Registered number: 02129238

DUNELM (SOFT FURNISHINGS) LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 1 JULY 2023

DUNELM (SOFT FURNISHINGS) LTD

COMPANY INFORMATION

Directors	Sir Will Adderley Nicholas Wilkinson Karen Witts Steven Barton
Company secretary	Luisa Wright (appointed 1 December 2022) Dawn Durrant (resigned 1 December 2022)
Registered number	02129238
Registered office	Dunelm Store Support Centre Watermead Business Park Syston Leicester Leicestershire England LE7 1AD
Independent auditor	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors One Chamberlain Square Birmingham England B3 3AX
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DUNELM (SOFT FURNISHINGS) LTD

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STRATEGIC REPORT
FOR THE PERIOD ENDED 1 JULY 2023

The Directors present their strategic report together with the Directors' report and audited financial statements of the Company for the 52 week period ended 1 July 2023.

Principal activities

The principal activity of the Company continues to be that of a UK homewares retailer selling to customers through stores and online.

Introduction

I am very pleased by what we have achieved in a trading environment which continues to present a variety of challenges. The macro-economic backdrop during the year continued to bring uncertainty for colleagues, customers and suppliers, with high levels of inflation presenting particular headwinds. The adaptable approach we have taken during the last few years continues to serve us well: executing successfully by pulling the levers within our control, and maintaining good operational grip. This has allowed us to deliver strong results for all stakeholders, grow market share and also given us the ability to keep investing for the future, so that we can seize the multiple opportunities ahead of us.

Whether developing our proposition, strengthening our relationships, improving our operations or serving our customers, it is the work of every colleague in Dunelm and our partners that makes this happen. For contributing their knowledge, personality, commitment and enthusiasm, I would like to sincerely thank all of my colleagues. Together, we are creating an ever more inclusive workplace which, alongside our shared values, is driving performance.

FY23 Review

A strong performance with relevance and value at its core

We delivered another strong performance in FY23. In a difficult environment for our customers, where cost-of-living pressures were front and centre, we sharpened our focus on relevance and value. In the first half of the year we were able to offer customers products such as heated clothes airers and thermal curtains to help them keep warm and manage their budgets when energy costs were at their highest. We continually adapt and evolve our product range, and our offer was just as relevant in the second half of the year, when seasonal items such as garden furniture and decorations proved appealing.

The expansion of our range to approximately 70,000 product lines, allows us to meet more of our customers' needs for their homes, and our relentless focus on offering outstanding value has remained as sharp as ever across all price points. A good example of this during the period was quickly reducing prices to pass freight cost savings back to our customers, with over 1,000 product lines dropping in price in the spring.

By keeping relevance and value at the heart of our proposition, total sales grew by 3.6% against FY22 (which also included a particularly strong Q1 as Covid restrictions eased). Total sales were 49% higher than FY19 (the last full year uninterrupted by the pandemic). Compared to FY22, we had 2.8% more active customers[1] and our market share in the combined homewares and furniture markets increased by 40bps in challenging market conditions[2].

Gross margin of 50.1% (FY22: 51.2%) was tightly managed through the year and we stayed true to our principle of instilling operational grip across the business. We saw more normalised customer behaviour during our Sale events and carefully balanced the impact of higher cost prices with our commitment to value. This resulted in a robust PBT performance of £196.4m (FY22: £214.0m), which was pleasing given the tough backdrop and reflected both tight control of margin amidst inflation in our operating costs and our ongoing commitment to investment for the future.

We generated strong free cash flow of £155.8m (FY22: £128.6m), and prior to the year end we declared a dividend of £70.0m, which remained unpaid as at 1 July 2023.

Delivering for all our stakeholders

We try to make decisions based on the needs and expectations of our key stakeholders and are guided by our shared values.

Our committed colleagues are at the heart of our business. We understand that the current environment is difficult for many of them, so during the year we increased our support on financial wellbeing, with progressive pay increases, additional support funds and advice on a range of financial matters. We have also invested in learning and development opportunities to promote a ‘learning for life’ mindset to help colleagues to develop their careers. This continued focus on colleague development saw us retain 87% of our colleagues through the year[3]. Listening and learning is one of our shared values and we undertake a twice-yearly colleague survey. In FY23, we upgraded our colleague engagement platform, making it two-way and encouraging colleagues to give direct feedback to their line managers. We achieved a participation rate of 82%, making it our most comprehensive survey to date and enabling us to achieve a deeper level of understanding of our colleagues and to take more targeted action.

We relentlessly strive to improve our customer proposition. Product mastery across our broad range of categories ensures that our offer remains relevant throughout the year, and that we are offering quality and value at every price tier. We also continued to develop our digital channels, giving customers even more choice by adding c.20,000 lines to our website, and by enabling a more convenient experience with new payment options such as Apple Pay and Klarna.

We deepened our relationships with customers in our store communities with membership of our local Facebook groups increasing to over 1.1 million. Our Christmas ‘Delivering Joy’ campaign was our most successful ever, with a threefold increase in the number of gifts donated compared to FY22. We significantly increased our charity fundraising with our customers and colleagues helping to raise over £800k, of which over £700k was donated to our charity partner, Mind.

We have always built long term relationships with our suppliers and are committed to offering them a strong partnership based on mutual growth and respect. Together we are growing our shared knowledge on topics like supply chain technology and sustainability, including the use of sustainably sourced cotton.

As we learn more about how to reduce our impact on the planet, progress on our Pathway to Zero plan continues. We are making good progress on reducing our carbon emissions, with our decarbonisation programme in stores contributing to a further reduction in Scope 1 carbon intensity this year. We are also transitioning our company car fleet to hybrid or electric vehicles. We extended our Conscious Choice ranges, which are made from more sustainable materials, to c.15% of our own brand range. We launched our first ‘Remade’ products, using materials including those from our take back schemes, our first step towards product circularity. During FY23 we moved our environmental accreditation to Better Cotton, who are industry leaders in this area. As a result this was a year of transition during which we did not achieve our target. We expect to see a significant improvement in FY24 as we complete our transition and remain committed to sourcing c.100% more responsible cotton by 2025. Finally, we have now reduced our use of virgin plastic packaging by 36% compared to FY20 by both reducing the amount of packaging we are using and increasing the recycled content.

During the year, we submitted our targets to the Science Based Targets initiative (SBTi) and were pleased to receive confirmation, after the year end, that our near-term and net-zero targets have been approved by the SBTi[4]. This will see Dunelm align to the latest climate science from the Intergovernmental Panel on Climate Change (IPCC) by limiting the global temperature rise to 1.5°C.

Seizing the opportunity

We are excited and ambitious about seizing the opportunity ahead of us to continue to grow sustainably. Throughout our history, we have had a strong track record of growing sales and market share, both in buoyant markets and in more challenging conditions. Since our IPO in 2006, our sales have increased by a compound annual growth rate of 10%, and in the last ten years more than 85% of this growth has been through market share gains. In the last year, despite consumers being under considerable pressure, we continued to grow our sales while the overall homewares market remained broadly flat, reflecting the gains we made in market share.

Whilst we are the homewares market leader, we still hold only a c.7% share of the UK homewares and furniture market that is worth a total of c.£24bn[5]. This significant market is highly fragmented, giving us the opportunity to serve many different product categories and multiple customer missions. Our most established categories have higher market shares, which we are confident of growing further still, at the same time we have an opportunity to increase our share in those more nascent categories where we are currently less well established.

We are developing and implementing our plans at a time when consumer interest in the home remains high despite cost-of-living pressures. Customers are seeking propositions that meet their ever-evolving emotional and functional needs. Multi-channel shopping is now fully established in homewares, and those businesses that have an effective total retail system with seamless integration between their online and store channels, as we do, have a clear advantage. We have a strategic plan which will enable us to capitalise on all of these themes and seize the opportunity for sustainable growth. I give an update below on some of our key priorities.

A plan for sustainable growth

With our significant market share runway and deep understanding of our customers and product categories, I have never been more excited about our plans for the future as we seize the opportunity to:

1. Strengthen our customer offer
2. Extend and digitalise our total retail system
3. Evolve our marketing ecosystem

1. Strengthening our customer offer

We are constantly striving to improve all parts of our customer offer; however we are focusing our efforts in two particular areas: offering outstanding value and helping to deliver joy to our customers, through our products, services and customer experience.

Value

We work tirelessly on our range architecture to offer customers value at all price points. A good example of this is in our range of Egyptian cotton towels, where we held prices a year ago despite cost prices increasing. At the same time, we introduced a new ‘Super Soft’ range in our lowest priced ‘good’ quality tier. These initiatives resulted in gains in our volume share of the bathroom textiles category. We also demonstrate value across the range by reducing prices as input costs fall. During the year we reduced prices on a number of our furniture lines and lowered prices on many products across other categories in the spring.

For us, and for our customers, value is equally important at higher price tiers. We can see this in attitudes towards product quality and also towards sustainability. Where we have introduced more sustainable materials into many of our ranges we have typically maintained, or even reduced, retail prices. For example, we reduced the price of our Dorma 300 thread count fitted sheet whilst re-sourcing to a more sustainable cotton, and our Teddy throws are now made from recycled polyester at no extra cost to our customers. We also extended the higher quality tiers in our cushions category, with new compositions using beading, sequin embroidery and wool blends, all hand-crafted in India. These new and innovative designs enabled us to stretch our price points while continuing to offer outstanding value for money.

As we grow our offer into new areas, we remain highly focused on ensuring value at all price points, even within more nascent categories. We have increased our curated range by approximately 20,000 products in the last year with the same product quality and price focus. We will continue to grow our ranges in this way, with further additions in categories such as nursery furniture and live plants.

Joy

Alongside outstanding value, we are equally focused on delivering joy for our customers. While shoppers will work hard to be savvy, looking for ways to save and balancing price and quality to meet their budget, they are also looking for their experiences and purchases to bring them joy.

Our efforts to deliver this are reflected in how we talk to customers in store (we track ‘fast’ and ‘friendly’ feedback scores for every shop), how our marketing content does not take itself too seriously, and by the selection of food and offers in our Pausa cafes (for example the giant coronation jammy dodgers). However, we also offer joy in our product development, in a way that few other product companies would do. One way to bring joy is through colour, which we have embraced in our new ‘pride and joy’ collections for autumn/winter 2023. We have also extended our collaboration with the Natural History Museum to bring customers products with personality, and grown our Disney ranges, introducing Mickey Mouse designs across a number of categories.

The joy of products also requires us to ensure our customers have a high-quality shopping experience, so reducing disappointment when something goes wrong is also a focus. We are growing our home delivery perfect order rates, shortening lead-times, and resolving problems efficiently when things do not go as planned.

