers to all share options not exercised which have passed their vesting date, but not yet reached their expiry date.

The weighted average remaining contractual life of these options is nil years (2021: 2.3 years).

DUNELM GROUP SAVINGS RELATED SHARE OPTION PLAN (SHARESAVE)

The Dunelm Group plc Savings Related Share Option Plan (Sharesave) scheme is open to all colleagues with eligible length of service. Invitations to participate in the scheme are issued annually and the scheme is 'approved' under HMRC rules. The current maximum monthly savings for the schemes detailed below is £500. Options are granted at the prevailing market rate less a discount of 20%. Options may be exercised under the scheme within six months of the completion of each three-year savings contract (from the grant date). There is provision for early exercise in certain circumstances such as death, disability, redundancy, and retirement. Sharesave options are also accounted for as equity-settled awards under IFRS 2.

The following table summarises the movement in Dunelm Group plc Sharesave options during the year:

Sharesave Plans	2022 No. of options	2022 Weighted average exercise price (p)	2021 No. of options	2021 Weighted average exercise price (p)
Outstanding at beginning of year	**1,571,890**	**651.20**	1,773,317	549.95
Granted	**632,092**	**1,046.00**	316,251	1,167.00
Exercised	**(807,250)**	**483.06**	(310,203)	585.64
Forfeited	**(214,220)**	**949.37**	(207,475)	670.00
Outstanding at end of year	**1,182,512**	**923.00**	1,571,890	651.20
Exercisable at end of year	**31,605**	**479.00**	28,461	602.00

Exercisable at end of year refers to all share options not exercised which have passed their vesting date, but not yet reached their expiry date. The figure of 31,605 options (2021: 28,461 options) excludes the provisions for early exercise explained above.

22. Share-based payments continued

DUNELM GROUP SAVINGS RELATED SHARE OPTION PLAN (SHARESAVE)

Options outstanding at 2 July 2022 are exercisable at prices ranging between 479.00p and 1,167.00p (2021: 479.00p and 1,167.00p) and have a weighted average remaining contractual life of 2.1 years (2021: 1.6 years), as analysed in the table below:

	2022		2021	
Sharesave Plans	No. of options	Weighted average remaining contractual life (years)	No. of options	Weighted average remaining contractual life (years)
Exercise price (pence):				
479.00	**45,502**	**–**	842,982	1.0
602.00	**–**	**–**	28,461	–
654.00	**370,906**	**1.0**	418,562	2.0
1046.00	**553,288**	**3.0**	–	–
1167.00	**212,816**	**2.0**	281,885	3.0
	1,182,512	**2.1**	1,571,890	1.6

LONG-TERM INCENTIVE PLAN (LTIP)

As explained in the Remuneration Report, the Group operates an equity-settled LTIP scheme for executive directors and other senior colleagues. Performance conditions for the LTIP awards are detailed in the Remuneration Report. LTIP options are also accounted for as equity-settled awards under IFRS 2.

The following table summarises the movements in nil cost LTIP awards during the year:

LTIP Awards	2022 No. of options	2021 No. of options
Outstanding at beginning of year	**1,733,531**	1,741,497
Granted	**515,226**	424,430
Dividend equivalent awarded in the year	**17,866**	144,686
Exercised	**(497,830)**	(95,696)
Forfeited	**(303,126)**	(481,386)
Outstanding at end of year	**1,465,667**	1,733,531
Exercisable at end of year	**17,082**	5,795

Exercisable at end of year refers to all share options not exercised which have passed their vesting date, but not yet reached their expiry date.

The weighted average remaining contractual life of these options is 8.0 years (2021: 8.2 years).

Notes to the Consolidated Financial Statements continued

For the 53 weeks ended 2 July 2022

22. Share-based payments continued

RESTRICTED STOCK AWARD (RSA)

These awards are granted to particular individuals and are dependent on continuing employment. There are no performance conditions attached to these awards. RSA options are also accounted for as equity-settled awards under IFRS 2.

The following table summarises the movements in nil cost RSA options during the year:

Restricted Stock Awards	2022 No. of options	2021 No. of options
Outstanding at beginning of year	**68,103**	34,200
Granted	**75,940**	44,479
Dividend equivalent awarded in the year	**2,765**	4,932
Exercised	**(10,308)**	(8,944)
Forfeited	**(12,956)**	(6,564)
Outstanding at end of year	**123,544**	68,103
Exercisable at end of year	**2,785**	1,456

Exercisable at end of year refers to all share options not exercised which have passed their vesting date, but not yet reached their expiry date.

The weighted average remaining contractual life of these options is 8.8 years (2021: 8.7 years).

BONUS DEFERRED SHARES AWARD

The Bonus Deferred Shares Award provides options over shares in Dunelm Group plc for colleagues of the Group as a discretionary bonus. This is an equity-settled share option scheme and there are no performance conditions attached to these awards, they are only dependent on continued employment. Under this arrangement, colleagues are awarded a number of options which is based on the cash value of the earned bonus award, determined by their achievement of a mixture of Company and individual performance metrics, divided by a share price value of 1,189.00p which was approved at the November 2020 AGM. The deferred shares awarded vest in September 2021 and/or September 2022, depending on colleague level.

The Bonus Deferred Shares Award is structured as nil cost options and the following table summarises their movement during the year:

Bonus Deferred Shares Award	2022 No. of options	2021 No. of options
Outstanding at beginning of year	**494,420**	–
Granted	**–**	509,927
Dividend equivalent awarded in the year	**9,608**	9,889
Exercised	**(252,488)**	–
Forfeited	**(93,142)**	(25,396)
Outstanding at end of year	**158,398**	494,420
Exercisable at end of year	**–**	–

The weighted average remaining contractual life of these options is 0.2 years (2021: 0.7 years).

22. Share-based payments continued

FAIR VALUE CALCULATIONS

The fair values of all share options granted are calculated at the date of grant using a Black-Scholes option pricing model. Expected volatility is determined by calculating the historical volatility of the Group's share price over a period equivalent to the expected life of an option which is aligned to its vesting period.

The following tables list the inputs to the model used for options granted in the periods ended 2 July 2022 and 26 June 2021 based on information at the date of grant:

Sharesave Plans	2022	2021
Share price at date of grant	**1,444.23p**	1,262.00p
Exercise price	**1,046.00p**	1,167.00p
Volatility	**43.54%**	44.11%
Expected life	**3 years**	3 years
Risk free rate	**0.63%**	(0.10%)
Dividend yield	**2.90%**	2.66%
Fair value per option	**424.30p**	332.40p

LTIP Awards	2022	2021
Share price at date of grant	**1,307.00p**	1,186.00p
Exercise price	**0.00p**	0.00p
Volatility	**43.65%**	43.83%
Expected life	**3 years**	3 years
Risk free rate	**0.84%**	0.01%
Dividend yield	**2.90%**	2.66%
Fair value per option	**977.40p**	909.00p

Bonus Deferred Shares	2022	2021
Share price at date of grant	**n/a**	1,186.00p
Exercise price	**n/a**	0.00p
Volatility	**n/a**	43.83%
Expected life	**n/a**	15-39 months
Risk free rate	**n/a**	0.01%
Dividend yield	**n/a**	2.66%
Fair value per option	**n/a**	1,089.30p-1,148.80p

Restricted Stock Awards	2022	2021
Share price at date of grant	**1,307.00p**	1,186.00p
Exercise price	**0.00p**	0.00p
Volatility	**46.25%-43.65%**	43.83%
Expected life	**2-3 years**	3 years
Risk free rate	**0.84%**	0.01%
Dividend yield	**2.90%**	2.66%
Fair value per option	**977.40p**	909.00p

Notes to the Consolidated Financial Statements continued

For the 53 weeks ended 2 July 2022

23. Commitments

As at 2 July 2022, the Group had entered into capital contracts amounting to £4.7m (2021: £13.7m). Capital contracts as at 2 July 2022 include commitments for new stores and refits and last year also included a furniture warehouse and a new e-commerce warehouse.

24. Contingent liabilities

The Group had no contingent liabilities at the period end date (2021: none).

25. Related parties

IDENTITY OF RELATED PARTIES

The Group has related party relationships with its subsidiaries and with its Directors. Transactions between the Group 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 and the Executive Board.

Directors of the Company and their close relatives control 42.9% (2021: 43.0%) of the voting shares of the Company.

Disclosures relating to remuneration of Directors are set out in the Remuneration Report on pages 130 to 162. The remuneration of the key management personnel is set out below:

	2022 53 weeks £'m	2021 52 weeks £'m
Wages and salaries	**3.5**	3.0
Short term employee benefits	**4.2**	0.7
Post-employment benefits	**0.1**	0.2
Share-based payments	**2.9**	3.2
	10.7	7.1

Short term employee benefits include a cash bonus in 2022. In the prior year, the 2021 bonus awards to key management personnel were payable in deferred shares. As such, under IFRS 2, this expense was accounted for under share-based payments.