2. Extending and digitalising our total retail system

One of the key advantages of our business model is what we call our total retail system which combines the benefits of physical stores with the convenience of online shopping, and the reach of our marketing ecosystem. Whilst digital sales have increased in recent years (now accounting for 36% of total sales) our stores remain fundamental to our success, not least by fulfilling an increasingly important role in marketing to and being a part of their local communities.

We have continued to expand our store estate, with three new openings last year and our 180th store in Greenwich, south-east London, opening after the year end. The ongoing programme to refit our older stores to the latest standards for store environment and layout also continues with good paybacks. The success of our recent openings and attractive return on investment is encouraging, and we see opportunity to double the run rate of new (or relocated) stores in the next two years.

The typical Dunelm superstore has approximately 30,000 sq ft of trading space (including a 10,000 sq ft mezzanine floor) in an out-of-town location. We are delighted with the returns we generate on stores like these, Weymouth being a recent example. In recent years we have opened four smaller stores, averaging c.15,000 sq ft, and two town-centre locations of around 30,000 sq ft. We are seeing the same good returns across all these openings, with payback periods averaging under three years.

With better data and insights to support location planning for new store selection, we now expect to open five to ten new stores (including relocations) in each of the next two years. These are full-service Dunelm stores, amplifying our online offer and driving local customer awareness to enable us to benefit fully from our total retail system. We will continue to apply our usual discipline and tight operational grip to these investments.

At the same time, we continue to digitalise our total retail system to improve our customer offer and increase the efficiency of our operations. In the last six months we have been able to offer customers more convenient payment options such as Klarna, shortened lead times through weekend deliveries and improved our communications with customers. In addition to these improvements to our customer offer, we have begun to roll out new product master data management tools which will deliver benefits across our operations, and our suppliers. Our new ChatBot has automated some post-sale service communications, enabling more customers to self-serve.

Over the next 12 months we will further improve our website experience by using new search tools, introducing faster site architecture and increasing the options for delivery of furniture items. We will continue to expand our product offer, with new ranges and made-to-measure categories as well as launching further convenient payment options such as long-term credit. To improve the efficiency of our operations, we will launch new tools for forecasting and replenishment and improve the management of stock in our warehouses, with both of these initiatives also increasing availability for our customers. We will also increase our personalised communication with customers, which we describe in more detail below.

3. Evolving our marketing ecosystem

During the year we deepened our understanding of consumer attitudes to the home and home shopping, giving us greater insight into the customer opportunity for our next phase of growth. Comprehensive research has allowed us to better understand the attitudes of existing and target customers. For example, whilst home continues be a strong focus for many households, motivators can be very different, with home variously an expression of personal style, a place of sanctuary, an opportunity to socialise, and a place to spend time with family. The opportunity is to reach target customers with more tailored and personalised messages which appeal to these motivators. At the same time, growing awareness of the breadth of our category offer will attract both new customers and increase the shopping frequency of existing ones. At present, Dunelm is typically only top of mind (1st, 2nd or 3rd mention) for around half of the product categories we offer, demonstrating the breadth of the opportunity.

We can reach these target audiences more effectively through our ever-evolving marketing ecosystem. We continue to make progress towards a single combined view of our store and online customers, with our online payments system to be rolled out to stores in the first half of this financial year. In the meantime we have a significant database of online customers and those store customers who have provided an email address. We are combining data from multiple sources, including demographics and previous purchasing behaviour, to begin a more targeted and personalised level of marketing, including optimising the timing of customer communications and customer-specific product recommendations within marketing emails. We are also testing a more customised website, where paid search will lead to a personalised dunelm.com landing page with a greater range of options beyond the specifically searched-for product. This activity is at an early stage and being approached with our usual test and learn mindset, but we believe it provides exciting opportunities for a better customer experience and future growth.

At the same time we continue to develop the effectiveness of our paid marketing channels and have now performed testing on the effectiveness of most of our brand and performance marketing spend. Tests conducted in the year have given us the confidence to increase our brand marketing investment. Our new brand campaign is launching this autumn and is our most ambitious ever.

Summary and Outlook

We delivered another strong performance in FY23 in a challenging environment. We continued to think long term and invest for the future while delivering a strong performance for our stakeholders. Record sales, continued growth in market share and customer numbers, and good strategic progress were underpinned by our tight operational grip on gross margin and costs.

Consumers are still responding to their own cost-of-living pressures and there remains uncertainty as to what this means for discretionary spend. Against this backdrop we remain focused on our proposition and ensuring our customer offer is as relevant as ever. In that context, we are pleased with trading early in the new financial year.

We have a clear plan for sustainable growth and the work we are doing to strengthen our customer offer, extend and digitalise our total retail system and evolve our marketing ecosystem leave us well positioned to capitalise on the opportunities available for our business. We have never been more confident about our short, medium and long-term prospects and will therefore continue to invest where we see good returns, including in accelerating our store estate growth.

We are excited to continue to deliver our strong performance record in the year ahead.

Key performance indicators

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

Active customers growth %	
2023	**2.8%**
2022	8.5%
2021	12.2%

Total revenue growth %	
2023	**3.6%**
2022	18.4%
2021	26.3%

Net promoter score (NPS) improvement %	
2023	**-0.9%pts**
2022	-4.2%pts
2021	4.2%pts

Employee net promoter score (eNPS) improvement %	
2023	**-5.0%pts**
2022	1.0%pts
2021	1.0%pts

Profit before tax £'m	
2023	**196.4**
2022	214.0
2021	161.9

Financial Review

Revenue

Total sales for the period to 1 July 2023 increased by 3.6% to £1,638.8m. Compared to FY19 (the last fully comparable year before the pandemic), total sales grew by 48.9% (FY19: £1,100.4m).

	52 weeks ended 1 July 2023	53 weeks ended 2 July 2022	
	FY23 £m	FY22 £m	YoY Growth
Total sales	**1,638.8m**	**1,581.4m**	**+3.6%**
Digital % total revenue	36.0%	35.0%	+1.0%pts
Homewares market share[5]	11.0%	10.3%	+0.7%pts
Furniture market share[5]	2.0%	2.0%	+0.0%pts

We saw strong sales growth for the year despite the challenging market conditions and particularly strong comparative in Q1 (due to our rescheduled Summer Sale and pent-up demand following the final Covid related lockdown). We were pleased to see growth increasingly from volume as we progressed through the year. Sales increased both in stores and online, with digital sales now making up 36% of total sales, up 16ppts since FY19.

Growth was broad based across categories as we focused on relevance and value throughout the year. Customers enjoyed shopping our Winter Warm ranges as they looked for ways to mitigate rising heating costs. Similarly, our Summer Living collections, in particular garden furniture and decorations, performed well in the warmer weather towards the end of the financial year. Our two main Sale events also resonated with our home-loving customers. We continued to improve and expand our offering, adding 20,000 carefully curated products online while extending our Conscious Choice range of sustainability-focused lines.

We continued to focus on offering outstanding value to our customers across all our categories and price points. As a result of our relentless focus on value we were pleased to be able to pass on cost savings from lower freight rates and reduce prices on over 1,000 lines in the final quarter of the year.

Our broad product offer continues to resonate well with our customers and the number of active customers increased by 2.8%[6] in FY23, with an increase in customer retention. We were pleased to see higher growth in the younger (16 to 24 years) and lower income (<£20k) groups, reflecting our growing appeal and focus on value.

We continued to gain market share, with our sales growing year-on-year and our share increasing by 40bps to 7.2%[5] against a combined market for furniture and homewares which was broadly flat. We were pleased to grow share in homewares by a further 70bps to 11.0%[5]. Our market share in furniture, where we have been building a stronger customer offer and operating model, was broadly flat. Sales across our furniture categories increased by 4% year-on-year, with a particularly strong performance in upholstery ranges being partly offset by lower sales in cabinet categories.

Gross margin

Gross margin of 50.1% was in line with expectations and 110bps lower than last year (FY22: 51.2%), reflecting both a return to more normal patterns of customer behaviour in our Sale events as well as the impact of higher input cost prices.

We have good visibility of FY24 input costs. We plan our purchasing for each season, which helps us manage changes in raw material prices, freight costs and foreign exchange within our margin rates. Looking ahead, we will continue to balance the impact of these with our commitment to offering outstanding value to our customers. We expect a net tailwind from these factors this year, as well as the sustainable benefit from the operational actions we have taken in recent years, and therefore expect gross margin in FY24 to be c.100bps higher than FY23.

Operating costs

Total operating costs were £617.6m (FY22: £589.6m), representing an operating cost:sales ratio of 37.7% (FY22: 37.3%).

We maintain a tight operational grip on costs and have worked hard to offset inflationary impacts of c.£20m, mainly relating to wages, through operational efficiencies. Efficiencies in stores and the supply chain, as well as the removal of excess storage costs, and other small one-off impacts generated savings of £18m.

Volume growth added £8m of costs to our distribution network and performance marketing spend. The annualisation of investments during FY22 and new store openings added £7m to operating costs in the period. Our investments in recent years have delivered strong sales growth and so we continued to invest, increasing spend by £22m on digitalisation and building new capability in data, technology and insight and analytics.

We are focused on seizing opportunities for growth and will continue to deploy resources thoughtfully in digitalisation, capability, and accelerating our store roll out plans. We have been gaining new insight into the effectiveness of our marketing spend and our data-led approach is giving us confidence to invest more in areas such as brand marketing in order to expand our reach. We will continue to invest in digitalising our total retail system as well as expanding our store portfolio. We also expect inflationary pressures to continue in FY24, which we will partially mitigate through productivity improvements. While our focus remains on tight operational grip and making every pound count, we expect our operating cost:sales ratio to increase to c.39% in FY24.

Profit

Operating profit of £203.3m was £16.5m lower than FY22 (FY22: £219.8m), against a tough backdrop and reflected both tight control of margin amidst inflation in our operating costs and our ongoing commitment to investment for the future.

Net finance costs of £6.9m (FY22: £5.8m) included interest on IFRS 16 lease liabilities of £5.3m (FY22: £4.8m).

Profit before tax in the period was £196.4m (FY22: £214.0m), a reduction of £17.6m year-on-year. Profit after tax of £155.8m (FY22: £173.2m) reflected an effective tax rate of 20.7% (FY22: 19.1%). The increase in the effective tax rate is broadly in line with the increase to the UK headline rate of corporation tax, which moved from 19% to 25% for the final three months of the year. The effective tax rate was 20bps higher than the UK headline rate, due to our usual items of disallowable expenditures.

Cash generation and net debt

In the period, the Company generated £155.8m of free cash flow (FY22: £128.6m), with strong conversion of operating profit to free cash flow of 76.6% (FY22: 58.5%).

	FY23 52 weeks £m	**FY22 53 weeks £m**
Operating profit	203.3	219.8
Depreciation and amortisation*	79.4	79.3
Net movement in working capital	(12.5)	(39.4)
Share-based payments	4.0	4.1
Tax paid	(38.2)	(35.2)
Net cash generated from operating activities	**236.0**	**228.6**
Capex and buisness combinations	(21.8)	(41.7)
Net interest and loan transactions costs**	(1.1)	(3.3)
Interest on lease liabilities	(5.3)	(4.8)
Repayment of principal element of lease liabilities	(52.0)	(50.2)
Free cash flow	**155.8**	**128.6**

* Including impairment and loss on disposal.
** Exluding interest on lease liabilities.

There was a small working capital outflow of £12.5m in the period (FY22: £39.4m outflow). The prior year outflow reflected the decision to build inventory in order to mitigate the risk of further supply chain disruption. Whilst inventories at the end of FY23 of £211.0m (FY22: £223.0m) were lower than FY22, the resulting working capital outflow was broadly due to a reduction in payables due to lower accruals, including freight accruals. We expect working capital in FY24 to be broadly stable.

Total capital investment of £21.8m (FY22: £41.7m) primarily related to £19m spent on the three new stores opened in the period, refits of ten existing stores, and our decarbonisation initiatives. FY22 included £18m paid to acquire the trade and assets of Sunflex, a division of Hunter Douglas (UK) Limited. We expect to increase the rate of new store openings to five to ten (including relocations) in FY24, therefore capital expenditure will increase to c.£30-40m.

Banking agreements

At the year end date, the Company had in place a £185m sustainability-linked unsecured revolving credit facility (“RCF”). The terms of the RCF included covenants in respect of leverage (net debt[7] to be no greater than 2.5× adjusted EBITDA[8]) and fixed charge cover (EBITDAR[9] to be no less than 1.75× fixed charges[10]), both of which were met comfortably as at 1 July 2023.

Since the year end the Company has renegotiated its RCF, extending the limit to £250m to reflect the growth in the business in recent years. The maturity date is September 2027 with an option to extend by a further two years at Dunelm's request, subject to lender consent. The terms are consistent with normal business practice and the covenants are unchanged. In addition, the Company maintains £10m of uncommitted overdraft facilities.

Dividends

During the period we paid total dividends of £163.3m in the year, including a special dividend of £80.7m to the Parent Company, Dunelm Limited. A further £70.0m dividend was declared but unpaid at the year end.

Principal risks and uncertainties

The Board regularly reviews and monitors the risks and uncertainties which could have a material effect on the Group's results. During the year, catastrophic business events has been removed as a principal risk – the way that we manage large disruptive events is covered by ongoing management of our other principal risks. We have also separated business change risk from the IT systems, data, and cyber risk, as the potential impact has increased as we continue to invest in larger projects and digitalising the business, although we expect this to stabilise as we mature. A summary of the principal risks has been provided below:

STRATEGIC REPORT (CONTINUED)
FOR THE PERIOD ENDED 1 JULY 2023

Risk	Impact
Customer offer	Ongoing external uncertainty and inflationary pressure on consumers has led to significant change in consumer behaviour. Failure to respond to changing consumer needs and to maintain a competitive offer (value & choice, friendly & expert, fast & convenient and good & circular) will undermine our ambition to increase market share and drive profitable and sustainable growth.
Product reputation and trust	Our stakeholders expect us to deliver products that are safe, compliant with legal and regulatory requirements, and fit for purpose. Our customers are increasingly aware of the environmental and social impact of their purchases and want to know that our products have been responsibly sourced and that their environmental impact is minimised. Nonconformance by our suppliers to uphold our approach to business ethics, human rights (including safety and modern slavery) and the environment may undermine our reputation as a responsible retailer. Failure to meet these expectations could result in reputational damage and loss of confidence in Dunelm.
People and culture	Our business could be adversely impacted if we fail to attract, retain, and develop colleagues with the appropriate skills, capabilities and diverse background. Failing to embed and live our values could impact business performance, the delivery of our purpose and the long-term sustainability of our business.
IT systems, data and cyber security	Our IT systems and infrastructure are critical to managing our operations, interacting with customers, and trading successfully. A key system being unavailable or suffering a security breach could lead to operational difficulties, loss of sales and productivity, legal and regulatory penalties due to loss of personal data, reputational damage, and loss of stakeholder trust.
Business change	Dunelm recognises that there is a huge opportunity in digitalising the business and has invested and will continue to invest in system improvements to drive growth and efficiency. Failing to successfully introduce and deliver wider technology and new systems across the business and leverage the data generated to further improve our proposition and operations could result in reduced operational efficiency, competitiveness, relevance and growth. Furthermore, failure to deliver the expected objectives on time and on budget, could impact the delivery of the planned business benefits.
Regulatory and compliance	We operate in an increasingly regulated environment and must comply with a wide range of laws, regulations, and standards. Failure to comply with or to take appropriate steps to prevent a breach of these requirements could result in formal investigations, legal and financial penalties, reputational damage and loss of business.
Supply chain resilience	We are dependent on complex global supply chains and fulfilment solutions to deliver products to our customers. Instability in the global supply chain or failure of a key supplier may impact our ability to effectively manage stock and satisfy customer demand.
Finance and treasury	Progress against business objectives may be constrained by a lack of short-term funding or access to long-term capital.
Climate change and environment	Failure to positively change our impact on the environment would fall short of the expectations of our customers, colleagues, shareholders, and other stakeholders which could lead to reputational damage and financial loss. In addition, an inability to anticipate and mitigate against climate change and other environmental risks could cause disruption in the availability and quality of raw materials such as cotton and timber, affecting production capacity, product quality, and overall supply chain resilience. This, and potential transition risks related to environmental taxation, could result in higher costs, delays, and potential loss of customers.

STRATEGIC REPORT (CONTINUED)
FOR THE PERIOD ENDED 1 JULY 2023

Alternative performance measures (APMs)

APM	Definition, purpose and reconciliation to statutory measure
Unique active customers growth	Growth in unique active customers who have shopped in a 12-month period compared to the prior 12-month period, based on Barclays transactional data. Note that Barclays data represents approximately 10% 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 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 expressed as a percentage of revenue. Measures the profitability of product sales prior to operating costs.
Operating costs to sales ratio	Operating costs expressed as a percentage of revenue. To measure the growth of costs relative to sales growth.
EBITDA	Earnings before interest, tax, depreciation, amortisation and impairment. Operating profit plus depreciation and amortisation of property, plant and equipment, right-of-use assets and intangible assets plus loss on disposal and impairment of property, plant and equipment and intangible assets. Used in our capital and dividend policy.
Adjusted EBITDA	EBITDA less depreciation on right-of-use assets. To measure compliance with bank covenants.
EBITDAR	EBITDAR is calculated as EBITDA plus rent. To measure compliance with bank covenants.
Effective tax rate	Taxation expressed as a percentage of 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	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 principal element 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 17). Excludes IFRS 16 lease liabilities.
Cash conversion	Free cash flow expressed as a percentage of operating profit.

Sustainability

Climate related financial disclosures on behalf of the Company are included in the Annual Report and Accounts of the ultimate parent undertaking Dunelm Group plc.

S172 (1) Companies Act 2006

Dunelm Group plc is the ultimate parent company of Dunelm (Soft Furnishings) Ltd. From the perspective of the Board, as a result of the Group governance structure, the matters that it is responsible for considering under Section 172(1) of the Companies Act 2006 (“s172”) have been considered to an appropriate extent by the Group Board in relation to both the Group and this entity. The Board has also considered relevant matters where appropriate. To the extent necessary for an understanding of the development, performance and position of the entity, an explanation of how the Group Board has considered the matters set out in s172 (for the Group) is set in the Corporate Governance report of the Parent Company, Dunelm Group plc, which does not form part of this report.

[1] Unique active customers who have transacted at least once in the 12 months to June 2023. Management estimates using Barclays data.
[2] GlobalData UK combined homewares and furniture markets, excluding kitchen and bathroom furniture. Market share for the period July 2022 to June 2023 was 7.2%.
[3] Retention is the percentage of colleagues from the start of the financial year (July 2022) who remained employed until the end of the financial year (June 2023), excluding any planned leavers.
[4] Our targets approved by the SBTi are as follows. Overall Net-Zero Target: Dunelm Group PLC commits to reach net-zero greenhouse gas emissions across the value chain by FY40 from a FY19 base year. Near-Term Targets: Dunelm Group PLC commits to reduce absolute Scopes 1 and 2 GHG emissions by 50% by FY30 from a FY19 base year. Dunelm Group PLC also commits to reduce absolute Scope 3 GHG emissions by 50% within the same timeframe. Long-Term Targets: Dunelm commits to reduce absolute Scope 1, 2 and 3 GHG emissions by 90% by FY40 from a FY19 base year.
[5] GlobalData UK homewares and furniture markets, July 2022 to June 2023. Furniture excludes kitchen and bathroom furniture. FY22 has been restated.
[6] Unique active customers who have transacted at least once in the 12 months to June 2023. Management estimates using Barclays data.
[7] Excluding lease liabilities. Full definition provided in the table of alternative performance measures on page 13.
[8] Adjusted EBITDA defined as EBITDA less depreciation on right-of-use assets.
[9] EBITDAR defined as EBITDA plus rent.
[10] Fixed charges are defined as net interest costs plus right-of-use asset depreciation plus rent.

This report was approved by the board and signed on its behalf.

Karen Witts
Director

Date: 20 September 2023

DIRECTORS' REPORT
FOR THE PERIOD ENDED 1 JULY 2023

The directors present their report together with the strategic report and the audited financial statements for the period ended 1 July 2023.

This report satisfies the requirements of the Companies Act 2006 to produce a business review.

General information

The Company domiciles and is incorporated as a limited company in the UK.

The Company is a subsidiary undertaking of Dunelm Limited, which in turn, is a subsidiary of Dunelm Group plc, the ultimate parent company incorporated in England and Wales.

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 operation and as such can continue to adopt the 'going concern' basis of accounting. To support this assessment, the Board is required to consider the Company'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. This scenario might result in no growth in Year 1 and lower sales and margin across all channels throughout the five-year 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.The Directors continue to assess the risks that climate change poses to the business and based on current legislation, climate change is not expected to have a significant impact on the Company's going concern assessment or on the viability of the Company over the next five years. Therefore, no incremental impact has been modelled in either of the downturn scenarios.

Reverse stress modelling has demonstrated that a prolonged sales reduction of 23% in FY24 and 28% in FY25 is required to breach covenants by the end of FY25 and a reduction of 47% in both FY24 and FY25 is required to breach the RCF limit by the end of FY25, assuming reasonable mitigating actions have been implemented.