The amount of gains made by directors on the exercise of share options are disclosed in the Remuneration Report on page 154.

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 there is no ultimate controlling party of Dunelm Group plc.

27. Business combination

On 3 May 2022, the Group acquired the trade and assets of Sunflex, a division of Hunter Douglas (UK) Limited for a cash consideration of £20.8m of which £17.7m had been paid as at 2 July 2022 and £3.1m was recognised within other payables.

Sunflex was a key supplier whose principal activity is that of manufacturing and supplying specialist curtain tracks, poles and blinds. It is this capability and specialist knowledge that will strengthen and broaden our product range.

Since the date of acquisition, the results of Sunflex have been included within the group consolidation. The operations do not qualify as a separate segment and results are not disclosed separately as they do not materially impact the Group's result.

If the acquisition had occurred on 26 June 2021, the revenue and profit generated would not be material to the consolidated position of the Group due to Sunflex previously being a supplier. As at 3 May 2022, £2.0m trade payable were due by Dunelm to Sunflex.

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

	3 May 2022 £'m
Intangible assets – brands	**0.5**
Freehold buildings	**9.2**
Property, plant and equipment	**0.4**
Inventories	**10.3**
Trade and other receivables	**3.8**
Trade and other payables	**(2.5)**
Accruals and deferred income	**(0.9)**
Total identifiable assets/(liabilities)	**20.8**
Cash consideration	**(20.8)**
Goodwill	**–**

28. Subsequent events

There are no reportable subsequent events for Dunelm Group plc.

Parent Company Statement of Financial Position

As at 2 July 2022

	Note	2 July 2022 £'m	26 June 2021 £'m
Non-current assets			
Investments in subsidiary undertakings	4	**64.8**	60.7
Deferred tax assets	5	**1.0**	1.8
Total non-current assets		**65.8**	62.5
Current assets			
Trade and other receivables	6	**98.3**	478.9
Total current assets		**98.3**	478.9
Total assets		**164.1**	541.4
Current liabilities			
Trade and other payables	7	**(0.3)**	(226.6)
Total current liabilities		**(0.3)**	(226.6)
Total liabilities		**(0.3)**	(226.6)
Net assets		**163.8**	314.8
Equity			
Issued share capital	11	**2.0**	2.0
Share premium account		**1.7**	1.6
Non-distributable reserves		**19.6**	15.5
Capital redemption reserve		**43.2**	43.2
Retained earnings		**97.3**	252.5
Total equity attributable to equity holders of the Parent		**163.8**	314.8

The Company made a profit after tax of £150.5m (2021: £24.5m).

The financial statements on pages 208 to 216 were approved by the Board of Directors on 14 September 2022 and were signed on its behalf by:

Karen Witts
Director

Company number 04708277

14 September 2022

Parent Company Statement of Cash Flows

For the 53 weeks ended 2 July 2022

	Note	2022 53 weeks £'m
Cash flows from operating activities		
Profit before taxation		**151.3**
Dividend income		**(150.2)**
Net financial income		**(3.1)**
Operating profit		**(2.0)**
Share-based payments expense		**0.7**
Operating cash flows before movements in working capital		**(1.3)**
Decrease in trade and other receivables		**380.7**
Decrease in trade and other payables		**(226.2)**
Net movement in working capital		**154.5**
Net cash generated from operating activities		**153.2**
Cash flows from investing activities		
Interest received		**3.1**
Net cash used in investing activities		**3.1**
Cash flows from financing activities		
Proceeds from issue of treasury shares and ordinary shares		**3.9**
Purchase of treasury shares		**(28.3)**
Dividend received	15	**150.2**
Dividend paid		**(282.1)**
Net cash used in financing activities		**(156.3)**
Net (decrease)/increase in cash and cash equivalents		**0.0**
Cash and cash equivalents at the beginning of the period		**0.0**
Cash and cash equivalents at the end of the period		**0.0**

There were no cash movements in 2021, hence no comparatives have been included in the Statement of Cash Flows above.