Even in such an event, management would follow a similar course of action to that initially undertaken during the recent Covid-19 pandemic. Such actions could include further reductions in discretionary spend (e.g. marketing and travel) and capital investment in new stores and refits, and reducing headcount.

As a result, the Board believes that the Company is well placed to manage its financing and other significant risks satisfactorily and that the Company will be able to operate within the level of its facilities as they fall due, for at least the next five years. For this reason, the Board considers it appropriate for the Company to adopt the going concern basis in preparing its financial statements.

Further information regarding the Company's business activities, together with the factors likely to affect its future development, performance and position is set out in the Strategic Report on pages 1 to 14. In addition, note 20 includes the Company's objectives, policies, and processes for managing its capital, its financial risk management objectives and its exposures to credit risk and liquidity risk.

Directors

The directors who served during the period were:

Sir Will Adderley
Nicholas Wilkinson
Karen Witts
Steven Barton

Qualifying third party indemnity provisions

During the year and at the time this report was approved, a qualifying third party indemnity provision was in place for the benefit of one or more of the Directors.

Employees

The Company recognises its obligations towards disabled people and endeavours to provide employment where possible having regard to the physical demands of the Company's operations and the abilities of the disabled persons. In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the Company may continue. It is the policy of the Company that training, career development and promotion opportunities should be available to all employees and this is reflected in its Equal Opportunities Policy.

The Company places considerable value on the involvement of its employees and continues its practice of consulting with employees on matters likely to affect their interests, through its National Colleague Voice.

Information on matters of concern to employees is given through bulletins, reports and an in-house newsletter.

Corporate Governance Code 2018 (the "Code")

The Company is the single trading subsidiary of Dunelm Group plc, which is the parent company of the Group. Dunelm Group plc is required to comply with the Code, and an explanation of how the Principles set out in the Code are applied is set out in the Corporate Governance report of the ultimate Parent Company, Dunelm Group plc, which does not form part of this report. These principles are applied to the Company through the Group's governance, risk management and internal control structure.

Stakeholder statements

Employees

From the perspective of the Board, as a result of the Group governance structure, the Group Board has taken the lead in carrying out the duties of a board in respect of the Company's employees, including engaging with them, having regard to their interests and the effect of that regard (including on the principal decisions taken by the Company during the financial year). The Board of the Company has also considered relevant matters where appropriate. An explanation of how the Group Board has considered the matters set out in s172 (for the Group) is set out in the Directors' report of the ultimate Parent Company, Dunelm Group plc, which does not form part of this report.

Other Stakeholders

Similarly, from the perspective of the Group Board, as a result of the Group governance structure, the Group Board has taken the lead in carrying out the duties of a board in respect of the Company's other stakeholders. The Board of the Company has also considered relevant matters where appropriate. An explanation of how the Directors on the Group Board have had regard to 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), is set out (for the Group) in the Directors' report of the ultimate Parent Company, Dunelm Group plc, which does not form part of this report.

Greenhouse gas emissions

The greenhouse gas emissions disclosures required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 are set out in the Sustainability section and the Directors report of the ultimate Parent Company, Dunelm Group plc as the disclosures relate solely to the Company being the Group's trading entity.

Political and charitable contributions

During the period, the Company made no political contributions and charitable contributions of £432,911 (2022: £297,785). In addition, funds raised for charity by the Company and colleagues were £388,670 (2022: £334,101).

Results and dividends

The profit for the period, after taxation, amounted to £171.9 million *(2022 - £173.2 million)*.

Total dividends of £163.3m (2022: £282.1m) were declared, authorised and paid on the ordinary shares during the period. A further dividend of £70.0m was declared but remained unpaid as at 1 July 2023.

Financial risk management

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, interest rate risk and foreign currency risk. The Company's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures. This is explained in further detail within note 20.

Future developments

These have been discussed in the Strategic Report.

Independent Auditors

Under section 487(2) of the Companies Act 2006, PricewaterhouseCoopers LLP will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

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 company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 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 company will continue in business.

The directors are responsible for safeguarding the assets of the 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

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 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 company's auditors are aware of that information.

**DIRECTORS' REPORT (CONTINUED)
FOR THE PERIOD ENDED 1 JULY 2023**

This report was approved by the board and signed on its behalf.

Karen Witts
Director

Date: 20 September 2023

Dunelm Store Support Centre
Watermead Business Park
Syston
Leicester
Leicestershire
England
LE7 1AD

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DUNELM (SOFT FURNISHINGS) LTD

Report on the audit of the financial statements

Opinion

In our opinion, Dunelm (Soft Furnishings) Ltd's financial statements:

- give a true and fair view of the state of the company's affairs as at 1 July 2023 and of its profit for the 52 week period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); 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 financial statements (the "Annual Report"), which comprise: the statement of financial position as at 1 July 2023; the statement of profit or loss, the statement of other comprehensive income and the statement of changes in equity for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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 company 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 other entities of public interest, 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.

We have provided no non-audit services to the company in the period under audit.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the 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;
- We considered the mitigating actions available to Dunelm to increase liquidity, if required, with the key actions being reductions in stock purchases and capex, as well as cessation of dividends; 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 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 company's ability to continue as a going concern.

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. 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 1 July 2023 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 company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibilities statement, 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 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 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 company 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 and taxation. 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 significant 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 Dunelm Group plc'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.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DUNELM (SOFT FURNISHINGS) LTD (CONTINUED)

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 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 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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Mark Skedgel (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

20 September 2023

STATEMENT OF PROFIT OR LOSS
FOR THE PERIOD ENDED 1 JULY 2023

	Note	**52 weeks ended 1 July 2023 £'m**	*53 weeks ended 2 July 2022 £'m*
Revenue		**1,638.8**	*1,581.4*
Cost of sales		**(817.9)**	*(772.0)*
Gross profit		**820.9**	*809.4*
Operating costs	3	**(617.6)**	*(589.6)*
Operating profit	4	**203.3**	*219.8*
Finance income	6	**3.2**	*1.5*
Finance expenses	6	**(10.1)**	*(7.3)*
Profit before taxation		**196.4**	*214.0*
Taxation	7	**(40.6)**	*(40.8)*
Profit for the period		**155.8**	*173.2*

The notes on pages 28 to 68 form part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 1 JULY 2023

	Note	**52 weeks ended 1 July 2023 £'m**	*53 weeks ended 2 July 2022 £'m*
Profit for the period		**155.8**	*173.2*
Items that may be subsequently reclassified to profit or loss:			
Movement in fair value of cash flow hedges	20	**(14.0)**	*32.4*
Deferred tax on hedging movements	13	**6.6**	*(5.3)*
Other comprehensive (expense) / income for the period, net of tax		**(7.4)**	*27.1*
Total comprehensive income for the period		**148.4**	*200.3*

The notes on pages 28 to 68 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 1 JULY 2023

	Note	1 July 2023 £'m	*2 July 2022 £'m*
Assets			
Non-current assets			
Intangible assets	9	**5.3**	*9.9*
Property, plant and equipment	10	**169.9**	*173.7*
Right-of-use assets	11	**231.3**	*248.5*
Investments in subsidiary undertakings	12	**0.3**	*0.3*
Deferred tax assets	13	**6.3**	*3.0*
Derivative financial instruments	20	**-**	*4.6*
Total Non-current assets		**413.1**	*440.0*
Current assets			
Inventories	14	**211.0**	*223.0*
Trade and other receivables	15	**24.3**	*22.9*
Current tax asset		**-**	*1.1*
Derivative financial instruments	20	**1.8**	*19.9*
Cash and cash equivalents	16	**46.3**	*30.2*
Total current assets		**283.4**	*297.1*
Total assets		**696.5**	*737.1*
Liabilities			
Non-current liabilities			
Bank loans	17	**(75.9)**	*(52.8)*
Lease liabilities	11	**(204.8)**	*(225.3)*
Provisions	18	**(5.9)**	*(5.5)*
Derivative financial instruments	20	**(3.1)**	*-*
Total non-current liabilities		**(289.7)**	*(283.6)*
Current liabilities			
Trade and other payables	19	**(292.9)**	*(245.5)*
Lease liabilities	11	**(53.4)**	*(52.8)*
Liability for current tax		**(0.2)**	*-*
Derivative financial instruments	20	**(7.9)**	*-*
Total current liabilities		**(354.4)**	*(298.3)*
Total liabilities		**(644.1)**	*(581.9)*
Net assets		**52.4**	*155.2*

STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 1 JULY 2023

	Note	**1 July 2023 £'m**	*2 July 2022 £'m*
Issued capital and reserves			
Issued share capital	21	**2.0**	*2.0*
Retained earnings		**57.3**	*133.0*
Hedging reserve		**(6.9)**	*20.2*
Total equity		**52.4**	*155.2*

The financial statements on pages 23 to 68 were approved and authorised for issue by the board of directors and were signed on its behalf by:

Karen Witts
Director
Company number 02129238

Date: 20 September 2023

The notes on pages 28 to 68 form part of these financial statements.

FOR THE PERIOD ENDED 1 JULY 2023

	Issued share capital £'m	Hedging reserve £'m	Retained earnings £'m	Total equity £'m
As at 27 June 2021	2.0	(4.3)	234.9	232.6
Comprehensive income for the period				
Profit for the period	-	-	173.2	173.2
Other comprehensive income	-	27.1	-	27.1
Total comprehensive income for the period	-	27.1	173.2	200.3
Ordinary dividends paid	-	-	(282.1)	(282.1)
Movement on cash flow hedges transferred to inventory	-	(2.6)	-	(2.6)
Share-based payments	-	-	4.1	4.1
Deferred tax on share-based payments	-	-	1.2	1.2
Current tax on share options exercised	-	-	1.7	1.7
Total transactions with owners, recorded directly in equity	-	(2.6)	(275.1)	(277.7)
As at 2 July 2022	**2.0**	**20.2**	**133.0**	**155.2**
As at 3 July 2022	2.0	20.2	133.0	155.2
Comprehensive income / (expense) for the period				
Profit for the period	-	-	155.8	155.8
Other comprehensive expense	-	(7.4)	-	(7.4)
Total comprehensive income for the period	-	(7.4)	155.8	148.4
Ordinary dividends paid	-	-	(233.3)	(233.3)
Movement on cash flow hedges transferred to inventory	-	(19.7)	-	(19.7)
Share-based payments	-	-	4.0	4.0
Deferred tax on share-based payments	-	-	(2.7)	(2.7)
Current tax on share options exercised	-	-	0.5	0.5
Total transactions with owners, recorded directly in equity	-	(19.7)	(231.5)	(251.2)
As at 1 July 2023	**2.0**	**(6.9)**	**57.3**	**52.4**

The notes on pages 28 to 68 form part of these financial statements.

1. Accounting policies

General Information

Dunelm (Soft Furnishings) Ltd is incorporated and domiciled in the UK. Dunelm (Soft Furnishings) Ltd is a private company, limited by shares. The registered office is Dunelm Store Support Centre, Watermead Business Park, Syston, Leicester, Leicestershire, England, LE7 1AD.

The primary business activity of the Company is the sale of homewares in the UK in stores and online.

Basis of preparation

The financial statements presented cover a 52-week trading period for the financial period ended 1 July 2023 (2022: 53-week period ended 2 July 2022).

The financial statements in the prior year were prepared in accordance with UK-adopted International Financial Reporting Standards (IFRS) and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

These financial statements have been prepared in accordance with FRS 101 “Reduced Disclosure Framework” (FRS101). The impact on the net assets of the Company as a result of the change in accounting convention has been £nil. These financial statements are presented on pages 23 - 68.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to standards not yet effective and presentation of a cash flow statement.
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 have been prepared under the historical cost convention, and in accordance with the Companies Act 2006 and other applicable law. 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 operation and as such can continue to adopt the ‘going concern’ basis of accounting. To support this assessment, the Board is required to consider the Company’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. This scenario might result in no growth in Year 1 and lower sales and margin across all channels throughout the five-year 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.The Directors continue to assess the risks that climate change poses to the business and based on current legislation, climate change is not expected to have a significant impact on the Company’s going concern assessment or on the viability of the Company over the next five years. Therefore, no incremental impact has been modelled in either of the downturn scenarios.

Reverse stress modelling has demonstrated that a prolonged sales reduction of 23% in FY24 and 28% in FY25 is required to breach covenants by the end of FY25 and a reduction of 47% in both FY24 and FY25 is required to breach the RCF limit by the end of FY25, assuming reasonable mitigating actions have been implemented.

1. Accounting policies (continued)

Going concern *(continued)*
Even in such an event, management would follow a similar course of action to that initially undertaken during the recent Covid-19 pandemic. Such actions could include further reductions in discretionary spend (e.g. marketing and travel) and capital investment in new stores and refits, and reducing headcount.

As a result, the Board believes that the Company is well placed to manage its financing and other significant risks satisfactorily and that the Company will be able to operate within the level of its facilities as they fall due, for at least the next five years. For this reason, the Board considers it appropriate for the Company to adopt the going concern basis in preparing its financial statements.

Further detail in respect of the Directors' going concern assessment is included in the going concern statement on pages 15 and 16.

Further information regarding the Company's business activities, together with the factors likely to affect its future development, performance and position is set out in the Strategic Report on pages 1 to 14. In addition, note 20 includes the Company'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 Company 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 £1.9m (2022: £2.0m). Consideration is also given to whether any stock categories require additional provision due to specific circumstances in place at the period end date.

Consolidation
The Company is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

Revenue
Revenue is generated from the sale of homewares and related goods and services through the Company's stores and website, excluding sales between Group companies, and is after deducting returns, relevant discounts and VAT. Revenue is recognised when the Company 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 cards, where revenue is deferred and subsequently recognised when redeemed or expired. Gift card obligations are recognised as deferred income as shown in note 19.

1. Accounting policies (continued)

Revenue *(continued)*
An estimate of breakage is made on the sale of gift cards based on historical data and recognised at the point of sale of the card. 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 Company has two types of products; stocked products and products which are sent directly from suppliers to customers. Management has established that the Company 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 Company holds a sales return provision in the 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 Company 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.

Expenses
Finance income and expenses
Finance income and expenses comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, foreign exchange gains and losses and interest and dividends received from Group companies.

Retirement benefits
The Company operates a defined contribution pension plan using a third-party provider. Obligations for the contributions to this plan are recognised as an expense in the Income Statement as incurred.

Share-based payments
Dunelm Group plc operates a number of equity-settled, share-based compensation plans on behalf of employees of Dunelm (Soft Furnishings) Ltd, under which the entity receives services from employees as consideration for equity instruments (options) of Dunelm Group plc. 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.

1. Accounting policies (continued)

Share-based payments *(continued)*
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 Statement of Financial Position date. Resulting exchange gains or losses are recognised in the 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 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 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 Statement of Financial Position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be recognised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Dividends
Dividends are recognised as a liability in the period in which they are approved such that the Company is obligated to pay the dividend.

Intangible assets
Intangible assets comprise of software development, licenses, rights to brands and customer lists, are stated at cost less accumulated amortisation and impairment. Costs incurred in developing the Company'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.

1. **Accounting policies (continued)**

Intangibles assets *(continued)*
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 Company 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 life.

Amortisation
Amortisation is charged to the Income Statement on a straight-line basis over the estimated useful life of the asset.

These are as follows:

• Software development and licenses 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 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

1. Accounting policies (continued)

Depreciation *(continued)*
• 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 Company 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 Company uses the definition of a lease in IFRS 16.

Right-of-use assets
The Company 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 on right-of-use assets is included in operating costs in the Income Statement.

Lease liabilities
At the commencement date of the lease, the Company 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 Company 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 Income Statement.

Short-term leases and leases of low-value assets
The Company 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.

1. Accounting policies (continued)

Financial instruments
Recognition and measurement
At initial recognition, the Company 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 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 Company's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Company 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 Income Statement and presented in other gains/(losses) together with foreign exchange gains and losses.

• **FVPL**: All other financial assets that do not meet the criteria for amortised cost are measured at FVPL, unless the Company 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 Income Statement in the period in which it arises.

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 Company'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 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 Income Statement, within operating costs.

When forward contracts are used to hedge forecast transactions, the Company 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 Income Statement as the hedged item affects profit or loss (for example, through cost of sales).

1. **Accounting policies (continued)**

Derivatives *(continued)*
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 Income Statement.

Trade and other receivables
Trade and other receivables are initially recognised at fair value and then carried at amortised cost using the effective interest method, net of impairment provisions.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is derived using the average cost method and includes costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price less cost to sell in the ordinary course of business. Provisions are made for obsolete, slow moving or discontinued stock and for stock losses.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances 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 Company has an unconditional right to defer settlement of the liability for at least 12 months from the Statement of Financial Position date.

Impairment of non-financial assets
The carrying amounts of the Company’s assets are reviewed annually at each 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 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 Income Statement.

1. Accounting policies (continued)

Provisions
A provision is recognised in the Statement of Financial Position when the Company 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 Company 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 5.0 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 FY23 Annual Report and Financial Statements. Please see page 40 - 47 of the Dunelm Group plc Annual Report and Accounts for further detail on our climate change risk assessment.

2. Revenue

The Company has one reportable segment, in accordance with IFRS 8 ‘Operating Segment’, which is the retail of homewares in the UK.

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

The Chief Operating Decision-maker is the Executive Board. 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.

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

At the year end the Company had £13.8m (2022: £12.2m) of sales orders placed that will be recognised in the Income Statement when the goods are despatched in the following financial year.

3. Operating costs

	2023 52 weeks £'m	*2022 53 weeks £'m*
Selling and distribution costs	**489.6**	*469.4*
Administrative expenses	**128.0**	*120.2*
	617.6	*589.6*

4. Operating profit

Operating profit is stated after charging / (crediting) the following items:

	2023 **52 weeks** **£'m**	*2022* *53 weeks* *£'m*
Cost of inventories included in cost of sales	**803.4**	*765.3*
Amorisation of intangible assets	**4.6**	*6.2*
Depreciation of owned property, plant and equipement	**25.2**	*24.3*
Depreciation of right-of-use assets	**49.3**	*48.6*
Loss on disposal and impairment of property, plant and equipment and intangible assets	**0.3**	*0.3*
Gain on disposal and impairment of right-of-use assets	**-**	*(0.1)*
Expense relating to short-term leases	**1.6**	*0.6*

The cost of inventories included in cost of sales includes the impact of a net decrease in the provision for obselete inventory of £0.8m (2022: £4.2m increase) of which £0.7m decrease relates to Sunflex which was acquired in May 2022 (2022: £2.6m increase).

The analysis of auditors' remuneration is as follows:

	2023 **52 weeks** **£'k**	*2022* *53 weeks* *£'k*
.		
Audit	**286.0**	*250.0*

There were no non-audit fees in the current or prior year.

5. Employee numbers and costs

The average monthly number of persons employed by the Company (including Directors) was:

	2023 52 weeks Number of heads	**2023 52 weeks Full time equivalents**	*2022 53 weeks Number of heads*	*2022 53 weeks Full time equivalents*
Selling	**9,446**	**5,252**	*9,544*	*5,437*
Distribution	**1,057**	**1,026**	*963*	*930*
Administration	**1,088**	**1,071**	*915*	*896*
	11,591	**7,349**	*11,422*	*7,263*

The aggregate remuneration of all employees (including Directors) comprises:

	2023 52 weeks £'m	*2022 53 weeks £'m*
Wages and salaries (including termination benefits)	**222.3**	*210.2*
Social security costs	**15.7**	*14.2*
Share-based payment expense	**4.0**	*4.1*
Pension costs - defined contribution plans	**6.2**	*5.3*
	248.2	*233.8*

Disclosures relating to remuneration of Directors are set out in note 25.

6. Finance income and expense

Recognised in profit or loss

	52 weeks ended 1 July 2023 £'m	*53 weeks ended 2 July 2022 £'m*
Finance income		
Group undertakings	**1.5**	*0.3*
Interest on bank deposits	**1.1**	*0.1*
Net foreign exchange gains	**0.6**	*1.1*
Total finance income	**3.2**	*1.5*
Finance expense		
Group undertakings	**(2.3)**	*(1.2)*
Interest on bank borrowings	**(2.2)**	*(0.9)*
Amortisation of issue costs of bank loans	**(0.3)**	*(0.4)*
Interest on lease liabilities	**(5.3)**	*(4.8)*
Total finance expense	**(10.1)**	*(7.3)*
Net finance expense	**(6.9)**	*(5.8)*

7. Taxation

7.1 Income tax recognised in profit or loss

	52 weeks ended 1 July 2023 £'m	*53 weeks ended 2 July 2022 £'m*
Current taxation		
UK corporation tax charge for the period	**39.9**	*38.4*
Adjustments in respect of prior years	**0.1**	*(0.2)*
Total current tax	**40.0**	*38.2*
Deferred taxation		
Origination of timing differences	**0.6**	*2.7*
Adjustments in respect of prior years	**0.1**	*(0.1)*
Impact of change in tax rate	**(0.1)**	*-*
Total deferred tax	**0.6**	*2.6*
Total tax expense	**40.6**	*40.8*

The reasons for the difference between the actual tax charge for the period and the standard rate of corporation tax in the United Kingdom applied to profits for the period are as follows:

	52 weeks ended 1 July 2023 £'m	*53 weeks ended 2 July 2022 £'m*
Profit for the period	**155.8**	*173.2*
Income tax expense	**40.6**	*40.8*
Profit before taxation	**196.4**	*214.0*
Tax using the Company's domestic tax rate of 20.5% (2022:19.0%)	**40.3**	*40.7*
Non-tax deductible expenses	**1.2**	*1.5*
Adjustments to tax charge in respect of prior periods	**0.2**	*(0.3)*
Group relief	**(1.0)**	*(1.1)*
Impact of change in tax rate	**(0.1)**	*-*
Total tax expense	**40.6**	*40.8*

7. Taxation (continued)

7.1 Income tax recognised in profit or loss (continued)

The taxation expense for the period as a percentage of profit before tax is 20.7% (2022: 19.1%).