Parent Company Statement of Changes in Equity

For the 53 weeks ended 2 July 2022

	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 28 June 2020		**2.0**	**1.6**	**10.0**	**43.2**	**247.7**	**304.5**
Profit for the period		–	–	–	–	24.5	24.5
Total comprehensive income for the period		–	–	–	–	24.5	24.5
Proceeds from issue of treasury shares	12	–	–	–	–	1.8	1.8
Share-based payments	13	–	–	5.5	–	2.0	7.5
Deferred tax on share-based payments	5	–	–	–	–	0.8	0.8
Dividends	3	–	–	–	–	(24.3)	(24.3)
Total transactions with owners, recorded directly in equity		–	–	5.5	–	(19.7)	(14.2)
As at 26 June 2021		**2.0**	**1.6**	**15.5**	**43.2**	**252.5**	**314.8**
Profit for the period		–	–	–	–	150.5	150.5
Total comprehensive income for the period		–	–	–	–	150.5	150.5
Proceeds from issue of shares		–	0.1	–	–	–	0.1
Purchase of treasury shares	12	–	–	–	–	(28.3)	(28.3)
Proceeds from issue of treasury shares	12	–	–	–	–	3.9	3.9
Share-based payments	13	–	–	4.1	–	0.7	4.8
Deferred tax on share-based payments	5	–	–	–	–	(0.5)	(0.5)
Current corporation tax on share options exercised	8	–	–	–	–	0.6	0.6
Dividends	3	–	–	–	–	(282.1)	(282.1)
Total transactions with owners, recorded directly in equity		–	0.1	4.1	–	(305.7)	(301.5)
As at 2 July 2022		**2.0**	**1.7**	**19.6**	**43.2**	**97.3**	**163.8**

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 53 weeks ended 2 July 2022

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

These financial statements have been prepared in accordance with International Accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS') and the applicable legal requirements of the Companies Act 2006. In addition to complying with International Accounting standards in conformity with the requirements of the Companies Act 2006, the consolidated financial statements also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. These financial statements are presented on pages 208 to 216.

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 0.1 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 potential downturn in the homewares market on the going concern assumptions are set out in the Group's Financial Statements on page 180.

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 newly issued 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 are considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

Notes to the Parent Company Financial Statements

For the 53 weeks ended 2 July 2022

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.

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 27 June 2021 have had a material impact on the financial statements of the Group.

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.

There are no significant estimates or judgements in the Company Financial Statements.

1. Income Statement

The Company made a profit after tax of £150.5m (2021: £24.6m). 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 187.

2. Employee costs

The Company's employees are 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 130 to 162. Share-based payments details are given in note 13 on page 216.

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 189.

4. Investments in subsidiary undertakings

Shares in subsidiary undertakings:

	£'m
As at 28 June 2020	55.2
Share-based payments	5.5
As at 26 June 2021	60.7
Share-based payments	4.1
As at 2 July 2022	**64.8**

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 2 July 2022:

Subsidiary	Proportion of ordinary shares held	Nature of business
Dunelm Limited	100%	Holding company
Dunelm (Soft Furnishings) Ltd*	100%	Retailer of soft furnishings
Dunelm Estates Limited*	100%	Dormant company
Zoncolan Limited*	100%	Dormant company
Fogarty Holdings Limited*	100%	Non-trading company
Globe Online Limited*	100%	Dormant company
Dunelm (Soft Furnishings) Londonderry Ltd*	100%	Non-trading company

* Share capital held by subsidiary undertaking.

Dunelm Group plc, the Parent Company, and its subsidiaries (excluding Dunelm (Soft Furnishings) Londonderry Ltd) are incorporated and domiciled in the UK. The registered office is Watermead Business Park, Syston, Leicestershire, England, LE7 1AD. The registered address for Dunelm (Soft Furnishings) Londonderry Ltd is Faustina Retail Park, 35 Buncrana Road, Londonderry, Northern Ireland, BT48 8QN.

During the year, the subsidiary Achica Brand Management Limited (a company registered in Cyprus) was liquidated and is therefore no longer included in the Company's investments. The Company was disposed of at nil gain, nil loss.

Notes to the Parent Company Financial Statements continued

For the 53 weeks ended 2 July 2022

5. Deferred tax assets

	Assets	
	2022 £'m	2021 £'m
Employee benefits	**1.0**	1.8

The movement in deferred tax assets is as follows:

	Balance at 28 June 2020 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 26 June 2021 £'m
Employee benefits	0.6	0.4	0.8	1.8

	Balance at 27 June 2021 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 2 July 2022 £'m
Employee benefits	**1.8**	**(0.3)**	**(0.5)**	**1.0**

6. Trade and other receivables

	2022 £'m	2021 £'m
Amounts owed by group undertakings	**98.3**	478.9

Amounts owed by subsidiary undertakings are repayable on demand. Interest is charged monthly on all intercompany balances at an annual rate of 2.0%. There is no security on these balances.