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 1 July 2023 has been calculated based on the rate of 25.0%.

8. Dividends

	2023 52 weeks £'m	*2022 53 weeks £'m*
Dividends paid for the period ended 26 June 2021	**-**	*178.7*
Dividends paid for the period ended 2 July 2022	**-**	*103.4*
Final dividend for the period 2 July 2022	**52.4**	-
Interim dividend for the period ended 1 July 2023	**30.2**	-
Special dividend for the period ended 1 July 2023	**80.7**	-
Interim dividend for the period ended 1 July 2023	**70.0**	-
	233.3	*282.1*

Total dividends of £163.3m (2022: £282.1m) were declared, authorised and paid on ordinary shares during the period. A further dividend of £70.0m was declared but remained unpaid as at 1 July 2023.

9. Intangible assets

	Software development and licences £'m	Rights to brands and customer lists £'m	Total £'m
Cost			
At 27 June 2021	50.4	11.0	61.4
Additions - external	0.9	-	0.9
Acquired through business combinations	-	0.5	0.5
Disposals	(0.3)	-	(0.3)
At 2 July 2022	51.0	11.5	62.5
Additions - external	0.1	-	0.1
Disposals	(0.7)	-	(0.7)
At 1 July 2023	**50.4**	**11.5**	**61.9**

	Software development and licences £'m	Rights to brands and customer lists £'m	Total £'m
Accumulated amortisation			
At 27 June 2021	35.6	11.0	46.6
Charge for the period - owned	6.2	-	6.2
Disposals	(0.2)	-	(0.2)
At 2 July 2022	41.6	11.0	52.6
Charge for the period - owned	4.5	0.1	4.6
Disposals	(0.6)	-	(0.6)
At 1 July 2023	**45.5**	**11.1**	**56.6**
Net book value			
At 27 June 2021	14.8	-	14.8
At 2 July 2022	9.4	0.5	9.9
At 1 July 2023	4.9	0.4	5.3

9. Intangible assets (continued)

All amortisation is included within operating costs in the Income Statement.

There was no trigger for impairment in the period.

Within software development and licences there were no additions (2022: nil) relating 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 or valuation				
At 27 June 2021	83.7	157.8	124.0	365.5
Additions	0.1	13.3	12.6	26.0
Acquired through business combinations	9.2	0.1	0.3	9.6
Disposals	-	(8.3)	(3.7)	(12.0)
Transfers between classes	-	1.2	(1.2)	-
At 2 July 2022	93.0	164.1	132.0	389.1
Additions	-	10.2	11.4	21.6
Disposals	-	(7.2)	(3.1)	(10.3)
Transfers between classes	-	0.3	(0.3)	-
At 1 July 2023	**93.0**	**167.4**	**140.0**	**400.4**

	Freehold Land and Buildings £'m	Leasehold improvements £'m	Fixtures, fittings and equipment £'m	Total £'m
Accumulated depreciation				
At 27 June 2021	4.2	91.6	107.1	202.9
Charge owned for the period	1.8	14.4	8.1	24.3
Disposals	-	(8.1)	(3.7)	(11.8)
Transfers between classes	-	(0.5)	0.5	-
At 2 July 2022	6.0	97.4	112.0	215.4
Charge owned for the period	1.8	14.3	9.1	25.2
Disposals	-	(7.0)	(3.1)	(10.1)
Transfers between classes	-	0.3	(0.3)	-
At 1 July 2023	**7.8**	**105.0**	**117.7**	**230.5**
Net book value				
At 2 July 2022	87.0	66.7	20.0	173.7
At 1 July 2023	85.2	62.4	22.3	169.9

10. Property, plant and equipment (continued)

All depreciation charges have been included within operating costs in the Income Statement.

There was no trigger for impairment in the period.

11. Leases

Right-of-use assets included in the Statement of Financial Position at 1 July 2023 were as follows:

	2023 £'m Land and buildings	2023 £'m Motor vehicles, plant and equipment	**2023 £'m Total**	*2022 £'m Total*
At the beginning of the period	240.4	8.1	**248.5**	*262.0*
Additions	20.3	12.0	**32.3**	*35.3*
Disposals	(0.1)	(0.1)	**(0.2)**	*(0.2)*
Depreciation	(45.1)	(4.2)	**(49.3)**	*(48.6)*
At the end of the period	**215.5**	**15.8**	**231.3**	*248.5*

Right-of-use additions did not include any lease modifications in the period (2022: £3.1m).

Lease liabilities included in the Statement of Financial Position at 1 July 2023 were as follows:

	2023 £'m Land and buildings	2023 £'m Motor vehicles, plant and equipment	**2023 £'m Total**	*2022 £'m Total*
At the beginning of the period	(270.1)	(8.0)	**(278.1)**	*(293.3)*
Additions	(21.2)	(12.0)	**(33.2)**	*(35.9)*
Disposals	0.1	0.1	**0.2**	*0.1*
Interest	(4.9)	(0.4)	**(5.3)**	*(4.8)*
Repayment of lease liabilities	53.6	4.6	**58.2**	*55.8*
At the end of the period	**(242.5)**	**(15.7)**	**(258.2)**	*(278.1)*

The discount rate applied across all lease liabilities ranged between 0.9% and 5.85% (2022: 0.9% and 2.8%). The discount rate reflects our incremental borrowing rate which we assess by considering the marginal rate on the Company's Revolving Credit Facility ('RCF'), the Bank of England base rate, the yield on Government bonds and the term of the lease.

11. Leases (continued)

The maturity analysis of the lease liabilities is as follows:

	2023 £'m	2022 £'m
Current	(53.4)	(52.8)
Non-current	(204.8)	(225.3)
	(258.2)	(278.1)

11. Leases (continued)

The remaining contractual maturities of the lease liabilities, which are gross and undiscounted, are as follows:

	2023 **£'m**	*2022* *£'m*
Less than one year	**(65.8)**	*(57.1)*
One to two years	**(61.4)**	*(53.2)*
Two to five years	**(123.0)**	*(111.9)*
Five to ten years	**(78.9)**	*(68.3)*
More than ten years	**(3.7)**	*(5.0)*
Total undiscounted lease liability	**(332.8)**	*(295.5)*

The average remaining lease term of our leasehold land and buildings is 5.0 years (2022: 5.2 years).

The following amounts have been recognised in the Income Statement:

	2023 52 weeks £'m Land and buildings	2023 52 weeks £'m Motor vehicles, plant and equipment	**2023** **52 weeks** **£'m** **Total**	*2022* *53 weeks* *£'m* *Total*
Depreciation of right-of-use assets	45.1	4.2	**49.3**	*48.6*
Gain on disposal of right-of-use assets	-	-	**-**	*(0.1)*
Interest expense (included in financial expenses)	4.9	0.4	**5.3**	*4.8*
Expense relating to short-term leases	0.4	1.2	**1.6**	*0.6*

There was no trigger for impairment in the current year.

The total cash outflow for leases during the financial period was £57.3m (2022: £55.0m).

12. Investment in subsidiary undertakings

Details of the Company's subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Proportion of ordinary shares held	Nature of business
1) Fogarty Holdings Limited	100%	Non-trading company
2) Zoncolan Limited	100%	Dormant
3) Dunelm (Soft Furnishings) Londonderry Ltd	100%	Non-trading company

1) Fogarty Holdings Limited

The registered address for Fogarty Holdings Limited is Dunelm Store Support Centre Watermead Business Park, Syston, Leicester, Leicestershire, England, LE7 1AD.

2) Zoncolan Limited

The registered address for Zoncolan Limited is Dunelm Store Support Centre Watermead Business Park, Syston, Leicester, Leicestershire, England, LE7 1AD.

3) Dunelm (Soft Furnishings) Londonderry Ltd

The registered address for Dunelm (Soft Furnishings) Londonderry Ltd is Faustina Retail Park, 35 Buncrana Road, Londonderry, Northern Ireland, BT48 8QN.

13. Deferred tax assets/liabilities

Deferred tax is provided in full on temporary differences under the liability method using a taxation rate of 25.0%.

Deferred taxation assets and liabilities are attributable to the following:

	Assets 2023 £'m	2022 £'m	Liabilities 2023 £'m	2022 £'m	Net assets/ (Liabilities) 2023 £'m	2022 £'m
Property, plant and equipment	**-**	*0.7*	**(0.8)**	*-*	*(0.8)*	*0.7*
Share-based payments	**4.6**	*6.5*	**-**	*-*	*4.6*	*6.5*
Hedging	**2.3**	*-*	**-**	*(4.3)*	*2.3*	*(4.3)*
Other temporary differences	**0.4**	*0.3*	**(0.2)**	*(0.2)*	*0.2*	*0.1*
	7.3	*7.5*	**(1.0)**	*(4.5)*	*6.3*	*3.0*

	Assets 2023 £'m	2022 £'m	Liabilities 2023 £'m	2022 £'m	Net assets/ (Liabilities) 2023 £'m	2022 £'m
Deferred tax recoverable/(payable) after more than 12 months	**1.7**	*1.1*	**(1.0)**	*(0.2)*	*0.7*	*0.9*
Deferred tax recoverable/(payable) within 12 months	**5.6**	*6.4*	**-**	*(4.3)*	*5.6*	*2.1*
	7.3	*7.5*	**(1.0)**	*(4.5)*	*6.3*	*3.0*

The movement in the net deferred tax balance is as follows:

	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	*4.9*	*0.4*	*1.2*	**6.5**
Hedging	*1.0*	*-*	*(5.3)*	**(4.3)**
Other temporary differences	*0.2*	*(0.1)*	*-*	**0.1**
	9.7	*(2.6)*	*(4.1)*	**3.0**

13. Deferred tax assets/liabilities (continued)

	Balance at 3 July 2022 £'m	Recognised in income £'m	Recognised in equity £'m	Balance at 1 July 2023 £'m
Property, plant and equipment	*0.7*	*(1.5)*	*-*	**(0.8)**
Share-based payments	*6.5*	*0.8*	*(2.7)*	**4.6**
Hedging	*(4.3)*	*-*	*6.6*	**2.3**
Other temporary differences	*0.1*	*0.1*	*-*	**0.2**
	3.0	*(0.6)*	*3.9*	**6.3**

14. Inventories

	1 July 2023 £'m	*2 July 2022 £'m*
Raw materials	**1.6**	*1.7*
Work in progress	**-**	*1.6*
Finished goods and goods for resale	**209.4**	*219.7*
	211.0	*223.0*

Goods for resale includes a net realisable value provision of £20.7m (2022: £21.4m). Write-downs of inventories to net realisable value amounted to £30.2m (2022: £20.1m). These were recognised as an expense during the period and were included in cost of sales in the Income Statement.

15. Trade and other receivables

	2023 £'m	*2022 £'m*
Trade receivables	**3.1**	*2.9*
Other receivables	**0.1**	*9.5*
Prepayments and accrued income	**21.1**	*10.5*
Total trade and other receivables	**24.3**	*22.9*

15. Trade and other receivables (continued)

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 (2022: nil). No material amounts are overdue (2022: nil).

16. Cash and cash equivalents

	2023 £'m	2022 £'m
Cash at bank and in hand	**46.3**	*30.2*
Cash and cash equivalents in the statement of financial position	**46.3**	*30.2*
Cash and cash equivalents in the statement of cash flows	**46.3**	*30.2*

The Company deposits funds only with institutions that have a credit rating of “A” and above and the term is less than three months.

17. Bank loans

	2023 £'m	2022 £'m
Bank borrowings	**77.0**	*54.0*
Less: unamortised debt issue costs	**(1.1)**	*(1.2)*
Net borrowings	**75.9**	*52.8*

Borrowings relate to the Company’s syndicated Revolving Credit Facility as described in note 20.

17. Bank loans (continued)

The analysis below shows the reconciliation of net debt:

	2023 £'m	*2022 £'m*
Net (debt)/cash at 3 July 2022 and 26 June 2021	**(23.8)**	*128.6*
Net increase / (decrease) in cash and cash equivalents (excluding foreign exchange revaluations)	**15.5**	*(99.5)*
Effect of foreign exchange (note 6)	**0.6**	*1.1*
Repayments of Revolving Credit Facility	**116.0**	*31.0*
Drawdowns of Revolving Credit Facility	**(139.0)**	*(85.0)*
Movement in net debt	**(6.9)**	*(152.4)*
Cash and cash equivalents (note 16)	**46.3**	*30.2*
Non-current borrowings (note 17)	**(77.0)**	*(54.0)*
Net debt at 1 July 2023 and 2 July 2022	**(30.7)**	*(23.8)*
Lease liabilities (note 11)	**(258.2)**	*(278.1)*
Net debt at 1 July 2023 and 2 July 2022 (including lease liabilities)	**(288.9)**	*(301.9)*

18. Provisions

	Property related £'m
At 3 July 2022	5.5
Charged to profit or loss	1.4
Utilised during the period	(0.1)
Released during the period	(0.9)
At 1 July 2023	**5.9**
Due after more than one year	5.9
	5.9

Property related provision

Property-related provisions consist of costs associated with vacant property and dilapidations. Dilapidations are based on the Directors' best estimate of the Company's future liabilities.

19. Trade and other payables

	2023 £'m	2022 £'m
Total trade and other payables		
Current		
Trade payables	**94.6**	*98.3*
Accruals	**63.2**	*74.2*
Amounts owed to group undertakings	**85.1**	*22.7*
Other payables	**0.2**	*4.1*
Taxation and social security	**37.3**	*33.6*
Deferred income - other	**11.4**	*11.3*
Deferred income - gift cards	**1.1**	*1.3*
Total trade and other payables	**292.9**	*245.5*

Deferred income arises in respect of gift cards as payment has been received for a performance obligation which will be performed at a later point in time. Movement in the gift card deferred income balance is as follows:

	2023 £'m	2022 £'m
Opening balance	**1.3**	*1.5*
Issued in year	**5.3**	*5.4*
Released to income statement	**(5.5)**	*(5.6)*
Closing balance	**1.1**	*1.3*

20. Financial risk management

The Directors of Dunelm (Soft Furnishings) Limited has overall responsibility for the oversight of the Company'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 Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's deposits with banks and financial institutions as well as foreign exchange hedging agreements with its banking counterparties. The Company only deals with creditworthy counterparties and uses publicly available financial information to rate its counterparties, therefore credit risk is considered to be low.

Company 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 £60.0m. All other parties are limited to £25.0m.

The Company's maximum exposure to credit risk is represented by the carrying amount of financial assets. No collateral is held (2022: nil). At the period end the maximum exposure is detailed in the table below:

	2023 £'m	*2022 £'m*
Current		
Cash and cash equivalents	**46.3**	*30.2*
Trade and other receivables	**3.2**	*12.4*
Accrued income	**10.1**	*0.6*
Derivative financial instruments	**1.8**	*19.9*
Total current financial assets	**61.4**	*63.1*
Non-current		
Derivative financial instruments	**-**	*4.6*
Total financial assets	**61.4**	*67.7*

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 Company 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 Company operates.

The Company 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 Company may still choose to pursue enforcement in order to recover the amounts due.

On that basis, the loss allowance as at 2 July 2022 and 1 July 2023 was determined to not be significant

20. Financial risk management (continued)

for trade and other receivables, accrued income and cash and cash equivalents.

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company'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. The Company manages this risk by regularly monitoring cash flow forecasts. Further details of the Company's available facilities can be found in the capital management section of this note.

All cash flows on financial liabilities for 2023 and 2022 are contractually due within one year with the exception of provisions, bank loans, certain derivative financial liabilities and lease liabilities. The details of lease liabilities are shown in note 11.

Total borrowings of £77.0m (2022: £54.0m) reflect the level of facility drawdown at the period end on the Company's committed RCF.

Interest rate risk
The Company's bank borrowings incur variable interest rate charges. The Company's policy aims to manage the interest cost of the Company within the constraints of the Group's financial covenants. The Company will continue to monitor movements in the interest rate swap market.

During the period, if SONIA had been 100 basis points higher with all other variables held constant, post-tax profit would have been £0.3m lower (2022: £0.1m lower).

Foreign currency risk
All of the Company'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 30.0% (2022: 30.0%) of stock purchases in the period ended 1 July 2023.

The Company 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 Company's foreign exchange transactions are designed to satisfy US dollar denominated liabilities. The maximum level of hedging coverage which will be undertaken is 100.0% of anticipated expenditure on a three-month horizon, stepping down to 75.0% on a four to 12 month horizon and 50.0% on a 13 to 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 Statement of Financial Position date, the fair value of US dollar foreign exchange forward contracts held in cash flow hedges was a £9.2m liability (2022: £24.5m asset) which relates to a commitment to purchase $350.5m (2022: $369.0m) for a fixed sterling amount. A fair value loss of £14.0m (2022: £32.4m) was recognised in other comprehensive income and no loss (2022: nil) was recognised on cash flow hedges during the period. In the period, a gain of £19.7m (2022: £2.6m gain) was recycled from the cash flow hedge reserve to inventory to offset foreign exchange movements on purchases. The remaining hedge reserve balance will be recycled to the Income Statement to offset future purchases occurring after the 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 (2022: $0.1m).

At the period end if GBP had strengthened by 10.0% against US dollar with all other variables held constant, post-tax profit would have been £0.9m higher (2022: £0.7m 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 £0.9m higher (2022: £2.5m higher) as a result of a

20. Financial risk management (continued)

decrease in fair value of derivatives designated as cash flow hedges.

Conversely, if GBP had weakened by 10.0% against US dollar with all other variables held constant, post-tax profit for the period would have been £1.1m lower (2022: £0.8m lower) and other components of equity would have been £0.9m lower (2022: £2.5m lower).

The US dollar period end exchange rate applied in the above analysis is £1 = $1.2694 (2022: £1 = $1.2087).

Capital management

The Company considers equity plus debt as capital. There are no externally imposed capital requirements on the Company.

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 regularly monitors the level of capital in the Company to ensure that this can be achieved.

On 7 September the Company amended its existing syndicated RCF to £250.0m, which is committed until 6 September 2027, and which may be extended for a further two years at Dunelm's request, subject to lender consent. There is also an optional accordion facility of £100.0m. The terms of the RCF are consistent with normal practice and include the same covenants as the previous RCF 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 1 July 2023. Covenant calculations are included in note 17 to the Parent Company's financial statements, Dunelm Group plc. In addition, the Company maintains £10.0m of uncommitted overdraft facilities with one syndicate partner bank.

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 Company enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Company 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 Company 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 Company or the derivative counterparty.

Market Risk

The Company has the option to use a combination of foreign currency options and foreign currency forwards to hedge its exposure to foreign currency risk.

The Company 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 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.

20. Financial risk management (continued)

Effects of hedge accounting on the financial position and performance

	2023	*2022*
	£m	*£m*
Foreign currency forwards		
Carrying amount of (liability)/asset	**(9.2)**	*24.5*
Notional amount	**286.4**	*280.4*
Maturity date	**July 2023-June 2025**	*July 2022-June 2024*
Hedge ratio	**1:1**	*1:1*
Change in value of hedged item used to determine hedge effectiveness	**(14.0)**	*32.4*
Change in value of hedging instruments	**14.0**	*(32.4)*
Weighted average hedged rate for the year (including forward points)	**£1:US$1.2998**	*£1:US$1.3426*

Fair values
The fair value of the Company's financial assets and liabilities are equal to their carrying value. The fair value of foreign currency contracts are amounts required by the counterparties to cancel the contracts at the end of the period.

Fair value hierarchy
Financial instruments carried at fair value are required to be measured by reference to the following levels:

- Level 1: quoted prices in active markets for identical assets or liabilities;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All derivative financial instruments carried at fair value have been measured by a Level 2 valuation method, based on observable market data.