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

	2022 £'m	2021 £'m
Amounts owed to group undertakings	**–**	225.5
Other taxation and social security	**0.3**	1.1
	0.3	226.6

Amounts owed to subsidiary undertakings are repayable on demand. Interest is charged monthly on all intercompany balances at an annual rate of 2.0%. There is no security on these balances.

8. Taxation

	2022 53 weeks £'m	2021 52 weeks £'m
Current taxation		
UK corporation tax charge for the period	**0.6**	–
	0.6	–
Deferred taxation		
Origination of temporary differences	**0.2**	(0.4)
Total tax credit	**0.8**	(0.4)

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

	2022 53 weeks £'m	2021 52 weeks £'m
Profit before taxation	**151.3**	24.5
UK corporation tax at standard rate of 19.0% (2020: 19.0%)	**28.7**	4.7
Factors affecting the charge in the period:		
Income not subject to tax	**(28.5)**	(4.7)
Group relief	**0.6**	(0.4)
Tax credit	**0.8**	(0.4)

The UK Government substantively enacted an increase in the corporation tax rate to 25% effective from 1 April 2023. The deferred tax asset as at 2 July 2022 has been calculated based on the rate of 25% unless the asset/liability is expected to be realised or settled before the rate increase in which case the rate of 19% has been used.

9. Interest bearing loans and borrowings

The Company's only interest bearing borrowings relate to intercompany loans which have interest charges of 2% and are not affected by changes in SONIA.

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 201.

12. Treasury shares

Disclosures relating to treasury shares are set out in note 21 in the Group's financial statements on page 201.

Notes to the Parent Company Financial Statements continued

For the 53 weeks ended 2 July 2022

13. Share-based payments

The Company operates the following share-based payment schemes for the CEO and CFO:

A. LONG-TERM INCENTIVE PLAN (LTIP)

As explained in the Remuneration Report, the Company operates an equity-settled LTIP scheme. Performance conditions for the LTIP awards are detailed in the Remuneration Report. LTIP options are also accounted for as equity-settled awards under IFRS 2.

B. BONUS DEFERRED SHARES AWARDS

The Bonus Deferred Shares Awards provides options over shares in Dunelm Group plc for participants as a discretionary bonus. This is an equity-settled share option scheme and there are no performance conditions attached to these awards, they are only dependent on continued employment. Under this arrangement, participants are awarded a number of options which is based on the cash value of the earned bonus award – determined by their achievement of a mixture of Company and individual performance metrics – divided by a share price value of 1,189.00p which was approved at the November 2020 AGM. The deferred shares awarded vest in September 2021 and September 2022.

14. Contingent liabilities

The Company had no contingent liabilities at the period end date (2021: none).

15. Related parties

Transactions between the Company and its subsidiaries were as follows:

	2022 53 weeks £'m	2021 52 weeks £'m
Dividends received	**150.2**	24.3
Net interest receivable	**3.1**	5.0
	153.3	29.3
Amounts owed by Group undertakings	**98.3**	478.9
Amounts due to Group undertakings	**–**	(225.5)
	98.3	253.4

KEY MANAGEMENT PERSONNEL

All employees of the Company are key management personnel.

Directors of the Company and their close relatives control 42.9% (2021: 43.0%) of the voting shares of the Company.

	2022 53 weeks £'m	2021 52 weeks £'m
Wages and salaries	**1.6**	1.5
Short term employee benefits	**1.8**	0.3
Post-employment benefits	**0.0**	0.0
Share-based payments	**0.9**	1.9
	4.3	3.7

The amount of gains made by directors on the exercise of share options are disclosed in the Renumeration Report on page 154.

16. Subsequent events

There are no reportable subsequent events for Dunelm Group plc.

Advisers and contacts

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Principal Bankers	**Barclays Bank plc** Midlands Corporate Banking PO Box 333 15 Colmore Row Birmingham B3 2BH Tel: 0345 734 5345	**Investor Relations**	**corporate.dunelm.com** Tel: 0116 264 4400 Email: investorrelations@dunelm.com

1. If dialling internationally, call +44 121 415 7047. The helpline is open Monday to Friday 8.30 am to 5.30 pm, excluding bank holidays.

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