20. Financial risk management (continued)

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 paybles	-	(102.4)	-	(102.4)
Amounts owed to group undertakings	-	(22.7)	-	(22.7)
Accruals	-	(74.2)	-	(74.2)
Lease liabiities	-	(278.1)	-	(278.1)
Bank loans	-	(52.8)	-	(52.8)
Total financial liabilities	**-**	**(530.2)**	**-**	**(530.2)**
Net financial assets/(liabilities)	**43.2**	**(530.2)**	**24.5**	**(462.5)**

20. Financial risk management (continued)

At 1 July 2023	Financial assets at amortised cost £m	Financial liabilities at amortised cost £m	Derivatives used for hedging £m	Total £m
Cash and cash equivalents	46.3	-	-	**46.3**
Trade and other receivables	3.2	-	-	**3.2**
Accrued income	10.1	-	-	**10.1**
Derivative financial instruments	-	-	1.8	**1.8**
Total financial assets	**59.6**	**-**	**1.8**	**61.4**
Trade and other paybles	-	(94.8)	-	**(94.8)**
Amounts owed to group undertakings	-	(85.1)	-	**(85.1)**
Accruals	-	(63.5)	-	**(63.5)**
Lease liabiities	-	(258.2)	-	**(258.2)**
Bank loans	-	(75.9)	-	**(75.9)**
Derivative financial instruments	-	-	(11.0)	**(11.0)**
Total financial liabilities	**-**	**(577.5)**	**(11.0)**	**(588.5)**
Net financial assets/(liabilities)	**59.6**	**(577.5)**	**(9.2)**	**(527.1)**

Amounts owed from and to group undertakings are receivable/payable on demand.

The currency profile of the Company's cash and cash equivalents is as follows:

	2023 £'m	*2022 £'m*
Sterling	**33.8**	*19.7*
US dollar	**12.4**	*10.4*
Euro	**0.1**	*0.1*
	46.3	*30.2*

21. Share capital

Issued and fully paid

	2023 Number	2023 £'m	*2022 Number*	*2022 £'m*
Ordinary shares of £1.00 each				
At 3 July 2022 and 1 July 2023	**2,000,000.0**	**2.0**	*2,000,000.0*	*2.0*

22. Share-based payments

Dunelm Group plc operates a number of share-based payment schemes on behalf of employees of Dunelm (Soft Furnishings) Ltd which are recognised as an expense in the Company, as follows:

Dunelm Group Savings Related Share Option Plan (Sharesave)
The Dunelm Group 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 20.0%. 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 accounted for as equity-settled awards under IFRS 2.

The following table summarises the movement in Dunelm Sharesave options during the year:

Sharesave plans	2023 No. of options	2023 Weighted average exercise price (p)	*2022 No. of options*	*2022 Weighted average exercise price (p)*
Outstanding at beginning of year	**1,180,792**	**922.83**	*1,565,381*	*651.61*
Granted	**2,058,273**	**667.00**	*630,372*	*1,046.00*
Exercised	**(371,564)**	**634.54**	*(803,493)*	*483.08*
Forfeited	**(658,631)**	**973.60**	*(211,468)*	*953.22*
Outstanding at end of year	**2,208,870**	**718.00**	*1,180,792*	*922.83*
Exercisable at end of year	**30,550**	**654.00**	*31,605*	*479.00*

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. 30,550 options (2022: 31,605 options) excludes the provisions for early exercise explained above.

22. Share-based payments (continued)

Options outstanding at 1 July 2023 are exercisable at prices ranging between 654.00p and 1,167.00p (2022: 479.00p and 1,167.00p) and have a weighted average remaining contractual life of 2.8 years (2022: 2.1 years), as analysed in the table below:

Sharesave Plans	**2023 No. of options**	**2023 Weighted average remaining contractual life (years)**	*2022 No. of options*	*2022 Weighted average remaining contractual life (years)*
Exercise price (pence):				
479.00	**-**	**-**	*45,502*	*-*
654.00	**19,110**	**-**	*370,906*	*1.0*
667.00	**1,923,547**	**3.0**	*-*	*-*
1,046.00	**170,758**	**2.0**	*551,568*	*3.0*
1,167.00	**95,455**	**1.0**	*212,816*	*2.0*
	2,208,870	**2.8**	*1,180,792*	*2.1*

22. Share-based payments (continued)

Long-Term Incentive Plan (LTIP)
Dunelm Group plc operates an equity-settled LTIP scheme for Executive Directors and other senior colleagues of the Company. Performance conditions for the LTIP awards are related to the diluted earnings per share ratio of the Group. LTIP options are also accounted for as equity-settled awards under IFRS 2 and several key ESG metrics of the Group.

The following table summarises the movements in nil-cost LTIP awards during the year:

LTIP awards	**2023 No. of options**	*2022 No. of options*
Outstanding at beginning of year	**1,050,909**	*1,025,039*
Granted	**506,304**	*297,541*
Dividend equivalent awarded in the year	**87,018**	*19,053*
Exercised	**(193,462)**	*(184,352)*
Forfeited	**(98,732)**	*(106,372)*
Outstanding at end of year	**1,352,037**	*1,050,909*
Exercisable at end of year	**21,505**	*17,082*

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 7.8 years (2022: 7.8 years)

22. Share-based payments (continued)

Restricted Stock Award (RSA)
These awards are granted to particular individuals within the Company and are dependent on continuing employment. The only performance condition is that the threshold diluted EPS as per the LTIP conditions is met. 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 Award	**2023 No. of options**	*2022 No. of options*
Outstanding at beginning of year	**123,544**	*68,103*
Granted	**207,203**	*75,940*
Dividend equivalent awarded in the year	**14,697**	*2,765*
Exercised	**(12,756)**	*(10,308)*
Forfeited	**(16,242)**	*(12,956)*
Outstanding at end of year	**316,446**	*123,544*
Exercisable at end of year	**2,836**	*2,785*

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 7.5 years (2022: 8.8 years).

22. Share-based payments (continued)

Bonus Deferred Shares Award
The Bonus Deferred Shares Award provide options over shares in Dunelm Group plc for colleagues of the Company 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 for their grade, determined by their achievement of a mixture of Dunelm Group plc and individual performance metrics, divided by Dunelm Group plc's 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 grade.

The Bonus Deferred Shares Award is structured as nil-cost options and the following table summarises their movement during the year:

	2023 No. of options	*2022 No. of options*
Bonus Deferred Shares Award		
Outstanding at beginning of year	**126,132**	*372,888*
Granted	**-**	*-*
Dividend equivalent awarded in the year	**-**	*8,020*
Exercised	**(119,401)**	*(202,631)*
Forefeited	**(3,948)**	*(52,145)*
Outstanding at end of year	**2,783**	*126,132*
Exercisable at end of year	**2,783**	*-*

The weighted average remaining contractual life of these options is nil years (2022: 0.2 years).

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 Company’s share price over a period equivalent to the expected life of an option which is aligned to its vesting period.

22. Share-based payments (continued)

The following tables list the inputs to the model used for options granted in the periods ended 1 July 2023 and 2 July 2022 based on information at the date of grant:

Sharesave plans	**2023**	*2022*
Share price at date of grant	**974.00p**	*1,444.23p*
Exercise price	**667.00p**	*1,046,00p*
Volatility	**42.28%**	*43.54%*
Expected life	**3 years**	*3 years*
Risk-free rate	**3.66%**	*0.63%*
Dividend yield	**3.27%**	*2.90%*
Fair value per option	**393.50p**	*424.30p*

LTIP awards	**2023**	*2022*
Share price at date of grant	**865.00p**	*1,307.00p*
Exercise price	**0.00p**	*0.00p*
Volatility	**43.06%**	*43.65%*
Expected life	**3 years**	*3 years*
Risk-free rate	**3.62%**	*0.84%*
Dividend yield	**3.27%**	*2.90%*
Fair value per option	**623.30p**	*977.40p*

Restricted Stock awards	**2023**	*2022*
Share price at date of grant	**678.00p-867.00p**	*1,307.00p*
Exercise price	**0.00p**	*0.00p*
Volatility	**35.58%-35.90%**	*46.25%-43.65%*
Expected life	**1-2 years**	*2-3 years*
Risk-free rate	**2.82%-3.62%**	*0.84%*
Dividend yield	**3.27%**	*2.90%*
Fair value per option	**623.30p-839.10p**	*977.40p*

The charge to the Income Statement for all share option schemes is disclosed in note 5.

23. Commitments

As at 1 July 2023, the Company had entered into capital contracts amounting to £8.1m (2022: £4.7m).

24. Contingent liabilities

The Company had no contingent liabilities at the period end date (2022: none).

25. Related parties

Identity of related parties
The Company has related party relationships with its Parent and Company subsidiaries and with its Directors.

Key management personnel
The remuneration of the key management personnel is as follows:

	2023 52 weeks £'m	*2022 53 weeks £'m*
Wages and salaries	**2.0**	*2.0*
Termination benefits	**0.1**	-
Short term employee benefits	**1.8**	*2.4*
Post-employment benefits	**0.1**	*0.1*
Share-based payments (including NI)	**1.0**	*1.9*
	5.0	*6.4*
Highest paid director	**0.5**	*0.7*

The key management personnel comprise the members of the Executive committee.

The following Company Directors were paid by the Ultimate Parent Company:
Sir Will Adderley
Nicholas Wilkinson
Karen Witts

Disclosures relating to remuneration of the above Directors are set out in the Annual Report of Dunelm Group plc. Their remuneration is not included in the table above.

25. Related parties (continued)

Other related party transactions

	Ultimate Parent Company 2023 52 weeks £'m	*2022 53 weeks £'m*	**Other Group companies 2023 52 weeks £'m**	*2022 53 weeks £'m*
Dividends paid	**(163.3)**	*(282.1)*	**-**	-
Dividends payable	**(70.0)**	-	**-**	-
Net interest received/(charged)	**1.5**	*0.3*	**(2.3)**	*(1.2)*
	(231.8)	*(281.8)*	**(2.3)**	*(1.2)*

The amounts due to and from the Company in respect of the ultimate parent company and other Group company subsidiaries were as follows:

	Ultimate Parent Company 2023 £'m	*2022 £'m*	**Other Group companies 2023 £'m**	*2022 £'m*
Balances payable to	**(13.2)**	*(21.2)*	**(72.0)**	*(1.5)*
	(13.2)	*(21.2)*	**(72.0)**	*(1.5)*

26. Ultimate parent company

The Company is a subsidiary undertaking of Dunelm Limited, which in turn is a subsidiary undertaking of Dunelm Group plc, the ultimate parent company incorporated in England and Wales. The Directors consider that there is no ultimate controlling party of Dunelm Group plc. The largest and smallest group of undertakings for which group financial statements are drawn up and of which the Company is a member is the Dunelm Group plc financial statements.

Copies of the Dunelm Group plc financial statements are available from the Company Secretary, Dunelm Store Support Centre, Watermead Business Park, Syston, Leicester, Leicestershire, England, LE7 1AD, or the group corporate website corporate.dunelm.com.